

# REVISION TEST PAPERS

FINAL COURSE

GROUP – I

MAY, 2019



BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA  
*(Set up by an Act of Parliament)*

*New Delhi*

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## REVISION TEST PAPER, MAY, 2019 – OBJECTIVE & APPROACH

*(Students are advised to go through the following paragraphs carefully to derive maximum benefit out of this RTP)*

### I Objective of Revision Test Paper

Revision Test Papers are one among the many educational inputs provided by the Board of Studies (BOS) to its students. Popularly referred to as RTP by the students, it is one of the very old publications of the BOS whose significance and relevance from the examination perspective has stood the test of time.

RTPs provide glimpses of not only the desirable ways in which examination questions are to be answered but also of the professional quality and standard of the answers expected of students in the examination. Further, aspirants can assess their level of preparation for the examination by answering various questions given in the RTP and can also update themselves with the latest developments in the various subjects relevant from the examination point of view.

The primary objectives of the RTP are:

- To help students get an insight of their preparedness for the forthcoming examination;
- To provide an opportunity for a student to find all the latest developments relevant for the forthcoming examination at one place;
- To supplement earlier studies;
- To enhance the confidence level of the students adequately; and
- To leverage the preparation of the students by giving guidance on how to approach the examinations.

RTPs contain the following:

- (i) Planning and preparing for examination
- (ii) Subject-wise guidance – An overview
- (iii) Updates applicable for a particular exam in the relevant subjects
- (iv) Topic-wise questions and detailed answers thereof in respect of each paper
- (v) Relevant publications/announcement applicable for the particular examination

Students must bear in mind that the RTP contains a variety of questions based on different sections of the syllabi and thus a comprehensive study of the entire syllabus is a pre-requisite before answering the questions of the RTP. In other words, in order to derive maximum benefit out of the RTPs, it is advised that before proceeding to solve the

questions given in the RTP, students ought to have thoroughly read the Study Materials, solved the questions given in the Practice Manual and gone through the Suggested Answers of the earlier examinations. It is important to remember that there can be large number of other complex questions which are not covered in the RTP. In fact, questions contained herein are only illustrative in nature.

The topics on which the questions are set herein have been carefully selected and meticulous attention has been paid in framing different types of questions. Detailed answers are provided to enable the students to do a self-assessment and have a focused approach for effective preparation.

Students are welcome to send their suggestions for fine tuning the RTP to the Director, Board of Studies, The Institute of Chartered Accountants of India, A-29, Sector-62, Noida 201 309 (Uttar Pradesh). RTP is also available on the Institute's website [www.icaai.org](http://www.icaai.org) under the BOS knowledge portal in students section for downloading.

## II. Planning and preparing for examination

Ideally, when you receive the RTP, you should have completed the entire syllabus of all the subjects at least once. RTP is an effective tool to revise and refresh your concepts and knowledge gained through the first round of study of the whole course. When the RTP reaches your hand, your study plan should have been completed as under:

### ❖ *Study Materials*

You must have finished reading the relevant Study Materials of all the subjects. Make sure you go through the Study Material as they cover the syllabus comprehensively.

### ❖ *Other Educational Inputs*

In case of papers on Taxation, you must have carefully perused the Supplementary Study paper containing the latest amendments made through the relevant Finance Act and notifications and circulars issued from time to time which are applicable for the forthcoming examinations.

### ❖ *Practice Manuals*

Practice Manuals are an excellent medium of understanding the practical aspects of the various provisions learnt through the Study Materials. Solving the Practice Manual at least once before proceeding to the RTP will ensure that you have a grasp of the application and computational aspect of the syllabus as well.

### ❖ *Suggested Answers*

Giving an honest attempt to solve the previous attempts suggested answers on your own, will give you a flavour of the pattern of question paper and type of questions which are being asked in the examination.

After completing the above process, you should go through the Updates provided in the RTP and then proceed to solve the questions given in the RTP on your own. RTPs are provided to you to check your preparation standards and hence it must be solved on your own in a time-bound manner.

The stratagem and the fine points requiring careful consideration in respect of preparation for the CA examinations are explained in comprehensive details in BOS' publication "How to face CA Examinations? A Matrix of Winning Strategies". The publication may be referred to when you start preparing for a subject.

### **Examination tips**

How well a student fares in the examination depends upon the level and depth of his preparation. However, there are certain important points which can help a student better his performance in the examination. These useful tips are given below:

- Reach the examination hall well in time.
- As soon as you get the question paper, read it carefully and thoroughly. You are given separate 15 minutes for reading the question paper.
- Plan your time so that appropriate time is awarded for each question. Keep sometime for checking the paper as well.
- First impression is the last impression. The question which you can answer in the best manner should be attempted first.
- Always attempt to do all questions. Therefore, it is important that you must finish each question within allocated time.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required.
- Answer all parts of a question one after the other; do not answer different parts of the same question at different places.
- Write in a neat and legible hand-writing.
- Always be concise and write to the point and do not try to fill pages unnecessarily.
- There must be logical expression of the answer.
- In case a question is not clear, you may state your assumptions and then answer the question.
- Check your answers carefully and underline important points before leaving the examination hall.

### III. Subject-wise Guidance – An Overview

#### PAPER 1: FINANCIAL REPORTING

The Revisionary Test Paper (RTP) of Financial Reporting is divided into two parts viz Part I - Relevant Amendments, Notifications and Announcements for May, 2019 examination and Part II –Questions and Answers.

**Part I of the Revisionary Test Paper** consists of the ‘Relevant Amendments, Notifications and Announcements applicable and not applicable’ for May, 2019 examination. The purpose of this information in the RTP is to apprise the students with the latest developments applicable for May, 2019 examination. The brief summary of the same has been tabulated as under:

##### **Applicable for May, 2019 examination:**

1. Amendment in Schedule III notified by MCA on 12.10.2018.
2. Amendment in Ind AS 20 notified by MCA in the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 on 20<sup>th</sup> September 2018.
3. Notification of Ind AS 115 and withdrawal of Ind AS 11 and Ind AS 18 alongwith the consequential amendments in other Ind AS and other amendments notified in the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 on 28<sup>th</sup> March, 2018.
4. Applicability of Amendments to Ind AS 7 and Ind AS 102 issued by the MCA dated 17<sup>th</sup> March 2017.
5. Applicability of Guidance Notes.
6. Relevant Sections of the Companies Act, 2013.

##### **Not-applicable for May, 2019 examination:**

Non-applicability of certain Guidance Notes included in January, 2017 edition of the study material.

**Part II of the Revisionary Test Paper** contains twenty questions and their answers. The questions in the RTP have been broadly arranged in the same sequence as prescribed in the study material to facilitate easy revision by the students. The details of topics, on which questions in the RTP are based, are as under:

<i>Question No.</i>	<i>Topic</i>
1 to 9(a)	Accounting Standards
9(b)	Corporate Financial Reporting
10 (a) & (b)	Indian Accounting Standards
11	Accounting for Corporate Restructuring

12	Consolidated Financial Statements
13	Accounting and Reporting of Financial Instruments
14	Accounting of Share Based Payments
15	Mutual Fund
16	Non-banking Financial Companies
17	Valuation of Brand
18	Value Added Statement
19	Economic Value Added
20	Human Resource Accounting

Answers to the questions have been given in detail along with the working notes for easy understanding and comprehending the steps in solving the problems. The answers to the questions have been presented in the manner which is expected from the students in the examination. The students are expected to solve the questions under examination conditions and then compare their solutions with the solutions given in the Revisionary Test Paper and further strategize their preparation for scoring more marks in the examination.

#### **PAPER 2: STRATEGIC FINANCIAL MANAGEMENT**

Basically, the subject of Strategic Financial Management is the application of financial management techniques in strategic decisions of business. The major topics from which practical questions are normally asked are as follows:

- Capital Budgeting Decisions
- Leasing Decisions
- Dividend Divisions
- Derivative
- Security Analysis and Valuation
- Portfolio Theory
- Factoring
- Mutual Funds
- MoneyMarket Operations
- International Financial Management
- Foreign Exchange Exposure and Risk Management



- Mergers and Acquisitions and Valuation of Business

Accordingly, the detail of the topics, on which questions in this Revisionary Test Paper are based, is as follows:

Question No.	Topic
1	Capital Budgeting Decisions
2	Capital Budgeting Decisions
3	Leasing Decisions
4	Dividend Decisions
5	Derivative
6	Derivative
7	Security Analysis and Valuation
8	Security Analysis and Valuation
9	Portfolio Theory
10	Portfolio Theory
11	Financial Services
12	Mutual Funds
13	Mutual Funds
14	International Financial Management
15	Foreign Exchange Exposure and Risk Management
16	Foreign Exchange Exposure and Risk Management
17	Foreign Exchange Exposure and Risk Management
18	Mergers and Acquisitions
19	Mergers and Acquisitions
20	A blend of short notes of theoretical concepts as without them their application in practical situations becomes impossible.

### PAPER 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

RTP is a tool to refresh your knowledge which you have acquired while doing conceptual study from Study Material, Practice Manual and other modes of knowledge like student journal, bare acts etc.

This RTP of Advanced Auditing and Professional Ethics is relevant for May, 2019 Examination. 25 Questions consisting of multiple choice questions and descriptive questions have been taken from the entire syllabus divided into twenty chapters along with Engagement and Quality Control Standards, Statements, Guidance Notes, etc.

These questions are taken from different topics like Engagement and Quality Control Standards, Statements and Guidance Notes, Audit Planning, Strategy and Execution, Risk Assessment and Internal Control, Special Aspects of Auditing in an Automated Environment, Company Audit, CARO, 2016, Liabilities of Auditors, Audit Reports, SEBI (LODR), Consolidated Financial Statements, Audit under Fiscal Laws (including Audits under direct tax laws as well as indirect tax laws), Audit of Banks, NBFCs and Insurance Companies, Due Diligence, Investigation and Forensic Audit, Professional Ethics, Peer Review and Quality Review etc. of different level. Some of the questions given in the RTP are descriptive i.e. direct theory questions (knowledge and Comprehension) based whereas some of them are practical case studies based i.e., application oriented theory question (Application and Analysis / Evaluation and Synthesis). The name of the chapter is clearly indicated before each descriptive question.

This RTP of Advanced Auditing and Professional Ethics has been divided into two parts viz Part I – Legislative Amendments/Notifications/Circulars/Rules/Guidelines issued by Regulating Authority relevant for May, 2019 examination and Part II – Questions and Answers.

The relevant notified sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 31<sup>st</sup> October, 2018 are applicable for May, 2019 Examination. The questions have been answered in this RTP keeping in view latest amendments as per above mentioned dates.

#### PAPER 4: CORPORATE AND ALLIED LAWS

In the paper of Corporate and Allied Laws, students should be able to emphasise on the legal point or issue involved in any problem and synchronize the same with the relevant legal provisions in a clear and logical manner. Students needs to focus on the presentation of answer to enhance the quality of the answer. This can be improved by writing the answers under examination conditions and also undertaking self-assessment by going through Revision Test Papers (RTP).

RTP is divided into two parts:

**Part I** : Relevant amendments applicable for May 2019 examinations.

**Part II** : Comprising of Multiple Choice Questions with correct options and Descriptive Questions with detailed answers.

**Part I** talks about the applicability of relevant amendments made vide Circulars, Notifications, Regulations issued by concerned departments for May 2019 examinations.

The relevant legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 31<sup>st</sup> October 2018 are applicable for May 2019 Examination. The questions have been answered in this RTP keeping in view latest amendments as per above mentioned dates.

**Part II** contains 20 Questions (both MCQs and Descriptive) with their answers. Some questions are divided into sub parts. The topics amongst which these questions are divided are as follows:

Question No.	Topic
1	Accounts and Audit
2	Appointment and Qualifications of Directors
3	Appointment and Qualifications of Directors
4	The Insolvency and Bankruptcy Code, 2016
5	The Insolvency and Bankruptcy Code, 2016
6	The Prevention of Money Laundering Act, 2002
7	Declaration and Payment of Dividend
8	Accounts and Audit
9	Appointment and Qualifications of Directors & Miscellaneous provisions
10	Meetings of Board and Its powers
11	Prevention of oppression and Mis-Management
12	Inspection Inquiry and Investigation
13	Corporate Secretarial Practice—Drafting of Notices, Resolutions, Minutes and Reports
14	The Insolvency and Bankruptcy Code, 2016
15	The Insolvency and Bankruptcy Code, 2016
16	The Insolvency and Bankruptcy Code, 2016
17	The Foreign Exchange Management Act, 1999
18(i)	Insurance Act, 1938
18(ii)	Competition Act, 2002
19	The Prevention of Money Laundering Act, 2002
20(i)	Interpretation of statutes, deeds & documents
20(ii)	The Securities Contracts (Regulation) Act, 1999

**Guidance on Sections and Case Laws:** It is imperative for Final students to remember major section numbers and relevant case laws. Extra efforts are to be made in this direction. If by any chance, students do not remember the Section numbers and Case Law while answering any question in the examination paper on the subject, they may not lose heart on this score. They may otherwise strengthen their answer by appropriate reasoning and examples. However, they may desist from citing wrong Section numbers or irrelevant Case laws.



## PAPER –1: FINANCIAL REPORTING

### PART – I : RELEVANT AMENDMENTS, NOTIFICATIONS AND ANNOUNCEMENTS

#### A. Applicable for May, 2019 Examination

##### 1. Amendment in Schedule III notified by MCA on 12.10.2018

Following amendments have been made in Schedule III to the Companies Act, 2013

##### (a) In Division I which covers formats and instructions for financial statements drawn as per Accounting Standards ie Indian GAAP

*Following amendments have been made*

- (i) Clause (ii) of paragraph 4 under 'General instructions for preparation of Balance Sheet and Statement of Profit and Loss of a company', states uniform use of unit of measurement in the financial statements. In the given sentence the word 'shall' has been replaced with the word 'should' through this notification. Hence, now the clause (ii) of paragraph 4 shall be read as follows:  
*"Once a unit of measurement is used, it **should** be used uniformly in the Financial Statements."*

- (ii) Underneath Part I in the format of Balance Sheet, under the heading "II Assets" sub-heading "Non-current assets", **the words "Fixed assets" should be replaced as "Property, Plant and Equipment"**. This amendment has been done since the title of revised AS 10 is now 'Property, Plant and Equipment' instead of 'Fixed Assets'.

Similar substitution has been done in Point W of the "Notes" under the heading "General Instructions for preparation of Balance Sheet".

- (iii) Point 6B of the "Notes", under the heading "General Instructions for preparation of Balance Sheet" deals with the classification of Reserves and Surplus. One of the category was 'Securities Premium Reserve'. As per the amendment, the word 'Reserve' after Securities Premium has been omitted. Now it should be read as '**Securities Premium**' only.

##### (b) In Division II which covers formats and instructions for financial statements drawn as per Indian Accounting Standards ie Ind AS

*Following amendments have been made*

- (i) In Part I which specifies the format of Balance Sheet, under the heading 'Equity and Liabilities', Trade Payables (both under 'non-current liabilities' and 'current liabilities') shall further be classified as

"(A) total outstanding dues of micro enterprises and small enterprises; and

- (B) total outstanding dues of creditors other than micro enterprises and small enterprises.”;
- (ii) In the table (format) for ‘Other Equity’ under the ‘Statement of Changes in Equity’, “Securities Premium Reserve” is substituted as “Securities Premium”. Also below the table on ‘Other Equity’ a note has been given which shall be renumbered as ‘(i)’ and further a note has been added as follows:  
*“(ii) A description of the purposes of each reserve within equity shall be disclosed in the Notes.”*
- (iii) Paragraph 6A and 6B of “General Instructions for Preparation of Balance Sheet” is on ‘Non-current assets’ and ‘current assets’ respectively.
- (A) Under point ‘VI. Trade Receivables’ of 6A and ‘III. Trade Receivables’ of 6B, sub point (i) has been substituted as follows:  
*“(i) Trade Receivables shall be sub-classified as:*  
*(a) Trade Receivables considered good - Secured;*  
*(b) Trade Receivables considered good - Unsecured;*  
*(c) Trade Receivables which have significant increase in Credit Risk; and*  
*(d) Trade Receivables - credit impaired.”*
- (B) Under point ‘VIII. Loans’ of 6A and ‘V. Loans’ of 6B, sub point (ii) is substituted as follows:  
*“(ii) Loans Receivables shall be sub-classified as:*  
*(a) Loans Receivables considered good - Secured;*  
*(b) Loans Receivables considered good - Unsecured;*  
*(c) Loans Receivables which have significant increase in Credit Risk; and*  
*(d) Loans Receivables - credit impaired,”*
- (iv) After paragraph F of “General Instructions for Preparation of Balance Sheet” paragraph FA shall be inserted as follows:  
**“FA. Trade Payables**  
*The following details relating to micro, small and medium enterprises shall be disclosed in the notes:*  
*(a) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year;*

- (b) *the amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006), along with the amount of the payment made to the supplier beyond the appointed day during each accounting year;*
- (c) *the amount of interest due and payable for the period of delay in making payment (which has been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006;*
- (d) *the amount of interest accrued and remaining unpaid at the end of each accounting year; and*
- (e) *the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006.*

**Explanation-** *The terms ‘appointed day’, ‘buyer’, ‘enterprise’, ‘micro enterprise’, ‘small enterprise’ and ‘supplier’, shall have the same meaning as assigned to them under clauses (b), (d), (e), (h), (m) and (n) respectively of section 2 of the Micro, Small and Medium Enterprises Development Act, 2006.”*

- (v) In paragraph 9, after the words “For instance,”, the words “plain vanilla” has been inserted. This amendment has been done to bring clarity to the treatment of redeemable preference shares ie which redeemable preference shares should fall in the category of ‘borrowings’. Accordingly, the last sentence of para 9 will be read as follows:

*“For instance, **plain vanilla** redeemable preference shares shall be classified and presented under ‘non-current liabilities’ as ‘borrowings’ and the disclosure requirements in this regard applicable to such borrowings shall be applicable mutatis mutandis to redeemable preference shares.”*

**(c) Division III (newly notified division applicable for NBFCs)**

Through this notification, MCA added/notified Division III in the Schedule III which is applicable to Non-Banking Financial Company (NBFC) whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015. **However, this Division III has not been made applicable for CA Final Students.**

**2. Amendment in Ind AS 20 notified by MCA in the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 on 20<sup>th</sup> September 2018**

Amendment has been made in Ind AS 20 ‘Accounting for Government Grants and Disclosure of Government Assistance’. The amendment provides entities the option for

recording non-monetary government grants at a nominal amount and presenting government grants related to assets by deducting the grant from the carrying amount of the asset.

**3. Notification of Ind AS 115 and withdrawal of Ind AS 11 and Ind AS 18 alongwith the consequential amendments in other Ind AS and other amendments notified in the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 on 28<sup>th</sup> March, 2018**

The Rules have brought in the following significant amendments to Ind AS:

- New revenue standard Ind AS 115 has been notified which supersedes Ind AS 11, Construction Contracts and Ind AS 18, Revenue. **(Summary of Ind AS 115 has been given as 'Annexure' at the end of this Part-1.)**
- Appendix B, Foreign Currency Transactions and Advance Consideration to Ind AS 21, The Effects of Changes in Foreign Exchange Rates has been notified. The appendix applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used for initial recognition of the related asset, expense or income. Ind AS 21 requires an entity to use the exchange rate at the 'date of the transaction', which is defined as the date when the transaction first qualifies for initial recognition.

Here, the question arises that whether the date of the transaction is the date when the asset, expense or income is initially recognised, or an earlier date on which the advance consideration is paid or received, resulting in recognition of a prepayment or deferred income.

The appendix provides guidance for when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

- **Single payment/receipt** The appendix states that the date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, should be the date on which an entity initially recognises the non-monetary asset or liability arising from an advance consideration paid/received.
- **Multiple receipts/payments** The appendix states that, if there are multiple payments or receipts in advance of recognising the related asset, income or expense, the entity should determine the date of the transaction for each payment or receipt.
- Amendment to Ind AS 40, Investment Property stating that when assets are transferred to, or from, investment properties. The amendment states that to transfer to, or from, investment properties there must be a change in use supported by evidence. A change in intention, in isolation is not enough to support a transfer.



The amendment has re-described the list of evidence of change in use as a non-exhaustive list of examples and scope of these examples have been expanded to include assets under construction and development and not only transfers of completed properties.

Examples of evidence of a change in use include:

- a) commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;
  - b) commencement of development with a view to sale, for a transfer from investment property to inventories;
  - c) end of owner-occupation, for a transfer from owner-occupied property to investment property;
  - d) inception of an operating lease to another party, for a transfer from inventories to investment property.
- Amendments to Ind AS 12, Income Taxes elucidate the existing guidance in Ind AS 12. They do not change the underlying principles of recognition of deferred tax asset. As per the amendment:
    - Existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount. Consequently, decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value in the books of the holder for which the tax base remains at cost gives rise to a deductible temporary difference. This is regardless of whether the holder expects to collect all the contractual cash flows of the debt instrument.
    - Determining the existence and amount of temporary differences and estimating future taxable profit against which deferred tax assets can be utilised are two separate steps. Recovering assets for more than their carrying amounts is inherent in an expectation of taxable profits and should therefore be included in estimated taxable profit if there is sufficient evidence to conclude that it is probable that the entity will recover the asset for more than its carrying amount. For example, an entity should assume that a debt investment measured at fair value will be recovered for more than its carrying value when that outcome is probable even if carrying value is below its tax base (original investment cost).
    - Recoverability of deferred tax assets are assessed in combination with other deferred tax assets where the tax law does not restrict the source of taxable profits against which particular types of deferred tax assets can be recovered. Where restrictions apply (for example where capital losses can be set off

- against capital gains), deferred tax assets are assessed in combination only with other deferred tax assets of the same type.
- When comparing deductible temporary differences against future taxable profits, the determination of future taxable profits shall exclude tax deductions resulting from reversal of these deductible temporary differences.
  - Amendment to Ind AS 28, Investments in Associates and Joint Ventures and Ind AS 112, Disclosure of Interests in Other Entities stating that:
    - Disclosures requirement of Ind AS 112 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of Ind AS 112).
    - In Ind AS 28, the option available with venture capital organisations, mutual funds, unit trusts and similar entities to measure their investments in associates or joint ventures at fair value through profit or loss (FVTPL) is available for each investment in an associate or joint venture.
  - Consequential amendments to other Ind AS due to notification of Ind AS 115 and other amendments discussed above
    - (i) **Ind AS 101, First-time Adoption of Indian Accounting Standards:** The Rules introduce two additional exemptions in Ind AS 101 related to Ind AS 115 and Appendix B to Ind AS 21. These are:
      - Ind AS 115: A first-time adopter can apply the transition provisions in paragraphs C5 and C6 of Ind AS 115 (related to practical expedients when applying Ind AS 115 retrospectively) at the date of transition to Ind AS. Further, a first-time adopter is not required to restate contracts that were completed before the earliest period presented.
      - Appendix B to Ind AS 21: A first-time adopter need not apply Appendix B to Ind AS 21 to assets, expenses and income in the scope of the appendix initially recognised before the date of transition to Ind AS.
    - (ii) **Ind AS 2, Inventories:** Costs of services by a service provider that does not give rise to inventories will need to be accounted for as costs incurred to fulfil a contract with customer in accordance with Ind AS 115. Such costs can be capitalised under Ind AS 115 if they
      - (1) relate directly to the contract,
      - (2) enhance the resources of the entity to perform under the contract and relate to satisfying a future performance obligation, and
      - (3) are expected to be recovered.

Earlier paragraph 8 of Ind AS 2 which stated that in case of a service provider, inventories include costs of the service, for which the entity has not yet recognised the related revenue, has been deleted.

- (iii) **Ind AS 16, Property, Plant and Equipment, Ind AS 38, Intangible Assets and Ind AS 40, Investment Property:** These standards have been amended to require use of principles of Ind AS 115 for recognition of a gain or loss on the transfer of non-financial assets i.e. property, plant and equipment, intangible asset and investment property, that are not an output of an entity's ordinary activities. Although a gain or loss on this type of sale generally does not meet the definition of revenue, an entity should apply the guidance in Ind AS 115 related to the transfer of control and measurement of the transaction price including the constraint on variable consideration, to evaluate the timing and amount of the gain or loss recognised.

Further, since Ind AS 115 deals with accounting for contract assets, Ind AS 38 has been amended to add a scope exclusion for such contract assets.

- (iv) **Ind AS 37, Provisions, Contingent Assets and Contingent Liabilities:** Ind AS 115 does not have any specific requirement to address the accounting of contracts with customers that are, or have become, onerous. Previously, depending upon type of contract, such onerous contracts were accounted under Ind AS 11 or Ind AS 37. With the omission of Ind AS 11, a consequential amendment has been made to Ind AS 37 to bring all onerous revenue contracts within the scope of the Ind AS 37. Ind AS 37 defines onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

- (v) **Ind AS 109, Financial Instruments:** Amendments to Ind AS 109 are discussed below:

- (i) The current Ind AS 109 states that an entity shall measure trade receivables at their transaction price. Due to notification of Ind AS 115, an entity is required to measure trade receivables at their transaction price if the trade receivables do not contain a significant financing component in accordance with Ind AS 115.
- (ii) An entity shall have an accounting policy choice to measure loss allowance on trade receivables or contracts assets within the scope of Ind AS 115 containing a significant financing component at an amount equal to life time expected credit losses (simplified approach) or using the general model (3 stage).

- (iii) Entities shall now consider the principles of Ind AS 115 for subsequent measurement of financial guarantee and loan commitments.

**4. Applicability of Amendments to Ind AS 7 and Ind AS 102 issued by the MCA dated 17th March 2017**

To align Ind AS with IFRS, the recent amendments made in IAS 7 and IFRS 2 by the IASB have been incorporated in Ind AS 7 'Statement of Cash Flows' and Ind AS 102 'Share-based Payment' by way of a notification issued by the Ministry of Corporate Affairs on 17th March, 2017.

**I. Amendments in Ind AS 7 'Statement of Cash Flows'- Disclosure requirements**

The amendments made to Ind AS 7 require certain additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

In addition to the above, the disclosure is required for changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

As per the amendment, one of the way for disclosure is providing a reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities, including the changes identified, by linking items included in the reconciliation to the balance sheet and the statement of cash flows for the sake of information to the users.

If an entity provides disclosures of changes in other assets and liabilities besides changes in liabilities arising from financing activities, it shall disclose the later changes separately from changes in those other assets and liabilities.

**II. Amendments in Ind AS 102 'Share-based Payment'**

The amendments cover following accounting areas:

**Measurement of cash-settled share-based payments**

Under Ind AS 102, the measurement basis for an equity-settled share-based payment should not be 'fair value' in accordance with Ind AS 113, 'Fair value measurement'. However, 'fair value' was not defined in connection with a cash-settled share-based payment. The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. Market-based performance conditions and non-vesting conditions are reflected in the 'fair value', but non-market performance conditions and service conditions are reflected in the estimate of the number of awards expected to vest.

The amendment to Ind AS 102 with respect to measurement of cash-settled awards

has most impact where an award vests (or does not vest) based on a non-marketing condition. Absent this clarification, it may be argued that the fair value of a cash-settled award is to be determined using the guidance in Ind AS 113 and reflecting the probability that non-market and service vesting conditions would be met. The amendment clarifies that non-market and service vesting conditions are ignored in the measurement of fair value.

#### **Classification of share-based payments settled net of tax withholdings**

Tax laws or regulations may require the employer to withhold some of the shares to which an employee is entitled under a share-based payment, and to remit the tax payable on it to the tax authority.

Ind AS 102 would require such share based payment to be split into a cash settled component for the tax payment and an equity settled component for the net shares issued to the employee. The amendment now adds an exception that requires the share based payment to be treated as equity-settled in its entirety. The cash payment to the tax authority is treated as if it was part of an equity settlement. The exception would not apply to any equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment.

#### **Accounting for a modification of a share-based payment from cash-settled to equity-settled**

As per the amendment, if the terms and conditions of a cash-settled share-based payment transactions are modified with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as such from the date of the modification. Specifically:

- o The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date. The equity-settled share-based payment transaction is recognised in equity on the modification date to the extent to which goods or services have been received.
- o The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date.
- o Any difference between the carrying amount of the liability derecognised and the amount of equity recognised on the modification date is recognised immediately in profit or loss.
- o The amendment requires any change in value to be dealt with before the change in classification. Accordingly, the cash-settled award is remeasured, with any difference recognised in the statement of profit and loss before the remeasured liability is reclassified into equity.

**5. Relevant Sections of the Companies Act, 2013**

The relevant Sections of the Companies Act, 2013 notified up to 31<sup>st</sup> October, 2018 are applicable for May, 2019 Examination.

<b>Annexure</b>
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**Overview of Ind AS 115, Revenue from Contracts with Customers**

The objective of Ind AS 115 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The standard applies to all contracts with customers, except the lease contracts within the scope of Ind AS 17, Leases; insurance contracts within the scope of Ind AS 104, Insurance Contracts; financial instruments and other contractual rights or obligations; and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

The core principle of Ind AS 115 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue shall be recognised by an entity in accordance with this core principle by applying the following five steps:

- 1. Identify contract with a customer:** This Standard defines a 'contract' and a 'customer' and specifies five mandatory criteria to be met for identification of a contract.
- 2. Identify performance obligations in contract:** At contract inception, assess the goods or services promised and identify as a performance obligation each promise to transfer to the customer either:
  - (a) a good or service (or a bundle of goods or services) that is distinct; or
  - (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
- 3. Determine transaction price:** This Standard uses transaction price approach instead of fair value approach in Ind AS 18 while determining amount of consideration. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised may include fixed amounts, variable amounts, or both. If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for

transferring the promised goods or services to a customer. Estimate amount of variable consideration by using either the expected value method or the most likely amount method. The transaction price is also adjusted for the effects of the time value of money if the contract includes a significant financing component for any consideration payable to the customer.

4. **Allocate the transaction price to the performance obligations in the contract:** An entity typically allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract. If a stand-alone selling price is not observable, an entity estimates it. Sometimes, the transaction price includes a discount or a variable amount of consideration that relates entirely to a part of the contract. The requirements specify when an entity allocates the discount or variable consideration to one or more, but not all, performance obligations in the contract. Any subsequent changes in the transaction price shall be allocated to the performance obligations on the same basis as at contract inception. Amounts allocated to a satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.
5. **Recognise revenue when the entity satisfies a performance obligation:** An entity recognises revenue when it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The amount of revenue recognised is the amount allocated to the satisfied performance obligation. A performance obligation may be satisfied at a point in time or over time. If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time. For performance obligations satisfied over time, an entity recognises revenue over time by selecting an appropriate method (output methods and input methods) for measuring the entity's progress towards complete satisfaction of that performance obligation.

#### **Treatment of Contract Costs**

Ind AS 115 specifies the following requirements for contract costs:

1. *Incremental costs of obtaining a contract:*

Those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. An entity shall recognise these costs as an asset if the entity expects to recover those costs. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

2. *Costs to fulfil a contract:*

If costs incurred in fulfilling a contract are not within scope of another Standard, entity shall recognise an asset from the costs incurred to fulfil a contract only if some specified

criteria are met. If costs incurred in fulfilling a contract are within scope of another Standard, entity shall account for those costs in accordance with those other Standards.

Contract costs recognised as an asset shall be amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

An impairment loss shall be recognised in profit or loss to the extent that the carrying amount of contract costs recognised as an asset exceeds the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates after deducting the costs that relate directly to providing those goods or services and that have not been recognised as expenses.

### **Presentation**

When either party to a contract has performed, an entity shall present the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

- If a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (i.e. a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier).
- If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable.
- An entity shall present any unconditional rights to consideration separately as a receivable.

### **Sale with a right of return**

To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise all of the following:

- revenue for the transferred products in the amount of consideration to which the entity expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned);
- a refund liability; and
- an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.

### **Warranties**

If customer has the option to purchase warranty separately, the warranty is a distinct service because the entity promises to provide the service to the customer in addition to the product that has the functionality described in the contract. In that case, entity shall account for the



promised warranty as a performance obligation and allocate a portion of the transaction price to that performance obligation.

### **Principal versus agent considerations**

When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer. If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

### **Repurchase agreements**

Repurchase agreements generally come in three forms viz (i) an entity's obligation to repurchase the asset (a forward); (ii) an entity's right to repurchase the asset (a call option); and an entity's obligation to repurchase the asset at the customer's request (a put option).

### **Bill-and-hold arrangements**

A bill-and-hold arrangement is a contract under which an entity bills a customer for a product but retains physical possession of the product until it is transferred to the customer at a point in time in the future. Ind AS 115 specifies four criteria that must be fulfilled for a customer to have obtained control of a product in a bill-and-hold arrangement.

### **Disclosure**

The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:

- its contracts with customers
- the significant judgements, and changes in the judgements, made in applying this Standard to those contracts and
- any assets recognised from the costs to obtain or fulfil a contract with a customer

Appendix D of Ind AS 115 gives guidance on the accounting by operators for public-to-private service concession arrangements. This Appendix applies to both (a) infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement. Infrastructure within the scope of this Appendix shall not be

recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator.

#### Carve out in Ind AS 115 from IFRS 15

##### As per IFRS

IFRS 15 provides that all types of penalties which may be levied in the performance of a contract should be considered in the nature of variable consideration for recognising revenue.

##### Carve out

Ind AS 115 has been amended to provide that penalties shall be accounted for as per the substance of the contract. Where the penalty is inherent in determination of transaction price, it shall form part of variable consideration, otherwise the same should not be considered for determining the consideration and the transaction price shall be considered as fixed.

#### Significant differences in Ind AS 115 from AS 7 and AS 9

S. No.	Particular	Ind AS 115	AS 7 and AS 9
1.	Framework of Revenue Recognition	Ind AS 115 gives a framework of revenue recognition within a standard. It specifies the core principle for revenue recognition which requires the 'revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services'.	AS 7 and AS 9 do not provide any such overarching principle to fall upon in case of doubt.
2.	Comprehensive Guidance on Recognition and Measurement of Multiple Elements within a Contract with Customer:	Ind AS 115 gives comprehensive guidance on how to recognise and measure multiple elements within a contract with customer.	AS 7 and AS 9 do not provide comprehensive guidance on this aspect.
3.	Coverage	Ind AS 115 comprehensively deals with all types of performance obligation contract with customer.	AS 7 covers only revenue from construction contracts which is measured at

		However, it does not deal with revenue from 'interest' and 'dividend' which are covered in financial instruments standard.	consideration received / receivable. AS 9 deals only with recognition of revenue from sale of goods, rendering of services, interest, royalties and dividends.
4.	Measurement of Revenue	As per Ind AS 115, revenue is measured at transaction price, i.e., the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.	As per AS 9, Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. As per AS 7, revenue from construction contracts is measured at consideration received / receivable and to be recognised as revenue as construction progresses, if certain conditions are met.
5.	Recognition of Revenue	As per Ind AS 115, revenue is recognised when the control is transferred to the customer.	As per AS 9, revenue is recognised when significant risks and rewards of ownership is transferred to the buyer. As per AS 7, revenue is recognised when the outcome of a construction contract can be estimated reliably, contract revenue should be recognised by reference to the stage of completion of the contract activity at the reporting date.

6.	Capitalisation of Costs	Ind AS 115 provides guidance on recognition of costs to obtain and fulfill a contract, as asset	AS 7 and AS 9 do not deal with such capitalisation of costs.
7.	Guidance on Service Concession Arrangements	Ind AS 115 gives guidance on service concession arrangements and disclosures thereof	AS does not provide such guidance.
8.	Disclosure Requirements	Ind AS 115 contains detailed disclosure requirements.	Less disclosure requirements are prescribed in AS

**PART – II : QUESTIONS AND ANSWERS**  
**QUESTIONS**

**AS 2**

1. (a) Sun Ltd. has fabricated special equipment (solar power panel) during 2017-2018 as per drawing and design supplied by the customer. However, due to a liquidity crunch, the customer has requested the company for postponement in delivery schedule and requested the company to withhold the delivery of finished goods products and discontinue the production of balance items.

As a result of the above, the details of customer balance and the goods held by the company as work-in-progress and finished goods as on 31.3.2019 are as follows:

Solar power panel (WIP)	₹ 85 lakh
Solar power panel (finished products)	₹ 55 lakh
Sundry Debtor (solar power panel)	₹ 65 lakh

The petition for winding up against the customer has been filed during 2018-2019 by Sun Ltd. Comment with explanation on provision to be made of ₹ 205 lakh included in Sundry Debtors, Finished goods and work-in-progress in the financial statements of 2018-2019 as per AS 2.

**AS 7**

- (b) Uday Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2019 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹ 12 crore with an escalation clause. You are given the following information for the year ended 31.03.2019:

Cost incurred upto 31.03.2019	₹ 4 crore
Cost estimated to complete the contract	₹ 6 crore

Escalation in cost was by 5%. Hence, the contract price is also increased by 5%. You are required to ascertain the stage of completion and compute the amount of revenue and profit to be recognized for the year as per AS 7.

**AS 9**

2. (a) Mithya Ltd. entered into agreement with Satya Ltd. for sale of goods of ₹ 8 lakh at a profit of 20% on cost. The sale transaction took place on 1<sup>st</sup> February, 2019. On the same day, Satya Ltd. entered into another agreement with Mithya Ltd. to resell the same goods at ₹ 10.80 lakh on 1<sup>st</sup> August, 2019. State the treatment of this transaction in the financial statements of Mithya Ltd. as on 31.03.2019. The pre-determined re-selling price covers the holding cost of Satya Ltd. Give the Journal Entries as on 31.03.2019 in the books of Mithya Ltd.

**AS 10**

- (b) MS Ltd. has acquired a heavy machinery at a cost of ₹ 1,00,00,000 (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the sixth year, one of the major components, the turbine requires replacement, as further maintenance is uneconomical. The remainder of the machine is perfect and is expected to last for the next four years. The cost of a new turbine is ₹ 45,00,000. The discount rate assumed is 5%.

Can the cost of the new turbine be recognised as an asset, and, if so, what treatment should be used?

**AS 13**

3. (a) An unquoted long term investment is carried in the books at a cost of ₹ 2 lakh. The published accounts of the unlisted company received in May, 2018 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than ₹ 20,000. How will you deal with this in preparing the financial statements of R Ltd. for the year ended 31<sup>st</sup> March, 2018?

**AS 15**

- (b) Peter Ltd. discontinues a business segment. Under the agreement with employee's union, the employees of the discontinued segment will earn no further benefit. This is a curtailment without settlement, because employees will continue to receive benefits for services rendered before discontinuance of the business segment. Curtailment reduces the gross obligation for various reasons including change in actuarial assumptions made before curtailment. If the benefits are determined

based on the last pay drawn by employees, the gross obligation reduces after the curtailment because the last pay earlier assumed is no longer valid.

Peter Ltd. estimates the share of unamortized service cost that relates to the part of the obligation at ₹ 18 (10% of ₹ 180). Calculate the gain from curtailment and liability after curtailment to be recognised in the balance sheet of Peter Ltd. on the basis of given information:

- (a) Immediately before the curtailment, gross obligation is estimated at ₹ 6,000 based on current actuarial assumption.
- (b) The fair value of plan assets on the date is estimated at ₹ 5,100.
- (c) The unamortized past service cost is ₹ 180.
- (d) Curtailment reduces the obligation by ₹ 600, which is 10% of the gross obligation.

**AS 16**

4. (a) How will interest be capitalized when qualifying assets are funded by borrowings in the nature of bonds that are issued at a discount?

X Ltd. issued in year 1, a 3 year 10% p.a. (interest paid annually) bond with a face value of ₹ 1,00,000 at a price of ₹ 90,000 to finance a qualifying asset which is ready for intended use at the end of year 2. Compare the amount of borrowings costs to be capitalized if the company uses for amortization of discount

- (i) straight line basis, or
- (ii) effective interest rate method by applying 14.33% of EIR.

**AS 17**

- (b) Prepare a segmental report to be presented by All-rounder Ltd., from the following details of the company's three divisions and the head office:

	₹ ('000)
Forging Shop Division	
Sales to Bright Bar Division	4,575
Other Domestic Sales	90
Export Sales	<u>6,135</u>
	<u>10,800</u>
Bright Bar Division	
Sales to Fitting Division	45
Export Sales to Rwanda	<u>300</u>
	<u>345</u>

Fitting Division				
Export Sales to Maldives				<u>270</u>
Particulars	Head Office ₹ ('000)	Forging Shop Division ₹ ('000)	Bright Bar Division ₹ ('000)	Fitting Division ₹ ('000)
Pre-tax operating result		240	30	(12)
Head office cost reallocated		72	36	36
Interest costs		6	8	2
Fixed assets	75	300	60	180
Net current assets	72	180	60	135
Long-term liabilities	57	30	15	180

**AS 18**

5. (a) Will transactions with related parties, for services provided/received free of cost, be required to be disclosed?

A Limited has a corporate communications department, which centralises the public relations function for the whole group of A Limited and its subsidiaries. No charges are, however, levied by A Limited on its subsidiaries and accordingly, these transactions are not given accounting recognition. Would these constitute related party transactions requiring disclosure under AS 18 in the standalone financial statements of A Limited?

**AS 19**

- (b) Light Limited leased a machine to Thunder Limited on the following terms:

		(₹ in lakh)
(i)	Fair value of the machine	48.00
(ii)	Lease term	5 years
(iii)	Lease rental per annum	8.00
(iv)	Guaranteed residual value	1.60
(v)	Expected residual value	3.00
(vi)	Internal rate of return	15%

Discounted rates for 1<sup>st</sup> year to 5<sup>th</sup> year are 0.8696, 0.7561, 0.6575, 0.5718, and 0.4972 respectively.

Ascertain Unearned Finance Income.

**AS 20**

6. (a) XYZ Limited has a wholly owned subsidiary BC Limited. The Group prepares consolidated Financial Statements for the year ended 31<sup>st</sup> March, 2019. XYZ Limited (in its separate financial statements) has incurred a loss of ₹ 2 crore during the year, while the consolidated profit for the group during the year is ₹ 40 lakh.

XYZ Limited has 5,00,000 shares outstanding as at 31<sup>st</sup> March, 2019. Further, it has granted options to issue equity shares as at that date. In respect of such options, 1,00,000 shares are considered to be the shares issued for no consideration. There are no changes in income or expenses that are expected from the issue of equity shares on exercise of these options.

Calculate Basic and Diluted EPS for XYZ Limited for separate financial statements and for the Group.

**AS 22**

- (b) ABC Ltd. prepares its accounts annually on 31<sup>st</sup> March. On 1<sup>st</sup> April, 2017, it purchases a machine at a cost of ₹ 1,50,000. The machine has a useful life of three years and an expected scrap value of zero. Although it is eligible for a 100% first year depreciation allowance for tax purposes, the straight line method is considered appropriate for accounting purposes. ABC Ltd. has profits before depreciation and taxes of ₹ 2,00,000 each year and corporate tax rate is 40 percent each year.

The purchase of machine at a cost of ₹ 1,50,000 in 2017 gives rise to a tax saving of ₹ 60,000. Assume that the corporate tax rate has been assumed to be same in each of the three years. Calculate deferred tax and pass necessary journal entries.

What will be the amount of deferred tax, if the substantively enacted tax rates for 2017, 2018 and 2019 are 40%, 35% and 38% respectively.

**AS 23**

7. (a) An enterprise invested ₹ 1,00,000 to acquire 10 percent stake (Investment I) in another enterprise and later invested ₹ 3,00,000 to acquire additional 20 per cent (Investment II). The net asset value of the associate at the respective investment dates was ₹ 7,50,000 and ₹ 12,50,000 respectively. Calculate goodwill arising on the acquisition of the associate.

**AS 25**

- (b) Faithful Ltd. is dealing in seasonal product sales pattern of the product, quarter wise is as follows:

1 <sup>st</sup> quarter 30 <sup>th</sup> June	10%
2 <sup>nd</sup> quarter 30 <sup>th</sup> September	10%
3 <sup>rd</sup> quarter 31 <sup>st</sup> December	60%
4 <sup>th</sup> quarter 31 <sup>st</sup> March	20%



Information regarding the 1<sup>st</sup> quarter ending on 30<sup>th</sup> June, 2018 is as follows:

Sales	80 crore
Salary and other expenses	60 crore
Advertisement expenses (routine)	4 crore
Administrative and selling expenses	8 crore

While preparing interim financial report for first quarter Faithful Ltd. wants to defer ₹ 10 crore expenditure to third quarter on the argument that third quarter is having more sales therefore third quarter should be debited by more expenditure. Considering the seasonal nature of business and the expenditures are uniform throughout all quarters, calculate the result of the first quarter as per AS 25. Also give a comment on the company's view.

#### AS 26

8. During 2018-2019, an enterprise incurred costs to develop and produce a routine, low risk computer software product, as follows:

	Amount (₹)
Completion of detailed programme and design	25,000
Coding and Testing for establishing technical feasibility	20,000
Other coding costs	42,000
Testing costs	12,000
Product masters for training materials	13,000
Duplication of computer software and training materials, from product masters (2,000 units)	40,000
Packing the product (1,000 units)	11,000

What amount should be capitalized as software costs in the books of the company, on the Balance Sheet date?

#### AS 29

9. (a) During the year, QA Ltd. delivered manufactured products to customer K. The products were faulty and on 1<sup>st</sup> October, 2018 customer K commenced legal action against the Company claiming damages in respect of losses due to the supply of faulty product. Upon investigating the matter, QA Ltd. discovered that the products were faulty due to defective raw material procured from supplier F. Therefore, on 1<sup>st</sup> December, 2018, the Company commenced legal action against F claiming damages in respect of the supply of defective raw materials.

QA Ltd. has estimated that its probability of success of both legal actions, the action of K against QA Ltd. and action of QA Ltd. against F, is very high.

On 1<sup>st</sup> October, 2018, QA Ltd. has estimated that the damages it would have to pay K would be ₹ 5 crore. This estimate was revised to ₹ 5.2 crore as on 31<sup>st</sup> March, 2019 and ₹ 5.25 crore as at 15<sup>th</sup> May, 2019. This case was eventually settled on 1<sup>st</sup> June, 2017, when the Company paid damages of ₹ 5.3 crore to K.

On 1<sup>st</sup> December, 2018, QA Ltd. had estimated that it would receive damages of ₹ 3.5 crore from F. This estimate was revised to ₹ 3.6 crore as at 31<sup>st</sup> March, 2019 and ₹ 3.7 crore as on 15<sup>th</sup> May, 2019. This case was eventually settled on 1<sup>st</sup> June, 2017 when F paid ₹ 3.75 crore to QA Ltd. QA Ltd. had, in its financial statements for the year ended 31<sup>st</sup> March, 2019, provided ₹ 3.6 crore as the financial statements were approved by the Board of Directors on 26<sup>th</sup> April, 2019.

- (i) Whether the Company is required to make provision for the claim from customer K as per applicable AS? If yes, please give the rationale for the same.
- (ii) If the answer to (a) above is yes, what is the entry to be passed in the books of account as on 31<sup>st</sup> March, 2019?
- (iii) What will the accounting treatment of the action of QA Ltd. against supplier F as per applicable AS?

#### **Corporate Financial Reporting**

- (b) X Ltd. has taken a five-year loan. The loan contains certain debt covenants, e.g., filing of quarterly information, failing which the bank can recall the loan and demand repayment thereof. The company has not filed such information in the last quarter; as a result of which the bank has the right to recall the loan. However, based on the past experience and/or based on the discussions with the bank the management believes that default is minor and the bank will not demand the repayment of loan.
  - (i) What will be the classification of the loan in the financial statements of X Ltd.?
  - (ii) What if the bank has recalled the loan before the date of approval of the accounts on breach of a loan covenant that occurred before the year-end?
  - (iii) What if the loan is repayable on demand from day one but the lender has not demanded repayment of the loan at any time?

#### **Indian Accounting Standards (Ind AS)**

10. (a) State the carve out in Ind AS 115 from IFRS 15.
  - (b) What are the significant differences in Ind AS 115 from AS 7 and AS 9?

**Accounting for Corporate Restructuring**

11. Heart Ltd. and Brain Ltd. both engaged in the same chemical business since 2016. As part of its expansion strategy Heart Ltd. proposes to absorb the business of Brain Ltd.. The summarized Balance Sheets of Heart Ltd. and Brain Ltd. as on 31<sup>st</sup> March, 2019 are as follows:

Particulars	Heart Ltd.	Brain Ltd.
	(₹)	(₹)
(I) Equity and Liabilities		
(1) Shareholders fund		
(a) Share capital		
Equity shares of ₹ 10 each	28,80,000	14,40,000
10% Preference share capital of ₹ 100 each	9,60,000	
12% Preference share capital of ₹ 100 each		4,80,000
(b) Reserves and surplus		
Statutory reserve	80,000	80,000
General reserve	20,00,000	13,60,000
(2) Non-current liabilities		
Secured loans		
15% Debentures	4,00,000	
12% Debentures		4,00,000
(3) Current liabilities		
Trade payables	<u>8,80,000</u>	<u>10,40,000</u>
Total	<u>72,00,000</u>	<u>48,00,000</u>
(II) Assets		
(a) Non-current assets		
Property, Plant and Equipment	40,00,000	24,00,000
Non-current investments	4,00,000	4,00,000
(b) Current assets		
Inventories	14,40,000	9,60,000
Trade receivables	12,40,000	9,68,000
Cash at bank	<u>1,20,000</u>	<u>72,000</u>
Total	<u>72,00,000</u>	<u>48,00,000</u>

The following terms and conditions were agreed for absorption:

- (a) 12% preference shareholders of Brain Ltd. will receive 10% preference shares of Heart Ltd. in sufficient number to increase their present income by 20%.
- (b) The equity shareholders of Brain Ltd. will receive equity shares in Heart Ltd. on the following terms:
  - (i) The equity share of Brain Ltd. will be valued at ₹ 24 per share.
  - (ii) The market price of equity shares of Heart Ltd. is ₹ 40 per share.
  - (iii) The number of shares to be issued to equity shareholders of Brain Ltd. will be based on the 80% of market price.
- (c) 12% Debentures holders of Brain Ltd. are to be paid at 8% premium by 15% Debentures in Heart Ltd. issued at a discount of 10%.
- (d) Trade Payables of Brain Ltd. include ₹ 16,000 due to Heart Ltd.
- (e) ₹ 12,800 is to be paid by Heart Ltd. to Brain Ltd. for liquidation expenses.
- (f) Property, plant and Equipment of both the companies are to be valued at 20% above book value. Inventory in trade is taken over at 10% less than their book value.
- (g) Statutory reserve has to be maintained for two more years.

You are required to:

- (1) Find out the purchase consideration.
- (2) Prepare Balance Sheet of Heart Ltd. as at 31<sup>st</sup> March, 2019 after absorption, as per Schedule III to the Companies Act, 2013 with Notes to the accounts.

### Consolidated Financial Statements

12. Rose Ltd. holds 80% share in Marigold Ltd., its subsidiary. Share capital of Marigold Ltd. is ₹ 25,00,000 and reserves being ₹ 5,00,000 on the date of acquisition 31.3.2015.

Following is the results of Marigold Ltd.:

Year ended	Profit/(Loss)	Net worth (₹ in lakh)
31.3.2016	(15,00,000)	+15.00
31.3.2017	(20,00,000)	(5.00)
31.3.2018	4,00,000	(1.00)
31.3.2019	5,00,000	+4.00

Calculate minority interest for the period from 2014-2015 to 2018-2019 as per AS 21.

### Accounting and Reporting of Financial Instruments

13. (i) A Ltd. (the 'Company') makes a borrowing for ₹ 10 lakh from RBC Bank, with bullet

repayment of ₹ 10 lakh and an annual interest rate of 12% per annum. Now, Company defaults at the end of 5<sup>th</sup> year and consequently, a rescheduling of the payment schedule is made beginning 6<sup>th</sup> year onwards. The Company is required to pay ₹ 13,00,000 at the end of 6<sup>th</sup> year for one-time settlement, in lieu of defaults in payments made earlier.

- (a) Does the above instrument meet definition of financial liability? Please explain.
  - (b) Analyse the differential amount to be exchanged for one-time settlement.
- (ii) B Ltd writes an option contract for sale of shares of Target Ltd. at a fixed price of ₹ 100 per share to C Ltd. Market price is ₹ 120. This option is exercisable anytime for a period of 90 days ('American option'). Evaluate this under the definition of financial instrument.

### Accounting for Share Based Payments

14. At the beginning of year 1, an enterprise grants stock options to each of its 100 employees working in the sales department. The stock options will vest at the end of year 3, provided that the employees remain in the employment of the enterprise, and provided that the volume of sales of a particular product increases by at least an average of 5 per cent per year. If the volume of sales of the product increases by an average of between 5 per cent and 10 per cent per year, each employee will receive 100 stock options. If the volume of sales increases by an average of between 10 per cent and 15 per cent each year, each employee will receive 200 stock options. If the volume of sales increases by an average of 15 per cent or more, each employee will receive 300 stock options.

On the grant date, the enterprise estimates that the stock options have a fair value of ₹ 20 per option. The enterprise also estimates that the volume of sales of the product will increase by an average of between 10 per cent and 15 per cent per year, and therefore expects that, for each employee who remains in service until the end of year 3, 200 stock options will vest. The enterprise also estimates, on the basis of a weighted average probability, 20 per cent of employees will leave before the end of year 3.

By the end of year 1, seven employees have left and the enterprise still expects that a total of 20 employees will leave by the end of year 3. Hence, the enterprise expects that 80 employees will remain in service for the three-year period. Product sales have increased by 12 per cent and the enterprise expects this rate of increase to continue over the next 2 years.

By the end of year 2, a further five employees have left. The enterprise now expects that only three more employees will leave during year 3. Product sales have increased by 18 per cent, resulting in an average of 15 per cent over the two years to date. The enterprise now expects that sales increase will average 15 percent or more over the three-year period, and hence expects each sales employee to receive 300 stock options at the end of year 3.

By the end of year 3, a further two employees have left. The sales of the enterprise have increased by an average of 16 percent over the three years. Therefore, each of the 86 employees receives 300 stock options.

Calculate the amount of employee compensation expenses to be recognized each year for ESOPs granted.

### Mutual Funds

15. A Mutual Fund raised 100 lakh on 1<sup>st</sup> April, 2018 by issue of 10 lakh units of ₹ 10 per unit. The fund invested in several capital market instruments to build a portfolio of ₹ 90 lakh. The initial expenses amounted to ₹ 7 lakh. During April, 2018, the fund sold certain securities of cost ₹ 38 lakh for ₹ 40 lakh and purchased certain other securities for ₹ 28.20 lakh. The fund management expenses for the month amounted to ₹ 4.50 lakh of which ₹ 0.25 lakh was in arrears. The dividend earned was ₹ 1.20 lakh. 75% of the realized earnings were distributed. The market value of the portfolio on 30<sup>th</sup> April, 2018 was ₹ 101.90 lakh.

Determine NAV per unit.

### Non-Banking Financial Companies

16. A Limited is a non-banking finance company. It accepts public deposit and also deals in hire purchase business. It provides you with the following information regarding major hire purchase deals as on 31.3.2017. Few machines were sold on hire purchase basis. The hire purchase price was set as ₹ 100 lakh as against the cash price of ₹ 80 lakh. The amount was payable as ₹ 20 lakh down payment and balance in 5 equal instalments. The hire vendor collected first instalment as on 31.3.2018, but could not collect the second instalment which was due on 31.3.2019. The company was finalising accounts for the year ending 31.3.2019. Till 15.5.2019, the date on which the Board of Directors signed the accounts, the second instalment was not collected. Presume IRR to be 10.42%.

Required:

- (i) What should be the principal outstanding on 1.4.2018? Should the company recognize finance charge for the year 2018-2019 as income?
- (ii) What should be the net book value of assets as on 31.3.2019 so far A Ltd. is concerned as per NBFC prudential norms requirement for provisioning?
- (iii) What should be the amount of provision to be made as per prudential norms for NBFC laid down by RBI?

### Valuation of Brand

17. Unique Limited is a manufacturer-cum-dealer of 'F-Route' brand of track suits. With passage of time, its brand has been well accepted in the market. The company has been approached by a foreign company engaged in the same trade to enter as partner in its

business. Unique Ltd., in order to negotiate the deal wants to get its brand valued. The following information based on market research is available:

- (i) Garment industry of which Unique Ltd. is a constituent, is expected to grow by 9% per annum during the next five years. The present market size of the industry is ₹ 7,500 crore.
- (ii) There are other brands both national and international in the market. The existence of duplicate brands is unavoidable. The share of such players is estimated to be 63% of the total industry market. The market share of other national brands will increase @ 0.25% year on year basis in the next 5 years. The share of international brands is expected to grow 1.5 times of national brands. But the existence of duplicate brands is to fall by 2.5% over the period of next 5 years, spread equally.
- (iii) The expected foreign partner needs the production line of the company to be re-engineered which will lead to an increase in the yield of the company by 3% after one year over the present yield of 10% followed thereafter by further increase of 5% year on year.

Following the market oriented approach, determine the brand value to be used for negotiation with the foreign company, considering the discount factor for 1<sup>st</sup> five years as 0.909; 0.826; 0.751; 0.683 and 0.621 (Monetary values in crores to be rounded off to nearest 2 decimal places).

#### Value Added Statement

18. On the basis of the following Profit and Loss Account of Sony Limited and the supplementary information provided thereafter, prepare Gross Value Added Statement of the company for the year ended 31<sup>st</sup> March, 2019. Also prepare another statement showing reconciliation of Gross Value Added with Profit before Taxation.

Profit and Loss Account of Sony Limited for the year ended 31<sup>st</sup> March, 2019.

	Amount (₹ in lakh)	Amount (₹ in lakh)
<b>Income</b>		
Sales		5,010
Other Income		<u>130</u>
		5,140
<b>Expenditure</b>		
Production and Operational Expenses	3,550	
Administrative Expenses	185	
Interest	235	
Depreciation	<u>370</u>	
		<u>(4,340)</u>

Profit before Taxation		800
Provision for Taxation		<u>(280)</u>
Profit after Taxation		520
Credit Balance as per last Balance Sheet		<u>40</u>
		<u>560</u>
<b>Appropriations</b>		
Transfer to General Reserve		100
Preference Dividend		100
Equity Dividend		300
Balance carried to Balance Sheet		<u>60</u>
		<u>560</u>
<b>Supplementary Information</b>		
Production and Operational Expenses consist of:		
Raw Materials and Stores consumed		1,900
Wages, Salaries and Bonus		610
Local Taxes including Cess		220
Other Manufacturing Expenses		<u>820</u>
		<u>3,550</u>
<b>Administrative Expenses consist of:</b>		
Salaries and Commission to Directors		60
Audit Fee		24
Provision for Bad and Doubtful Debts		20
Other Administrative Expenses		<u>81</u>
		<u>185</u>
<b>Interest is on:</b>		
Loan from Bank for Working Capital		35
Debentures		<u>200</u>
		<u>235</u>

### Economic Value Added

19. From the following information of Vinni Ltd., compute the economic value added:

(i)	Share capital	₹ 2,000 lakh
(ii)	Reserve and surplus	₹ 4,000 lakh
(iii)	Long-term debt	₹ 400 lakh
(iv)	Tax rate	30%
(v)	Risk free rate	9%
(vi)	Market rate of return	16%



(vii) Interest	₹ 40 lakh
(viii) Beta factor	1.05
(ix) Profit before interest and tax	₹ 2,000 lakh

### Human Resource Accounting

20. A company has a capital base of ₹ 1 crore and has earned profits to the tune of ₹ 11 lakh. The Return on Investment (ROI) of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by ₹ 2.5 lakh over and above the target profit.

Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him.

### ANSWERS

1. (a) From the fact given in the question it is obvious that Sun Ltd. is a manufacturer of solar power panel. As per Ind AS 2 'Inventories', inventories are assets (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services. Therefore, solar power panel held in its stock will be considered as its inventory. Further, as per the standard, inventory at the end of the year are to be valued at lower of cost or NRV.

As the customer has postponed the delivery schedule due to liquidity crunch, the entire cost incurred for solar power panel which were to be supplied has been shown in Inventory. The solar power panel are in the possession of the Company which can be sold in the market. Hence company should value such inventory as per principles laid down in AS 2 i.e. lower of Cost or NRV. Though, the goods were produced as per specifications of buyer the Company should determine the NRV of these goods in the market and value the goods accordingly. Change in value of such solar power panel should be provided for in the books. In the absence of the NRV of WIP and Finished product given in the question, assuming that cost is lower, the company shall value its inventory as per AS 2 for ₹ 140 lakh [i.e solar power panel (WIP) ₹ 85 lakh + solar power panel (finished products) ₹ 55 lakh].

Alternatively, if it is assumed that there is no buyer for such fabricated solar power panel, then the NRV will be Nil. In such a case, full value of finished goods and WIP will be provided for in the books.

As regards Sundry Debtors balance, since the Company has filed a petition for winding up against the customer in 2018-2019, it is probable that amount is not recoverable from the party. Hence, the provision for doubtful debts for ₹ 65 lakh shall be made in the books against the debtor's amount.

(b)

	₹ in crore
Cost of construction of bridge incurred upto 31.3.2019	4.00
Add: Estimated future cost	<u>6.00</u>
Total estimated cost of construction	<u>10.00</u>
Contract Price (12 crore x 1.05)	12.60 crore

**Stage of completion**

Percentage of completion till date to total estimated cost of construction

$$= (4/10) \times 100 = 40\%$$

**Revenue and Profit to be recognized for the year ended 31<sup>st</sup> March, 2018 as per AS 7:**

Proportion of total contract value recognized as revenue

$$= \text{Contract price} \times \text{percentage of completion}$$

$$= ₹ 12.60 \text{ crore} \times 40\% = ₹ 5.04 \text{ crore}$$

Profit for the year ended 31<sup>st</sup> March, 2019 = ₹ 5.04 crore – ₹ 4 crore = 1.04 crore.

2. (a) In the given case, Mithya Ltd. concurrently agreed to repurchase the same goods from Satya Ltd. on 1<sup>st</sup> February, 2019. Also the re-selling price is pre-determined and covers purchasing and holding costs of Satya Ltd. Hence, the transaction between Mithya Ltd. and Satya Ltd. on 1<sup>st</sup> February, 2019 should be accounted for as financing rather than sale. The resulting cash flow of ₹ 9.60 lakh received by Mithya Ltd., cannot be considered as revenue as per AS 9 "Revenue Recognition".

**Journal Entries in the books of Mithya Ltd.**

		₹ in lakh
1.2.2019	Bank Account <span style="float: right;">Dr.</span>	9.60
	To Advance from Satya Ltd*.	9.60

\* The balance of Satya Ltd.'s account will be disclosed as an advance under the heading liabilities in the balance sheet of Mithya Ltd. as on 31<sup>st</sup> March, 2019.

	(Being advance received from Satya Ltd. amounting [₹ 8 lakh + 20% of ₹ 8 lakh = 9.60 lakh] under sale and re-purchase agreement)			
31.3.2019	Financing Charges Account	Dr.	0.40	
	To Satya Ltd.			0.40
	(Financing charges for 2 months [(10.80 – 9.60) x 2/6])			
31.3.2019	Profit and Loss Account	Dr.	0.40	
	To Financing Charges Account			0.40
	(Being amount of finance charges transferred to P& L Account)			

- (b) The new turbine will produce economic benefits to MS Ltd., and the cost is measurable. Hence, the item should be recognised as an asset. The original invoice for the machine did not specify the cost of the turbine; however, the cost of the replacement ₹ 45,00,000 can be used as an indication (usually by discounting) of the likely cost, six years previously.

**Statement showing cost of new turbine and machine after 6<sup>th</sup> year**

			₹
Cost of machines recognized on purchase			1,00,00,000
Less: Depreciation charged for 6 years	$[(1,00,00,000 / 10) \times 6]$		<u>(60,00,000)</u>
			40,00,000
Less: Current cost of turbine to be derecognized:			
Cost of Turbine before 6 years	$[45,00,000 \times \{1 / (1.05)^6\}]$	33,57,900	
Less: Depreciation for 6 years	$[(33,57,900 / 10) \times 6]$	<u>(20,14,740)</u>	(13,43,160)
Add: Cost of new turbine to be recognised			<u>45,00,000</u>
Revised carrying amount of machine			<u>71,56,840</u>

3. (a) As it is stated in the question that financial statements for the year ended 31<sup>st</sup> March, 2018 are under preparation, the views have been given on the basis that the financial statements are yet to be completed and approved by the Board of Directors.

Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Para 17 of AS 13 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On these bases, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to ₹ 20,000 in the financial statements for the year ended 31<sup>st</sup> March, 2018.

(b) Gain from curtailment is estimated as under:

	₹
Reduction in gross obligation	600
Less: Proportion of unamortised past service cost	<u>(18)</u>
Gain from curtailment	<u>582</u>

The liability to be recognised after curtailment in the balance sheet is estimated as under:

	₹
Reduced gross obligation (90% of ₹ 6,000)	5,400
Less: Fair value of plan assets	<u>(5,100)</u>
	300
Less: Unamortised past service cost (90% of ₹ 180)	<u>(162)</u>
Liability to be recognised in the balance sheet	<u>138</u>

4. (a) As per AS 16, "Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds". Further, as per para 4 (b) of the standard, "amortization of discounts or premiums relating to borrowings" as a component of borrowing costs. Thus, the borrowing costs comprise the periodic interest payable on the bonds in question and the amount of discount amortised during the period.

Paragraph 6 of the Statement, inter-alia, states that "Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset".

Further, paragraph 19 states that "Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete". Thus, only that portion of the amortised discount should be capitalised as part of the cost of a qualifying asset which relates

to the period during which acquisition, construction or production of the asset takes place.

**(i) Straight line basis**

(Amount in ₹)

Years	Interest	Amortisation of discount	Total borrowing costs
Year 1	10,000	3,333	13,333
Year 2	10,000	3,333	13,333
Year 3	10,000	3,334	13,334

In the above case, the amount of borrowing costs capitalized would be ₹ 13,333 in Year 1 and Year 2. The borrowing costs of ₹ 13,334 incurred in Year 3 would be expensed since the asset is ready for its intended use at the end of Year 2. The borrowing costs of ₹ 13,334 incurred in the year 3 would be expensed since the asset is ready for its intended use at the end of Year 2.

**(ii) Effective interest rate method**

The effective interest rate method is a method of calculating amortisation using the effective interest rate of a financial asset or a financial liability. The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity to the current net carrying amount of the financial asset or financial liability. That computation should include all fees paid or received between parties to the contract. The effective interest rate is sometimes termed the level yield to maturity, and is the internal rate of return of the financial asset or financial liability for that period.

Year	Opening cost	% on opening cost	Total borrowing cost (yield)	Interest	Amortisation	Closing cost
1	2	3	4 = 2x3	5	6 = (4-5)	7 = 2+6
1	90,000	14.33%	12,897	10,000	2,897	92,897
2	92,897	14.33%	13,312	10,000	3,312	96,209
3	96,209	14.33%	13,791	10,000	3,791	1,00,000

As per this method, the amount of borrowing costs to be capitalised in Year 1 and Year 2, would be ₹ 12,897 and ₹ 13,312, respectively. The borrowing costs of ₹ 13,791 incurred in Year 3 would be expensed.

Clearly, the pattern of amortisation is different when computed as per the above methods. However, as the effective interest rate method captures the 'yield altering' nature of the discount/premium more appropriately, it is more reflective of borrowing costs over the life of the borrowing.

(b)

**All-rounder Ltd.**  
**Segmental Report**

(₹ '000)

Particulars	Divisions			Inter Segment Eliminations	Consolidated Total
	Forging shop	Bright Bar	Fitting		
Segment revenue					
Sales:					
Domestic	90	—	—	—	90
Export	<u>6,135</u>	<u>300</u>	<u>270</u>	—	<u>6,705</u>
External Sales	6,225	300	270	—	6,795
Inter-segment sales	<u>4,575</u>	<u>45</u>	<u>—</u>	<u>4,620</u>	<u>—</u>
Total revenue	<u>10,800</u>	<u>345</u>	<u>270</u>	<u>4,620</u>	<u>6,795</u>
Segment result (given)	240	30	(12)		258
Head office expenses					<u>(144)</u>
Operating profit					114
Interest expense					<u>(16)</u>
Profit before tax					<u>98</u>
Information in relation to assets and liabilities:					
Fixed assets	300	60	180	—	540
Net current assets	<u>180</u>	<u>60</u>	<u>135</u>	—	<u>375</u>
Segment assets	<u>480</u>	<u>120</u>	<u>315</u>	—	915
Unallocated corporate assets (75 + 72)	—	—	—	—	<u>147</u>
Total assets					<u>1,062</u>
Segment liabilities	30	15	180	—	225
Unallocated corporate liabilities					<u>57</u>
Total liabilities					<u>282</u>

## Sales Revenue by Geographical Market

	Home Sales	Export Sales (by forging shop division)	Export to Rwanda	Export to Maldives	(₹ '000) Consolidated Total
External sales	90	6,135	300	270	6,795

5. (a) These transactions would require disclosure under AS 18 in the standalone financial statements of A Limited. As per paragraph 10 of AS 18, a related party transaction is “a transfer of resources or obligations between related parties, regardless of whether or not a price is charged”. In the given situation, there is a transfer of resources from A Limited to its subsidiaries, though no price is charged for the same. Hence, it will constitute as related party transaction and will require disclosure in the financial statements of A Ltd.
- (b) As per AS 19 on Leases, **unearned finance income** is the difference between (a) the **gross investment** in the lease and (b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

Where:

- (a) **Gross investment** in the lease is the aggregate of (i) minimum lease payments from the stand point of the lessor and (ii) any unguaranteed residual value accruing to the lessor.

$$\begin{aligned} \text{Gross investment} &= \text{Minimum lease payments} + \text{Unguaranteed residual value} \\ &= [\text{Total lease rent} + \text{Guaranteed residual value (GRV)}] + \text{Unguaranteed residual value (URV)} \\ &= [(\text{₹ } 8,00,000 \times 5 \text{ years}) + \text{₹ } 1,60,000] + \text{₹ } 1,40,000 = \text{₹ } 43,00,000 \text{ (a)} \end{aligned}$$

- (b) Table showing present value of (i) Minimum lease payments (MLP) and (ii) Unguaranteed residual value (URV).

Year	MLP inclusive of URV ₹	Internal rate of return (Discount factor @ 15%)	Present Value ₹
1	8,00,000	0.8696	6,95,680
2	8,00,000	0.7561	6,04,880
3	8,00,000	0.6575	5,26,000
4	8,00,000	0.5718	4,57,440
5	8,00,000	0.4972	3,97,760

	<u>1,60,000</u> (GRV)	0.4972	<u>79,552</u>
	41,60,000		27,61,312 (i)
	<u>1,40,000</u> (URV)	0.4972	<u>69,608</u> (ii)
	<u>43,00,000</u>	(i)+ (ii)	<u>28,30,920</u> (b)

**Unearned Finance Income** (a) - (b) = ₹ 43,00,000 – ₹ 28,30,920 = ₹ 14,69,080.

6. (a) Computation of earnings per share

Particulars	Consolidated financial statements	Standalone financial statements of XYZ Limited
Basic earnings/(loss) per share	₹ 8 [40,00,000/5,00,000]	(₹ 40) [2,00,00,000/5,00,000]
Diluted earnings/(loss) per share	₹ 6.66 [40,00,000/ 6,00,000]	(₹ 40) [2,00,00,000/ 5,00,000]

As per paragraph 39 of AS 20 "Potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would decrease net profit per share from continuing ordinary operations.

In the above case, if the exercise of options was considered for separate financial statements of XYZ Limited, the diluted loss per share would have reduced to ₹ 33.33 [2,00,00,000/6,00,000]. As this is antidilutive, the options would not be treated as potentially dilutive equity shares. Accordingly, in the separate financial statements of XYZ Limited, the Diluted EPS would be same as Basic EPS.

- (b) If the cost of machine is spread over three years of its life for accounting purposes, the amount of the tax saving should also be spread over the same period as shown below:

**Statement of Profit and Loss**

(for the three years ending 31<sup>st</sup> March, 2017, 2018, 2019)

		(₹ in thousand)		
		2017	2018	2019
	Profit before depreciation and taxes	200	200	200
Less:	Depreciation for accounting purposes	<u>50</u>	<u>50</u>	<u>50</u>
	Profit before taxes	<u>150</u>	<u>150</u>	<u>150</u>
Less:	Tax expense			
	Current tax:			
	0.40 x (200 -150)	20		



0.40 x 200		80	80
Deferred tax:			
Tax effect of timing differences originating during the year leading to DTL			
0.40 (150-50)	40		
Tax effect of timing differences reversing during the year			
0.40 (0-50)	-	(20)	(20)
Tax expense	<u>60</u>	<u>60</u>	<u>60</u>
Profit after tax	<u>90</u>	<u>90</u>	<u>90</u>
Net timing differences	<u>100</u>	<u>50</u>	<u>0</u>
Deferred tax liability balance	<u>40</u>	<u>20</u>	<u>0</u>

In 2017, the amount of depreciation allowed for tax purposes exceeds the amount of depreciation charged for accounting purpose by ₹ 1,00,000 and, therefore, taxable income is lower than the accounting income. This gives rise to a deferred tax liability of ₹ 40,000. In 2018 and 2019 accounting income is lower than taxable income because the amount of depreciation charged for accounting purposes exceeds the amount of depreciation allowed for tax purposes by ₹ 50,000 each year. Accordingly, deferred tax liability is reduced by ₹ 20,000 each in both the years. As may be seen, tax expense is based on the accounting income of each period.

In 2017, the profit and loss account is debited and deferred tax liability account is credited with the amount of tax on the originating timing difference of ₹ 1,00,000 while in each of the following two years, deferred tax liability account is debited and profit and loss account is credited with the amount of tax on the reversing timing difference of ₹ 50,000.

The following Journal entries will be passed:

Year 2017			
Profit and Loss A/c	Dr.	20,000	
To Current tax A/c			20,000
(Being the amount of taxes payable for the year 2017 provided for)			

Profit and Loss A/c To Deferred tax liability A/c (Being the deferred tax liability created for originating timing difference of ₹ 1,00,000)	Dr.	40,000	40,000
<b>Year 2018</b>			
Profit and Loss A/c To Current tax A/c (Being the amount of taxes payable for the year 2018 provided for)	Dr.	80,000	80,000
Deferred tax liability A/c To Profit and Loss A/c (Being the deferred tax liability adjusted for reversing timing difference of ₹ 50,000)	Dr.	20,000	20,000
<b>Year 2019</b>			
Profit and Loss A/c To Current tax A/c (Being the amount of taxes payable for the year 2019 provided for)	Dr.	80,000	80,000
Deferred tax liability A/c To Profit and Loss A/c (Being the deferred tax liability adjusted for reversing timing difference of ₹ 50,000)	Dr.	20,000	20,000

**Presentation:**

In the year 2017, the balance of deferred tax account i.e. ₹ 40,000 would be shown separately from the current tax payable for the year in terms of paragraph 30 of AS 22. In the year 2018, the balance of deferred tax liability account would be ₹ 20,000 and be shown separately from the current tax payable for the year as in year 2017. In year 2019, the balance of deferred tax liability account would be nil.

If the rate of tax changes, it would be necessary for the enterprises to adjust the amount of deferred tax liability carried forward by applying the tax rate that has been enacted or substantively enacted by the balance sheet date on accumulated timing differences at the end of the accounting year

The amount of deferred tax liability would be computed as follows:

The deferred tax liability carried forward each year would appear in the balance sheet as under:

$$31^{\text{st}} \text{ March, 2017} = 0.40 (1,00,000) = ₹ 40,000$$

31<sup>st</sup> March, 2018 = 0.35 (50,000) = ₹ 17,500

31<sup>st</sup> March, 2019 = 0.38 (Zero) = ₹ Zero

Accordingly, the amount debited (credited) to the profit and loss account (with corresponding credit or debit to deferred tax liability) for each year would be as under:

31<sup>st</sup> March, 2017 Debit = ₹ 40,000

31<sup>st</sup> March, 2018 (Credit) = ₹ (22,500)

31<sup>st</sup> March, 2019 (Credit) = ₹ (17,500)

7. (a) The goodwill arising on the acquisition of the associate will be computed as follows:

Investment I		₹ 1,00,000
Share of net assets	(10 percent of ₹ 7,50,000)	<u>(₹ 75,000)</u>
Goodwill (A)		<u>₹ 25,000</u>
Investment II		₹ 3,00,000
Share of net assets	(20 percent of ₹ 12,50,000)	<u>(₹ 2,50,000)</u>
Goodwill (B)		<u>₹ 50,000</u>
Total goodwill (A + B)		<u>₹ 75,000</u>

- (b) According to AS 25 the Income and Expense should be recognized when they are earned and incurred respectively. Therefore, seasonal incomes will be recognized as and when they occur. Thus, the company's view is not as per AS 25.

**Correct Statement of Profit or Loss for the quarter ending on 30<sup>th</sup> June, 2018 would be**

Particulars	(₹ in crore)	
Result of first quarter ending 30 <sup>th</sup> June, 2018		
Turnover	80	
Other Income	<u>Nil</u>	
Total (a)		<u>80</u>
Less: Changes in inventories		Nil
Salaries and other cost		60
Administrative and selling Expenses (4+8)		<u>12</u>
Total (b)		<u>72</u>
Profit (a)-(b)		<u>8</u>

8. As per para 44 of AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility/asset recognition criteria have been established upon completion of detailed programme design or working model. In this case, ₹ 45,000 would be recorded as an expense (₹ 25,000 for completion of detailed program design and ₹ 20,000 for coding and testing to establish technological feasibility/asset recognition criteria). Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (₹ 42,000 + ₹ 12,000 + ₹ 13,000) ₹ 67,000. Duplication of computer software and training materials, from product masters and packing the products are the cost incurred after development phase. Hence, the same shall be expensed off during the year it is incurred.
9. (a) (i) Yes, QA Ltd. is required to make provision for the claim from customer K as per AS 29 since the claim is a present obligation as a result of delivery of faulty goods manufactured. Also, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations. Further, a reliable estimate of ₹ 5.2 crore can be made of the amount of the obligation while preparing the financial statements as on 31<sup>st</sup> March, 2019.
- (ii) Option (A) : Statement of Profit and Loss A/c Dr. ₹ 5.2 crore  
To Current Liability A/c ₹ 5.2 crore
- (iii) As per para 30 of AS 39, QA Ltd. shall not recognise a contingent asset. Here the probability of success of legal action is very high but there is no concrete evidence which makes the inflow virtually certain. Hence, it will be considered as contingent asset only and shall not be recognized.
- (b) (i) As per the definition of 'Current Liability', what is important is, whether a borrower has an unconditional right at the Balance Sheet date to defer the settlement irrespective of the nature of default and whether or not a bank can exercise its right to recall the loan. If the borrower does not have such right, the classification would be "current." It is pertinent to note that as per the terms and conditions of the aforesaid loan, the loan was not repayable on demand from day one. The loan became repayable on demand only on default in the debt covenant and bank has not demanded the repayment of loan upto the date of approval of the accounts. In the Indian context, the criteria of a loan becoming repayable on demand on breach of a covenant, is generally added in the terms and conditions as a matter of abundant caution. Also, banks generally do not demand repayment of loans on such minor defaults of debt covenants. Therefore, in such situations, the companies generally continue to repay the loan as per its original terms and conditions. Hence, considering that the practical implications of such minor breach are negligible in the Indian scenario, an entity could continue to classify the loan as "non-current" as on the Balance

Sheet date since the loan is not actually demanded by the bank at any time prior to the date on which the Financial Statements are approved.

- (ii) In case a bank has recalled the loan before the date of approval of the accounts on breach of a loan covenant that occurred before the year-end, the loan will have to be classified as current.
- (iii) If a loan is repayable on demand from day one, even when the lender does not demand repayment of the loan at any time, the same would have to be continued to be classified as “current”.

**10. (a) As per IFRS**

IFRS 15 provides that all types of penalties which may be levied in the performance of a contract should be considered in the nature of variable consideration for recognising revenue.

**Carve out**

Ind AS 115 has been amended to provide that penalties shall be accounted for as per the substance of the contract. Where the penalty is inherent in determination of transaction price, it shall form part of variable consideration, otherwise the same should not be considered for determining the consideration and the transaction price shall be considered as fixed.

**(b) Significant differences in Ind AS 115 from AS 7 and AS 9**

S. No.	Particular	Ind AS 115	AS 7 and AS 9
1.	Framework of Revenue Recognition	Ind AS 115 gives a framework of revenue recognition within a standard. It specifies the core principle for revenue recognition which requires the ‘revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services’.	AS 7 and AS 9 do not provide any such overarching principle to fall upon in case of doubt.
2.	Comprehensive Guidance on Recognition and	Ind AS 115 gives comprehensive guidance on how to recognise and measure multiple elements	AS 7 and AS 9 do not provide comprehensive guidance on this aspect.

	Measurement of Multiple Elements within a Contract with Customer:	within a contract with customer.	
3.	Coverage	Ind AS 115 comprehensively deals with all types of performance obligation contract with customer. However, it does not deal with revenue from 'interest' and 'dividend' which are covered in financial instruments standard.	AS 7 covers only revenue from construction contracts which is measured at consideration received / receivable. AS 9 deals only with recognition of revenue from sale of goods, rendering of services, interest, royalties and dividends.
4.	Measurement of Revenue	As per Ind AS 115, revenue is measured at transaction price, i.e., the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.	As per AS 9, Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. As per AS 7, revenue from construction contracts is measured at consideration received / receivable and to be recognised as revenue as construction progresses, if certain conditions are met.

5.	Recognition of Revenue	As per Ind AS 115, revenue is recognised when the control is transferred to the customer.	As per AS 9, revenue is recognised when significant risks and rewards of ownership is transferred to the buyer. As per AS 7, revenue is recognised when the outcome of a construction contract can be estimated reliably, contract revenue should be recognised by reference to the stage of completion of the contract activity at the reporting date.
6.	Capitalisation of Costs	Ind AS 115 provides guidance on recognition of costs to obtain and fulfill a contract, as asset	AS 7 and AS 9 do not deal with such capitalisation of costs.
7.	Guidance on Service Concession Arrangements	Ind AS 115 gives guidance on service concession arrangements and disclosures thereof	AS does not provide such guidance.
8.	Disclosure Requirements	Ind AS 115 contains detailed disclosure requirements.	Less disclosure requirements are prescribed in AS

11. (i) **Computation of Purchase Consideration**

	₹
<u>For Preference Shareholders</u>	
Present income of preference shareholders of Brain Ltd. (4,80,000 × 12%)	57,600
Add: Required 20% increase	<u>11,520</u>
	<u>69,120</u>
10% Preference share capital to be issued (69,120/10x100)	6,91,200

<u>For Equity Shareholders</u>	
Valuation of Equity Shares of Brain Ltd. = Number of shares x Value of one share = 1,44,000 x 24 = ₹ 34,56,000	
Issue of Equity Shares	
No. of equity shares to be issued at 80% of market price i.e. 80% of ₹ 40 = ₹ 32	
$\frac{34,56,000}{32} = 1,08,000$ shares	
Equity share capital = 1,08,000 x ₹ 10 = ₹ 10,80,000	
Securities premium = 1,08,000 x ₹ 22 = ₹ 23,76,000	34,56,000
	<u>41,47,200</u>

(ii) **Balance Sheet of Heart Ltd (after absorption of Brain Ltd.)**  
as on 31.3.2019

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) <b>Shareholder's fund</b>		
(a) Share capital	1	56,11,200
(b) Reserves and surplus	2	52,43,200
(2) <b>Non-current liabilities</b>		
Long-term borrowings	3	8,80,000
(3) <b>Current liabilities</b>		
Trade payables	4	19,04,000
Total		<u>1,36,38,400</u>
II. Assets		
(1) <b>Non-current assets</b>		
(a) Property, Plant and Equipment		
i. Tangible assets	5	76,80,000
ii. Intangible assets	6	4,35,200
(b) Non-current investments	7	8,00,000
(c) Other non-current assets	8	48,000



(2) <b>Current assets</b>		
(a) Inventory	9	23,04,000
(b) Trade receivables	10	21,92,000
(c) Cash and cash equivalents [1,20,000 + 72,000-12,800]		1,79,200
Total		1,36,38,400

**Note:** In the above solution, discount on issue of debentures have been deferred for amortization over the tenure of the borrowings. However, one may adjust the same from Securities Premium Account as per section 52 of the Companies Act, 2013. In such a situation, the balance of Securities Premium Account will be ₹ 23,28,000, total of Reserves and Surplus will be ₹ 52,88,000 and total of Balance Sheet will be ₹ 1,36,83,200.

#### Notes to Accounts

		₹	₹
<b>1. Share capital</b>			
3,96,000 Equity shares of ₹ 10 each fully paid up (Out of the above, 1,08,000 shares have been allotted as fully paid-up for consideration other than cash)		39,60,000	
10%,1,65,120 Preference shares of ₹ 100 each fully paid up (Out of the above, 6,912 preference shares of ₹ 100 each have been allotted as fully paid up for consideration other than cash)		<u>16,51,200</u>	56,11,200
<b>2. Reserves and surplus</b>			
Statutory reserve [80,000 + 80,000]		1,60,000	
Revaluation reserve		8,00,000	
General reserve (20,00,000 – 12,800)		19,87,200	
Securities premium		23,76,000	
Amalgamation Adjustment Reserve		<u>(80,000)</u>	52,43,200
<b>3. Long-term borrowings</b>			
Secured borrowings			
15% Debentures (₹ 4,00,000 + ₹ 4,80,000)			8,80,000
<b>4. Trade payables (8,80,000 + 10,40,000 - 16,000)</b>			19,04,000

5.	<b>Tangible assets</b> (₹ 48,00,000+₹ 28,80,000)	76,80,000
6.	<b>Intangible assets</b>	
	Goodwill	4,35,200
7.	<b>Non-current investment</b>	
	Investment (₹ 4,00,000+₹ 4,00,000)	8,00,000
8.	<b>Other non-current assets</b>	
	Discount on issue of debentures	48,000
9.	<b>Inventory</b>	
	Inventory (₹ 14,40,000+₹ 8,64,000)	23,04,000
10.	<b>Trade receivables</b> (12,40,000 + 9,68,000 – 16,000)	21,92,000

**Working Notes:****1. Computation of Goodwill/Capital Reserve on absorption:**

	₹	₹	₹
Purchase consideration			41,47,200
Property, Plant and Equipment taken over	24,00,000		
Add: Increase by 20%	<u>4,80,000</u>	28,80,000	
Investment		4,00,000	
Current assets:			
Inventory	9,60,000		
Less: Reduction in value by 10%	<u>(96,000)</u>		
	8,64,000		
Trade Receivables	9,68,000		
Cash at bank	<u>72,000</u>	19,04,000	
		51,84,000	
Less: Outside liabilities:			
12% Debentures at premium	4,32,000		
Trade Payables	<u>10,40,000</u>	(14,72,000)	37,12,000
Goodwill			<u>4,35,200</u>

**2. Calculation of Debentures to be issued by Heart Ltd.**

	₹
Debenture holders of Brain Ltd.	4,00,000
Add: 8% Premium on redemption	<u>32,000</u>
	<u>4,32,000</u>

Debentures are to be redeemed by issue of debentures in Heart Ltd. @ 10% discount $(4,32,000/90) \times 100$	4,80,000
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12. As per AS 21 "Consolidated Financial Statements", the losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly,

Year	Details	Minority Interest (MI) (20%)	Minority's Share of losses borne by Rose Ltd.	Balance
Minority Interest at the time of acquisition i.e. on 31.3.2015		6,00,000 (W.N.)		
2015-2016 on 31.3.2016	(15,00,000 x 20%)	<u>(3,00,000)</u>		
2016-2017	(20,00,000 x 20%)	<u>(4,00,000)</u>		
		<u>(1,00,000)</u>		
	Loss amounting ₹ 1,00,000 of minority borne by majority shareholders on application of AS 21	<u>1,00,000</u>		1,00,000
on 31.3.2017		<u>Nil</u>		
2017-2018	(4,00,000 x 20%)	80,000		
	On application of AS 21, profit transferred to majority shareholders	<u>(80,000)</u>		(80,000)
on 31.3.2018		<u>Nil</u>		20,000
2018-2019	(5,00,000 x 20%)	1,00,000		
	On application of AS 21, profit transferred to majority shareholders to the extent earlier	<u>(20,000)</u>		(20,000)

on 31.3.2019	loss was borne by majorityshare holders	80,000	Nil
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**Working Note:****Calculation of Minority Interest as on 31.3.2015**

	Total Amount (100%) (₹)	Minority Interest (20%) (₹)
Share Capital (20%)	25,00,000	5,00,000
Add: Share in Reserves (20%)	5,00,000	<u>1,00,000</u>
		<u>6,00,000</u>

13. (i) A Ltd. has entered into an arrangement wherein against the borrowing, A Ltd. has contractual obligation to make stream of payments (including interest and principal). This meets definition of financial liability.

(a) The amount required to be settled and any differential arising upon one-time settlement at the end of 6<sup>th</sup> year –

- ◆ Loan principal amount = ₹ 10,00,000
- ◆ Amount payable at the end of 6<sup>th</sup> year = ₹ 12,54,400 [10,00,000 x 1.12 x 1.12 (Interest for 5<sup>th</sup> & 6<sup>th</sup> year in default plus principal amount)]
- ◆ One-time settlement = ₹ 13,00,000
- ◆ Additional amount payable = ₹ 45,600

The above represents a contractual obligation to pay cash against settlement of a financial liability under conditions that are unfavorable to A Ltd. (owing to additional amount payable in comparison to amount that would have been paid without one-time settlement). Hence, the rescheduled arrangement meets definition of 'financial liability'.

- (ii) B Ltd has written an option, which if exercised by C Ltd. will result in B Ltd. selling equity shares of Target Ltd. for fixed cash of ₹ 100 per share. Such option will be exercised by C Ltd. only if the market price of shares of Target Ltd. increases beyond ₹ 100, thereby resulting in contractual obligation over B Ltd. to settle the contract under potential unfavorable terms.

If the market price is already ₹ 120 which means that if option is exercised by C Ltd, then B Ltd shall buy shares from the market at ₹ 120 per share and sell at ₹ 100, thereby resulting in a loss or exchange at unfavorable terms to B Ltd. Hence, it meets the definition of financial liability in books of B Ltd.

The additional question that arises here is the nature of this financial liability and if it meets the definition of derivative. A derivative is a financial instrument that meets following conditions:

- (a) Its value changes in response to change in specified variable like interest rate, equity index, commodity price, etc. If the variable is non-financial, it is not specific to party to the contract
- (b) It requires no or little initial net investment
- (c) It is settled at a future date.

Evaluating the above instrument, B Ltd. has written an option whose value changes based on change in market price of equity share, it requires no initial net investment and is settled at a future date (anytime in 90 days). Hence, it meets definition of derivative financial liability in books of B Ltd.

14. Since the number of options varies depending on the outcome of a performance condition that is not a market condition, the effect of that condition (i.e., the possibility that the number of stock options might be 100, 200 or 300) is not taken into account when estimating the fair value of the stock options at grant date. Instead, the enterprise revises the transaction amount to reflect the outcome of that performance condition, as illustrated below.

Year	Calculation	Compensation expense for period (₹)	Cumulative compensation expense (₹)
1.	80 employees × 200 options × ₹ 20 × 1/3	1,06,667	1,06,667
2.	(85 employees × 300 options × ₹ 20 × 2/3) – ₹ 1,06,667	2,33,333	3,40,000
3.	(86 employees × 300 options × ₹ 20 × 3/3) – ₹ 3,40,000	1,76,000	5,16,000

- 15.

	₹ in lakh	₹ in lakh	
Opening bank balance [₹ (100 – 90 - 7) lakh]	3.00		
Add: Proceeds from sale of securities	40.00		
Dividend received	<u>1.20</u>	44.20	
Less: Cost of securities	28.20		
Fund management expenses [₹ (4.50–0.25) lakh]	4.25		

Capital gains distributed [75% of ₹ (40.00 – 38.00) lakh]	1.50		
Dividends distributed (75% of ₹ 1.20 lakh)	<u>0.90</u>	<u>(34.85)</u>	
Closing bank balance		9.35	
Closing market value of portfolio		<u>101.90</u>	
		<u>111.25</u>	
Less: Arrears of expenses		<u>(0.25)</u>	
Closing net assets		<u>111.00</u>	
Number of units			10,00,000
Closing Net Assets Value (NAV)			₹ 11.10

16. (i) Since, the hire-purchaser paid the first instalment due on 31.3.2017, the notional principal outstanding on 1.4.2018 was ₹ 50.25 lakh (refer W.N.).

In the year ended 31.3.2019, the instalment due of ₹ 16 lakh has not been received. However, it was due on 31.3.2019 i.e on the balance sheet date, and therefore, it will be classified as standard asset. A Ltd. will recognise ₹ 5.24 lakh as interest income included in that due instalment as this should be treated as finance charge.

- (ii) **The net book value of the assets as on 31.3.2019**

	₹ in lakh
Overdue instalment	16.00
Instalments not due (₹ 16 lakh x 3)	<u>48.00</u>
	64.00
Less: Finance charge not matured and hence not credited to Profit and loss account (4.11 + 2.88 + 1.52)	<u>(8.51)</u>
	55.49
Less: Provision as per NBFC prudential norms (Refer point (iii))	<u>7.49</u>
Net book value of assets for A Ltd.	<u>48.00</u>

- (iii) **Amount of Provision**

	₹ in lakh
Overdue instalment	16.00
Instalments not due (₹ 16 lakh x 3)	<u>48.00</u>
	64.00

Less: Finance charge not matured and hence not credited to Profit and loss account (4.11 + 2.88 + 1.52)	(8.51)
	55.49
Less: Depreciated value (cash price less depreciation for two years on SLM @ 20%*)	(48.00)
Provision to be created as per NBFC prudential norms	<u>7.49</u>

Since, the instalment of ₹ 16 lakh not paid, was due on 31.3.2019 only, the asset is classified as standard asset. Therefore, no additional provision has been made for it.

**Working Note:**

It is necessary to segregate the instalments into principal outstanding and interest components by using I.R.R. @ 10.42%. (₹ in lakh)

Time	Opening outstanding amount (a)	Cash flow (b)	Interest @ 10.42% (c) = (a x 10.42%)	Principal repayment (d) = (b - c)	Closing outstanding (e) = (a - d)
31.3.2017		(60)	----	---	60.00
31.3.2018	60.00	16	6.25	9.75	50.25
31.3.2019	50.25	16	5.24	10.76	39.49
31.3.2020	39.49	16	4.11	11.89	27.60
31.3.2021	27.60	16	2.88	13.12	14.48
31.3.2022	14.48	16	1.52	14.48	0.00

**17. Market Share of Unique Ltd.**

Calculation of last year's market share =  $100\% - 63\% = 37\%$

Increase or decrease in market share of other players  $[0.25 + (.25 \times 150\%) - 2.5/5] = 0.125\%$  i.e. increase in others' market share every year over the period of 5 years. Hence, market share of Unique Ltd. is expected to decrease by 0.125% every year over the period of 5 years, from the current level of 37%.

\* As per NBFC prudential norms laid down by the RBI.

**Brand Valuation under Market Approach**

Year	Market Size (₹ in crore)	Market Share of Unique Ltd.	Market Share (₹ in crore)	Expected Profit (₹ in crore)	Discount Factor	Discounted Cash Flow (₹ in crore)
1	7500 x 109% = 8,175	36.875%	3014.53	@ 10% = 301.45	0.909	274.02
2	8,175 x 109% = 8910.75	36.75%	3274.70	@ 13% = 425.71	0.826	351.64
3	8,910.75 x 109% = 9712.72	36.625%	3557.28	@18% = 640.31	0.751	480.87
4	9,712.72 x 109% = 10,586.86	36.5%	3864.20	@23% = 888.77	0.683	607.03
5	10,586.86 x 109% = 11,539.68	36.375%	4197.56	@28% = 1,175.32	0.621	<u>729.87</u>
	Brand Value					<u>2,443.43</u>

Brand Value of Unique Ltd. under Market Oriented Approach is ₹ 2,443.43 crore.

18.

**Gross Value Added Statement of Sony Ltd.****for the year ended 31<sup>st</sup> March, 2019**

		(₹ in lakh)	(₹ in lakh)
Sales			5,010
Less:	Cost of raw materials, stores and other services consumed	2,720	
	Administrative expenses	125	
	Interest on loan from bank for working capital	<u>35</u>	<u>(2,880)</u>
Value added by manufacturing and trading activities			2,130
Add:	Other income		<u>130</u>
Total value added			<u>2,260</u>

**Application of Value Added**

	(₹ in lakh)	(₹ in lakh)	%
To pay employees			
Wages, salaries and bonus		610	26.99
To pay directors			
Salaries and commission to Directors		60	2.66



To pay Government			
Local taxes including cess	220		
Income tax	<u>280</u>	500	22.12
To pay providers of capital			
Interest on debentures	200		
Preference dividend	100		
Equity dividend	<u>300</u>	600	26.55
To provide for the maintenance and expansion of the company:			
Depreciation	370		
Transfer to general reserve	100		
Retained profit ₹ (60 – 40) lakh	<u>20</u>	<u>490</u>	<u>21.68</u>
		<u>2,260</u>	<u>100.00</u>

**Statement showing Reconciliation between  
Gross Value Added with Profit before Taxation**

	(₹ in lakh)	(₹ in lakh)
Profit before taxation		800
Add back:		
Wages, salaries and bonus	610	
Salaries and commission to Directors	60	
Local taxes including cess	220	
Interest on debentures	200	
Depreciation	<u>370</u>	<u>1,460</u>
Gross Value Added		<u>2,260</u>

19.

**Vinni Limited**

**Computation of Economic Value Added**

<b>Economic Value Added</b>	₹ in Lakh
Net Operating Profit after Tax (Refer Working Note 5)	1,372.00
Add: Interest on Long-term Fund after tax (Refer Working Note 2)	<u>28.00</u>
	1,400.00

Less: Cost of Capital ₹ 6,400 lakh × 15.77% (Refer working notes 3 and 4)	(1,009.28)
Economic Value Added	<u>390.72</u>

**Working Notes:**

1. **Cost of Equity** = Risk free Rate + Beta Factor (Market Rate – Risk Free Rate)

$$9\% + 1.05 (16 - 9) = 9\% + 7.35\% = 16.35\%$$

2. **Cost of Debt**

Interest ₹ 40 lakh

Less: Tax (30%) (₹ 12 lakh)

Interest after Tax ₹ 28 lakh

$$\text{Cost of Debt} = \frac{28}{400} \times 100 = 7\%$$

3. **Weighted Average Cost of Capital**

Cost of Equity ₹ 6,000 lakh × 16.35% (W.N.1) ₹ 981 lakh

Cost of Debt ₹ 400 lakh × 7% (W.N.2) ₹ 28 lakh

₹ 1,009 lakh

$$\text{WACC} = \frac{1,009}{6,400} \times 100 = 15.77\% \text{ (approx.)}$$

4. Capital Employed

	(₹ in lakh)
Share Capital	2,000
Reserves and Surplus	4,000
Long term debts	<u>400</u>
	<u>6,400</u>

5. **Net Operating Profit after Tax**

	(₹ in lakh)
Profit before Interest and Tax	2,000
Less: Interest	<u>(40)</u>
	1,960
Less: Tax @ 30% on 1,960 Lakh	<u>(588)</u>
Net Operating Profit after Tax	<u>1,372</u>

20. Capital Base	=	₹ 1,00,00,000
Actual Profit	=	₹ 11,00,000
Target Profit @ 12.5%	=	₹ 12,50,000

Expected Profit on employing the particular executive

$$= ₹ 12,50,000 + ₹ 2,50,000 = ₹ 15,00,000$$

Additional Profit = Expected Profit – Actual Profit

$$= ₹ 15,00,000 - ₹ 11,00,000 = ₹ 4,00,000$$

$$\text{Maximum bid price} = \frac{\text{Additional Profit}}{\text{Rate of Return on Investment}} = \frac{4,00,000}{12.5} \times 100 = 32,00,000$$

Maximum salary that can be offered = 12.5% of ₹ 32,00,000 i.e., ₹ 4,00,000

Maximum salary can be offered to that particular executive upto the amount of additional profit i.e., ₹ 4,00,000.

**PAPER – 2: STRATEGIC FINANCIAL MANAGEMENT**

**QUESTIONS**

**Project Planning and Capital Budgeting**

1. ABC Ltd. has an investment proposal with information as under:

	Amount in ₹
<b>Existing Asset:</b>	
Current Book-Value	6,00,000
Annual Revenue from this Asset	25,00,000
Annual Cash Outflow (expenses) on this Asset	18,00,000
Depreciation of this Assets per annum	1,50,000
<b>New Asset to be purchased:</b>	
Cost	27,00,000
Installation charges	3,00,000
Depreciation on 90% of ₹ 30,00,000 as under for new asset:	
Year 1	8,00,000
Year 2	7,00,000
Year 3	6,00,000
Year 4	6,00,000
Annual Revenue from this Asset (for each of four years)	70,00,000
Annual Cash Outflow (expenses) on this Asset	28,00,000
Additional Workings Capital required	5,00,000
The Scrap (Salvage) value of this Asset at the end of Year 4	8,00,000

The company has Tax Rate for both Revenues and Capital Gain/Loss of 34%. You are required to find Net Annual Incremental Cash Flows. Also, show computation of Terminal Cash flow.

Note: Show calculation of amount to the nearest Rupee.

2. Currently there exists an opportunity to invest ₹ 1 lakh for manufacturing a product. The estimated demand, sale price and variable cost will be 6,000 units, ₹ 10 per unit and ₹ 6 per unit respectively. If investment is deferred by one year the estimated demand, sale price and variable cost will be 8,000 units, ₹ 11 per unit and ₹ 5 per unit respectively. After 2 years due to sluggish demand and import tariff on the raw material the estimated demand, sale price and variable cost will be 5,000 unit, ₹ 9 per unit and ₹ 7.50 per unit respectively.

Assuming Cost of Capital of Company as 10%, you are required to advise the best course of investment. (Amount to be shown to the nearest rupee).

### Leasing Decisions

3. Agrani Ltd. is in the business of manufacturing bearings. Some more product lines are being planned to be added to the existing system. The machinery required may be bought or may be taken on lease. The cost of machine is ₹ 40,00,000 having a useful life of 5 years with the salvage value of ₹ 8,00,000. The full purchase value of machine can be financed by 20% loan repayable in five equal instalments falling due at the end of each year. Alternatively, the machine can be procured on a 5 years lease, year-end lease rentals being ₹ 12,00,000 per annum. The Company follows the written down value method of depreciation at the rate of 25%. Company's tax rate is 35 per cent and cost of capital is 16 per cent:
- Advise the company which option it should choose – lease or borrow.
  - Assess the proposal from the lessor's point of view examining whether leasing the machine is financially viable at 14% cost of capital (Detailed working notes should be given. Calculations can be rounded off to ₹ lakhs).

### Dividend Decisions

4. X Ltd. is a Shoes manufacturing company. It is all equity financed and has a paid-up Capital of ₹ 10,00,000 (₹ 10 per share).
- X Ltd. has hired Swastika consultants to analyse the future earnings. The report of Swastika consultants states as follows:
- The earnings and dividend will grow at 25% for the next two years.
  - Earnings are likely to grow at the rate of 10% from 3rd year and onwards.
  - Further, if there is reduction in earnings growth, dividend payout ratio will increase to 50%.

The other data related to the company are as follows:

Year	EPS (₹)	Net Dividend per share (₹)	Share Price (₹)
2010	6.30	2.52	63.00
2011	7.00	2.80	46.00
2012	7.70	3.08	63.75
2013	8.40	3.36	68.75
2014	9.60	3.84	93.00

You may assume that the tax rate is 30% (not expected to change in future) and post tax cost of capital is 15%.

By using the Dividend Valuation Model, calculate

- (i) Expected Market Price per share
- (ii) P/E Ratio.

### Indian Capital Market

5. BSE	30,000
Value of portfolio	₹ 60,60,000
Risk free interest rate	9% p.a.
Dividend yield on Index	6% p.a.
Beta of portfolio	1.5

We assume that a future contract on the BSE index with four months maturity is used to hedge the value of portfolio over next three months. One future contract is for delivery of 50 times the index.

Based on the above information calculate:

- (i) Price of future contract.
  - (ii) The gain on short futures position if index turns out to be 27,000 in three months.
6. Two companies ABC Ltd. and XYZ Ltd. approach the DEF Bank for FRA (Forward Rate Agreement). They want to borrow a sum of ₹ 100 crores after 2 years for a period of 1 year. Bank has calculated Yield Curve of both companies as follows:

Year	XYZ Ltd.	ABC Ltd.*
1	3.86	4.12
2	4.20	5.48
3	4.48	5.78

\*The difference in yield curve is due to the lower credit rating of ABC Ltd. compared to XYZ Ltd.

- (i) You are required to calculate the rate of interest DEF Bank would quote under 2V3 FRA, using the company's yield information as quoted above.
- (ii) Suppose bank offers Interest Rate Guarantee for a premium of 0.1% of the amount of loan, you are required to calculate the interest payable by XYZ Ltd. if interest rate in 2 years turns out to be
  - (a) 4.50%
  - (b) 5.50%

### Security Analysis and Valuation

7. The data given below relates to a convertible bond:

Face value	₹ 250
Coupon rate	12%
No. of shares per bond	20
Market price of share	₹ 12
Straight value of bond	₹ 235
Market price of convertible bond	₹ 265

Calculate:

- (i) Stock value of bond.
  - (ii) The percentage of downside risk.
  - (iii) The conversion premium
  - (iv) The conversion parity price of the stock.
8. A Ltd. has issued convertible bonds, which carries a coupon rate of 14%. Each bond is convertible into 20 equity shares of the company A Ltd. The prevailing interest rate for similar credit rating bond is 8%. The convertible bond has 5 years maturity. It is redeemable at par at ₹ 100.

The relevant present value table is as follows.

Present values	t <sub>1</sub>	t <sub>2</sub>	t <sub>3</sub>	t <sub>4</sub>	t <sub>5</sub>
PVIF <sub>0.14, t</sub>	0.877	0.769	0.675	0.592	0.519
PVIF <sub>0.08, t</sub>	0.926	0.857	0.794	0.735	0.681

You are required to estimate:

(Calculations be made upto 3 decimal places)

- (i) current market price of the bond, assuming it being equal to its fundamental value,
- (ii) minimum market price of equity share at which bond holder should exercise conversion option; and
- (iii) duration of the bond.

### Portfolio Theory

9. Expected returns on two stocks for particular market returns are given in the following table:

Market Return	Aggressive	Defensive
7%	4%	9%
25%	40%	18%

You are required to calculate:

- (a) The Betas of the two stocks.
  - (b) Expected return of each stock, if the market return is equally likely to be 7% or 25%.
  - (c) The Security Market Line (SML), if the risk free rate is 7.5% and market return is equally likely to be 7% or 25%.
  - (d) The Alphas of the two stocks.
10. The following are the data on five mutual funds:

Fund	Return	Standard Deviation	Beta
A	15	7	1.25
B	18	10	0.75
C	14	5	1.40
D	12	6	0.98
E	16	9	1.50

You are required to compute Reward to Volatility Ratio and rank this portfolio using:

- ◆ Sharpe method and
- ◆ Treynor's method

assuming the risk-free rate is 6%.

### Financial Services

11. The credit sales and receivables of DEF Ltd. at the end of year are estimated at ₹ 561 lakhs and ₹ 69 lakhs respectively.

The average variable overdraft interest rate is 5% p.a.

DEF Ltd. is considering a factoring proposal for its receivables on a non-recourse basis at an annual fee of 1.25% of credit sales.

As a result, DEF Ltd. will save ₹ 1.5 lakhs p.a. in administrative cost and ₹ 5.25 lakhs p.a. as bad debts.

The factor will maintain a receivables collection period of 30 days and will provide 80% of receivables as advance at an interest rate of 7% p.a. You may take 365 days in a year for the purpose of calculation of receivables.

Required:

Evaluate the viability of factoring proposal.

### Mutual Funds

12. Mr. X on 1.7.2015, during the initial offer of some Mutual Fund invested in 10,000 units having face value of ₹10 for each unit. On 31.3.2016, the dividend paid by the M.F. was



10% and Mr. X found that his annualized yield was 153.33%. On 31.12.2017, 20% dividend was given. On 31.3.2018, Mr. X redeemed all his balance of 11,296.11 units when his annualized yield was 73.52%. What are the NAVs as on 31.3.2016, 31.3.2017 and 31.3.2018?

13. On 1<sup>st</sup> April, an open-ended scheme of mutual fund had 300 lakh units outstanding with Net Assets Value (NAV) of ₹ 18.75. At the end of April, it issued 6 lakh units at opening NAV plus 2% load, adjusted for dividend equalization. At the end of May, 3 Lakh units were repurchased at opening NAV less 2% exit load adjusted for dividend equalization. At the end of June, 70% of its available income was distributed.

In respect of April-June quarter, the following additional information are available:

	₹ in lakh
Portfolio value appreciation	425.47
Income of April	22.950
Income for May	34.425
Income for June	45.450

You are required to calculate

- (i) Income available for distribution;
- (ii) Issue price at the end of April;
- (iii) repurchase price at the end of May; and
- (iv) net asset value (NAV) as on 30<sup>th</sup> June.

#### International Financial Management

14. The directors of Implant Inc. wishes to make an equity issue to finance a \$10 m (million) expansion scheme which has an expected Net Present Value of \$2.2m and to re-finance an existing \$6 m 15% Bonds due for maturity in 5 years time. For early redemption of these bonds there is a \$3,50,000 penalty charges. The Co. has also obtained approval to suspend these pre-emptive rights and make a \$15 m placement of shares which will be at a price of \$0.5 per share. The floatation cost of issue will be 4% of Gross proceeds. Any surplus funds from issue will be invested in IDRs which is currently yielding 10% per year.

The Present capital structure of Co. is as under:

	\$'000
Ordinary Share (\$1 per share)	7,000
Share Premium	10,500
Free Reserves	25,500
	<b>43,000</b>

15% Term Bonds	6,000
11% Debenture (2012-2020)	8,000
	<b>57,000</b>

Current share price is \$2 per share and debenture price is \$ 103 per debenture. Cost of capital of Co. is 10%. It may be further presumed that stock market is semi-strong form efficient and no information about the proposed use of funds from the issue has been made available to the public. You are required to calculate expected share price of company once full details of the placement and to which the finance is to be put, are announced.

### Foreign Exchange exposure and Risk Management

15. XYZ Bank, Amsterdam, wants to purchase ₹ 25 million against £ for funding their Nostro account and they have credited LORO account with Bank of London, London.

Calculate the amount of £'s credited. Ongoing inter-bank rates are per \$, ₹ 61.3625/3700 & per £, \$ 1.5260/70.

16. The following 2-way quotes appear in the foreign exchange market:

	Spot	2-months forward
₹/US \$	₹46.00/₹46.25	₹47.00/₹47.50

Required:

- How many US dollars should a firm sell to get ₹25 lakhs after 2 months?
  - How many Rupees is the firm required to pay to obtain US \$ 2,00,000 in the spot market?
  - Assume the firm has US \$ 69,000 in current account earning no interest. ROI on Rupee investment is 10% p.a. Should the firm encash the US \$ now or 2 months later?
17. Drilldip Inc. a US based company has a won a contract in India for drilling oil field. The project will require an initial investment of ₹ 500 crore. The oil field along with equipments will be sold to Indian Government for ₹ 740 crore in one year time. Since the Indian Government will pay for the amount in Indian Rupee (₹) the company is worried about exposure due exchange rate volatility.
- You are required to:
- Construct a swap that will help the Drilldip to reduce the exchange rate risk.
  - Assuming that Indian Government offers a swap at spot rate which is 1US\$ = ₹ 50 in one year, then should the company should opt for this option or should it just do nothing. The spot rate after one year is expected to be 1US\$ = ₹ 54. Further you may also assume that the Drilldip can also take a US\$ loan at 8% p.a.

**Mergers, Acquisitions and Reconstructing**

18. Eagle Ltd. reported a profit of ₹ 77 lakhs after 30% tax for the financial year 2017-18. An analysis of the accounts revealed that the income included extraordinary items of ₹ 8 lakhs and an extraordinary loss of ₹10 lakhs. The existing operations, except for the extraordinary items, are expected to continue in the future. In addition, the results of the launch of a new product are expected to be as follows:

	₹ In lakhs
Sales	70
Material costs	20
Labour costs	12
Fixed costs	10

You are required to:

- (i) Calculate the value of the business, given that the capitalization rate is 14%.
  - (ii) Determine the market price per equity share, with Eagle Ltd.'s share capital being comprised of 1,00,000 13% preference shares of ₹ 100 each and 50,00,000 equity shares of ₹ 10 each and the P/E ratio being 10 times.
19. K. Ltd. is considering acquiring N. Ltd., the following information is available :

Company	Profit after Tax	Number of Equity shares	Market value per share
K. Ltd.	50,00,000	10,00,000	200.00
N. Ltd.	15,00,000	2,50,000	160.00

Exchange of equity shares for acquisition is based on current market value as above. There is no synergy advantage available:

Find the earning per share for company K. Ltd. after merger.

Find the exchange ratio so that shareholders of N. Ltd. would not be at a loss.

20. Write a short note on:
- (a) Side Pocketing in Mutual Funds
  - (b) Linking of financial policy to strategic management
  - (c) Co-location /proximity hosting.
  - (d) Difference between Money Market and Capital Market.
  - (e) Exposure Netting.

## SUGGESTED ANSWERS/HINTS

## 1. Working note:

## (i) (A) Annual Cash inflow from the Existing Asset:

	₹
Annual Revenue	25,00,000
Less: Annual Cash Outflow (expenses)	<u>18,00,000</u>
Gross Revenue	7,00,000
Less: Depreciation	<u>1,50,000</u>
Profit Before Tax (PBT)	5,50,000
Less Tax @ 34%	1,87,000
Add back depreciation	<u>1,50,000</u>
Annual Net Cash Inflow	<u>5,13,000</u>

## (B)

Year_	1	2	3	4
Particulars	₹	₹	₹	₹
New Assets:				
Annual Revenue	70,00,000	70,00,000	70,00,000	70,00,000
Less: Cash outflow	<u>28,00,000</u>	<u>28,00,000</u>	<u>28,00,000</u>	<u>28,00,000</u>
Profit before depreciation and tax	42,00,000	42,00,000	42,00,000	42,00,000
Less: Depreciation	<u>8,00,000</u>	<u>7,00,000</u>	<u>6,00,000</u>	<u>6,00,000</u>
Profit before tax (PBT)	34,00,000	35,00,000	36,00,000	36,00,000
Less: Tax 34%	<u>11,56,000</u>	<u>11,90,000</u>	<u>12,24,000</u>	<u>12,24,000</u>
Profit after Tax (PAT)	22,44,000	23,10,000	23,76,000	23,76,000
Add back depreciation	<u>8,00,000</u>	<u>7,00,000</u>	<u>6,00,000</u>	<u>6,00,000</u>
Annual Cash Inflow	30,44,000	30,10,000	29,76,000	29,76,000
Less: Cash Inflow from Existing Assets:	<u>5,13,000</u>	<u>5,13,000</u>	<u>5,13,000</u>	<u>5,13,000</u>
Annual New Incremental Cash Inflows	25,31,000	24,97,000	24,63,000	24,63,000

(ii) Computation of Terminal Cash Inflow:

<b>Particulars</b>	<b>₹</b>
Salvage Value (as given) (A)	8,00,000
Less: Book Value	<u>3,00,000</u>
Gain on Sale	5,00,000
Tax 34% (B)	<u>1,70,000</u>
∴ Net Cash Inflow (A-B)	6,30,000
Plus: Working Capital released	<u>5,00,000</u>
Sub-total	11,30,000
Plus: Annual Net Incremental Cash Inflow at the end of 4 year	<u>24,63,000</u>
Total Terminal Cash Inflow	<u>35,93,000</u>

**Note:** Alternatively, ₹ 11,30,000 can also be treated as Terminal Value.

2.  $R_i = R_f + \beta(R_m - R_f)$

$0.14 = R_f + 0.04$

$R_f = 0.10$  or 10 percent

$NPV_0 = \text{Quantity} \times (\text{Sale Price} - \text{Variable Cost}) / \text{Risk Free Rate} - \text{Initial Investment}$

$= [6000 \times (10 - 6) / 0.10] - ₹ 1,00,000 = ₹ 1,40,000$

$NPV_1 = \frac{[8,000 \times (11 - 5) / 0.10 - 100,000]}{1.10} = ₹ 3,45,454$

$NPV_2 = \frac{[5,000 \times (9 - 7.50) / 0.10 - 1,00,000]}{(1.10)^2} = - ₹ 20,661$

It is better to defer the investment by 1 year and not by 2 years

3. (i) P.V. of Cash outflow under lease option

(in ₹)

<b>Year</b>	<b>Lease Rental after tax</b>	<b>PVIFA @ 13%</b>	<b>Total P.V.</b>
1 – 5	12,00,000 (1 – T) = 7,80,000	20% (1 – T) 3.517	27,43,260

**Cash Outflow under borrowing option**

5 equal instalments

$₹ 40,00,000 \div 2.991 \text{ (PVIFA 20\%)} = 13,37,345$

## Tax Advantage

Year	Loan Instalments	On Interest	On Depreciation	Net Cash Outflow	PVIF 13%	Total PV
1	13,37,345	2,80,000	3,50,000	7,07,345	.885	6,26,000
2	13,37,345	2,48,386	2,62,500	8,26,459	.783	6,47,117
3	13,37,345	1,97,249	1,96,875	9,43,221	.693	6,53,652
4	13,37,345	1,43,085	1,47,656	10,46,604	.613	6,41,568
5	13,37,345	77,635	1,10,742	11,48,968	.543	6,23,890
						<u>31,92,227</u>
Total PV						31,92,227
Less: PV Salvage value adjusted for Tax savings on loss of sale of machinery (₹ 8,00,000 × .543 = ₹ 4,34,400) + (₹ 28,359) (See Working Note on Depreciation) 9,49,219 – 8,00,000 = 1,49,219 × .35 × .543 = 28,359						4,62,759
Total present value of cash outflow						<u>27,29,468</u>

**Decision:** PV of cash outflow of lease option is greater than borrow option and hence borrow option is recommended.

**Working Notes:****1. Debt and Interest Payments**

Year	Loan Instalments	Loan at the beginning of the year	Interest	Principal	Balance at the end of year
1	13,37,345	40,00,000	8,00,000	5,37,345	34,62,655
2	13,37,345	34,62,655	6,92,531	6,44,814	28,17,841
3	13,37,345	28,17,841	5,63,568	7,73,777	20,44,064
4	13,37,345	20,44,064	4,08,813	9,28,532	11,15,532
5	13,37,345	11,15,532	2,21,813*	11,15,532	-

\* Balancing Figure

2. Year	Depreciation
1	40,00,000 × .25 10,00,000
2	30,00,000 × .25 7,50,000

3	22,50,000 × .25	5,62,500
4	16,87,500 × .25	4,21,875
5	12,65,625 × .25	3,16,406

B.V. of machine = 12,65,625 – 3,16,406 = 9,49,219.

(ii) Proposal from the View Point of Lessor

Lessor's Cash Flow

	1	2	3	4	5
Lease Rentals	12,00,000	12,00,000	12,00,000	12,00,000	12,00,000
Less: Dep. (A)	10,00,000	7,50,000	5,62,500	4,21,875	Nil
EBT	2,00,000	4,50,000	6,37,500	7,78,125	12,00,000
Less: Tax @ 35%	70,000	1,57,500	2,23,125	2,72,344	4,20,000
EAT (B)	1,30,000	2,92,500	4,14,375	5,05,781	7,80,000
CFAT	11,30,000	10,42,500	9,76,875	9,27,656	7,80,000
PV factor @ 14%	0.877	0.769	0.675	0.592	0.519
PV	9,91,010	8,01,683	6,59,391	5,49,172	4,04,820

PV of Lease Rent	34,06,076
Add: PV of Salvage Value	4,15,200
Add: PV of Tax Saving on loss of sale of asset	84,581
Total PV of cash inflow	39,05,857
Cost of Machine	40,00,000
NPV	(94,143)

**Decision:** Lease rate is not financially viable. Hence, not recommended.

4. (a) The formula for the Dividend valuation Model is

$$P_0 = \frac{D_1}{K_e - g}$$

$K_e$  = Cost of Capital

$g$  = Growth rate

$D_1$  = Dividend at the end of year 1

On the basis of the information given, the following projection can be made:

Year	EPS (₹)	DPS (₹)	PVF @15%	PV of DPS (₹)
2015	12.00 (9.60 x 125%)	4.80 (3.84 x 125%)	0.870	4.176
2016	15.00 (12.00 x 125%)	6.00 (4.80 x 125%)	0.756	4.536
2017	16.50 (15.00 x 110%)	8.25* (50% of ₹16.50)	0.658	5.429
				14.141

\*Payout Ratio changed to 50%.

After 2017, the perpetuity value assuming 10% constant annual growth is:

$$D_1 = ₹ 8.25 \times 110\% = ₹ 9.075$$

Therefore  $P_0$  from the end of 2017

$$\frac{₹ 9.075}{0.15 - 0.10} = ₹ 181.50$$

This must be discounted back to the present value, using the 3 year discount factor after 15%.

	₹
Present Value of $P_0$ (₹ 181.50 × 0.658)	119.43
Add: PV of Dividends 2015 to 2017	<u>14.14</u>
Expected Market Price of Share	<u>133.57</u>

(b) P/E Ratio

$$\text{P/E Ratio} = \frac{\text{Expected Market Price of Share } (P_1)}{\text{EPS}}$$

$$= \frac{₹ 133.57}{₹ 9.60} = ₹ 13.91$$

5. (i) Current future price of the index =  $30,000 + 30,000 (0.09 - 0.06) \frac{4}{12}$

$$= 30,000 + 300 = 30,300$$

$$\therefore \text{Price of the future contract} = ₹ 50 \times 30,300 = ₹ 15,15,000$$



(ii) Hedge ratio =  $\frac{60,60,000}{15,15,000} \times 1.5 = 6$  contracts

Index after three months turns out to be 27,000

Future price will be =  $27,000 + 27,000 (0.09-0.06) \times \frac{1}{12} = 27,067.50$

Therefore, Gain from the short futures position is =  $6 \times (30,300 - 27,067.50) \times 50$   
 = ₹9,69,750

**Note:** Alternatively, we can also use daily compounding (exponential) formula.

6. (i) DEF Bank will fix interest rate for 2V3 FRA after 2 years as follows:

XYZ Ltd.

$$\begin{aligned} (1+r) (1+0.0420)^2 &= (1+0.0448)^3 \\ (1+r) (1.0420)^2 &= (1.0448)^3 \\ r &= 5.04\% \end{aligned}$$

Bank will quote 5.04% for a 2V3 FRA.

ABC Ltd.

$$\begin{aligned} (1+r) (1+0.0548)^2 &= (1+0.0578)^3 \\ (1+r) (1.0548)^2 &= (1.0578)^3 \\ r &= 6.38\% \end{aligned}$$

Bank will quote 6.38% for a 2V3 FRA.

- (ii)

		<b>4.50%- Allow to Lapse</b>	<b>5.50%- Exercise</b>
Interest	₹ 100 crores X 4.50%	₹ 4.50 crores	-
	₹ 100 crores X 5.04%	-	₹ 5.04 crores
Premium (Cost of Option)	₹ 100 crores X 0.1%	₹ 0.10 crores	₹ 0.10 crores
		<u>4.60 crores</u>	<u>5.14 crores</u>

7. (i) **Stock value or conversion value of bond**

$12 \times 20 = ₹ 240$

- (ii) **Percentage of the downside risk**

$\frac{₹ 265 - ₹ 235}{₹ 235} = 0.1277$  or 12.77%    or     $\frac{₹ 265 - ₹ 235}{₹ 265} = 0.1132$  or 11.32%

This ratio gives the percentage price decline experienced by the bond if the stock becomes worthless.

**(iii) Conversion Premium**

$$\frac{\text{Market Price} - \text{Conversion Value}}{\text{Conversion Value}} \times 100$$

$$\frac{\text{₹ } 265 - \text{₹ } 240}{\text{₹ } 240} \times 100 = 10.42\%$$

**(iv) Conversion Parity Price**

$$\frac{\text{Bond Price}}{\text{No. of Shares on Conversion}}$$

$$\frac{\text{₹ } 265}{20} = \text{₹ } 13.25$$

This indicates that if the price of shares rises to ₹ 13.25 from ₹ 12 the investor will neither gain nor lose on buying the bond and exercising it. Observe that ₹ 1.25 (₹ 13.25 – ₹ 12.00) is 10.42% of ₹ 12, the Conversion Premium.

**8. (i) Current Market Price of Bond**

Time	CF	PVIF 8%	PV (CF)	PV (CF)
1	14	0.926		12.964
2	14	0.857		11.998
3	14	0.794		11.116
4	14	0.735		10.290
5	114	0.681		<u>77.634</u>
			$\Sigma \text{PV (CF) i.e. } P_0 =$	<u>124.002</u>

Say

₹ 124.00

**(ii) Minimum Market Price of Equity Shares at which Bondholder should exercise conversion option:**

$$\frac{124.00}{20.00} = \text{₹ } 6.20$$

**(iii) Duration of the Bond**

Year	Cash flow	P.V. @ 8%		Proportion of bond value	Proportion of bond value x time (years)
1	14	0.926	12.964	0.105	0.105

2	14	0.857	11.998	0.097	0.194
3	14	0.794	11.116	0.089	0.267
4	14	0.735	10.290	0.083	0.332
5	114	0.681	<u>77.634</u>	<u>0.626</u>	<u>3.130</u>
			<u>124.002</u>	<u>1.000</u>	<u>4.028</u>

9. (a) The Betas of two stocks:

Aggressive stock -  $40\% - 4\% / 25\% - 7\% = 2$

Defensive stock -  $18\% - 9\% / 25\% - 7\% = 0.50$

Alternatively, it can also be solved by using the Characteristic Line Relationship as follows:

$$R_s = \alpha + \beta R_m$$

Where

$$\alpha = \text{Alpha}$$

$$\beta = \text{Beta}$$

$$R_m = \text{Market Return}$$

For Aggressive Stock

$$4\% = \alpha + \beta(7\%)$$

$$40\% = \alpha + \beta(25\%)$$

$$36\% = \beta(18\%)$$

$$\beta = 2$$

For Defensive Stock

$$9\% = \alpha + \beta(7\%)$$

$$18\% = \alpha + \beta(25\%)$$

$$9\% = \beta(18\%)$$

$$\beta = 0.50$$

(b) Expected returns of the two stocks:-

Aggressive stock -  $0.5 \times 4\% + 0.5 \times 40\% = 22\%$

Defensive stock -  $0.5 \times 9\% + 0.5 \times 18\% = 13.5\%$

(c) Expected return of market portfolio =  $0.5 \times 7\% + 0.5 \times 25\% = 16\%$

$\therefore$  Market risk prem. =  $16\% - 7.5\% = 8.5\%$

$\therefore$  SML is, required return =  $7.5\% + \beta_i 8.5\%$

(d)  $R_s = \alpha + \beta R_m$

For Aggressive Stock

$$22\% = \alpha_A + 2(16\%)$$

$$\alpha_A = -10\%$$

For Defensive Stock

$$13.5\% = \alpha_D + 0.50(16\%)$$

$$\alpha_D = 5.5\%$$

10. Sharpe Ratio  $S = (R_p - R_f)/\sigma_p$

Treynor Ratio  $T = (R_p - R_f)/\beta_p$

Where,

$R_p$  = Return on Fund

$R_f$  = Risk-free rate

$\sigma_p$  = Standard deviation of Fund

$\beta_p$  = Beta of Fund

Reward to Variability (Sharpe Ratio)

<i>Mutual Fund</i>	$R_p$	$R_f$	$R_p - R_f$	$\sigma_p$	<i>Reward to Variability</i>	<i>Ranking</i>
A	15	6	9	7	1.285	2
B	18	6	12	10	1.20	3
C	14	6	8	5	1.60	1
D	12	6	6	6	1.00	5
E	16	6	10	9	1.11	4

Reward to Volatility (Treynor Ratio)

<i>Mutual Fund</i>	$R_p$	$R_f$	$R_p - R_f$	$\beta_p$	<i>Reward to Volatility</i>	<i>Ranking</i>
A	15	6	9	1.25	7.2	2
B	18	6	12	0.75	16	1
C	14	6	8	1.40	5.71	5
D	12	6	6	0.98	6.12	4
E	16	6	10	1.50	6.67	3

11.

<b>Particulars</b>	<b>₹</b>
Estimated Receivables	69,00,000
Estimated Receivables under Factor $\left( 5,61,00,000 \times \frac{30}{365} \right)$	46,10,959
Reduction in Receivables (₹ 69,00,000 – ₹ 46,10,959)	22,89,041

**Total Savings**

Reduction in finance costs ₹ 22,89,041 @ 5%	1,14,452
Saving of Administration costs	1,50,000
Saving of Bad debts	5,25,000
<b>Total (A)</b>	<b>7,89,452</b>

**Total Cost of Factoring**

Interest on advances by Factor		
Advances 46,10,959 @ 80%	₹ 36,88,767	
Interest on ₹ 36,88,767 @ 7%	₹ 2,58,214	
Overdraft Interest rate 5%	(₹ 1,84,438)	73,776
Charges payable to Factor (₹ 5,61,00,000 @ 1.25%)		7,01,250
<b>Total (B)</b>		<b>7,75,026</b>

**Net Saving (A) – (B)** ₹ 14,426

Since Net Saving is positive the proposal is viable and can be accepted.

12. Yield for 9 months =  $(153.33 \times 9/12)$  = 115%

Market value of Investments as on 31.03.2016 = 1,00,000/- +  $(1,00,000 \times 115\%)$   
= ₹2,15,000/-

Therefore, NAV as on 31.03.2016 =  $(2,15,000 - 1,00,000) / 10,000 = ₹20.50$

(NAV would stand reduced to the extent of dividend payout, being  $(10,000 \times 10 \times 10\%)$   
= ₹10,000)

Since dividend was reinvested by Mr. X, additional units acquired =  $\frac{₹10,000}{₹20.50}$   
= 487.80 units

Therefore, units as on 31.03.2016 = 10,000 + 487.80 = 10,487.80

[Alternately, units as on 31.03.2016 =  $(2,15,000 / 20.50) = 10,487.80$ ]

Dividend as on 31.03.2017 =  $10,487.80 \times 10 \times 0.2 = ₹20,975.60$

Let X be the NAV on 31.03.2017, then number of new units reinvested will be ₹ 20,975.60/X. Accordingly 11296.11 units shall consist of reinvested units and 10487.80 (as on 31.03.2016). Thus, by way of equation it can be shown as follows:

$$11296.11 = \frac{20975.60}{X} + 10487.80$$

$$\begin{aligned} \text{Therefore, NAV as on 31.03.2017} &= 20,975.60 / (11,296.11 - 10,487.80) \\ &= ₹ 25.95 \end{aligned}$$

$$\begin{aligned} \text{NAV as on 31.03.2018} &= ₹ 1,00,000 (1 + 0.7352 \times 33/12) / 11296.11 \\ &= ₹ 26.75 \end{aligned}$$

### 13. Calculation of Income available for Distribution

	Units (Lakh)	Per Unit (₹)	Total (₹ In lakh)
Income from April	300	0.0765	22.9500
Add: Dividend equalization collected on issue	6	0.0765	0.4590
	306	0.0765	23.4090
Add: Income from May		0.1125	34.4250
	306	0.1890	57.8340
Less: Dividend equalization paid on repurchase	3	0.1890	(0.5670)
	303	0.1890	57.2670
Add: Income from June		0.1500	45.4500
	303	0.3390	102.7170
Less: Dividend Paid		0.2373	(71.9019)
	303	0.1017	30.8151

### Calculation of Issue Price at the end of April

	₹
Opening NAV	18.750
Add: Entry Load 2% of ₹ 18.750	(0.375)
	19.125
Add: Dividend Equalization paid on Issue Price	0.0765
	19.2015

## Calculation of Repurchase Price at the end of May

	₹
Opening NAV	18.750
Less: Exit Load 2% of ₹ 18.750	(0.375)
	18.375
Add: Dividend Equalization paid on Issue Price	0.1890
	18.564

## Closing NAV

		₹(Lakh)
Opening Net Asset Value (₹ 18.75 × 300)		5625.0000
Portfolio Value Appreciation		425.4700
Issue of Fresh Units (6 × 19.2015)		115.2090
Income Received (22.950 + 34.425 + 45.450)		102.8250
		6268.504
Less: Units repurchased (3 × 18.564)	-55.692	
Income Distributed	-71.9019	(-127.5939)
Closing Net Asset Value		6140.9101
Closing Units (300 + 6 – 3) lakh		303 lakh
∴ Closing NAV as on 30 <sup>th</sup> June		₹ 20.2670

14. In semi-strong form of stock market, the share price should accurately reflect new relevant information when it is made publicly available including Implant Inc. expansion scheme and redemption of the term loan.

The existing Market Value \$ 2 x 7,000,000		\$ 14,000,000
The new investment has an expected NPV		\$ 2,200,000
Proceeds of New Issue		\$ 15,000,000
Issue Cost of		(\$ 600,000)
<b>PV of Benefit of early redemption</b>		
Interest of \$ 900,000 (\$6,000,000 x 15 %)x 3.791	3,411,900	
PV of Repayment in 5 years \$ 6,000,000 x 0.621	<u>3,726,000</u>	
	7,137,900	
Redemption Cost Now	(6,000,000)	

Penalty charges	(350,000)	787,900
Expected Total Market value		31,387,900
New No. of shares (30 Million + 7 Million)		37,00,000
<b>Expected Share Price of Company</b>		<b>\$ 0.848</b>

15. To purchase Rupee, XYZ Bank shall first sell £ and purchase \$ and then sell \$ to purchase Rupee. Accordingly, following rate shall be used:

$(\text{₹}/\text{₹})_{\text{ask}}$

**The available rates are as follows:**

$$(\text{\$/₹})_{\text{bid}} = \$1.5260$$

$$(\text{\$/₹})_{\text{ask}} = \$1.5270$$

$$(\text{₹}/\text{\$})_{\text{bid}} = ₹ 61.3625$$

$$(\text{₹}/\text{\$})_{\text{ask}} = ₹ 61.3700$$

From above available rates we can compute required rate as follows:

$$(\text{₹}/\text{₹})_{\text{ask}} = (\text{₹}/\text{\$})_{\text{ask}} \times (\text{\$/₹})_{\text{ask}}$$

$$= (1/1.5260) \times (1/61.3625)$$

$$= ₹ 0.01068 \text{ or } ₹ 0.0107$$

Thus amount of £ to be credited

$$= ₹ 25,000,000 \times ₹ 0.0107$$

$$= ₹ 267,500$$

16. (i) US \$ required to get ₹ 25 lakhs after 2 months at the Rate of ₹ 47/\$

$$\therefore \frac{₹ 25,00,000}{₹ 47} = \text{US } \$ 53191.489$$

- (ii) ₹ required to get US\$ 2,00,000 now at the rate of ₹ 46.25/\$

$$\therefore \text{US } \$ 200,000 \times ₹ 46.25 = ₹ 92,50,000$$

- (iii) Encashing US \$ 69000 Now Vs 2 month later

Proceed if we can encash in open mkt (\$ 69000 × ₹46)	₹ 31,74,000
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Opportunity gain

$= 31,74,000 \times \frac{10}{100} \times \frac{2}{12}$	₹ 52,900
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Likely sum at end of 2 months	<u>₹ 32,26,900</u>
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Proceeds if we can encash by forward rate :

$$\text{\$ } 69000 \times \text{\text{₹}}47.00 \qquad \qquad \qquad \text{\text{₹}} 32,43,000$$

It is better to encash the proceeds after 2 months and get opportunity gain.

17. (a) The following swap arrangement can be entered by Drilldip.
- (i) Swap a US\$ loan today at an agreed rate with any party to obtain Indian Rupees (₹) to make initial investment.
  - (ii) After one year swap back the Indian Rupees with US\$ at the agreed rate. In such case the company is exposed only on the profit earned from the project.

(b) With the swap

	Year 0 (Million US\$)	Year 1 (Million US\$)
Buy ₹ 500 crore at spot rate of 1US\$ = ₹ 50	(100.00)	---
Swap ₹ 500 crore back at agreed rate of ₹ 50	---	100.00
Sell ₹ 240 crore at 1US\$ = ₹ 54	---	44.44
Interest on US\$ loan @8% for one year	---	(8.00)
	(100.00)	136.44

Net result is a net receipt of US\$ 36.44 million.

Without the swap

	Year 0 (Million US\$)	Year 1 (Million US\$)
Buy ₹ 500 crore at spot rate of 1US\$ = ₹ 50	(100.00)	---
Sell ₹ 740 crore at 1US\$ = ₹ 54	---	137.04
Interest on US\$ loan @8% for one year	---	(8.00)
	(100.00)	129.04

Net result is a net receipt of US\$ 29.04 million.

**Decision:** Since the net receipt is higher in swap option the company should opt for the same.

18. (i) Computation of Business Value

	(₹Lakhs)
Profit before tax $\frac{77}{1-0.30}$	110
Less: Extraordinary income	(8)

Add: Extraordinary losses			<u>10</u>
			<b>112</b>
<i>Profit from new product</i>		(₹ Lakhs)	
Sales		70	
Less: Material costs	20		
Labour costs	12		
Fixed costs	<u>10</u>	(42)	<u>28</u>
			140.00
Less: Taxes @30%			<u>42.00</u>
Future Maintainable Profit after taxes			<u>98.00</u>
Relevant Capitalisation Factor			0.14
Value of Business (₹98/0.14)			700

(ii) **Determination of Market Price of Equity Share**

Future maintainable profits (After Tax)	₹ 98,00,000
Less: Preference share dividends 1,00,000 shares of ₹ 100 @ 13%	₹ 13,00,000
Earnings available for Equity Shareholders	<u>₹ 85,00,000</u>
No. of Equity Shares	50,00,000
Earning per share = $\frac{₹ 85,00,000}{50,00,000} =$	₹ 1.70
PE ratio	10
Market price per share	₹ 17

19. (i) **Earning per share for company K. Ltd. after Merger:**

Exchange Ratio 160 : 200 = 4 : 5

That is 4 shares of K. Ltd. for every 5 shares of N. Ltd.

$$\therefore \text{Total number of shares to be issued} = \frac{4}{5} \times 2,50,000 = 2,00,000 \text{ shares}$$

$$\begin{aligned} \therefore \text{Total number of shares of K. Ltd. and N. Ltd.} &= 10,00,000 \text{ K. Ltd.} \\ &+ \underline{2,00,000} \text{ N. Ltd.} \\ &\underline{12,00,000} \end{aligned}$$

$$\begin{aligned} \text{Total profit after Tax} &= ₹ 50,00,000 \text{ K. Ltd.} \\ &₹ \underline{15,00,000} \text{ N Ltd.} \\ &₹ \underline{65,00,000} \end{aligned}$$

$$\therefore \text{E.P.S. (Earning per share) of K. Ltd. after Merger}$$

$$= \frac{₹ 65,00,000}{12,00,000} = ₹ 5.42 \text{ Per Share}$$

(ii) To find the Exchange Ratio so that shareholders of N. Ltd. would not be at a Loss:

Present Earnings per share for company K. Ltd.

$$= \frac{₹ 50,00,000}{₹ 10,00,000} = ₹ 5.00$$

Present Earnings Per share for company N. Ltd.

$$= \frac{₹ 15,00,000}{₹ 2,50,000} = ₹ 6.00$$

∴ Exchange Ratio should be 6 shares of K. Ltd. for every 5 shares of N Ltd.

∴ Shares to be issued to N. Ltd.

$$= \frac{2,50,000 \times 6}{5} = 3,00,000 \text{ Shares}$$

∴ Total No. of Shares of K.Ltd. and N. Ltd.

= 10,00,000	K. Ltd.
+ <u>3,00,000</u>	N. Ltd
13,00,000	

$$\therefore \text{E.P.S. After Merger} \frac{65,00,000}{13,00,000} = ₹ 5.00 \text{ Per Share}$$

Total Earnings Available to Shareholders of N. Ltd. after Merger = ₹ 3,00,000 shares  
 × ₹ 5.00 = ₹ 15,00,000

This is equal to Earnings prior Merger for N. Ltd.

∴ Exchange Ratio on the Basis of Earnings per Share is recommended.

20. (a) In simple words, a Side Pocketing in Mutual Funds leads to separation of risky assets from other investments and cash holdings. The purpose is to make sure that money invested in a mutual fund, which is linked to stressed assets, gets locked, until the fund recovers the money from the company or could avoid distress selling of illiquid securities.

The modus operandi is simple. Whenever, the rating of a mutual fund decreases, the fund shifts the illiquid assets into a side pocket so that current shareholders can be benefitted from the liquid assets. Consequently, the Net Asset Value (NAV) of the fund will then reflect the actual value of the liquid assets.

Side Pocketing is beneficial for those investors who wish to hold on to the units of the main funds for long term. Therefore, the process of Side Pocketing ensures that liquidity is not the problem even in the circumstances of frequent allotments and redemptions.

Side Pocketing is quite common internationally. However, Side Pocketing has also been resorted to bereft the investors of genuine returns.

In India recent fiasco in the Infrastructure Leasing and Financial Services (IL&FS) has led to many discussions on the concept of side pocketing as IL&FS and its subsidiaries have failed to fulfill its repayments obligations due to severe liquidity crisis.

The Mutual Funds have given negative returns because they have completely written off their exposure to IL&FS instruments.

- (b) The success of any business is measured in financial terms. Maximizing value to the shareholders is the ultimate objective. For this to happen, at every stage of its operations including policy-making, the firm should be taking strategic steps with value-maximization objective. This is the basis of financial policy being linked to strategic management.

The linkage can be clearly seen in respect of many business decisions. For example:

- (i) Manner of raising capital as source of finance and capital structure are the most important dimensions of strategic plan.
- (ii) Cut-off rate (opportunity cost of capital) for acceptance of investment decisions.
- (iii) Investment and fund allocation is another important dimension of interface of strategic management and financial policy.
- (iv) Foreign Exchange exposure and risk management.
- (v) Liquidity management
- (vi) A dividend policy decision deals with the extent of earnings to be distributed and a close interface is needed to frame the policy so that the policy should be beneficial for all.
- (vii) Issue of bonus share is another dimension involving the strategic decision.

Thus, from above discussions it can be said that financial policy of a company cannot be worked out in isolation to other functional policies. It has a wider appeal and closer link with the overall organizational performance and direction of growth.

- (c) The co-location or proximity hosting is a facility which is offered by the stock exchanges to stock brokers and data vendors whereby their trading or data-vending systems are allowed to be located within or at close proximity to the premises of the

stock exchanges, and are allowed to connect to the trading platform of stock exchanges through direct and private network.

Moreover, pursuant to the recommendations of the Technical Advisory Committee (TAC) of SEBI, stock exchanges are advised to allow direct connectivity between co-location facility of one recognized stock exchange and the colocation facility of other recognized stock exchanges. Stock exchanges are also advised to allow direct connectivity between servers of a stock broker placed in colocation facility of a recognized stock exchange and servers of the same stock broker placed in colocation facility of a different recognized stock exchange. This facility should be available to all the co-located brokers, who are desirous to avail such connectivity, in a fair and equitable manner.

Further, in light of the public comments received and in consultation with Technical Advisory Committee (TAC) of SEBI and Secondary Market Advisory Committee (SMAC) of SEBI and in order to facilitate small and medium sized Members, who otherwise find it difficult to avail colocation facility, due to various reasons including but not limited to high cost, lack of expertise in maintenance and troubleshooting, etc. to avail co-location facility, SEBI has directed the stock exchanges to introduce **‘Managed Co-location Services’**. Under this facility, space/rack in co-location facility shall be allotted to eligible vendors by the stock exchange along with provision for receiving market data for further dissemination of the same to their client members and the facility.

- (d) The capital market deals in financial assets. Financial assets comprises of shares, debentures, mutual funds etc. The capital market is also known as stock market.

Stock market and money market are two basic components of Indian financial system. Capital market deals with long and medium term instruments of financing while money market deals with short term instruments.

Some of the points of distinction between capital market and money market are as follows:

	<b>Money Market</b>	<b>Capital Market</b>
(i)	There is no classification between primary market and secondary market	There is a classification between primary market and secondary market.
(ii)	It deals for funds of short-term requirement (less than a year).	It deals with funds of long-term requirement (more than 1 year).
(iii)	Money market instruments include interbank call money, notice money upto 14 days, short-term deposits upto three months, commercial paper, 91 days treasury bills.	Capital Market instruments are shares and debt instruments.

(iv)	Money market participants are banks, financial institution, RBI and Government.	Capital Market participants include retail investors, institutional investors like Mutual Funds, Financial Institutions, corporate and banks.
(v)	Supplies funds for working capital requirement.	Supplies funds for fixed capital requirements.
(vi)	Each single instrument is of a large amount.	Each single instrument is of a small amount.
(vii)	Risk involved in money market is less due to smaller term of maturity. In short term the risk of default is less.	Risk is higher
(viii)	Transactions take place over phone calls. Hence there is no formal place for transactions.	Transactions are at a formal place viz the stock exchange.
(ix)	The basic role of money market is liquidity adjustment.	The basic role of capital market includes putting capital to work, preferably to long term, secure and productive employment.
(x)	Closely and directly linked with the Central Bank of India	The Capital market feels the influence of the Central Bank but only indirectly and through the money market
(xi)	Commercial Banks are closely regulated.	The institutions are not much regulated.

- (e) Exposure Netting refers to offsetting exposures in one currency with Exposures in the same or another currency, where exchange rates are expected to move in such a way that losses or gains on the first exposed position should be offset by gains or losses on the second currency exposure.

The objective of the exercise is to offset the likely loss in one exposure by likely gain in another. This is a manner of hedging foreign exchange exposures though different from forward and option contracts. This method is similar to portfolio approach in handling systematic risk.

For example, let us assume that a company has an export receivables of US\$ 10,000 due 3 months hence, if not covered by forward contract, here is a currency exposure to US\$.

Further, the same company imports US\$ 10,000 worth of goods/commodities and therefore also builds up a reverse exposure. The company may strategically decide

to leave both exposures open and not covered by forward; it would be doing an exercise in exposure netting.

Despite the difficulties in managing currency risk, corporates can now take some concrete steps towards implementing risk mitigating measures, which will reduce both actual and future exposures. For years now, banking transactions have been based on the principle of netting, where only the difference of the summed transactions between the parties is actually transferred. This is called settlement netting. Strictly speaking in banking terms this is known as settlement risk. Exposure netting occurs where outstanding positions are netted against one another in the event of counter party default.

## PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

### PART – I : ACADEMIC UPDATE

(Legislative Amendments / Notifications / Circulars / Rules / Guidelines issued by  
Regulating Authority)

#### Chapter 1 : Auditing Standards, Statements and Guidance Notes-An Overview

**1 SA 299: Joint Audit of Financial Statements** - This SA deals with the special considerations in carrying out audit by joint auditors. Accordingly, in addition to the requirements enunciated in this Standard, the joint auditors also need to comply with all the relevant requirements of other applicable Standards on Auditing. This Standard deals with the special considerations in carrying out audit by joint auditors. The objectives of this Standard are to lay down broad principles for the joint auditors in conducting the joint audit, to provide a uniform approach to the process of joint audit, to identify the distinct areas of work and coverage thereof by each joint auditor and to identify individual responsibility and joint responsibility of the joint auditors in relation to audit.

The SA became effective for all audits relating to accounting periods commencing on or after April 1, 2018.

**2 SA 720: The Auditor's Responsibility in Relation to Other Information** - This Standard on Auditing (SA) deals with the auditor's responsibilities r

elating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose. This SA requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.

This SA is effective for audits of financial statements for periods beginning on or after April 1, 2018.

(Note: Text of revised SA 299 and revised SA 720 is reproduced in Auditing Pronouncements.)

#### Chapter 6 : The Company Audit

- (i) Additional requirement for claiming exemption under section 141(3)(g) for counting ceiling limit is available only if such company has not committed default in filing its financial statements under section 137 and annual returns under section 92 of the Act to the registrar as per notification dated 13 June 2017.



- (ii) Notification No. G.S.R. 583(E) stated that requirements of reporting under section 143(3)(i) read Rule 10 A of the Companies (Audit and Auditors) Rules, 2014 of the Companies Act 2013 shall not apply to certain private companies. Clarification regarding applicability of exemption given to certain private companies under section 143(3)(i) (vide circular no. 08/2017) clarified that the exemption shall be applicable for those audit reports in respect of financial statements pertaining to financial year, commencing on or after 1st April, 2016, which are made on or after the date of the said notification.
- (iii) As per provisions of Section 143(3)(i) of companies Act, The Auditor Report shall state whether the Company has adequate internal financial controls system in place and the operating effectiveness of such controls. MCA vide its notification dated 13th June 2017 (G.S.R. 583(E)) amended the notification of the Government of India, In the ministry of corporate of affair, vide no G.S.R. 464(E) dated 05th June 2015 providing exemption from Internal Financial Controls to following private companies which is one person Company (OPC) or a Small Company, or Which has turnover less than ₹ 50 Crores as per latest audited financial statement or which has aggregate borrowings from banks or financial institutions or any body corporate at any point of time during the financial year less then ₹ 25 Crore. The above exemption shall be applicable to a private company which has not committed a default in filing its financial statements under section 137 of the Companies Act 2013 or annual return under section 92 of Act with the Registrar. Further, Ministry of Corporate Affairs vide corrigendum stated that for the words "statement or" to read as "statement and" under section 143(3)(i). In addition, in section 143 of the principal Act, (i) in sub-section (1), in the proviso, for the words "its subsidiaries", at both the places, the words "its subsidiaries and associate companies" shall be substituted; (ii) in sub-section (3), in clause (i), for the words "internal financial controls system", the words "internal financial controls with reference to financial statements" shall be substituted; (iii) in sub-section (14), in clause (a), for the words "cost accountant in practice", the words "cost accountant" shall be substituted.
- (iv) Ratification for appointment of auditors is not required at every AGM when auditors have been appointed for five years - Proviso to section 139(1) omitted as per Companies (Amendment) Act, 2017.
- (v) **Duty to report on any other matter specified by Central Government:** The Central Government may, in consultation with the National Financial Reporting Authority (NFRA), by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein. As per the notification dated 29.03.2016, till the time NFRA is constituted, the Central Government may hold consultation required under this sub-section with the Committee chaired by an officer of the rank of Joint Secretary or equivalent in the MCA and the Committee shall have the representatives from the ICAI and Industry Chambers and also special invitees from the National Advisory Committee on Accounting Standards (NACAS) and the office of the C&AG. However, by virtue of notification dated 21<sup>st</sup> March 2018, in exercise of the powers conferred by sub-section (3) of section 1 of the Companies Act, 2013 (18 of 2013), the Central Government hereby

appoints the 21st March, 2018 as the date on which the provisions of subsections (3) and (11) of section 132 of the said Act shall come into force.

**The role of National Financial Reporting Authority shall be as follows :-** (a) make recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors, as the case may be;

(b) monitor and enforce the compliance with accounting standards and auditing standards in such manner as may be prescribed;

(c) oversee the quality of service of the professions associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of service and such other related matters as may be prescribed.

- (vi) As per section 140(2), the auditor who has resigned from the company shall file within a period of 30 days from the date of resignation, a statement in the prescribed Form ADT –3 (as per Rule 8 of CAAR) with the company and the Registrar, and in case of the companies referred to in section 139(5) i.e. Government company, the auditor shall also file such statement with the Comptroller and Auditor-General of India, indicating the reasons and other facts as may be relevant with regard to his resignation. In case of failure the auditor shall be punishable with fine which shall not be less than fifty thousand rupees *or the remuneration of the auditor, whichever is less*, but which may extend to five lakh rupees as per section 140(3).
- (vii) Under sub-section (3) of section 141 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 a person who, directly or indirectly, renders any service referred to in section 144 to the company or its holding company or its subsidiary company shall not be eligible for appointment as an auditor of a company.
- (viii) By virtue of notification dated February 23, 2018, the Central Government has exempted the companies engaged in defence production to the extent of application of relevant Accounting Standard on segment reporting.
- (ix) As per MCA notification dated February 5, 2018, the provision of deferred tax asset as per Ind AS 12 or Accounting Standard 22 shall not apply to Government Company which is a public financial institution under sub-clause (iv) of clause (72) of section 2 of the Companies Act, 2013; a Non-Banking Financial Company registered with the Reserve Bank of India under section 45-IA of the Reserve bank of India Act, 1934; and engaged in the business of infrastructure finance leasing with not less than seventy five per cent. of its total revenue being generated from such business with Government companies or other entities owned or controlled by Government.
- (x) The Ministry of Corporate Affairs (MCA) vide notification dated October 11, 2018 introduced Division III under Schedule III of the Companies Act, 2013, wherein a format for preparation of financial statements by NBFCs complying with Ind- AS has been prescribed.

- (xi) The Order for reopening of accounts not to be made beyond eight financial years immediately preceding the current financial year unless and until Government has, under Section 128(5) issued a direction for keeping books of account longer than **8 years**, reopening of accounts can be made for such longer period.
- (xii) As per Section 143(3)(i) The auditors of all the companies shall report on the adequacy of internal financial control systems and its operating effectiveness. As per the recent amendment, the auditors are required to report on Internal Financial Control with reference to financial statements.
- (xiii) Right of access by the auditor of a holding company to the accounts and records of the associate company, whose accounts are required to be consolidated. As per the recent amendment, this right has been extended to associates also.
- (xiv) Enabling provisions for opportunity of being heard in Section 130 for auditor/ Chartered Accountant of the Company. As of now, there is no provision in the section for serving notice to the auditor/ chartered accountant in case of reopening of accounts. As per the recent amendment in the section has been brought enabling the Court/ Tribunal to give notice to any other party/ person concerned.
- (xv) In exercise of the powers conferred by section 139 read with sub-sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government hereby amend Rule 5 of the Companies (Audit and Auditors) Rules, 2014 i.e. in rule 5, in clause (b), for the word “twenty”, the word “**fifty**” shall be substituted.
- (xvi) Section 147 of the Companies Act, 2013 prescribes following punishments for contravention:
- (1) If any of the provisions of sections 139 to 146 (both inclusive) is contravened, the company shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than ten thousand rupees but which may extend to one lakh rupees, or with both.
  - (2) If an auditor of a company contravenes any of the provisions of section 139 section 143, section 144 or section 145, the auditor shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees **or four times the remuneration of the auditor, which ever is less.**
- It may be noted that if an auditor has contravened such provisions knowingly or willfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall **not be less than fifty thousand rupees** but which may extend to twenty-five lakh rupees **or eight times the remuneration of the auditor, which every is less.**

- (3) Where an auditor has been convicted under sub-section (2), he shall be liable to:-
- (i) refund the remuneration received by him to the company,
  - (ii) and pay for damages to the company statutory bodies or authorities or to **members or the creditors of the Company** for loss arising out of incorrect or misleading statements of particulars made in his audit report.
- (4) The Central Government shall, by notification, specify any statutory body or authority of an officer for ensuring prompt payment of damages to the company or the persons under clause (ii) of sub-section (3) and such body, authority or officer shall after payment of damages the such company or persons file a report with the Central Government in respect of making such damages in such manner as may be specified in the said notification.
- (5) Where, in case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in an fraud by, or in relation to or by, the company or its directors or officers, the liability, whether civil criminal as provided in this Act or in any other law for the time being in force, for such act shall be the partner or partners concerned of the audit firm and of the firm jointly and severally Provided that in case of criminal liability of an audit firm, in respect of liability other **than fine, the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable.**

#### Chapter 7 : Liabilities of Auditors

**A civil action against the auditor may either take the form of claim for damages on account of negligence or that of misfeasance proceeding for breach of trust or duty:**

- (I) **Damages for negligence:** Civil liability for mis-statement in prospectus under section 35 of the Companies Act, 2013, are:
- (1) Where a person has subscribed for securities of a company acting on any statement included, or the inclusion or omission of any matter, in the prospectus which is misleading and has sustained any loss or damage as a consequence thereof, the company and every person who—

(a) is a director of the company at the time of the issue of the prospectus;
(b) has authorized himself to be named and is named in the prospectus as a director of the company or has agreed to become such director either immediately or after an interval of time;
(c) is a promoter of the company;
(d) has authorised the issue of the prospectus; and
(e) is an expert referred to in sub-section (5) of section 26,

shall, without prejudice to any punishment to which any person may be liable under section 36, be liable to pay compensation to every person who has sustained such loss or damage.

- (2) No person shall be liable under sub-section (1), if he proves—
- (a) that, having consented to become a director of the company, he withdrew his consent before the issue of the prospectus, and that it was issued without his authority or consent; or
  - (b) that the prospectus was issued without his knowledge or consent, and that on becoming aware of its issue, he forthwith gave a reasonable public notice that it was issued without his knowledge or consent.
  - (c) ***that, as regards every misleading statement purported to be made by an expert or contained in what purports to be a copy of or an extract from a report or valuation of an expert, it was a correct and fair representation of the statement, or a correct copy of, or a correct and fair extract from, the report or valuation; and he had reasonable ground to believe and did up to the time of the issue of the prospectus believe, that the person making the statement was competent to make it and that the said person had given the consent required by sub-section (5) of section 26 to the issue of the prospectus and had not withdrawn that consent before delivery of a copy of the prospectus for registration or, to the defendant's knowledge, before allotment thereunder.***
- (3) Notwithstanding anything contained in this section, where it is proved that a prospectus has been issued with intent to defraud the applicants for the securities of a company or any other person or for any fraudulent purpose, every person referred to in subsection (1) shall be personally responsible, without any limitation of liability, for all or any of the losses or damages that may have been incurred by any person who subscribed to the securities on the basis of such prospectus.

It may be noted that the term “expert” as defined in Section 2(38) of the Companies Act, 2013 includes an engineer, a valuer, a chartered accountant, a company secretary, a cost accountant and any other person who has the power or authority to issue a certificate in pursuance of any law for the time being in force. Also that under Section 26 of the Act a statement may be considered to be untrue, not only because it is so but also if it is misleading in the form and context in which it is included.

The liability would arise if the written consent of the auditor to the issue of the prospectus, including the report purporting to have been made by him as an “expert” has been obtained.

**2. Punishment for Fraud- As per Section 447 of the Companies Act, 2013, without prejudice to any liability including repayment of any debt under this Act or any other law for the time being in force, any person who is found to be guilty of fraud 1[involving an**

*amount of at least ten lakh rupees or one per cent. of the turnover of the company, whichever is lower] shall be punishable with imprisonment for a term which shall not be less than six months but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud:*

It may be noted that where the fraud in question involves public interest, the term of imprisonment shall not be less than three years.

**It may also be noted that where the fraud involves an amount less than ten lakh rupees or one per cent. of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to fifty lakh rupees or with both.]**

**3. Liabilities under Income Tax Act 1961:** In connection with proceedings under the Income Tax Act 1961, a Chartered Accountant often acts as the authorised representative of his clients and attends before an Income Tax Authority or the appellate tribunal. His liabilities under the Income Tax Act of 1961 are as below:

- (i) **Under Section 288:** A person who has been convicted of any offence connected with any Income Tax proceeding or on whom a penalty has been imposed under the said Act (except under clause (ii) of sub section (1) of Section 271) is disqualified from representing an assessee. The Chief Commissioner/Commissioner of Income Tax has been given powers to determine the period of such disqualification of a person.

**Section 288 (4) & (5) of the Income Tax Act, 1961**

**Sub section 4 of Section 288 of the Income Tax Act:**

No person-

- (a) who has been dismissed or removed from Government service after the 1<sup>st</sup> day of April, 1938; or
- (b) Who has been convicted of an offence connected with any income tax proceeding or on whom a penalty has been imposed under this Act, other than a penalty imposed on him under [clause(ii) of sub section (1) of section 271 [or clause(d) of sub-section (1) of section 272A]; or
- (c) who has become an insolvent; or
- (d) who has been convicted by a court for an offence involving fraud, shall be qualified to represent an assessee under sub-section (1), for all times in the case of a person referred to in clause(a), for such time as the Principal Chief Commissioner or Chief Commission or Principal Commissioner or Commissioner may, by order determine in the case of a person referred to in clause (b), for the period during which the insolvency continues in the case of a person referred to in clause (c), and for a period of ten years from the date of conviction in the case of a person referred to in clause (d).

**Sub section 5 of Section 288 of the Income Tax Act:**

If any person-

- (a) who is a legal practitioner or an accountant is found guilty of misconduct in his professional capacity by any authority entitled to institute disciplinary proceedings against him, an order passed by that authority shall have effect in relation to his right to attend before an income-tax authority as it has in relation to his right to practice as a legal practitioner or account, as the case may be;
- (b) Who is not a legal practitioner or an accountant, is found guilty of misconduct in connection with any income-tax proceedings by the prescribed authority, the prescribed authority (Chief Commissioner or Commissioner having requisite jurisdiction) may direct that he shall thenceforth be disqualified to represent an assessee under sub section (1).

A Chartered Accountant found guilty of professional misconduct in his professional capacity by the Council of the Institute of Chartered Accountants of India, can not act as an authorised representative (for any matter within the definition of a member in practice) for such time that the order of the Council disqualifies him from practising.

- (ii) **Under Section 278:** "If a person abets or induces in any manner another person to make and deliver an account or a statement or declaration relating to any income [or any fringe benefits] chargeable to tax which is false and which he either knows to be false or does not believe to be true or to commit an offence under sub-section (1) of section 276C, he shall be punishable,-

**Section 278 of the Income Tax Act, 1961:**

- (i) in a case where the amount of tax, penalty or interest which would have been evaded, if the declaration, account or statement had been accepted as true, or which is willfully attempted to be evaded, exceeds [twenty five] hundred thousand rupees, with rigorous imprisonment for a term which shall not be less than six months but which may extend to seven years and with fine;
- (ii) in any other case, with rigorous imprisonment for a term which shall not be less than three months but which may extend to [two] years and with fine

- (iii) **Under Rule 12A of the Income Tax Rules:** Under this rule a Chartered Accountant who as an authorised representative has prepared the return filed by the assessee, has to furnish to the Assessing Officer, the particulars of accounts, statements and other documents supplied to him by the assessee for the preparation of the return.

Where the Chartered Accountant has conducted an examination of such records, he has also to submit a report on the scope and results of such examination. The report to be submitted will be a statement within the meaning of Section 277 of the Income Tax Act. Thus, if this report contains any information which is false and which the Chartered

Accountant either knows or believes to be false or untrue, he would be liable to rigorous imprisonment which may extend to seven years and to a fine.

- (iv) **Under Section 271J of the Income Tax Act:** As per new section inserted by the Finance Act, 2017 if an accountant or a merchant banker or a registered valuer, furnishes incorrect information in a report or certificate under any provisions of the Act or the rules made thereunder, the Assessing Officer or the Commissioner (Appeals) may direct him to pay a sum of ten thousand rupees for each such report or certificate by way of penalty. [ section 271J]

### Chapter 9: Audit Committee and Corporate Governance

Certain amendments to the LODR Regulations have been made vide SEBI (Listing Obligations and Disclosure Requirements) (Fifth Amendment) Regulations, 2018. The LODR Regulations and the amendments made thereto are collectively referred to as LODR Regulations.

**Applicability of LODR Regulations [Regulation 3]:** Unless otherwise provided, these regulations shall apply to the listed entity who has listed any of the following designated securities on recognised stock exchange(s):

<b>Applicability</b>	<ul style="list-style-type: none"> <li>(a) specified securities listed on main board or SME Exchange or institutional trading platform;</li> <li>(b) non-convertible debt securities, non-convertible redeemable preference shares, perpetual debt instrument, perpetual non-cumulative preference shares;</li> <li>(c) Indian depository receipts;</li> <li>(d) securitised debt instruments;</li> <li>(e) security receipts (added w.e.f. September 06, 2018);</li> <li>(f) units issued by mutual funds;</li> <li>(g) any other securities as may be specified by the Board.</li> </ul>
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**Audit Committee under Section 177 of the Companies Act, 2013:** As per section 177 read with Rule 6 of the Companies (Meetings of Board and its Powers) Rules, 2014, **every listed public company** and the following classes of companies shall constitute an Audit Committee –

- (a) all public companies with a paid up capital of ten crore rupees or more;
- (b) all public companies having turnover of one hundred crore rupees or more;
- (c) all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more

**Functions of The Audit Committee:** The Audit Committee performs various important functions like investigating the matters referred by board, discuss about internal control system etc. These sub-sections of Section 177 are reproduced hereunder which specify the terms of reference as well as functions of the Audit Committee:



**Sub Section 4:** “Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall inter alia, include,—

- (i) the recommendation for appointment, remuneration and terms of appointment of auditors of the company;
- (ii) review and monitor the auditor's independence and performance, and effectiveness of audit process;
- (iii) examination of the financial statement and the auditors' report thereon;
- (iv) approval or any subsequent modification of transactions of the company with related parties;

**(However, the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to such conditions as may be prescribed.**

**In case of transactions other than transactions referred to in section 188 of the Companies Act 2013, and where Audit Committee does not approve the transaction, it shall make its recommendations to the Board.**

**Also, in case any transaction involving an amount not exceeding Rupees 1 crore is entered into by a director or officer of the company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee and if the transaction is with the related party to any director or is authorized by any other director, the director concerned shall indemnify the company against any loss incurred by it.**

**These provisions shall not apply to a transaction, other than a transaction referred to in section 188, between a holding company and its wholly owned subsidiary company.**

- (v) scrutiny of inter-corporate loans and investments;
- (vi) valuation of undertakings or assets of the company, wherever it is necessary;
- (vii) evaluation of internal financial controls and risk management systems;
- (viii) monitoring the end use of funds raised through public offers and related matters.”

**Sub Section 7:** **The auditors of a company and the key managerial personnel shall have a right to be heard in the meetings of the Audit Committee when it considers the auditor's report but shall not have the right to vote.**

**Sub Section 8:** **The Board's report under sub-section (3) of section 134 shall disclose the composition of an Audit Committee and where the Board had not accepted any recommendation of the Audit Committee, the same shall be disclosed in such report along with the reasons therefor.**

**Nomination and Remuneration Committee [Regulation 19 and Part D of Schedule II]:** The Board of Directors of **every listed public company** shall constitute the Nomination and Remuneration Committee which shall comprise at least three directors, all of whom shall be non-executive directors and at least half shall be independent. Chairperson of the committee shall be an independent director. It may be noted that the Chairperson of the company (whether executive or nonexecutive) may be appointed as a member of the Nomination and Remuneration Committee but shall not chair such committee.

#### **Chapter 14 : Audit of Non-Banking Financial Companies**

1. **Compliance with NBFC Auditors Report - RBI Directions:** Report to Board of Directors under RBI Directions as per Master Direction No. DNBS. PPD.03/66.15.001/2016-17 dated September 29, 2016
2. **Auditors to submit additional Report to the Board of Directors:** In addition to the Report made by the auditor under Section 143 of the Companies Act, 2013 or section 227 of the Companies Act, 1956 (Act 1 of 1956) on the accounts of a non-banking financial company examined for every financial year ending on any day on or after the commencement of these Directions, the auditor shall also make a separate report to the Board of Directors of the Company on the matters specified in paragraphs 3 and 4 below.
3. **Material to be included in the Auditor's report to the Board of Directors:** The auditor's report on the accounts of a non-banking financial company shall include a statement on the following matters, namely -

**(A) In the case of all non-banking financial companies:**

- I. Conducting Non-Banking Financial Activity without a valid Certificate of Registration (CoR) granted by the Bank is an offence under chapter V of the RBI Act, 1934. Therefore, if the company is engaged in the business of non-banking financial institution as defined in section 45-I (a) of the RBI Act and meeting the Principal Business Criteria (Financial asset/income pattern) as laid down vide the Bank's press release dated April 08, 1999, and directions issued by DNBR, auditor shall examine whether the company has obtained a Certificate of Registration (CoR) from the Bank.
- II. In case of a company holding CoR issued by the Bank, whether that company is entitled to continue to hold such CoR in terms of its Principal Business Criteria (Financial asset/income pattern) as on March 31 of the applicable year.
- III. Whether the non-banking financial company is meeting the required net owned fund requirement as laid down in Master Direction - Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

**Note:** Every non-banking financial company shall submit a Certificate from its Statutory Auditor that it is engaged in the business of non-banking financial institution requiring it to hold a Certificate of Registration under Section 45-IA of the RBI Act and is eligible to hold it. A certificate from the Statutory Auditor in this regard with reference to the position of the company as at end of the financial year ended March 31 may be submitted to the Regional Office of the Department of Non-Banking Supervision under whose jurisdiction the non-banking financial company is registered, within one month from the date of finalization of the balance sheet and in any case not later than December 30th of that year. The format of Statutory Auditor's Certificate (SAC) to be submitted by NBFCs has been issued vide DNBS. PPD.02/66.15.001/2016-17 Master Direction- Non-Banking Financial Company Returns (Reserve Bank) Directions, 2016.

**(B) In the case of a non-banking financial companies accepting/holding public deposits:**

Apart from the matters enumerated in (A) above, the auditor shall include a statement on the following matters, namely-

- (i) Whether the public deposits accepted by the company together with other borrowings indicated below viz.
  - (a) from public by issue of unsecured non-convertible debentures/bonds;
  - (b) from its shareholders (if it is a public limited company); and
  - (c) which are not excluded from the definition of 'public deposit' in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016, are within the limits admissible to the company as per the provisions of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016;
- (ii) Whether the public deposits held by the company in excess of the quantum of such deposits permissible to it under the provisions of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016 are regularised in the manner provided in the said Directions;
- (iii) Whether the non banking financial company is accepting "public deposit" without minimum investment grade credit rating from an approved credit rating agency as per the provisions of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016;
- (iv) Whether the capital adequacy ratio as disclosed in the return submitted to the Bank in terms of the Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 has been correctly determined and whether such ratio is in compliance with the minimum CRAR prescribed therein;

- (v) In respect of non-banking financial companies referred to in clause (iii) above,
  - (a) whether the credit rating, for each of the fixed deposits schemes that has been assigned by one of the Credit Rating Agencies listed in Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016 is in force; and
  - (b) whether the aggregate amount of deposits outstanding as at any point during the year has exceeded the limit specified by the such Credit Rating Agency;
- (vi) Whether the company has violated any restriction on acceptance of public deposit as provided in Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016;
- (vii) Whether the company has defaulted in paying to its depositors the interest and/or principal amount of the deposits after such interest and/or principal became due;
- (viii) Whether the company has complied with the prudential norms on income recognition, accounting standards, asset classification, provisioning for bad and doubtful debts, and concentration of credit/investments as specified in the Directions issued by the Bank in terms of the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016;
- (ix) Whether the company has complied with the liquid assets requirement as prescribed by the Bank in exercise of powers under section 45-IB of the RBI Act and whether the details of the designated bank in which the approved securities are held is communicated to the office concerned of the Bank in terms of NBS 3; Non-Banking Financial Company Returns (Reserve Bank) Directions, 2016;
- (x) Whether the company has furnished to the Bank within the stipulated period the return on deposits as specified in the NBS 1 to – Non- Banking Financial Company Returns (Reserve Bank) Directions, 2016;
- (xi) Whether the company has furnished to the Bank within the stipulated period the quarterly return on prudential norms as specified in the Non-Banking Financial Company Returns (Reserve Bank) Directions, 2016;
- (xii) Whether, in the case of opening of new branches or offices to collect deposits or in the case of closure of existing branches/offices or in the case of appointment of agent, the company has complied with the requirements contained in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016.

**(C) In the case of a non-banking financial company not accepting public deposits:**

Apart from the aspects enumerated in (A) above, the auditor shall include a statement on the following matters, namely: -

- (i) Whether the Board of Directors has passed a resolution for non- acceptance of any public deposits;
- (ii) Whether the company has accepted any public deposits during the relevant period/year;
- (iii) Whether the company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts as applicable to it in terms of Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016;
- (iv) In respect of Systemically Important Non-deposit taking NBFCs as defined in Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016:
  - (a) Whether the capital adequacy ratio as disclosed in the return submitted to the Bank in form NBS- 7, has been correctly arrived at and whether such ratio is in compliance with the minimum CRAR prescribed by the Bank;
  - (b) Whether the company has furnished to the Bank the annual statement of capital funds, risk assets/exposures and risk asset ratio (NBS-7) within the stipulated period.
- (v) whether the non banking financial company has been correctly classified as NBFC Micro Finance Institutions (MFI) as defined in the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

- (D) In the case of a company engaged in the business of non-banking financial institution not required to hold CoR subject to certain conditions:** Apart from the matters enumerated in (A)(i) above where a company has obtained a specific advice from the Bank that it is not required to hold CoR from the Bank, the auditor shall include a statement that the company is complying with the conditions stipulated as advised by the Bank.

**4. Reasons to be stated for unfavourable or qualified statements**

Where, in the auditor's report, the statement regarding any of the items referred to in paragraph 3 above is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified statement, as the case may be. Where the

auditor is unable to express any opinion on any of the items referred to in paragraph 3 above, his report shall indicate such fact together with reasons therefor.

**5. Obligation of auditor to submit an exception report to the Bank**

(I) Where, in the case of a non-banking financial company, the statement regarding any of the items referred to in paragraph 3 above, is unfavorable or qualified, or in the opinion of the auditor the company has not complied with:

- (a) the provisions of Chapter III B of RBI Act (Act 2 of 1934); or
- (b) Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016; or
- (c) Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

It shall be the obligation of the auditor to make a report containing the details of such unfavourable or qualified statements and/or about the non-compliance, as the case may be, in respect of the company to the concerned Regional Office of the Department of Non-Banking Supervision of the Bank under whose jurisdiction the registered office of the company is located as per first Schedule to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016.

(II) The duty of the Auditor under sub-paragraph (I) shall be to report only the contraventions of the provisions of RBI Act, 1934, and Directions, Guidelines, instructions referred to in sub-paragraph (1) and such report shall not contain any statement with respect to compliance of any of those provisions.

**7. Applicability of Indian Accounting Standards (Ind- AS) on NBFCs – As per Rule 4 (1)(iv) of the Companies (Indian Accounting Standards) Rules, 2015 and as amended by Companies (Indian Accounting Standards) (Amendment) Rules, 2016, NBFCs are required to comply with Indian Accounting Standards (Ind- AS) as under-**

- (i) **Accounting periods beginning 1 April 2018:** Listed and unlisted NBFCs having a net worth of ₹ 500 crore or more and holding, subsidiary, joint venture or associate companies of such NBFCs;
- (ii) **Accounting periods beginning 1 April 2019:** All other listed NBFCs, unlisted NBFCs having a net worth of ₹ 250 crore or more but less than ₹ 500 crore and holding, subsidiary, joint venture or associate companies of such NBFCs.

The net worth shall be calculated in accordance with the standalone financial statements of the NBFCs as on 31st March 2016 or the first audited financial statements for accounting period which ends after that date.

- 8 Format for preparation of financial statements by NBFCs under Ind-AS** – The Ministry of Corporate Affairs (MCA) vide notification dated October 11, 2018 introduced Division III under Schedule III of the Companies Act, 2013, wherein a format for preparation of financial statements by NBFCs complying with Ind-AS has been prescribed.

Every NBFC required to comply with Ind-AS shall prepare its financial statements as per below format:

Illustrative format of Balance Sheet under Division III of Schedule III-

Particulars	Notes No.	Figures as at the end of current reporting period (₹)	Figures as at the end of previous reporting period (₹)
<b>ASSETS</b>			
<b>(1) Financial Assets</b>			
(a) Cash and cash equivalents			
(b) Bank balance other than (a) above			
(c) Derivative financial instruments			
(d) Receivables			
(1) Trade Receivables			
(2) Other Receivables			
(e) Loans			
(f) Investments			
(g) Other Financial assets			
<b>(2) Non-Financial Assets</b>			
(a) Inventories			
(b) Current tax assets (net)			
(c) Deferred tax assets (net)			
(d) Investment property			
(e) Biological assets other than bearer plants			
(f) Property, Plant and Equipment			
(g) Capital work-in-progress			
(h) Intangible assets under development			
(i) Goodwill			
(j) Other intangible assets			
(k) Other non-financial assets (to be specified)			

Particulars	Notes No.	Figures as at the end of current reporting period (₹)	Figures as at the end of previous reporting period (₹)
<b>Total Assets</b>			
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>(1) Financial Liabilities</b> (a) Derivative financial instruments (b) Payables (I) Trade Payables (i) total outstanding dues of micro enterprises and small enterprises (ii) total outstanding dues of creditors other than micro enterprises and small enterprises (II) Other Payables (i) total outstanding dues of micro enterprises and small enterprises (ii) total outstanding dues of creditors other than micro enterprises and small enterprises (c) Debt Securities (d) Borrowings (other than debt securities) (e) Deposits (f) Subordinated liabilities (g) Other financial liabilities (to be specified)			
<b>(2) Non-financial Liabilities</b> (a) Current tax liabilities (net) (b) Provisions (c) Deferred Tax Liabilities (net) (d) Other non-financial liabilities (to be specified)			



Particulars	Notes No.	Figures as at the end of current reporting period (₹)	Figures as at the end of previous reporting period (₹)
<b>(3) Non-financial Liabilities</b>			
(a) Equity share capital			
(b) Other equity			
<b>Total Liabilities and Equity</b>			

Illustrative format of Statement of Profit and Loss prescribed under Division III of Schedule III-

Particulars	Notes No.	Figures as at the end of current reporting period (₹)	Figures as at the end of previous reporting period (₹)
<b>Revenue from operations</b>			
(a) Interest Income			
(b) Dividend income			
(c) Rental income			
(d) Fee and commission income			
(e) Net gain on fair value changes			
(f) Net gain on derecognition of financial instruments under amortised category			
(g) Sale of products (including Excise duty)			
(h) Sale of services			
(i) Others (to be specified)			
<b>Total revenue from operations (I)</b>			
Other income (to be specified) (II)			
<b>Total Income (III= I + II)</b>			
<b>Expenses</b>			
(a) Finance costs			
(b) Fees and commission expense			
(c) Net loss on fair value changes			
(d) Net loss on derecognition of financial instruments under amortised category			
(e) Impairment on financial instruments			

Particulars	Notes No.	Figures as at the end of current reporting period (₹)	Figures as at the end of previous reporting period (₹)
(f) Cost of material consumed			
(g) Purchases of stock-in-trade			
(h) Changes in Inventories of finished goods, stock-in-trade and work-in- progress			
(i) Employee Benefits Expenses			
(j) Depreciation, amortization and impairment			
(k) Other expenses (to be specified)			
<b>Total Expenses (IV)</b>			
<b>Profit / (loss) before exceptional items and tax (V= III - IV)</b>			
Exceptional items (VI)			
<b>Profit / (loss) before tax (VI= V - VI)</b>			
Tax Expense (VIII):			
(1) Current tax			
(2) Deferred tax			
<b>Profit / (loss) for the period from continuing operations (IX= VII - VIII)</b>			
<b>Profit / (loss) for the period from discontinued operations (X)</b>			
Tax Expense of discontinued operations (XI)			
<b>Profit / (loss) for the period from discontinued operations after tax (XII= X - XI)</b>			
<b>Profit / (loss) for the period (XIII = IX + XII)</b>			
<b>Other Comprehensive Income (XIV)</b>			
(A) (i) Items that will not be reclassified to profit or loss (specify items and amounts)			
(ii) income tax relating to items that will not be reclassified to profit or loss			
<b>SUB-TOTAL (A)</b>			

Particulars	Notes No.	Figures as at the end of current reporting period (₹)	Figures as at the end of previous reporting period (₹)
(B) (i) Items that will be reclassified to profit or loss (specify items and amounts) (ii) income tax relating to items that will be reclassified to profit or loss SUB-TOTAL (B)			
<b>Other Comprehensive Income (A+B)</b>			
<b>Total Comprehensive Income for the period (XV = XIII + XIV) (Comprising Profit (Loss) and other Comprehensive Income for the period)</b>			
<b>Earnings per equity share (for continuing operations) (XVI)</b> Basic (₹) Diluted (₹)			
<b>Earnings per equity share (for discontinued operations) (XVII)</b> Basic (₹) Diluted (₹)			
<b>Earnings per equity share (for continuing and discontinued operations) (XVIII)</b> Basic (₹) Diluted (₹)			

**Note :** Student may refer illustrative format of Statement of Changes in equity prescribed under Division III of Schedule III for more understanding.

**9. Differences between Division II (Ind-AS- Other than NBFCs) and Division III (Ind-AS- NBFCs) of Schedule III** –The presentation requirements under Division III for NBFCs are similar to Division II (Non NBFC) to a large extent except for the following:

- (a) NBFCs have been allowed to present the items of the balance sheet in order of their liquidity which is not allowed to companies required to follow Division II. Additionally, NBFCs are required to classify items of the balance sheet into financial and non-financial whereas other companies are required to classify the items into current and non-current.

- (b) An NBFC is required to separately disclose by way of a note any item of 'other income' or 'other expenditure' which exceeds 1 per cent of the total income. Division II, on the other hand, requires disclosure for any item of income or expenditure which exceeds 1 per cent of the revenue from operations or ₹ 10 lakhs, whichever is higher.
- (c) NBFCs are required to separately disclose under 'receivables', the debts due from any Limited Liability Partnership (LLP) in which its director is a partner or member.

NBFCs are also required to disclose items comprising 'revenue from operations' and 'other comprehensive income' on the face of the Statement of profit and loss instead of as part of the notes.

### Chapter 15 : Audit under Fiscal Laws

#### A. AUDIT PROVISIONS UNDER DIRECT TAX LAWS

(A) **Sec. 40 A(3):** Where any expenditure in respect of which payment is made in excess of ₹ 10,000 at a time otherwise than by Account-payee cheque or draft, 100% of such payment shall be disallowed.

(B) **Section 44AB of the Income Tax Act, 1961 :** Section 44AB provides for the compulsory audit of accounts of certain persons carrying on business or profession. Section 44AB reads as under:



Section 44AB provides for the compulsory audit of accounts of certain persons carrying on business or profession. Section 44AB reads as under:

<b>"Audit of accounts of certain persons carrying on business or profession".</b>	
<b>Every person -</b>	
(a)	carrying on business shall, if his total sales, turnover or gross receipts, as the case may be, in business exceed or exceeds <b>one crore</b> rupees in any previous year.
(b)	carrying on profession shall, if his gross receipts, in profession exceed <b>fifty lakhs</b> rupees in any previous year,
(c)	carrying on the business shall, if the profits and gains from the business are deemed to be the profits and gains of such person under section 44AE or section 44BB or section 44BBB as the case may be, and he has claimed his income to be lower than the profits

	or gains so deemed to be the profits and gains of his business, as the case may be, in any previous year,
(d)	carrying on the profession shall, if the profits and gains from the profession are deemed to be the profits and gains of such person under section 44ADA, and he has claimed such income to be lower than the profits and gains so deemed to be the profits and gains of his profession and his income exceeds the maximum amount which is not chargeable to income-tax in any previous year, or
(e)	carrying on the business shall, if the provisions of sub-section (4) of section 44AD are applicable in his case and his income exceeds the maximum amount which is not chargeable to income-tax in any previous year, get his accounts of such previous year audited by an accountant before the specified date and furnish by that date the report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars as may be prescribed.

**[Note:** Sub section (4) of section 44AD of the Income Tax Act, 1961 states that where an eligible assessee declares profit for any Previous Year in accordance with the provisions of this section 44AD and he declares profit for any of the 5 Assessment Years relevant to the Previous Year succeeding such Previous Year not in accordance with the provisions of sub-section (1) of section 44AD, he shall not be eligible to claim the benefit of the provisions of this section for 5 Assessment Years subsequent to the Assessment Year relevant to the Previous Year in which the profit has not been declared in accordance with the provisions of sub-section (1) of section 44AD.]

It may be noted that this section shall not apply to the person, who derives income of the nature referred to in section 44B or section 44BBA on and from the 1st day of April, 1985 or, as the case may be, the date on which the relevant section came into force, whichever is later.

It may also be noted that in a case where such person is required by or under any other law to get his accounts audited, it shall be sufficient compliance with the provisions of this section if such person gets the accounts of such business or profession audited under such law before the specified date and furnishes by that date the report of the audit as required under such other law and a further report by an accountant in the form prescribed under this section.



#### Applicability of Tax Audit Provisions

DB Pvt. Ltd. has total turnover of ₹ 125 lacs for the FY 2018-19.

- ✓ Section 44AD is not applicable to company assessee, hence Limit of ₹ 2 crore is not applicable to DB Pvt. Ltd and it has to conduct the Audit of Books of Accounts under section 44AB of the Act for the FY 2018-19 as turnover exceeds ₹ 1 crore.

ABC & Co. (a partnership firm) engaged in trading of electronic goods having a turnover of ₹ 165 lacs for the FY 2018-19.

- ✓ Section 44AD is applicable to Partnership Firm. Thus, ABC & Co. can declare the minimum profit @ 8% of the turnover as its turnover during the PY 2018-19 does not exceed ₹ 2 crores. If the firm do not opt for presumptive income scheme under section 44AD, it has to get books of accounts audited u/s 44AB of the Act.

Mr. Anand Khater, a Commission Agent has commission receipts of ₹ 137 lacs during the FY 2018-19.

- ✓ Though Section 44AD is applicable to an Individual, it is not applicable to Commission income. In the given case, since, Mr. Anand earns the commission income, he cannot take the benefit of section 44AD. His total turnover during the FY 2018-19 in respect of commission income exceeds ₹ 1 crore, he has to get his books of accounts audited u/s 44AB of the Act.

Mr. Vishal Raka, owning an Agency of Samsung Mobile for the city of Pune and makes the turnover of ₹ 87 lacs during the FY 2018-19.

- ✓ Though Section 44AD is applicable to an Individual, it is not applicable to Commission income. In the given case, since, Mr. Vishal earns the commission income, he cannot take the benefit of section 44AD. His total turnover during the FY 2018-19 in respect of commission income does not exceeds ₹ 1 crore, therefore, he need not to get his books of accounts audited u/s 44AB of the Act.

**Explanation :** For the purposes of this section,

- (i) "accountant" shall have the same meaning as in the explanation below sub-section (2) of Section 288;
- (ii) "specified date", in relation to the accounts of the assessee of the previous year relevant to an assessment year, means the due date for furnishing the return of income under sub-section (1) of section 139.

The above section stipulates that every person carrying on business is required to get his accounts audited before the "specified date" by a chartered accountant, if the total sales turnover or gross receipts in the business in any previous year exceed ₹ 1 crore. A person carrying on a profession will also have to get his accounts audited before the "specified date" by a chartered accountant if his gross receipts in profession in any previous year exceed ₹ 50 lakhs w.e.f. A.Y. 2018-19.

**Clause (c) of Section 44AB**, provides that in the case of an assessee carrying on a business of the nature specified in sections 44AE, 44BB or 44BBB, tax audit will be required if he claims

his income to be lower than the presumptive income deemed under those sections. Therefore, such assesseees will be required to have a tax audit even if their sales, turnover or gross receipts do not exceed ₹ 100 lakhs (one crore rupees).

If a person is carrying on business(es), coming within the scope of sections 44AE, 44BB or 44BBB but he exercises his option given under these sections to get his accounts audited under Section 44AB, tax audit requirements would apply, in respect of such business(es) even if the turnover of such business(es) does not exceed ₹ 100 lakhs (one crore rupees).

In the case of a person carrying on businesses covered by sections 44AE, 44BB or 44BBB and opting for presumptive taxation, tax audit requirement would not apply in respect of such businesses, if such person is carrying on other business(es) not covered by presumptive taxation, tax audit requirements would apply in respect thereof if the turnover of such business(es), other than the business covered by presumptive taxation thereof, exceed ₹ 100 lakhs (one crore rupees).

The first proviso to section 44AB stipulates that the provisions of that section will not be applicable to a person who derives income of the nature referred to in sections 44B, or 44BBA. Where the assessee is carrying on any one or more of the businesses specified in section 44B or 44BBA referred to in the first proviso to section 44AB, the sales/turnover/gross receipts from such businesses shall not be included in the total sales/turnover/gross receipts for determining the applicability of section 44AB.

The report of such audit, duly signed and verified by the chartered accountant is required to be given in such form and setting forth such particulars as prescribed by the Board. Rule 6G provides that such audit report and particulars should be given in Form No. 3CA/3CB as may be applicable and the statement of particulars should be given in Form No.3CD.

A question may arise in the case of an assessee who is eligible to claim deductions under sections 80-IA, 80-IB, 80-IC etc., as to whether, it will be necessary for him to get separate audit reports/certificates under these sections in addition to an audit report under Section 44AB. The requirement of section 44AB is a general requirement covering the overall position of the accounts of the assessee. This applies to the consolidated accounts of the assessee for the relevant previous year covering the results of all the units owned by the assessee whether situated at one place or at different places. If turnover of all the units put together exceeds prescribed limits, the assessee would be required to get a separate audit report/certificate under above said sections he wants to avail deduction under the respective sections. Therefore, it will be necessary for an assessee to get separate audit reports/certificates under above said sections in addition to an audit report, if any, required under section 44AB.

#### AMENDMENTS IN FORM 3CD

- **Clause (4), Details as to Indirect Tax Registration:** Part A of Form No. 3CD generally requires the auditor to ensure whether the assessee is liable to pay indirect tax like excise

duty, service tax, sales tax, goods and service tax, custom duty, etc. If yes, please furnish the registration number or GST number or any other identification number allotted for the same. Thus, the auditor is primarily required to furnish the details of registration numbers as provided to him by the assessee. The reporting is however, to be done in the manner or format specified by the e-filing utility in this context.

- **Clause 19: Amounts admissible under sections:**

Section:	Amount debited to profit and loss account:	Amounts admissible as per the provisions of the Income-tax Act, 1961 and also fulfils the conditions. If any, specified under the relevant provisions of Income-tax Act, 1961 or Income-tax Rules, 1962 or any other guidelines, circular, etc., issued in this behalf:
32AC, <b>32AD</b> , 33AB, 33ABA, 35(1)(i), 35(1)(ii), 35(1)(iia), 35(1)(iii), 35(1)(iv), 35(2AA), 35(2AB), 35ABB, 35AC, 35AD, 35CCA, 35CCB, 35CCC, 35CCD, 35D, 35DD, 35DDA, 35E.		

- **Clause 29 A : (a) Whether any amount is to be included as income chargeable under the head ' income from other sources' as referred to in clause (ix) of sub section (2) of section 56**

**(b) If yes, Please Furnish Following Details**

Sr. No.	Nature of Income	Amount thereof

- **Clause 29 B : (a) Whether any amount is to be included as income chargeable under the head ' income from other sources' as referred to in clause (x) of sub section (2) of section 56**

**(b) If yes, Please Furnish Following Details**

Sr. No.	Nature of Income	Amount



**Audit checklist for practical understanding :**

- (a) This provision is applicable where a company has issued shares during the year. This can be checked from the Financial Statements/Share Register/ MCA records etc.
- (b) Clause 29(A) The tax auditor should obtain a certificate from taxpayer regarding all such advances received towards transfer of capital asset which have been forfeited during the year. The advances might have been received during the previous year or earlier years. The auditor should examine whether any such advances have been written back during the year and examine basis for written back of such advances and determine whether such written back was on account of forfeiture.
- (c) Clause 29(B) With effect from assessment year 2019-20, in case of an immovable property, where the stamp duty value exceeds the consideration by less than the higher of (i) ₹ 50,000 or (ii) 5% of the consideration, the difference is not chargeable to tax. Therefore, for any immovable property, where the stamp duty value is up to 105% of the sale consideration, no addition can be made under section 56(2)(x). Till assessment 2018-19, the permissible difference was only ₹ 50,000 per property, and was not linked to the percentage of the consideration.
- (d) The tax auditor should obtain a certificate from the assessee regarding any such receipts during the year, either received in his business or profession or recorded in the books of account of such business or profession. He should also scrutinise the books of account to verify whether receipt of any such amount or asset has been recorded therein.
- (e) In case of other assets, the provisions of rule 11UA(1) read with rule 11U are to be followed for determination of the fair market value, to compute the income under this section.
- (f) Wherever there is a dispute or doubt as to the valuation of an asset, it would be advisable for the tax auditor to request the assessee to obtain a valuation report from a registered valuer. The report of the tax auditor may then be based on such valuation report.

- **Clause 30A. (a) Whether primary adjustment to transfer price, as referred to in sub-section (1) of section 92CE, has been made during the previous year? (Yes/No)**
- (b) If yes, please furnish the following details:-**
  - (i) Under which clause of sub-section (1) of section 92CE primary adjustment is made?**
  - (ii) Amount (in ₹) of primary adjustment:**

- (iii) Whether the excess money available with the associated enterprise is required to be repatriated to India as per the provisions of sub-section (2) of section 92CE? (Yes/No)
- (iv) If yes, whether the excess money has been repatriated within the prescribed time (Yes/No)
- (v) If no, the amount (in ₹) of imputed interest income on such excess money which has not been repatriated within the prescribed time:

A new clause 30A has been introduced, requiring reporting of primary adjustments and various other details, for the purpose of making secondary adjustments under section 92CE. Section 92CE, providing for secondary transfer pricing adjustments, has been introduced by the Finance Act 2017, with effect from assessment year 2018-19.

The section requires making of a secondary adjustment in certain cases where primary transfer pricing adjustments have been made. These cases are where transfer pricing adjustment has been:

- i. made by the taxpayer of his own accord in his return of income;
- ii. made by the assessing officer and accepted by the taxpayer;
- iii. determined under an Advance Pricing Agreement entered into by the assessee under section 92CC;
- iv. made as per Safe Harbour Rules framed under section 92CB; or
- v. arising as a result of a resolution of an assessment under Mutual Agreement Procedure under a double taxation avoidance agreement (DTAA) entered into under section 90 or 90A.

No secondary adjustment is required if the amount of primary adjustment made in any previous year does not exceed ₹ 1 crore.

Due to the primary adjustment, if there is an increase in the total income or a reduction in the loss of the assessee, the adjustment (difference between the arm's length price and the actual transaction price) is regarded as excess money available with the associated enterprise, and is to be repatriated to India within the prescribed time. Rule 10CB provides for a time limit of 90 days for repatriation of the excess money. Where the excess money is not repatriated to India within the prescribed time, it is deemed as an advance to the associated enterprise and interest is to be computed on such advance in the prescribed manner, as a secondary adjustment.

Secondary adjustments are applicable only in respect of transfer pricing adjustments relating to international transactions, and not in respect of domestic transfer pricing adjustments.

Clause 30A requires reporting of whether primary adjustment to transfer price, as referred to in section 92CE(1), has been made during the previous year. Thus the tax auditor is required to verify whether any primary adjustment is 'made' in terms of S. 92CE(1) during the previous year.

under consideration. The primary adjustment made may not necessarily relate to previous year under consideration.

Primary adjustments which do not warrant secondary adjustments should also be reported.

**Audit checklist for practical understanding :**

- For this purpose, the tax auditor should obtain a certificate from the assessee, as to what transfer pricing adjustments have been made in the return/(s) of income filed during the previous year, whether any advance pricing agreement was entered into during the previous year, whether any transfer pricing adjustment was made/confirmed in an assessment order/appellate authority order passed during the previous year, or whether any agreement has been arrived at under a Mutual Agreement Procedure during the previous year. The tax auditor should also verify tax records to check whether there is any such occurrence.
- With respect to reporting of interest income computed, there is an ambiguity whether interest income computed till the end of the previous year is to be reported or whether interest income computed up to the date of furnishing Form 3CD.
- In case interest upto to the date of filing is given, it is advisable for the tax auditor to provide breakup of the amount of interest imputed till end of relevant previous year and for the period post the end of the relevant previous year ending with the date of filing Form 3CD.
- It is advisable all the secondary adjustments made during the year irrespective of the previous year the primary adjustment is made is to be reported to avoid difference between the amounts reported in Form 3CD and the income tax return.

- **Clause 30B – Limitation on Interest Deduction**

**30B. (a) Whether the assessee has incurred expenditure during the previous year by way of interest or of similar nature exceeding one crore rupees as referred to in sub-section (1) of section 94B? (Yes/No)**

**(b) If yes, please furnish the following details :-**

- (i) Amount (in ₹ ) of expenditure by way of interest or of similar nature incurred:
- (ii) Earnings before interest, tax, depreciation and amortization (EBITDA) during the previous year (in ₹ ):
- (iii) Amount (in ₹ ) of expenditure by way of interest or of similar nature as per (i) above which exceeds 30% of EBITDA as per (ii) above:
- (iv) Details of interest expenditure brought forward as per subsection (4) of section 94B: A.Y. Amount (in ₹ )

(v) **Details of interest expenditure carried forward as per subsection (4) of section 94B:**

Assessment Year	Amount

The newly inserted clause 30B requires reporting for the purposes of examining allowability of expenditure by way of interest in respect of debt issued by a non-resident associated enterprise ("AE") under section 94B, while computing income under the head "Profits and Gains of Business or Profession".

The newly inserted clause 30B requires reporting for the purposes of examining allowability of expenditure by way of interest in respect of debt issued by a non-resident associated enterprise ("AE") under section 94B, while computing income under the head "Profits and Gains of Business or Profession".

The excess interest is to be computed as the lower of:

(i) Total interest paid or payable in excess of 30% of earnings before interest, taxes, depreciation and amortisation ("EBITDA") of the borrower in the previous year; or

(ii) Interest paid or payable to AEs for that previous year.

The excess interest, which is disallowed, is allowed to be carried forward for a period of 8 assessment years following the year of disallowance, to be allowed as a deduction against profits and gains of any business in the subsequent years, to the extent of maximum allowable interest expenditure under this section.

- **Clause 30C\*. (a) Whether the assessee has entered into an impermissible avoidance arrangement, as referred to in section 96, during the previous year? (Yes/No.)**
- (b) **If yes, please specify:—**
  - (i) **Nature of impermissible avoidance arrangement:**
  - (ii) **Amount (in ₹) of tax benefit in the previous year arising, in aggregate, to all the parties to the arrangement:**

**\*Note : Applicability of Clause 30C is deferred to April 1, 2019.**

- **Clause 31 (a)\*: Particulars of each loan or deposit in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year:-**
  - (i) **name, address and permanent account number (if available with the assessee) of the lender or depositor;**
  - (ii) **amount of loan or deposit taken or accepted;**
  - (iii) **whether the loan or deposit was squared up during the previous year;**

- (iv) maximum amount outstanding in the account at any time during the previous year;
- (v) whether the loan or deposit was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;
- (v) in case the loan or deposit was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.

**\*(These particulars need not be given in the case of a Government company, a banking company or a corporation established by a Central, State or Provincial Act.)**

Section 269SS prescribes the mode of taking or accepting certain loans and deposits. As per this section, no person shall take or accept from any other person any loan or deposit otherwise than by an account payee cheque or account payee bank draft if,-

- (a) the amount of such loan or deposit or the aggregate amount of such loan and deposit; or
- (b) on the date of taking or accepting such loan or deposit, any loan or deposit taken or accepted earlier by such person from the depositor is remaining unpaid (whether repayment has fallen due or not), the amount or the aggregate amount remaining unpaid; or
- (c) the amount or the aggregate amount referred to in clause (a) together with the amount or the aggregate amount referred to in clause (b),

is twenty thousand rupees or more.

For the purposes of section 269SS "loan or deposit" means loan or deposit of money.

If the total of all loans/deposits from a person exceed ₹ 20,000 but each individual item is less than ₹ 20,000, the information will still be required to be given in respect of all such entries starting from the entry when the balance reaches ₹ 20,000 or more and until the balance goes down below ₹ 20,000. As such the tax auditor should verify all loans/deposits taken or accepted where balance has reached ₹ 20,000 or more during the year for the purpose of reporting under this clause.

- **Clause 31 (b):Particulars of each specified sum in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year:-**
  - (i) name, address and Permanent Account Number (if available with the assessee) of the person from whom specified sum is received;
  - (ii) amount of specified sum taken or accepted;

- (iii) whether the specified sum was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;
- (iv) in case the specified sum was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.

(Particulars at (a) and (b) need not be given in the case of a Government company, a banking company or a corporation established by the Central, State or Provincial Act.)

- **Clause 31 (ba) Particulars of each receipt in an amount exceeding the limit specified in section 269ST, in aggregate from a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion from a person, during the previous year, where such receipt is otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account:-**
  - (i) Name, address and Permanent Account Number (if available with the assessee) of the payer;
  - (ii) Nature of transaction;
  - (iii) Amount of receipt (in ₹);
  - (iv) Date of receipt;
- **Clause 31 (bb) Particulars of each receipt in an amount exceeding the limit specified in section 269ST, in aggregate from a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion from a person, received by a cheque or bank draft, not being an account payee cheque or an account payee bank draft, during the previous year:—**
  - (i) Name, address and Permanent Account Number (if available with the assessee) of the payer;
  - (ii) Amount of receipt (in ₹);
- **Clause 31 (bc) Particulars of each payment made in an amount exceeding the limit specified in section 269ST, in aggregate to a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion to a person, otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year:-**
  - (i) Name, address and Permanent Account Number (if available with the assessee) of the payee;
  - (ii) Nature of transaction;

(iii) Amount of payment (in ₹);

(iv) Date of payment;

- **Clause 31 (bd) Particulars of each payment in an amount exceeding the limit specified in section 269ST, in aggregate to a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion to a person, made by a cheque or bank draft, not being an account payee cheque or an account payee bank draft, during the previous year:—**

(i) **Name, address and Permanent Account Number (if available with the assessee) of the payee;**

(ii) **Amount of payment (in ₹);**

**(Particulars at (ba), (bb), (bc) and (bd) need not be given in the case of receipt by or payment to a Government company, a banking Company, a post office savings bank, a cooperative bank or in the case of transactions referred to in section 269SS or in the case of persons referred to in Notification No. S.O. 2065(E) dated 3rd July, 2017)”**

Section 269ST was introduced by the Finance Act, 2017 with effect from 1 April 2017. It provides that no person shall receive sum of ₹ 2 lakh or more

- a) in aggregate from a person in a day; or
- b) in respect of a single transaction; or
- c) in respect of transactions relating to one event or occasion from a person otherwise than by an account payee cheque or an account payee demand draft or by use of electronic clearing system through a bank account.

Contravention of section 269ST attracts penalty under section 271DA. The new sub-clauses 31(ba), (bb), (bc) and (bd) deal with reporting of transactions of receipts and payments in excess of the specified limit made otherwise than by the modes specified in section 269ST. Provisions of section 269ST do not apply to receipt by Government, any banking company, post office savings bank or a co-operative bank or transactions of loan or deposit or ₹ specified sum' referred to in section 269SS. 'Specified sum' means any sum of money receivable, whether as an advance or otherwise, in relation to transfer of an immovable property, whether not the transfer takes place. (Refer clause (iv) of the Explanation below section 269SS.)

New sub-clauses have been introduced under Clause 31 which deal with reporting of transactions of receipts and payments in excess of the specified limit made otherwise than by the modes specified in Section 269ST.

The particulars required under these sub-clauses need not be given in case of a receipt by or

a payment to a government company, a banking company, a post office savings bank, cooperative bank or in the case of transactions referred to in Section 269SS or in the case of persons referred to in the Notification. Effectively, particulars are not required to be furnished of transactions to which provisions of Section 269ST do not apply. It may be noted that neither Section 269ST nor the notifications issued under this section exclude a government company from the application of the provisions of Section 269ST. However, in view of the note under the sub-clauses, particulars required under these sub-clauses need not be given in case of a government company. On the other hand, provisions of Section 269ST do not apply to any receipt by the government. However, the note under sub clauses does not specifically refer to receipt by or payment to the government. Considering the provisions of Section 269ST, particulars of the payments made to the government need not be included and a suitable note may be given to the effect that details of payments made to government have not been included in the particulars.

Section 269ST does not distinguish between receipt on capital account and revenue account. Similarly, new sub-clauses do not distinguish between receipts and payments on capital account and revenue account. Once the receipt or the payment, as the case may be, exceeds the limit specified, the particulars of such transactions will have to be reported under these clauses.

While it is comparatively simple to work out receipts or payments to or from a single person in a day, the tax auditor will have to exercise care and caution while arriving at the particulars of receipts or payments pertaining to a single transaction or relating to a single event or occasion. The tax auditor will need to link all receipts or payments, as the case may be, otherwise than by the modes specified in this section received/made in respect of a single transaction and verify if the aggregate amount exceeds the limits specified in Section 269ST. Whether the receipts or payments, as the case may be, are pertaining to a single transaction or different transaction will depend on the facts of the case. A single invoice may relate to multiple transactions and vice-versa, multiple bills may relate to a single transaction. The tax auditor will have to exercise his judgement to decide whether the receipts/payments are pertaining to a single transaction.

Similarly, the tax auditor will have to exercise judgement in deciding whether receipts/payments though pertaining to more than one transaction, pertain to a single event or occasion.

If such receipts or payments are otherwise than by account payee cheque or an account payee draft or by use of electronic clearing system through a bank account, then the tax auditor will have to verify the mode of the receipt of payment. The tax auditor will have to classify the receipt or the payment, as the case may be, as under:

- Otherwise than by the cheque or bank draft or use of electronic clearing system through a bank account



- By cheque or bank draft not being an account payee cheque or an account payee bank draft.

Where the receipts or the payments, as the case may be, pertain to a single transaction or transactions relating to one event or occasion, such receipts/payments may be grouped together while reporting. The tax auditor may also keep in his record date of the receipts and date of the payments reported under, although the same is not required to be reported. Where payment is made by cheque or demand draft, there will be practical difficulties in verifying whether the relevant receipt or payment is by account payee cheque or account payee draft. In such cases, the tax auditor should verify the transactions with reference to such evidence which may be available. In the absence of satisfactory evidence, the guidance given by the Council of the ICAI in similar cases to the tax auditors is to be followed. The tax auditor, in his report, may make suggested comment while reporting.

The tax auditor should maintain the specified information in his working papers for the purpose of reporting of receipts.

- **Clause 31 (c): Particulars of each repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T made during the previous year:-**
  - (i) name, address and Permanent Account Number (if available with the assessee) of the payee;**
  - (ii) amount of the repayment;**
  - (iii) maximum amount outstanding in the account at any time during the previous year;**
  - (iv) whether the repayment was made by cheque or bank draft or use of electronic clearing system through a bank account;**
  - (ii) in case the repayment was made by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.**

This sub-clause requires particulars of each repayment of loan or deposit in an amount exceeding the limits specified in section 269T made during the previous year. Section 269T is attracted where repayment of the loan or deposit is made to a person, where the aggregate amount of loans or deposits held by such person either in his own name or jointly with any other person on the date of such repayment together with interest, if any, payable on such deposit is ₹ 20,000 or more. The tax auditor should verify such repayments and report accordingly.

- **Clause 31 (d): Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year:-**

- (i) name, address and Permanent Account Number (if available with the assessee) of the lender, or depositor or person from whom specified advance is received;
  - (ii) amount of loan or deposit or any specified advance received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year.
- **Clause 31 (e):**Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T received by a cheque or bank draft which is not an account payee cheque or account payee bank draft during the previous year:
    - (i) name, address and Permanent Account Number (if available with the assessee) of the lender, or depositor or person from whom specified advance is received;
    - (ii) amount of loan or deposit or any specified advance received by a cheque or a bank draft which is not an account payee cheque or account payee bank draft during the previous year.

(Particulars at (c), (d) and (e) need not be given in the case of a repayment of any loan or deposit or any specified advance taken or accepted from the Government, Government company, banking company or a corporation established by the Central, State or Provincial Act).

- **Clause 36A:**
  - (a) Whether the assessee has received any amount in the nature of dividend as referred to in sub-clause (e) of clause (22) of Section 2.
  - (b) If yes, please furnish the following details :-

In order to enable reporting under the new Clause 36A, the tax auditor should obtain from the taxpayer a certificate containing a list of closely held companies in which he is the beneficial owner of shares carrying not less than 10 per cent of the voting power and list of concerns in which he has a substantial interest.

The tax auditor should also obtain a certificate from the taxpayer giving particulars of any loans or advances received by any concern in which he has substantial interest from any closely held company in which he is a beneficial owner of shares carrying not less than 10 per cent voting power.

These certificates are necessary since the tax auditor may not be able to verify the above from the books of account of the taxpayer. The tax auditor should include appropriate remarks of his inability to independently verify the information and reliance on the certificates obtained from the taxpayer. These remarks may be included in Form No. 3CA/3CB.

The tax auditor should also verify Form 26AS in the case of the taxpayer to know if the closely held company has deducted tax at source from any payment made by it to the taxpayer or the concern under Section 194. This will indicate the view taken by the closely held company making the payment. The tax auditor may consider the same before coming to a conclusion.

So far as any payment by the closely held company made on behalf of or for the individual benefit of the taxpayer is concerned, there may not be any record available for the auditor to verify the same. In such a case auditor may make appropriate remarks in Form No. 3CA/3CB. It may be noted that if the closely held company has made payment on behalf of or for the individual benefit of the taxpayer in his capacity, say, as the managing director of the closely held company and if such payment has been considered as part of the taxpayer's remuneration, the same payment is not again chargeable to tax under Section 2(22)(e) and is not required to be reported under this clause.

Whether an amount is chargeable to tax as dividend under Section 2(22)(e) has always been a subject matter of litigation before various judicial forums. The tax auditor needs to consider various issues while reporting under this clause, e.g. wherever the beneficial shareholder is not the registered shareholder and the closely held company has given loan or advance to the beneficial shareholder or to a concern, the tax auditor should make an appropriate remark about the basis of reporting in Form No. 3CA/3CB.

Further, the tax auditor may not be able to determine the accumulated profits of the closely held company making the payment for various reasons. The tax auditor will not have access to the records of such closely held company, the payment would often be during the course of a financial year and accounts will not have been made up as of the date of payment. The tax auditor in such a case may arrive at the accumulated profits by appropriating the profit for the year on a time basis. In such a case the auditor should include appropriate remarks in Form No. 3CA/3CB about the methodology adopted by him.

Business advance or trade advances from closely held companies to the taxpayer or concerns in which the taxpayer has a substantial interest are out of the purview of Section 2(22)(e) and need not be reported dividend under this clause of Form No. 3CD.

The taxpayer or the concern may maintain two accounts of the closely held company in its books of account. Amounts received from the closely held company and the amount receivable from the closely held company may be accounted in two separate accounts. In such a case the tax auditor will have to consider whether, for reporting under this clause only net amount should be considered.

The taxpayer or the concern may have a current account of the closely held company in its books of account. In such a case there could be various transactions accounted for in such a current account. The tax auditor will have to consider if all the transactions in such a current account are on account of normal business transactions or the transactions are in the nature of loans or advances received by the taxpayer or the concern.

Considering various judicial decisions, the tax auditor will have to take a considered view while reporting under this clause. If reliance has been placed on any judicial decision, a reference of the same may be given by the tax auditor as observations in Form No. 3CA/3CB.

It may be noted that any payment made after 1 April 2018 which satisfies the conditions of Section 2(22)(e), would be subject to Dividend Distribution Tax (DDT) under Section 115-O in the hands of the company making the payment and not in the hands of the shareholder.

- **Clause 42 (a) Whether the assessee is required to furnish statement in Form No.61 or Form No. 61A or Form No. 61B? (Yes/No)**

**(b) If yes, please furnish:**

S. No.	Income Tax Department Reporting entity Identification No.	Type of Form	Due date for furnishing	Date of furnishing, if furnished	Whether the form contains information about all details/transactions which are required to be reported	If not please furnish list of the details/transactions which are not reported

New Clause 42 has been introduced where the tax auditor has to report that whether the taxpayer is required to furnish a statement of the specified financial transaction (in Form No.61 or Form No. 61A or Form No. 61B).

With respect to Form 61, the tax auditor should verify whether the taxpayer has entered into any transaction where the other party was required to quote PAN. He should verify whether the taxpayer has obtained declaration in Form No. 60 where the other party has not furnished his PAN. Wherever the taxpayer has received declarations in Form No. 60, the auditor should verify if the taxpayer has filed Form No. 61 including therein all the necessary particulars.

With respect to Form 61A, the tax auditor should ascertain whether the taxpayer is required to report any transactions under Section 285BA read with Rule 114E. It may be noted that specified transactions under Section 285BA include the issue of bonds, issue of shares, buy-back of shares by a listed company, etc. These transactions may not happen every year and hence special attention should be given in the year when a company taxpayer issues any security or a listed company undertakes buyback of shares.

While verifying the same, the tax auditor should ensure that the provisions of Rule 114E(3) have been properly considered and applied.

Failure to do so may result in a certain transaction not being reported. It may be noted that the payment may be received for various transactions and on different dates, and hence these may not be covered under Section 269ST but will have to be reported under Section 285BA.

With respect to Form 61B14, the tax auditor should review the due diligence procedures carried out by the taxpayer in accordance with provisions of Rule 114H and the results of such procedures. The tax auditor should review the list of Reportable Accounts identified by the due diligence process and the information to be maintained and reported by the taxpayer.

In case any reportable account has been omitted, or there is any error or omission in Form 61B, the same may be reported under the Form No. 3CD. The auditor should verify if the taxpayer has filed Form No. 61B for correcting errors or omissions in the form filed originally. In such a case the auditor should give details of both the forms filed. The errors in the original Form 61B which are corrected in the revised Form 61B need not be reported under Form No. 3CD.

The tax auditor should verify that Form 61B is duly signed by the designated director and filed.

- **Clause 43 (a) Whether the assessee or its parent entity or alternate reporting entity is liable to furnish the report as referred to in subsection (2) of section 286 (Yes/No)**
  - (b) if yes, please furnish the following details:**
    - (i) Whether report has been furnished by the assessee or its parent entity or an alternate reporting entity**
    - (ii) Name of parent entity**
    - (iii) Name of alternate reporting entity (if applicable)**
    - (iv) Date of furnishing of report**

Clause 43 has been newly introduced in Form No. 3CD. The Finance Act, 2016 by introducing Section 286 in the Act, has introduced provisions relating to the Country by Country Report (CbCR) and Master File pursuant to the adoption of OECD's Base Erosion and Profit Shifting (BEPS), Action Plan 13 in India.

Under Section 286, an international group has to furnish CbCR containing information about the whole group comprising of various constituent entities.

Such a report is to be filed in India if the parent entity is resident of India or the international group has appointed a constituent entity which is resident in India to file CbCR on behalf of the whole group.

The report under Section 286(2) is filed by the parent entity which is resident in India or the alternate reporting entity which is resident in India.

For tax audit for the assessment year 2018-19, the tax auditor should comment upon report Section 286(2) that was required to be filed on or before 31 March 2018.

The tax auditor should verify if the taxpayer is required to file the Form 3CEAC based on the satisfaction of the conditions prescribed

The tax auditor should also verify if the taxpayer whose parent is a non-resident has filed Form No. 3CEAC.

The tax auditor may obtain a necessary certificate from the taxpayer in respect of constitution of the international.

- **Clause 44\*. Break-up of total expenditure of entities registered or not registered under the GST:**

Sl. No.	Total amount of Expenditure incurred during the year	Expenditure in respect of entities registered under GST				Expenditure in respect of entities registered under GST Expenditure
		Relating to goods or services exempt from GST	Relating to entities falling under composition scheme	Relating to other registered entities	Total payment to registered entities	
(1)	(2)	(3)	(4)	(5)	(6)	(7)

**\*Note: Applicability of Clause 44 is deferred till April 1, 2019.**

## **B. AUDIT PROMSIONS UNDER INDIRECT TAX LAWS**



The GST roll out on 1<sup>st</sup> July 2017 has paved the way for realization of the goal of “one nation-one tax-one market”. GST is expected to benefit Indian economy overall with most tax compliant businesses getting favourably impacted. It is a trust based taxation regime wherein the assessee is required to self-assess his returns and determine tax liability without any intervention by the tax official. Therefore, a tax regime that relies on self-assessment has to put in place a robust audit mechanism to measure

and ensure compliance of the provisions of law by the taxable person.

**Objective of GST Audit:** The objective of the GST audit can be ascertained from the definition of Audit given in Section 2(13) of Central Goods and Services Tax Act, 2017 (CGST Act). The said definition reads as follows:

*“audit means the examination of records, returns and other documents maintained or furnished by the registered person under this Act or the rules made thereunder or under any other law for the time being in force to verify the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess his compliance with the provisions of this Act or the rules made there under.”*

From the above, it can be deduced that:

- (a) Audit is examination of records, returns and other documents;
- (b) Those records, returns and documents might have been maintained or furnished under GST Law or any other law;
- (c) The examination is to verify the correctness of
  - (i) Turnover declared;
  - (ii) Taxes paid;
  - (iii) Refund claimed; and
  - (iv) Input tax credit availed;
- (d) The examination is also to assess auditee’s compliance with the provisions of GST Act and Rules.

All this makes it clear that the objective of GST is to ensure the correctness of Turnover declared, Taxes paid, Refund claimed, and Input Tax Credit availed in addition to compliance of the GST Act and Rules. The intent is that the compliance of the GST law has to be confirmed by the GST audit.

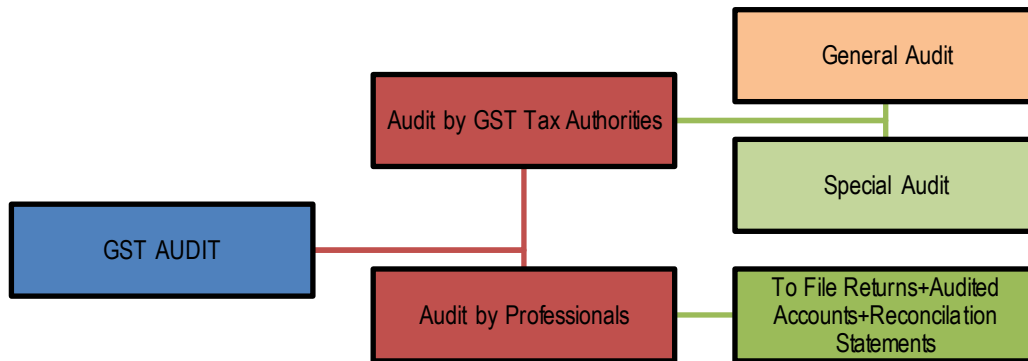
### 1 Types of Audit under GST

GST envisages three types of Audit.

- (1) Audit of accounts [Section 35(5) read alongwith section 44(2) and rule 80]
- (2) Audit by Tax Authorities wherein the Commissioner or any officer authorised by him, can undertake audit of any registered person for such period, at such frequency and in such manner as may be prescribed. [Section 65 and rule 101]
- (3) Special Audit wherein the registered person can be directed to get his records including books of account examined and audited by a chartered accountant or a cost accountant



during any stage of scrutiny, inquiry, investigation or any other proceedings; depending upon the complexity of the case. [Section 66 and rule 102]



### 1.1 Threshold for Audit:

Section 35(5) begins with the expression “every registered person whose **turnover** during a financial year exceeds the prescribed limit” whereas the relevant Rule 80(3) uses the expression “every registered person whose **aggregate turnover** during a financial year exceeds **two crore rupees**”. It must be noted that the word **turnover** has not been defined whereas the expression **aggregate turnover** has been defined. One may note that the expression **turnover in State or turnover in the Union territory** is defined. In this backdrop the following understanding is relevant:

- Aggregate turnover is PAN based while turnover in a State/UT, though similarly worded, is limited to turnover in a State / UT, which is limited to a State;
- It is therefore, reasonable to interpret that the word turnover used in Section 35(5) ought to be understood as aggregate turnover.
- For the financial year 2017-18, the GST period consists of 9 months whereas the relevant Section 35(5) uses the expression financial year; Therefore, in the absence of clarification from the government, and to avoid any cases of default, it is reasonable to understand that to reckon the turnover limits prescribed for audit i.e., ₹ 2 crores one has to reckon the turnovers for the whole of the financial year which would also include the first quarter of the financial year 2017-18.

### 1.2. Audit of Accounts [Section 35(5) read alongwith section 44(2) and rule 80]

As per sub-section 5 of section 35 read alongwith section 44(2) and rule 80 of the CGST Rules, 2017 stipulates as follows:

(i) Every registered person must get his accounts audited by a Chartered Accountant	Such registered person is required to furnish electronically through the common portal alongwith Annual Return a copy of:
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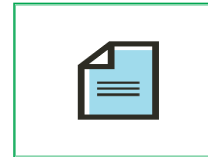
or a Cost Accountant if his aggregate turnover during a FY exceeds ₹ 2 crores.	<input type="checkbox"/> Audited annual accounts <input type="checkbox"/> A Reconciliation Statement, duly certified, in prescribed FORM GSTR-9C.
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**Reconciliation Statement** will reconcile the value of supplies declared in the return furnished for the financial year with the audited annual financial statement and such other particulars, as may be prescribed.



Value of supplies declared in Annual return

**reconciliation**



Value of supplies declared in audited Annual Financial Statement

**1.3. Audit under section 65:**

Section	Description	Remarks
Section 65	Audit by tax authorities	The audit under Section 66 is a special audit to be conducted by a Chartered Accountant or Cost Accountant nominated by the Commissioner whereas the audit under Section 65 is a routine audit by the tax office.

**1.4. Special Audit under section 66:**

Availing the services of experts is an age old practice of due process of law. These experts have done yeoman service to the process of delivering justice. One such facility extended by the Act is in Section 66 where an officer not below the rank of Assistant Commissioner, duly approved, may avail the services of a Chartered Accountant or Cost Accountant to conduct a detailed examination of specific areas of operations of a registered person. Availing the services of the expert be it a Chartered Accountant or Cost Accountant is permitted by this section only when the officer considering the nature & complexity of the business and in the interest of revenue is of the opinion that:

- ✎ Value has not been correctly declared; or
- ✎ Credit availed is not within the normal limits.

It would be interesting to know how these 'subjective' conclusions will be drawn and how the proper officers determines what is the normal limit of input credit availed.

**Circumstances for Notice for Special Audit:** An Assistant Commissioner who nurses an opinion on the above two aspects, after commencement and before completion of any scrutiny, enquiry, investigation or any other proceedings under the Act, may direct a registered person to

get his books of accounts audited by an expert. Such direction is to be issued in accordance with the provision of Rule 102 (1) FORM GST ADT -03

The Assistant Commissioner needs to obtain prior permission of the Commissioner to issue such direction to the taxable person.

Identifying the expert is not left to the registered person whose audit is to be conducted but the expert is to be nominated by the Commissioner.

**Time Limit to Submit the Audit Report:** The Chartered Accountant or the Cost Accountant so appointed shall submit the audit report, mentioning the specified particulars therein, within a period of 90 days, to the Assistant Commissioner in accordance with provision of Rule 102(2) FORM GST ADT -04.

**Extension in Submission of Audit Report:** In the event of an application to the Assistant Commissioner by Chartered Accountant or the Cost Accountant or the registered person seeking an extension, or for any material or sufficient reason, the due date of submission of audit report may be extended by another 90 days.

Considering the special nature of this audit, i.e. audit having been conducted under other proceedings or under other laws; this does not preclude the proper officer from exercising this option.

While the report in respect of the special audit under this section is to be submitted directly to the Assistant Commissioner, the registered person is to be provided an opportunity of being heard in respect of any material gathered in the special audit which is proposed to be used in any proceedings under this Act. This provision does not appear to clearly state whether the registered person is entitled to receive a copy of the entire audit report or only extracts or merely inferences from the audit. However, the observance of the principles of natural justice in the proceedings arising from this audit would not fail the taxable person on this aspect.

### **1.5 Preparation for the GST Audit:**

To start with, the following (among others) are the various steps an auditor can take in connection with the forthcoming GST audit:

- (a) Inform the concerned assessee about the applicability of the GST audit;
- (b) Confirm the eligibility to be the GST auditor under the related legislation;
- (c) Understand the nature of business, the products or services, requirements of records to be maintained, and advise the auditee to maintain accounts and records so required, beforehand;
- (d) Prepare a questionnaire to understand the operations / activities of the auditee, and specifically develop questions on those issues on which the GST law would have a bearing
- (e) Preparation of the detailed audit program and list of records to be verified;

(f) Host of relevant reconciliations.

**Expenses for Examination and Remuneration for Audit:** The expenses for examination and audit including the remuneration payable to the auditor will be determined and borne by the Commissioner.

As in the case of audit under section 65, no demand of tax, even *ad interim*, is permitted on completion of the special audit under this section. In case any possible tax liability is identified during the audit, procedure under section 73 or 74 as the case may be is to be followed.

During the course of audit, the registered person to afford the auditor with the necessary facility to verify the books of account and also to furnish the required information and render assistance for timely completion of the audit. As per the CGST Rules on Assessment and Audit Rules, the auditor shall verify the documents on the basis of which the accounts are maintained and the periodical returns/statements are furnished. While conducting the audit, the auditor is authorized to:

- ☒ Verify books & records
- ☒ Returns & statements
- ☒ Correctness of turnover, exemptions & deductions
- ☒ Rate of tax applicable in respect of supply of goods and/or services
- ☒ The input tax credit claimed/availed/unutilized and refund claimed.

Some of the best practices to be adopted for GST audit among others could be:

The evaluation of the internal control *viz-a-viz* GST would indicate the area to be focused. This could be done by verifying:

- (a) The Statutory Audit report which has specific disclosure needs in regard to maintenance of record, stock and fixed assets.
- (b) The Information System Audit report and the internal audit report.
- (c) Internal Control questionnaire designed for GST compliance.
  - (i) The use of generalised audit software to aid the GST audit would ensure modern practice of risk based audit are adopted.
  - (ii) The reconciliation of the books of account or reports from the ERP's to the return is imperative.
  - (iii) The review of the gross trial balance for detecting any incomes being set off with expenses.
  - (iv) Review of purchases/expenses to examine applicability of reverse charge applicable to goods/services. The foreign exchange outgo reconciliation would also be necessary for identifying the liability of import of services.
  - (v) Quantitative reconciliation of stock transfer within the State or for supplies to job workers under exemption.
  - (vi) Ratio analysis could provide vital clues on areas of non-compliance.

**Consequences of failure to submit the annual return and not getting the accounts audited:**

Section 47(2) provides that in case of failure to submit the annual return within the specified time, a late fee shall be leviable. The said late fee would be ₹ 100 per day during which such failure continues subject to a maximum of a quarter percent of the turnover in the State/UT. There would be an equal amount of late fee under the respective State/UT GST law.

However, there is no specific penalty prescribed in the GST Law for not getting the accounts audited by a Chartered Accountant or a Cost Accountant. Therefore, in terms of Section 125 of CGST Act he shall be subjected to a penalty of up to 25,000/-. This section deals with the general penalty that gets attracted where any person, who contravenes any of the provisions this Act, or any rules made thereunder for which no penalty is separately provided. Similar provision also exists under the State/UT GST law as well. It is possible that since the return is to be accompanied with the report, if not done it may amount to non-filing of return and late fee also may be levied.

**1.6. Audit Approach**

There are no prescribed or specified approaches for conducting audit under the GST laws. Similarities can be drawn between a GST Audit and /or Tax Audit under Section 44AB of the Income-tax Act and audit under the Companies Act. The GST Auditor is not required to express his opinion on truth and fairness of the financials when it is audited by others. In any case, he is required to certify the correctness and completeness of certain reconciled data. The verification would necessarily have to be substantially more than the opinion on truth and fairness.

In this background certain time-tested methods of conducting an audit have evolved into guidelines, which among others are as follows:

- (a) Obtaining prior knowledge of the business and comparing them with similar businesses;
- (b) Preparing a master file of the clients (permanent master file);
- (c) Discussing on with the audit team on the methodology to proceed with the audit;
- (d) Studying and evaluating systems (including business systems) and internal control of the business entity;
- (e) Assessing the audit risks and deploying of suitable personnel;
- (f) Assessing the risk appetite of the business entity;
- (g) Preparing of an audit plan / audit program and conducting the audit accordingly;
- (h) Reviewing meetings with the audit team;
- (i) Drawing conclusions on the basis of audit evidence obtained in the course of conducting the audit and a discussion with the client on the observations and findings;
- (j) Discussing with the registered person and obtaining various management certificates;

- (k) Reporting the observations in the prescribed statutory format, if any, or evolving a suitable format of reporting;
- (l) Maintaining Audit working papers file (Filing of documents either in permanent file or working papers file);
- (m) Concluding the audit and intimating the management.

### 1.7. Accounting Standard Vs. GST

The auditor should also take into account the accounting standards followed at the time of preparation of financial statements. There could be differences in the manner of accounting treatment of certain transactions as per Accounting Standard in the financial statements vis-à-vis the treatment under GST. Some of the differences are:

- Supplies on behalf of the principal are not reflected in the financial statements of the agent and only commission is shown as the revenue of the agent. Under the GST Law, such turnover would be treated as part of the agent's turnover.
- Under the Accounting Standard 19 in the case of finance lease, in the books of the lessor, the cost of the asset is recorded as a receivable whereas in the books of the lessee, it would be recorded as an asset purchased. However, under the GST, the cost of the asset would be recorded as a purchase and the fair value of the asset would not be recorded in the books of the lessee as a purchase. In the case of the lessor, only the financial charges would be treated as revenue as per the AS, whereas under the GST, the entire amount would be treated as revenue. Similarly, as per the Accounting Standard, in the case of lessee, the amount of lease rentals would be bifurcated into interest charges and liability, whereas under the GST, the entire amount would be treated as expense.

The above is only illustrative and there could be many more cases of differences in the turnovers between the financial statements and the GST Law.

### 1.8. GST Audit in Computerised Environment

Compliances under the GST law are dependent upon technology because transactions are numerous. It is not only the Government which has adopted technology, businesses too have adopted technology at different levels to meet the compliance requirement.

In the GST regime, Information Systems have become an integral part of enterprise day-to-day operation, such as return filing, payment of taxes, rectification of returns filed, reconciliation of multiple returns GSTR 1, GSTR 2A, GSTR 3B, e-Way Bill, GSTR 9 etc. The increased usage of technology has pitfalls when sufficient controls are not built within. The primary responsibility of the GST Auditor is to assess the entire Computerized Information System (CIS) environment and get macro perspective of data availability and systems reliability.

Unlike the traditional audit methodology which involved manual process of checking and verification, the GST audit processes for larger assesses is carried out by using Computer Systems and Technology. For example, verification for the matching of Input Tax Credit availed with the Outward

Supply declared by the supplier being large in numbers, cannot be done manually. Hence different computerized tools and methods have to be used for the purpose.

Though it is clear that computerized tools and methods have to be used for conducting the audit, at the same time it is important that the Auditor is aware of such computerized environment which can be called Computerized Information System (CIS) Environment, and the audit risks involved therein.

GST Auditor should also try to know whether the computer of any type or size used by the entity for processing financial information is important for the purposes of audit, and if it is operated by the entity or by a third party.

Controls can be classified based on whether they are, preventive, detective or corrective or based on some other parameters like physical, logical or environmental. More classifications are also possible, based on the assets they protect.

### 1.9 Audit Planning

The auditors should obtain an understanding of the organization Internal Process of

- (a) accounting of Transactions
- (b) reporting to the GSTN Portal
- (c) reconciliation of filed data and
- (d) internal control systems implemented

To plan the audit and develop an effective audit approach to meet audit requirements.

In planning the portions of the audit which may be affected by the client's CIS environment, the auditors should obtain an understanding of the significance and complexity of the CIS activities and the availability of data for use in the audit.

### Preliminary Review

Before starting his work, the GST Auditor shall conduct a preliminary review to assess the CIS controls and the risks that could impact his work by considering the following points:

- Knowledge of the Business
- Understanding the technology deployed
- Understanding Internal Control System
- Risk assessment and Materiality

### 1.10. Various Returns Under GST

Following are the various forms to be filed under GST Act

- **GSTR 9** : GSTR 9 should be filed by the regular taxpayers filing GSTR 1, GSTR 2, GSTR 3
- **GSTR 9A** : GSTR 9A should be filed by the persons registered under composition scheme under GST.

- **GSTR 9B:** To be filed by e-commerce operators
- **GSTR 9C:** Should be by the taxpayers whose annual turnover exceeds ₹ 2 Crores during the financial year. All such taxpayers are also required to get their accounts audited and file a copy of audited annual accounts and reconciliation statement of tax already paid and tax payable as per audited accounts alongwith GSTR 9C.

#### **GSTR 9 - Annual Return Filing, Format, Eligibility & Rules**

GSTR 9 form is an annual return to be filed once in a year by the registered taxpayers under GST including those registered under composition levy scheme. It consists of details regarding the supplies made and received during the year under different tax heads i.e. CGST, SGST and IGST. It consolidates the information furnished in the monthly/quarterly returns during the year.

All the registered taxable persons under GST must file GSTR 9 form. However, the following persons are **not** required to file GSTR 9

- Casual Taxable Person
- Input service distributors
- Non-resident taxable persons
- Persons paying TDS under section 51 of GST Act.

#### **Details required in the GSTR 9**

Sr. No.	Parts of GSTR – 9	Information Required
1.	<b>Part – I</b>	Basic details of the taxpayer. This detail will be auto-populated.
2.	<b>Part – II</b>	Details of Outward and Inward supplies declared during the financial year(FY). This detail must be picked up by consolidating summary from all GST returns filed in previous FY.
3.	<b>Part – III</b>	Details of ITC declared in returns filed during the FY. This will be summarised values picked up from all the GST returns filed in previous FY.
4.	<b>Part – IV</b>	Details of tax paid as declared in returns filed during the FY.
5.	<b>Part – V</b>	Particulars of the transactions for the previous FY declared in returns of April to September of current FY or up to the date of filing of annual returns of previous FY whichever is earlier. Usually, the summary of amendment or omission entries belonging to previous FY but reported in Current FY would be segregated and declared here.
6	<b>Part – VI</b>	Other information comprising details of : GST demands and refunds, HSN wise summary of the quantity of goods supplied and received with its corresponding Tax details against each HSN code, Late Fees payable and paid details,

		segregation of inwards supplies received from different categories of taxpayers like Composition dealers, deemed supply and goods supplied on approval basis.
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### Analysis of GSTR 9C

Form GSTR 9C is the relevant form prescribed in terms of Rule 80(3) of the CGST Rules. This has two parts to it: Part A titled the "Reconciliation Statement" and Part B is the Certification portion. Part I captures the basic details of the Registered Person under Part A (Reconciliation Statement) which has 4 Sl. Nos. Each of the Sl. Nos is significant in terms of the disclosure requirement.

### Comparative view of Form GSTR-9 and GSTR 9C

Sr. No.	Return in GSTR 9	Return in GSTR 9C
1.	It is the report of a formal or official character giving information	Means the formal statement to be made under the provisions of the Act the veracity of which needs an enquiry as to its correctness
2.	Prescribed under a Statute	Prescribed under a Statute
3.	To be filed by all registered persons	To be filed only if the aggregate turnover in a financial year exceeds ₹ 2 Crores.
4.	Not required to be filed by a Casual Taxable Person, Non-Resident Taxable Person, Input Service Distributor, Unique Identification Number Holders, Online Information and Database Access Retrieval Service, Composition Dealers, persons required to deduct taxes under Section 51 and persons required to collect taxes under Section 52.	Not required to be filed by a Casual Taxable Person, Non-Resident Taxable Person, Input Service Distributor, Unique Identification Number Holders, Online Information and Database Access Retrieval Service, Composition Dealers, persons required to deduct taxes under Section 51 and persons required to collect taxes under Section 52.
5.	No need to annex financials	Financials to be annexed
6.	A plain reading of the relevant provisions indicate that the said Annual Return in GSTR 9 and the Reconciliation Statement in GSTR 9C must be filed together. However, if one were to peruse GSTR 9C there are certain tables which state that "turnover as declared in annual return" indicating thereby that GSTR 9C is dependent on GSTR 9. This anomaly can be addressed only on the basis of the finalized annual return initialled and presented to the GST auditor by the registered person.	



**Analysis of Form GSTR 9C****PART-I - Sl. No. 1 : Financial Year**

This Sl. No. requires disclosure of the “financial year” to which the Reconciliation Statement in Part A relates to. The expression financial year has not been defined under the GST laws. However, in terms of the General Clauses Act “financial year” shall mean the year commencing on the 1st day of April and closing on the 31st day of March.

**Part I - Sl. No. 2 : GSTIN**

GSTIN means the “Goods and Services tax Identification Number” of the tax payer or the Registered Person. Each tax payer, on his successful registration, would be assigned a State-wise PAN based 15-digit GSTIN. The first 2 digits of the said GSTIN would represent the State code, as per the Indian Census 2011 viz, Karnataka 29, Delhi 07 etc. The next 10 digits would be the PAN of the tax payer. It implies that if one is not allotted a PAN, he cannot be registered under the GST Laws. The 13th digit would be based on the number of registrations within a State, while the 14th digit would be assigned based on the nature of the business of the Registered person. The 15th digit is a check code which can be a “numeral” or an “alphabet”.

In the case of a Non-resident taxable person (“N RTP”), Rule 13 of the CGST Rules permits registration even without PAN. In such case, registration shall be granted based on the tax identification number or unique number on the basis of which the entity is identified by the Government where the said entity is based.

GSTIN based on PAN ought to be validated. As and when such errors are noticed during the GST audit, the GST Auditor should disclose such information appropriately. He must also consider other implications due to such errors.

**Part I - Sl. No. 3A and 3B: Legal Name and Trade Name**

The word “trade” used in Sl.No. 3B of Part A may not be limited to occupation or business. It could be a connotation. The word “trade” ought to be understood in its ordinary sense, without any reference to “business”. For instance, “Indigo” could be a trade name while the legal name is “InterGlobe Aviation Limited”.

Therefore, understood, trade name is used by trade and industry to identify their businesses symbolizing their reputation. Caution must be exercised in listing the trade name and legal name in Sl. Nos. 3A and 3B.

It is possible that some Registered Persons may not have a trade name. In such situations, Sl.No. 3B of Part A would not be applicable. Therefore, NOT APPLICABLE is to be stated in Part A which could be verified from the <<auto populated>> data.

The legal name and trade name ought to be verified with the certificate of registration issued by the tax department in Form GST REG – 06. Similarly, if the Registered Person is a company registered under the Companies Act, 2013, the legal name / trade name can be verified with the Certificate of Incorporation and in case of partnership firm by the certificate issued by the Registrar of Firms.

Therefore, the distinction between a trade name and a legal name must be clearly understood and borne out in Sl.No. 3A and 3B of Part A, and should not be used interchangeably.

**Part I - Sl. No. 4 : Are you liable to audit under any Act?**

The Sl. No. "Are you liable to audit under any Act?" mentioned in GSTR 9C needs elaboration. It is possible that an entity could be subjected to audit under several statutes. For instance a Proprietary Concern could be subject to audit under the Income tax Act, 1961 and a Private Limited Company could be subject to the

statutory audit under the Companies Act, 2013 as well as under the Income tax Act. Similarly, a society registered under the Societies Registration Act may be subject to audit under that Act as well as under the Income tax Act. This fact must be specified in Sl. No. 4. It is currently not clear if the response to this question would be YES / NO or would be to select from a drop-down menu the statute under which the tax payer has been subjected to audit.

**Part II - Sl. No. 5A: turnover (including exports) as per audited financial statements for the State / UT (For multi-GSTIN units under same PAN the turnover shall be derived from the audited Annual Financial Statement)**

Sl. No. 5A is intended to report the turnover as per the audited Annual Financial Statement for a GSTIN. There may be cases where multiple GSTINs (State-wise) registrations exist for the same PAN. This is common for persons/entities with presence over multiple States or in respect of multiple registration in a single State/UT. The Government vide its instructions has indicated that such persons/entities would have to internally derive their GSTIN wise turnover and provide to the Auditor to verify and declare in this Sl. No.

The Auditor must bear in mind that in a real business environment several entities may not be in a position to provide such derived turnovers. In such a situation, the Auditor has to engage suitably himself and carry out this exercise.

**Checks and balances to validate correctness and completeness:**

To ensure completeness and correctness of the details of turnover to be declared under this Sl.No., the following checks could be used:

1. turnover in State/UT (in case of single registration) must reconcile to the turnover disclosed in the audited financial statements;
2. turnover in State/UT (in case of multiple registration) must reconcile to the turnover as recorded in the books of accounts of each registration;
3. Master reconciliation to ensure that the details of turnover declared for different registrations (in case of multiple registrations either due to presence in multiple States/UT s' or due to unit(s) in SEZ) with the total turnover of the entity

**List of documents**

The following list of documents could be obtained by the Auditor for the purpose of declaring the details of turnover under this Sl. No.:

- a. Annual Financial Statements
- b. Registrantwise Trial Balance to facilitate furnishing the Form GSTR 9C for each registrant;
- c. Communication with the other Auditor to obtain details of the turnover declared by them to ensure completeness and holistic reconciliation of turnover of the Registered Person;
- d. Form GSTR 9C, if already filed by a different Auditor, in case of multiple registrations of the Registered Person;
- e. GST (Viz. Form GSTR 3B and Form GSTR 1) returns filed by the Registered Person to ensure that the turnover declared in the returns match the turnover captured in the audited financial statements
- f. Income tax Returns (ITR) to ensure that the turnover details are reconciled with the turnover per GST.

#### **SI. No. 5B. Unbilled revenue at the beginning of Financial Year**

To comprehend the scope of these SI. Nos, there is need to understand the concept of 'Unbilled revenue'. In simple terms, unbilled revenue is the revenue recognized in the books of accounts before the issue of an invoice at the end of a particular period. Accounting Standard - 9 / IND AS 115 provides for recognition of revenue on full completion / partial completion of the services though the due date for issuing invoice as per the contract would be on a later date. It is advisable to refer to AS-9 / IND AS 115 for a better understanding of the concept.

Clause 5B requires the addition of unbilled revenue at the beginning of a Financial Year. Unbilled revenue which was recorded in the books of accounts on the basis of accrual system of accounting in the earlier financial year for which the invoice is issued under the GST law is required to be declared here. In other words, when GST is payable during the financial year on such revenue (which was recognized as income in the earlier year), the value of such revenue is to be declared here.

Unbilled revenue would appear in the profit and loss account of the previous year. For information of unbilled revenue at the beginning of a Financial Year, reference may be made to previous year's audited financial statements. However, as the GST was introduced from 1<sup>st</sup> July 2017 one needs to be careful to exclude invoices raised during the period April 2017 to June 2017 from the computation.

#### **SI. No. 5C Add: Unadjusted advances at the end of the Financial Year**

The scope of Part II SI No. 5C and 5I is to make adjustment of Unadjusted Advances to Audited Financials for arriving towards the GSTR 9 turnover.

It is a business practice to collect advances from customers before effecting supplies. When an advance is received, since the goods and / or services would not have been delivered / rendered, the revenue is not yet earned, whereby this advance would be recorded as a liability (either as current liability or long-term liability) in the balance sheet as at the end of the financial year.

#### ***For Supply of Goods***

Sec 12(2): The time of supply of goods shall be the earlier of the following dates, namely: —

- (a) the date of issue of invoice by the supplier or the last date on which he is required, under sub-Section (1) of Section 31, to issue the invoice with respect to the supply; or
- (b) **the date on which the supplier receives payment with respect to the supply:**

The Government issued NN 40/2017-CT dated 13th October 2017 in terms of Section 148 of CGST Act to relax Registered Persons having aggregate turnover less than ₹ 1.5 crores from paying tax on such advances. This facility was extended to all Registered Persons without threshold limit vide NN 66/2017-Central tax, dated 15th Nov 2017 but only in the case of supply of goods.

In terms of the above notifications, an Auditor has to examine whether the Registered Person has paid tax on advances till 15th Nov 2017.

### **For Supply of Services**

CGST Section 13 (2)

The time of supply of services shall be the earliest of the following dates, namely: —

- (a) the date of issue of invoice by the supplier, if the invoice is issued within the period prescribed under Section 31 or the date of receipt of payment, whichever is earlier; or
- (b) the date of provision of service, if the invoice is not issued within the period prescribed under Section 31 or the **date of receipt of payment**, whichever is earlier; or
- (c) the date on which the recipient shows the receipt of services in his books of account, in a case where the provisions of clause (a) or clause (b) do not apply.

Explanation—For the purposes of clauses (a) and (b)—

- the supply shall be deemed to have been made to the extent it is covered by the invoice or, as the case may be, the payment;
- “the date of receipt of payment” shall be the date on which the payment is entered in the books of account of the supplier or the date on which the payment is credited to his bank account, whichever is earlier.

Therefore, any advances received from customers before the date of supply, on receipt of advance GST, have to be discharged.

### **Sl. No. 5D. Deemed Supply under Schedule I**

Clause 5D seeks to cover aggregate value of four classes of deemed supplies transactions specified under Schedule I of the CGST Act. Any deemed supply which is already reported as part of the turnover in the audited Annual Financial Statements is not required to be included in this Sl. No.

As the requirement of this Sl. No. is to report the transactions which were not reported in the financial statements, though the same are reported in the returns filed since they are treated as deemed supplies under the GST law, there is no direct source will indicate the value of deemed supplies under any part of the returns or statement filed. Details regarding this have to be extracted from the books/records.

E-Way bills raised would be a good guiding factor to identify such instances in respect of goods while an Auditor may have to delve deeper to understand the transactions relating to services. For instance, transactions relating to stock transfer of goods may be extracted from delivery challans or on an analysis of e-way bills, whereas transactions of service transfers will be based on an understanding of the nature business. It is better to take proper management representation for the completeness of these transactions.

The Auditor should look beyond the books of accounts and look for alternative evidence and information for reporting in Sl.No. 5D. Such as

1. Permanent Transfer or disposal of business assets where input tax credit has been availed on such assets
2. Supply of goods or services or both between related persons or between distinct persons as specified in Section 25, when made in the course or furtherance of business.
3. Supply of goods-
  - (a) by a principal to his agent where the agent undertakes to supply such goods on behalf of the principal; or
  - (b) by an agent to his principal where the agent undertakes to receive such goods on behalf of the principal.

#### **Disclosure by Auditor**

1. The Auditor has to assess the systems and processes adopted by the entity with a view to identifying such transactions. Suitable disclosure may need to be provided by the Auditor for the basis of such identification and its treatment under the GST Laws.
2. If there is any system / methodology for such an identification, then the Audit has to assess the completeness and correctness of the said system so as to cover all the aspects;
3. To examine records and to confirm if the system is followed consistently.
4. If there is no proper system, to consider the possibility of any transactions that may have escaped attention.
5. In cases of deemed supply transactions, it would be relevant to include suitable disclosures even in the management representation letter.

#### **Sl. No.5E. Credit notes issued after the end of the financial year but reflected in the annual return.**

This Sl. No. mandates reporting of the aggregate value of credit notes which were issued after Mar 31, 2018 in respect of any supply accounted in the current financial year (2018-19) but for credit notes were reflected in the annual return (GSTR –9 for the financial year 2017-18). But, it is uncommon, although not impossible, for credit notes dated beyond Apr 1, 2018 to be given effect in the financial accounts. This Sl. No. applies only in such rare cases. For the most part, this Sl. No. may well be 'nil'.

5E of GSTR 9C contains information pertaining to credit notes which were issued after 31st of March for any supply accounted in the current financial year but such credit notes were reflected in the annual return (GSTR-9).

**Sl. No. 5F. Trade discounts accounted for in the audited Annual Financial Statement but are not permissible under GST**

Clause 5F requires disclosure of trade discounts which have been given effect to, in the audited financial statements but which are not permissible as part of deductions from the value of supply under the GST Laws.

This data / information can generally be obtained from the credit side of the Profit and Loss account. It is also a business practice that trade discounts would be netted off against the turnover of outward supplies. In the case of entities with multiple registration, a separate statement is to be obtained for each GST IN reconciling the total with the amount disclosed in the financials.

Non-allowance of the same has to be identified on the basis of the documents maintained by looking into the conditions of allowance as deduction against the supply made as per Section 15(3) of the CGST Act.

Since it may be difficult to verify all the cases of trade discounts by the Auditor to consider the eligibility for deduction, it may have to adopt some other audit techniques to ascertain the same. Also, it would be important to obtain the appropriate management representation letter from the entity.

The following are the control checks that a person should perform for validation of the amounts reported under this head:

- (a) The valuation of trade discounts for the purposes of disclosures under this head, has to be clearly documented.
- (b) The input tax credit reflected in GSTR-2A attributable to such trade discounts has to be maintained.
- (c) The trade discount has to be demarcated between the supplies made in the erstwhile law and the GST regime.
- (d) The customer agreements have to be scrutinised to determine the quantum of nonallowable discounts.

**Sl. No. 5G: turnover from April 2017 to June 2017**

In terms of this Sl. No. the turnovers included in the audited financial statement for the period April 2017 to June 2017 shall be declared and deducted from the annual turnover to arrive at the turnover as per the GST Laws.

There could be cases where the books of accounts are closed quarterly, or financial statements are drawn up quarterly. In such cases, the quarterly turnovers can be adopted, and adjustments can be made relating to the point of taxation under the excise law, State level vat law and service tax law to arrive at taxable values as per the erstwhile laws. The said value must be entered under this head.

Turnovers forming part of the tax periods 1.4.17 to 30.06.17, which were *liable* to tax under the erstwhile laws as per the provisions relating to the point of taxation rules should be deducted from the turnover.

It may be noted that tax is liable to be paid on removal in case of excise/on sale under VAT law/ on provision of service or issue of invoice as the case may be under service tax law provisions and not on accrual basis or cash basis (which is the basis of accounting and hence basis of annual turnover as per financial statements). Thus, the criteria for reducing turnover for the period April 2017 to June 2017 is not when the revenue was recognised as per relevant accounting standards, but whether or not the said amounts were liable to tax under the erstwhile laws as per the point of taxation under the said laws.

Amounts forming part of turnover relating to works contracts, where consideration was received during the period April 2017 to June 2017, but supplies were effected or services were rendered after June 2017, needs to be deducted under this Sl. No. because the said consideration was liable to tax on receipt basis as per the service tax law and State level VAT laws. However, the self-same value needs to be added back in Sl. No. 5(O), since the aforesaid supplies would be liable to tax under the GST law also as per Section 142(11)(c). At this juncture, it is important to note that the relevant service tax and value added tax paid on such advances for which supplies are effected during the GST regime would be available as CGST /SGST credit as per section 142(11)(c) of the CGST Act.

It is opportune to mention at this stage that there is a saving clause in section 142(11)(a) and (b) of CGST/SGST Act, which states that transactions liable to VAT/ service tax would not be exigible to GST in case the provision of time of supply under the GST also stands attracted to the very same transaction. There is no such saving clause mentioned for excise duty (i.e. for goods manufactured and *cleared* from April 2017 to June 2017) but sold after June 2017 (e.g.: clearances made on sale or approval basis prior to July 2017, sold after July 2017). However, N.No.12/17 CE dt.30.6.17 grants exemption in the case of goods manufactured prior to 30.6.2017 but cleared/ supplied after 1.7.2017, provided GST is leviable on such goods.

### Illustration

Please specify which of the following supplies would form part of reporting under turnover for the period April 2017 to June 2017

- (a) Services were provided during the period June 2017. The service was completed on 20.6.2017, but invoice for the service was raised only on 1.8.2017.

**Reply:** Since the invoice was raised after a period of thirty days, service tax is liable to be paid for the period ending June 2017 as per the proviso to Rule 3(a) of the Clause of Taxation Rules. Since the said transaction is liable to service tax, it is not liable to GST as per Section 142(11)(b) of the CGST Act, though the invoice is raised during the GST regime. Therefore, the said value of invoice must be deducted for the period April 17 to June 2017.

- (b) Service has been provided in the month of May 17 amounting to ₹ 1,00,000/-. Invoice has been raised within 30 days. There was a deficiency in the provision of service. The customer has paid only ₹ 20,000/-. The company has issued credit note amounting to ₹ 80,000/- on

31.3.2018 and closed the customer's account. Should any amount be reduced for the period April 2017 to June 2017. Are any adjustments required to be made for the period July 2017 to March 2018?

**Reply:** As per S.142(2)(b) of the GST Act, where in pursuance of contract entered into prior to the appointed date, where the price of service is revised downwards after 1.7.2017 and the provider issues a credit note within 30 days of such price revision, such credit note shall be deemed to have been issued in respect of outward supply, provided the recipient has reduced his input tax credit. Assuming the input tax credit is reduced by the recipient, the credit note shall be reduced from outward supply for the tax period March 2018. Thus ₹ 80,000/- would be reduced from the GST turnover for the period of March 2018. The said amount of ₹ 80,000/- would be reduced from the turnover in the month of March 2018 because credit note is issued in the month of March 2018. Thus, only ₹ 20,000/- is required to be reduced for the period April 2017 to June 2017, though invoice for ₹ 1,00,000/- is issued in the month of May 2017 and service tax is paid on ₹ 1,00,000/- in the month of May 2017.

**Sl. No. 5H. Unbilled revenue at the end of Financial Year**

Unbilled revenue which was recorded in the books of accounts on the basis of accrual system of accounting during the current financial year, but GST was not payable on such revenue in the same financial year shall be declared here.

**Sl. No. 5I Less: Unadjusted Advances at the beginning of the Financial Year**

Value of all advances for which GST has not been paid but the same has been recognized as revenue in the audited Annual Financial Statement shall be declared here.

**Sl. No. - 5J. Credit notes accounted for in the audited Annual Financial Statement but are not permissible under GST**

This Sl. No. has to be filled up with the information available in the audited Financial Statements whereas such amounts have not been adjusted against the supplies in the GST returns. All the adjustments made to the turnover where there is an effect of reduction due to a Credit Note issued have to be quantified for the purpose of reconciliation between the books of accounts and the GST returns to be filed. There could be an adjustment made to the receivable and payable in the books of accounts. Care should be exercised to extract the information of credit note that only calls for reduction of the turnover.

Auditor has to disclose the practice adopted for collating relevant information from the books of accounts and the basis for determining the adjustments eligible for reconciliation purposes.

**Sl. No. 5K. Adjustments on account of supply of goods by SEZ units to DTA Units**

Such outward supplies are not required to be reported by SEZ units in their GST Returns and hence the data cannot be retrieved from the returns filed by such SEZ units.

SEZ units are required to maintain records of the assets / goods admitted into the SEZ unit and also the details of disposal of such goods. Such records can assist an Auditor in identifying the



outward supply made by the SEZ unit. Additionally, disposal of capital goods would be disclosed as deletion in the Fixed Asset Registers.

**Sl. No. 5L. Turnover for the period under composition scheme**

There may be cases where Registered Persons might have opted out of the composition scheme during the year. Their turnover as per the audited Annual Financial Statement would include turnover both as composition taxpayer as well as normal taxpayer. Therefore, the turnover for which GST was paid under the composition scheme shall be declared under this Sl. No. 5L.

A person registered under the composition scheme who has opted out of the scheme should file both GSTR 9 and GSTR 9A. An Auditor may note that even a person violating the conditions stipulated in Section 10 of the CGST Act or Rule 5 of the CGST Rules or Notification CT 8/2017 dated 27/06/2017 would stand to exit the scheme. In such cases, the composition person should file Form COMP-4 and opt out of the scheme.

**Sl. No. 5M. Adjustments in turnover under section 15 and rules thereunder**

There may be cases where the taxable value and the invoice value differ due to valuation principles under section 15 of the CGST Act, 2017 and rules thereunder. Therefore, any difference between the turnover reported in the Annual Return (GSTR 9) and turnover reported in the audited Annual Financial Statement due to difference in valuation of supplies shall be declared here.

In terms of Section 9 of the CGST Act, GST is applicable on supplies of goods or services on the value of supply as determined under Section 15. Section 15 of the CGST, 2017 provides that the transaction value (value at which the supply has been transacted) would be the basis for the computation of tax when two conditions are satisfied

1. The price actually paid or payable should be the sole consideration for the supply; and
2. The supplier and the recipient are not related.

Even if the price for a supply is agreed to be the transaction value, few adjustments (provided for under Section 15 itself) are required to be carried out to such price for the purpose of the computation of value on which GST is required to be paid.

Valuation Rules also provide instances where the value of a transaction as per the financial records can be significantly different from the value to be considered for discharge of taxes under the GST.

There may be cases where the taxable value and the invoice value differ due to valuation principles under Section 15 of the CGST Act and rules thereunder. Therefore, any difference between the turnover reported in the Annual Return (GSTR 9) and turnover reported in the audited Annual Financial Statement due to differences in the valuation of supplies shall be declared here.

**Sl. No. 5N. Adjustments in turnover due to foreign exchange fluctuations (+/-)**

Any difference between the turnover reported in the Annual Return (GSTR9) and turnover reported in the audited Annual Financial Statement due to foreign exchange fluctuations shall be declared here.

**Illustration**

1. PQR Limited has exported goods to a Company located in USA. The value of goods is \$100,000. The exchange rate (Rs/\$) on the date of filing Shipping Bill is

CBEC Notified ₹ 65

RBI Reference Rate ₹ 68

At the time of receiving money, the bank exchanged the foreign currency at ₹ 70.

**Solution**

For the purpose of GST Returns, the exchange rate would be ₹ 65 and the exports to be disclosed in the GST Returns would be ₹ 65,00,000. For the purpose of accounting records, the exchange rate would be ₹ 68 and the exports recorded in the books would be ₹ 68,00,000. The difference in revenue being ₹ 300,000 would have to be **reduced** from the Annual turnover as per the financials to arrive at the revenue as per GSTR 9.

Additionally, difference in the amount booked in the accounts and actual amount received being ₹ 70 – ₹ 68 = ₹ 2 x \$100,000 = ₹ 200,000 would be credited to the Profit and Loss Account as Forex Gain which again needs to be **reduced** from the Annual turnover as per the financials to arrive at the revenue as per GSTR 9.

2. PQR Limited has exported goods to a Company located in USA. The value of goods is \$100,000. The exchange rate (Rs/\$) on the date of filing Shipping Bill is

CBEC Notified ₹ 65

RBI Reference Rate ₹ 68

At the time of receiving money, the bank exchanged the foreign currency at ₹ 66.

**Solution:** For the purpose of GST Returns, the exchange rate would be ₹ 65 and the exports to be disclosed in the GST Returns would be ₹ 65,00,000. For the purpose of accounting records, the exchange rate would be ₹ 68 and the exports recorded in the books would be ₹ 68,00,000. The difference in revenue being ₹ 300,000 would have to be **reduced** from the Annual turnover as per the financials to arrive at the revenue as per GSTR 9.

Additionally, the difference in the amount booked in the accounts and actual amount received being ₹ 66 – ₹ 68 = (-) ₹ 2 x \$100,000 = (-) ₹ 200,000 would be debited to the Profit and Loss Account as Forex Loss which again needs to be **added** from the Annual turnover as per the financials to arrive at the revenue as per GSTR 9.

**Sl. No. 5O. Adjustments in turnover due to reasons not listed above (+/-)**

Clause 5O is a residuary Sl.No. which requires disclosure of reconciliation details relating to adjustments for which specific column is not provided under any other Sl.No.s under Item No. 5. This Sl.No. may contain an option to insert multiple line items to add / reduce the amount from the gross turnover declared in the audited Annual Financial Statements so as to reconcile the same with the turnover declared in Form GSTR 9.

**Sl. No. 5P: Annual turnover after adjustments as above**

The reconciliation statement in Sl.No.5P is auto-populated and based on the values declared against Sl. Nos. 5B to 5O.

**Sl. No.5Q: turnover as declared in Annual Return (GSTR 9)**

Clause 5Q requires a taxable person to disclose his turnover as per the Annual Return i.e., GSTR 9 filed for the relevant financial year. Therefore, the turnover arrived at Sl.No. 5N as per the Annual Return in GSTR – 9 should be declared under Sl.No. 5Q. Accordingly, the Annual Return in GSTR – 9 should be filed along with or before filing the reconciliation statement in Form GSTR–9C.

The turnover arrived at Sl.No. 5P of Form GSTR 9C as stated earlier, should match with the turnover as declared in the Annual Return if the turnover is reckoned appropriately as per the GST law and declared in the returns filed in GSTR – 3B and the annual return in GSTR – 9. The turnover as arrived at Sl.No. 5N of the Annual Return in Form GSTR 9 shall be the turnover to be declared against Sl.No. 5Q.

The turnover as declared in the monthly return in GSTR – 1 by virtue of which the same is declared in the annual return in GSTR – 9 may not include all the taxable outward supplies on account of omissions or errors. Such differences in the turnover should not be adjusted under Sl.No. 5O for the purpose of matching the turnover between the annual return and the audited annual financial statements. The turnover as arrived at Sl.No. 5N of the Annual Return in Form GSTR 9 shall be declared against Sl.No. 5Q of GSTR 9C. The differences in turnover as per the audited annual financial statement and the turnover as per the annual return in GSTR – 9 should be reconciled and the reasons thereof should be mentioned at Part II Sl. No. 6.

**Sl. No. 5R: non-reconciled turnover (Q-P)**

The un-reconciled turnover at Sl. No. 5R is the difference between the 'Annual turnover after adjustments as above' at Sl.No. 5P and 'turnover as declared in the Annual Returns (GSTR 9)' as declared at Sl.No. 5Q. The difference would be auto generated.

The value of supplies either taxable, exempted or non-GST outward supplies not declared in the monthly returns and annual returns would form part of the auto-generated value at Sl.No. 5R. The reasons for such un-reconciled turnover should be given under Part II Sl. No. 6 of the reconciliation statement in GSTR – 9C. This could lead to any one of the following two situations:

- (i) **The 'Annual turnover after adjustments as above' at SI.No. 5P is higher than the 'turnover as declared in the Annual Return (GSTR 9)' at SI.No. 5Q:**

This situation arises if a taxable person has not declared some taxable outward supplies, exempted supplies and non-GST outward supplies. The value of taxable supplies forming part of the differences should be declared under Part III Sl. No. 11 and the applicable taxes thereon shall be paid appropriately by cash. The differences in exempt supplies and non-GST outward supplies shall be declared against Part II Sl. No. 7B or 7C as the case may be and reduction from the total turnover may be sought.

- (ii) **The 'Annual turnover after adjustments as above' at SI.No. 5P is lower than the 'turnover as declared in the Annual Return (GSTR 9)' at SI.No. 5Q:**

This situation may arise if a taxable person has erroneously declared a higher turnover in the monthly return in GSTR – 3B and the annual return in GSTR – 9. The reconciliation statement in GSTR – 9C does not specifically provide to claim the benefit of tax paid erroneously. The statement which would be made available on the GST portal should be checked to verify whether the taxable value at Sl. No. 11 may be declared in the negative so that refund of tax remitted on such turnover can be claimed. Clarification on this issue is awaited.

#### **Sl. No. 6- Reasons for Un - Reconciled difference in Annual Gross turnover**

This portion of GSTR 9C identifies the turnover differences to be placed on record for explaining the differences between the GST Returns and the Audited Financials. All the information filled up in the GST returns has to be flown from the Books of Accounts. However, the un-reconciled turnover on account of disclosure norms as per the Accounting Standard issued by the ICAI or other statutory provisions or practices adopted by the Registered Person on a special approval basis, which are not reconciled at turnover level should be disclosed in this Sl.No..

For instance, the mechanism for the determination of Revenue in case of Sale of a Capital Asset shall differ for the value to be disclosed in the GST Returns compared with that of the practice adopted in the Book of Accounts

Examine the turnover available as per the Audited Financial Statements with that of the Annual turnover determined as per GSTR 9. Information available in Notes to Accounts as per the Audited Financial statements gives the additional information for the Exceptions if any to the regular practice of maintenance of the Books of Accounts.

Information has to be compared on equitable basis for clarity on what is to be compared as turnover considered in the Financial Statements with that of the turnover compared in the GST Returns. For instance, turnover on the sale of Fixed Assets should be considered for the whole consideration value in the GST Returns. However, only Profit/ Loss on such sale shall be considered in the Books of Accounts. For having an equitable basis for both the turnovers, we need to gross up the Profit/Loss in the Books of Accounts for a matching comparison with the GST Returns.

The Auditor shall make a reference to the basis for reconciliation of the turnover related adjustments called for on the basis of the information available in the Notes to Accounts and any special adjustments caused by reference to other statutory requirements.

The Auditor needs to report whether the Books and Returns can be compared and quantify the reasons duly justifiable for the discrepancies reported, if any.

The Auditor should make a disclosure regarding the reasons that come in the way of the reconciliation process or concluded for sake of clarity on taxable nature.

**Sl. No. 7B. Value of Exempted, Nil rated, Non-GST supplies, No-Supply turnover**

7	RECONCILIATION OF TAXABLE TURNOVER	
7A	Annual Turnover after Adjustments (From 5P Above)	<Auto>
7B	Value of Exempted, Nil Rated, Non-GST supplies, No-Supply Turnover	

Clause 7B requires reduction of value of Exempted, Nil rated, Non-GST supplies, No-Supply turnover from the Annual turnover after adjustments to arrive at taxable turnover.

All the supplies on which tax has not been charged except for exports and reverse charge supplies should be reported under Clause 7B. The information can generally be obtained from the credit side of the Profit and Loss account. In case of a barter transaction, the sale of fixed assets at loss etc would not appear in the profit and loss account. Therefore, that information shall be obtained from the Fixed assets schedule or the stock register. The value of No-supply can be taken as reported in the Books.

Clause 7B essentially comprises the following 4 classes / types of supplies:

- Supplies taxable at a 'NIL' rate of tax; currently there are no goods / services under 'NIL' rate category
- Supplies that are wholly or partially exempted from CGST, SGST or IGST, by way of a notification; E.g.: Milk, water, education service, health care services, etc.,
- Non-taxable supplies as defined under Section 2(78) of the CGST Act – supplies that are not taxable under the Act (viz. alcoholic liquor for human consumption).
- No supplies include the activities covered under Schedule III which are neither a supply of goods nor a supply of services. Examples- Sale of land or completed building, actionable claims, other than lottery, betting, and gambling.

**Illustration**

The following supplies would form part of the reporting under value of Exempted, Nil rated, Non-GST supplies, No-Supply turnover in the case of a hospital:

- Consultation fees received by the hospital ₹ 2,50,00,000/- (Exempted supply)
- Diagnostic services provided by the hospital ₹ 40,00,000/- (Exempted supply)

- (c) Excess petrol available in the hospital sold to a related party ₹ 10,000/- (Non-GST supply)  
 (d) Land sold by the hospital ₹ 5,00,00,000/- (No-supply)

**Sl. No. 7C. Zero rated supplies without payment of tax**

7C	Zero rated supplies without payment of tax	
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Clause 7C of GSTR 9C requires disclosure of value of zero-rated supplies without the payment of tax which forms part of the 'Annual turnover after adjustments (from 5P above)' at Sl.No. 5P. This should also consist of the value of zero-rated supplies which have not been declared in the monthly return / annual return erroneously for the reason that the adjusted turnover at Sl.No. 5P contains even such zero-rated supplies. Therefore, such value of zero-rated supplies should be deducted from the adjusted annual turnover arrived at Sl.No. 5P so as to claim exemption. In short, the zero-rated supplies as recorded in the audited annual financial statements should be declared against Sl.No. 7C provided such zero-rated supplies have also not been declared in monthly returns filed for the period April to September following the relevant financial year.

Zero rated supply under the provisions of GST law means:

- (a) Exports of goods or services or both.  
 (b) Supply of goods or services or both to Special Economic Zone developer /Special Economic Zone unit.

The source of information for zero-rated supplies shall be obtained from the outward supply statement in GSTR – 1 and revenue register forming part of books of accounts. The outward supply statement filed in GSTR -1 shall be correlated with the zero-rated supplies declared in the monthly returns in GSTR – 3B.

**Sl No. 7D - Supplies on which tax is to be paid by recipient on reverse charge**

7D	Supplies on which tax is to be paid by the recipient on reverse charge basis	
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Section 2(98) defines reverse charge to mean a case where liability to pay tax is on recipient of supply of goods or service instead of supplier u/s 9(3) and 9(4) of CGST/SGST Act or S.5(3) or 5(4) of IGST Act.

The Auditor has to verify if the supplier has more than one vertical. One of them vertical must be on forward charge and one on reverse charge. The vertical on reverse charge should be taken under '*supplies on which tax is to be paid by recipient on reverse charge basis*'.

Data entered Table 4B of GSTR 1 (Supplies attracting tax on reverse charge) should be taken as the source for this information. The data would have been entered in Table 4B providing invoice level details.

The aforesaid information should be also entered in Table 3.1(c) (Other outward supplies – Nil rated, exempted) of GSTR 3B.

Table 7 provides for 'Reconciliation of taxable turnover'. Table 7A starts from the Annual turnover after adjustments. The data in Table 7A is auto populated from entries in Table 5P, which refers to 'Annual turnover after adjustments. From the said turnover, the following turnovers are reduced:

- (a) value of the exempted turnover
- (b) nil rated turnover
- (c) Non-GST turnovers
- (d) No Supply turnovers
- (e) Zero rated turnover made without payment of tax

In light of the above, it can be inferred and concluded that the data to be entered under Sl.No. 7D is supplies made by the supplier, on which tax is to be paid by the recipient.

It is reiterated at the sake of repetition that expenses on which tax is paid by Registered person as recipient of service should not be inserted in this column and reduced from Annual Adjusted turnover since table 7 is seeking to reduce items from Annual turnover after adjustments to arrive at turnover of Registered person which is liable to tax.

***In case the invoice does not contain the declaration required under Rule 46 or credit has not been reversed under Rule 39, 42 or 43 or tax has been wrongly collected by the supplier on services liable for reverse charge (and retained by the supplier), then such infractions should be reported in the Audit Report because the Audit Report has to have disclosures regarding non-maintenance of records and documents/ observations and inconsistencies relating to reversals of credit.***

#### Illustration

Please state which of the following are liable to reverse charge

- (a) GTA issued a consignment note on 1.1.18. The consignment notes charges GST @ 12%. The consignor has booked the GTA. The recipient has paid the freight to GTA on 'to collect' basis. Would this turnover be mentioned in Table 7D?
- (b) GTA issued a consignment note on 1.1.18. The consignment note does not charges GST. The consignor has booked the GTA. The recipient has paid the freight to GTA on 'to collect' basis. Would this turnover be mentioned in Table 7D?
- (c) Advocate Mr. X has provided legal service and charged GST of ₹ 18 on his invoice of ₹ 100. The advocate's client has paid 118 to the advocate. The advocate has remitted ₹ 18 to government and is of the opinion that the aforesaid transaction should not be reduced in Table 7D. Is the stand taken by the advocate correct?

#### Solution

1. The Consignment note contains GST @ 12%, so reverse charge does not attract as per N.No.13/17 CT (R) w.e.f 22.8.10. Hence tax has to be paid by GTA under forward charge, and this transaction should not be entered in Table 7D.

2. Since consignment note has not charged GST @ 12%, reverse charge provisions would apply. Tax is to be paid by the person liable to pay freight, that is, the recipient and not the GTA under forward charge. Because of this, the impugned transaction has to be entered in Table 7D.
3. Supplies by a Registered Person, whose suppliers are liable for reverse charge, are to be inserted in Table 7D. Legal service provided by the advocate to his client is liable for reverse charge (assuming all other conditions in reverse charge notification stand satisfied). Hence the impugned transaction should be inserted in Table 7D. GST wrongly collected and paid by the advocate under forward charge will not change the fact that the aforesaid service is liable to reverse charge and hence merits insertion in Table 7D.

It must be ensured that if the supplier has turnover which is liable to both forward charge and reverse charge then the turnover liable to reverse charge should be accounted in FORM 7D. It may be ensured for purposes of control that the aggregate of turnover under forward charge and reverse charge is the total turnover.

#### SI. No. 7F - taxable turnover as per liability declared in Annual Return

7F	Taxable turnover as per liability declared in Annual Return (GSTR9)	
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Clause 7F of GSTR 9C requires that the taxable turnover as per the liability should be declared in the Annual Return (GSTR 9).

Instruction as per GSTR 9C - taxable turnover as declared in Table 4N of the Annual Return (GSTR 9) shall be declared here. The information must flow from GSTR 9 which contains supplies and advances on which tax is paid. The turnover arrived at Part II SI. No. 8F of Form GSTR 9C should match the turnover as declared in the Annual Return.

#### SI. No.8 Reasons for Un - Reconciled difference in Taxable Turnover

8	Reasons for Un - Reconciled difference in Taxable Turnover	
A	Reason 1	<<Text>>
B	Reason 2	<<Text>>
C	Reason 3	<<Text>>

This part of GSTR 9C identifies the taxable turnover differences to be placed on record for explaining the differences between the GST Returns and the Audited Financials. All the information filled up in the GST returns has to flow from the Books of Accounts. However, the un-reconciled turnover on account of disclosure norms as per the Accounting Standard issued by the ICAI or other statutory provisions or practices adopted by the Registered Person on special approval basis, which are not reconciled at turnover level should be disclosed in this SI. No.



For instance, the mechanism for the determination of Revenue in case of Sale of a Capital Asset shall differ for the value to be disclosed in the GST Returns compared with that of the practice adopted in the Book of Accounts.

The data which has to be filled up in this table is drawn out of Sl. No.s 5, 6, 7. Further, review of the transactions effected through the E-Way Bill gives details about the exceptional transactions, if any, to be reported through the above reconciliation

**Illustration**

The following illustrations can be considered for reporting the reconciliation differences:

- (a) Zero-rated supply made by the Registered person during the previous year. If the conditions relevant for the supply have not been complied by the Registered person, then the supplies can be construed to be regular supplies.
- (b) Transaction reported in a delivery challan during the financial year for supply on sale or approval basis beyond a period of six months shall be deemed to be supply under the GST. However, that may not be a sale for revenue recognition in the books of accounts for such a transaction. Assuming the GST returns carry the supply details and no revenue recognition has been done in the books of accounts, this shall call for reconciliation.
- (c) Exemption conditions not fulfilled by the Registered person while exercising the option to supply either a Nil rated or Exemption, shall be reported as Regular Supply.

**Part III: Reconciliation of tax Paid**

After reconciling the turnover declared and reported in the Audited Financial Statement with turnover declared in Annual Return along with reasons for reconciliation if any, the relevant Part III of Form 9C requires an Auditor to reconcile the rate-wise liability of tax, total amount payable thereon with tax actually paid as declared in the Annual Return and recommendation of additional tax payable due to non-reconciliation of the taxable value.

Pt. III	Reconciliation of tax paid					
9	Reconciliation of rate wise liability and amount payable thereon					
			Tax payable			
	Description	Taxable Value	Central tax	State tax/ UT tax	Integrated Tax	Cess, if applicable
	1	2	3	4	5	6
A	5%					
B	5% (RC)					
C	12%					

D	12% (RC)					
E	18%					
F	18% (RC)					
G	28%					
H	28% (RC)					
I	3%					
J	0.25%					
K	0.10%					
L	Interest					
M	Late Fee					
N	Penalty					
O	Others					
P	Total amount to be paid as per tables above		<Auto>	<Auto>	<Auto>	<Auto>
Q	Total amount paid as declared in Annual Return (GSTR 9)					
R	Un-reconciled payment of amount					<b>PT 1</b>

The relevant Table 9 requires the Auditor to provide details of taxable value along with the Gross tax Liability booked by the Registered Person whose Form 9C is being filed by him. The said tax liability needs to be reported rate wise in Table 9. Further, the taxable value and liability of tax on which the given Registered Person is required to pay tax under Reverse Charge Mechanism are also required to be reported rate-wise separately. After reporting of the same, the details of Total tax payable for the Financial Year 2017-18 as declared in GSTR 9 i.e. under the Annual Return is also required to be disclosed. The given table also requires the disclosure of Interest, Late Fees and Penalty Payable.

From the scheme of Table 9 it is clear that the Auditor is required to report the GST payable rate wise dissected total taxable turnover calculated in Table 7E under Part II of GSTR 9C. Once the taxable value is reported under various rates as specified in sub-parts A, C, E, G, I, J, and K, the relevant amount of tax shall be calculated by the system.

The values that are to be reported in Table 9 should be taxable value as reported under Table 7E of GSTR 9C, i.e. Adjusted Total turnover for the FY 2017-18 under the GST and the amount of tax (rate wise) should be derived mathematically.

7E	Taxable turnover as per adjustments above (A-B-C-D)	<Auto>
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The details of adjusted Total turnover needs to be broken down in accordance with the GST rates based on the reports generated from the books of accounts and necessary adjustments made in Part II of GSTR9C which have not impacted the books of accounts of the Registered Person should also be considered rate-wise for the purpose of finding the taxable value.

Once all the details are entered, and the difference in tax payable as per the books with actual tax payable is identified, the amounts of non-reconciliation shall be raised as per CGST, SGSTM, IGST and Cess wise. On these amounts the Auditor shall be required to disclose the reasons in Table 10.

#### Sl. No.10: Reasons for un-reconciled payment of amount

10	Reasons for un-reconciled payment of amount	
A	Reason 1	<<Text>>
B	Reason 2	<<Text>>
C	Reason 3	<<Text>>

The given table mandates the Auditor to identify and disclose the reasons for un-reconciled payment of amount of tax, Interest, Penalty, Cess and Others. Reasons, amounts along with description of reason needs to be disclosed.

The Auditor needs to identify the reasons due to which some amount is reflected in Table 9R.

The various reasons can be as under

#### (A) GSTR 3B shows less/more tax paid

- GSTR 1 matches with the audited financials with regard to the tax payable
- GSTR 3B shows the tax paid differently from the books of accounts.

In this situation, even though Table 6 and 8 may not show any differences as given in point (i) above, Table 10 would show a difference of the amount of tax to be paid and tax actually paid. So, any tax payable occurring due to this would automatically form part of Table 11 and the Auditor's recommendations in Part V.

In case any excess tax has been paid, there will be no reporting in Table 11. There is also no provision of negative reporting in Table 11.

#### (B) GSTR 1 and GSTR 3B inter se matching but not with the Audited Financials

- GSTR 3B and GSTR 1 match with each other
- Matched GSTR 1 and GSTR 3B are different with regard to the audited financial statements.

Such differences would be depicted in Table 6, 8 and 10. If the turnover is lesser than what it is in the audited financials, they could indicate a short payment of tax, if

differences thereof are not explained. The cause of the differences needs to be clearly identified. Taking the values after considering the audited financial statements Table 10 will be compared with the actual tax paid as per GSTR 3B. As there is a difference between the audited financial statements and GSTR 3B, an unreconciled difference would be shown in Table 10.

**(C) Taxable turnover as per the books matching in GSTR 1 and GSTR 3B but tax is not matching.**

- The value of taxable supply in Form GSTR 3B matches with that in GSTR 1
- Tax payable as self-assessed in GSTR 3B is different from what is shown in GSTR 1.

The possible reason for the same can be because of the difference in the classification of supply in GSTR 1 and GSTR 3B. The reporting shall be required in Table 10 only in such cases where an error has occurred in Form GSTR 3B due to reasons of classification like the following

- HSN Disputes
- GST rate disputes
- Inter State vs Intra State Supply
- Place of Supply
- Type of Supply Dispute- taxable, Exempt, Nil rated

As the amount of tax in Table 9P shall be calculated on the basis of turnover reported and shall be treated as correct. Any deviation from the same shall be disclosed in Table 10.

It has to be ensured that for the whole amount of non-reconciliation reported in Table 9, the reason wise quantification of the same is done in Table 10.

**Sl. No. 11: Additional amount payable but not paid (due to reasons specified under Tables 6, 8 and 10 above)**

11	Additional amount payable but not paid (due to reasons specified under Tables 6,8 and 10 above)					
	Description	Taxable Value	To be paid through Cash			
Central tax			State tax/ UT tax	Integrated tax	Cess, if applicable	
1	2	3	4	5	6	
5%						
12%						
18%						

28%					
3%					
0.25%					
0.10%					
Interest					
Late Fee					
Penalty					
Others (please specify)					

In the Table 11 under Part III of the GSTR 9C, the amount of tax, interest, penalty, late fees and their dues which are payable in accordance with the non-reconciliation reported under Table 6, 8 and 10 but not actually paid as declared in Annual Return in GSTR 9 are to be reported with rate-wise bifurcation.

#### A) For Additional tax Payable

After due verification and analysis of the amounts along with reasons reported in Table 6, 8 and 10 in the GSTR 9C pertaining to non-reconciliation of Annual Gross turnover, taxable turnover and tax payable, the details of taxable value needs to be identified GST rate-wise which should be reported in Table 11 on which appropriate tax has not been paid as declared in the Annual Return i.e. Form GSTR 9.

There may be several reasons due to which amounts may be reported in Table 6 and 8.

However, in the case of amounts reported in Table 6, reasons for non-reconciliation may be due to difference in timing or due to a permanent difference in turnover as per the books of accounts and the GST Returns. However, every non-reconciliation might not lead to a situation where there is a requirement to pay GST on the said difference.

Some examples where non-reconciliation is reported in Table 6 in Form GSTR 9C but shall not require any additional tax payment are illustrated as under:

- Difference in turnover where the time of Supply is postponed but revenue is recognized in books of accounts (Supply between Developer and Landlord in light of Notification No 04/2018-CT rate)
- Difference in the value of Export turnover reported in the books of accounts on the basis of Invoice value shown in the Shipping Bill whereas turnover reported in GSTR 1 on the basis of Invoice prepared in INR on the basis of Exchange rate applicable on the date of preparation of Invoice.
- Difference in turnover of Services due to tax paid on advances and shown in GSTR 1 but

not required to be disclosed as turnover in the Audited Financial Statements.

- Difference in turnover due to disclosure of Profit / Loss on Sale of Fixed Assets in the Audited Financial Statements and disclosure of whole sale proceeds in GST Returns.

In the given cases, no reporting is required to be done in Table 11.

Further, in other types of non-reconciliations reported in Table 6, there can be an impact on the tax Liability to be paid. The instances for the same shall principally cover such cases where there is difference in taxable turnover in GST Returns and the Adjusted Total turnover. These set of differences which shall have impact on tax Liability shall actually be a part of Table 8 again.

However, out of such non-reconciliation filtered out and reported in Table 8, a further filter of non-reconciliation shall be reported in Table 10 regarding tax Liability which should have been paid on un-reconciled turnover reported in Table 8, but the same was not paid as declared in GSTR 9, i.e. the Annual Return.

Since Table 11 requires the disclosure of Additional tax Liability payable and not paid on non-reconciliations, it is evident that such details shall be reported in Table 10 also.

#### B) For Interest, Penalty and Late Fees Payable

The method suggested for calculating Interest, Late Fees and Penalty shall be employed to find the Gross amounts and difference of amounts not reported in GSTR 9 shall be required to be disclosed in the given Table.

### PART IV

#### Sl. No. 12 – Reconciliation of Net ITC

**12A. ITC availed as per audited Annual Financial Statement for the State/ UT (For multi-GSTIN units under same PAN this should be derived from books of accounts)**

Pt. IV	Reconciliation of Input Tax Credit (ITC)	
12	Reconciliation of Net Input Tax Credit (ITC)	
12A	ITC availed as per audited Annual Financial Statement for the State/ UT (For multi-GSTIN units under same PAN this should be derived from books of accounts)	

Clause 12A of GSTR 9C is the detail of ITC availed in the audited financial statements. The row aims to collect information on the ITC availed in the books of accounts by the Registered person. This shall be the total ITC including the one availed in the books of accounts on Inputs, Input Services and Capital Goods.

Right in the beginning, information of all the tax account codes / ledger names should be obtained from the Registered person in which he enters the ITC availed. ITC availed (after reversals) as per the audited Annual Financial Statement shall be declared here. There may be cases where multiple GST INs (State-wise) registrations exist on the same PAN. This is common

for persons / entities with presence in multiple States. Such persons / entities would have to internally derive their ITC for each individual GSTIN and declare the same here. It may be noted that reference to the audited Annual Financial Statement includes reference to books of accounts in case of persons / entities having presence in multiple States. Further, it is important to understand from the Registered person whether he has maintained separate ledgers for availing ITC for different States or a common one.

**12B. ITC booked in earlier Financial Years claimed in current Financial Year**

12B	ITC booked in earlier Financial Years claimed in current Financial Year	(+)	
-----	---	-----	--

Any ITC which was booked in the audited Annual Financial Statement of the earlier financial year(s) but availed in the ITC ledger in the financial year for which the reconciliation statement is being filed shall be declared here. Since this is the first year of the GST, this column should ideally be zero. However, as per the instruction related to the form, transitional credit which was booked in earlier years but availed during Financial Year 2017-18, the same would not be required to be reported here. This would leave the Registered person with ITC which are carry forward balances of the earlier taxes.

However, from next year onwards, this column would have the same amount as is reported in column 12C of Form 9C of the previous financial year. Hopefully, the same should be auto populated by the system. There can be a scenario also where an Input tax credit which related to FY 2017-18 was not booked in the books in FY 2017-18 inadvertently and was also not claimed in GSTR3B of FY 2017-18. However, during reconciliation of returns during FY 2018-19 the claim was taken in both the books of accounts as well as GSTR3B filed during FY 2018-19, such cases would not be reported in this column.

**12C. ITC booked in current Financial Year to be claimed in subsequent Financial Years**

12C	ITC booked in current Financial Year to be claimed in subsequent Financial Years	(-)	
-----	--	-----	--

Clause 12C of GSTR9C is the Input tax Credit which is booked in the current financial year but claimed in the returns of GSTR3B filed during FY 2018-19. This includes all credits which were for any reason (inadvertent or conditions not being fulfilled) were not taken in returns as filed from July 2017- March 2018.

All amounts which are debited in the books of accounts but not claimed as Credit should be reported here. The Auditor must run a check to arrive at Input tax Credits which appear in the GST receivable ledgers but do not find place in the Input tax register providing amounts as reported in GSTR3B of FY 2017-18. The difference of such unclaimed balance shall be reported here.

Value in this Sl.No. should be equal to the amount reported in Clause 13 of GSTR9. However, amount of Credits relating to FY 2017-18 which are booked in FY 2018-19 only in the books of accounts shall be subtracted from such reported amount in Clause 13 of GSTR9.

**Illustration**

The Input tax credit as booked in the GST receivable ledger for the month of August 2017 includes the following:

- (a) Input tax credit on purchase of inputs claimed in GSTR 3B of August 2017: ₹ 3,00,000
- (b) Input tax credit on purchase of inputs claimed in GSTR 3B of December 2017: ₹ 150,000
- (c) Input tax credit on purchase of inputs claimed in GSTR 3B of May 2018: ₹ 2,00,000

**Ans.** The reporting of the following transactions shall be made in this column:

Input tax credit on purchase of inputs claimed in GSTR 3B of May 2018: ₹ 2,00,000

**12E. ITC Claimed in Annual Return (GSTR 9)**

Clause 12E of GSTR 9C Net ITC available for utilization as declared in Table 7J of Annual Return (GSTR 9) shall be declared here.

**12F. And 13 Unreconciled ITC**

12F	Un-reconciled ITC	
-----	-------------------	--

Clause 12F of GSTR 9C provides for the difference between the ITC as computed from the books of account in Clause 12D and ITC as claimed for the financial year in Clause 7J of Annual return. Reasons for such difference shall be explained in point 13 of GSTR 9C.

13	Reasons for un-reconciled difference in ITC	
A B	Reason 1	<<Text>>
C	Reason 2	<<Text>>
	Reason 3	<<Text>>

While 12F is the differential value and has no source. Clause 13 seeks reasons from the books of accounts and claims in GSTR 9 for the difference. In case the difference is positive, possible reasons of difference should primarily include:

- the amount of ITC for the financial year claimed in point 13 of the Annual return form which is the amount of ITC claimed in returns of the subsequent year for the financial year.
- the amount of ITC available but not availed which can be divided in two further categories:
  - Ineligible ITC not availed in the return
  - ITC which has lapsed as not availed

In case the difference is negative, the matter is of concern as it is a clear indication of more than available ITC claimed. This could be on account of the following reasons:

- ITC of another GST IN claimed in returns of GST IN under audit
- IGST on imported goods used as FOC replacement warranty (customs duty + IGST paid by Exporter of original equipment.



- Duplicate ITC availed
- ITC of subsequent year where goods / services were received later but their invoice was received prior was availed.

**14. Reconciliation of ITC declared in Annual Return (GSTR 9) with ITC availed on expenses as per audited Annual Financial Statement or books of account**

14	<b>Reconciliation of ITC declared in Annual Return (GSTR9) with ITC availed on expenses as per audited Annual Financial Statement or books of account</b>			
	Description	Value	Amount of Total ITC	Amount of eligible ITC availed
	1	2	3	4
A	Purchases			
B	Freight / Carriage			
C	Power and Fuel			
D	Imported goods (Including received from SEZs)			
E	Rent and Insurance			
F	Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples			
G	Royalties			
H	Employees' Cost (Salaries, wages, Bonus etc.)			
I	Conveyance charges			
J	Bank Charges			
K	Entertainment charges			
L	Stationery Expenses (including postage etc.)			
M	Repair and Maintenance			
N	Other Miscellaneous expenses			
O	Capital goods			
P	Any other expense 1			
Q	Any other expense 2			
R	Total amount of eligible ITC availed		<<Auto>>	
S	ITC claimed in Annual Return (GSTR9)			
T	Un-reconciled ITC			<b>ITC 2</b>

This table is for reconciliation of ITC declared in the Annual Return (GSTR 9) against the expenses booked in the audited Annual Financial Statement or books of account. This point calls for examination of ITC detailed by the Auditor to determine the available ITC as booked in ledgers of various expenses and in the books of accounts viz a viz the ITC availed by the

Registered person. In case the Auditor finds any ineligible or unavailable ITC as per the books of accounts, suitable disclosures are to be made in this regard.

**Illustration: The Input tax credit as booked in purchase account is as follows:**

- (a) ITC on purchase of raw material: ₹ 1,50,000 (Purchase value: 20,00,000)
- (b) ITC on purchase of consumable: ₹ 60,000 (Purchase value: 4,00,000)
- (c) ITC on purchase of food items for staff: ₹ 12,000 (Purchase value: 120,000)
- (d) ITC availed by the registered person from the Purchase account: ₹ 222,000

**Ans.** The reporting of the following transactions shall be made in this column:

- value of Purchases: 25,20,000
  - Amount of Total ITC: 222,000
- Amount of eligible ITC availed: ₹ 210,000

#### 15. Reasons for un-reconciled difference in ITC

15	Reasons for un - reconciled difference in ITC	
A B C	Reason 1	<<Text>>
	Reason 2	<<Text>>
	Reason 3	<<Text>>

Reasons for non-reconciliation between ITC availed on the various expenses declared in Table 14R and ITC declared in Table 14S shall be specified here.

This column is auto populated as it is a calculation of difference between Table 14R and 14S. This is the differential amount between the eligible availed ITC and the availed ITC. Difference can arise on any of the following counts:

- Ineligible ITC availed by the Registered person
- ITC booked in the books of accounts but not availed including ineligible ITC not availed (lapsed)

In case of a negative amount, such difference can arise on account of ITC booked in the books of accounts but availed in return GSTR3B of the subsequent year. This can be correlated with point 13 of GSTR9.

#### 16. Tax payable on un-reconciled difference in ITC (due to reasons specified in 13 and 15 above)

Any amount which is payable due to reasons specified in Table 13 and 15 above shall be declared here.

## Part V to GSTR 9C

## Auditor's Recommendation on additional liability due to non-reconciliation

Pt. V	Auditor's recommendation on additional Liability due to non-reconciliation					
	Description	Value	To be paid through Cash			
Central tax			State tax/ UT tax	Integrated tax	Cess, if applicable	
	1	2	3	4	5	6
	5%					
	12%					
	18%					
	28%					
	3%					
	0.25%					
	0.10%					
	Input Tax Credit					
	Interest					
	Late Fee					
	Penalty					
	Any other amount paid for supplies not included in Annual Return					

Part V consists of the auditor's recommendation on the additional liability to be discharged by the taxpayer due to non-reconciliation of turnover or non-reconciliation of input tax credit. The auditor shall also recommend if there is any other amount to be paid for supplies not included in the Annual Return. Any refund which has been erroneously taken and shall be paid back to the Government shall also be declared in this table. Lastly, any other outstanding demands which is recommended to be settled by the auditor shall be declared in this Table.

**Some issues****(a) Is the additional liability determined by the Auditor binding on the Registered person?**

- ✓ At the outset, it can be inferred from the heading to Part V of GSTR 9C that the Auditor has only a recommendatory power, for recommendations given by the Auditor may or may not be acceptable to the Registered Person. If it is acceptable, there are no further questions. But if it is not acceptable, then the question that arises is how can the Auditor resolve the issue.
- ✓ At this juncture, the Auditor needs to exercise his professional diligence, skill, legal

knowledge and care in determining any additional tax liability which is payable by the Registered Person. The Registered Person has the option to accept, reject or partially accept the recommended additional tax liability. In line with such recommendations, though not explicitly stated anywhere in the relevant Form or GST laws –

- (i) the Registered Person can choose to make the payment of the additional tax liability in full or in part;
  - (ii) the Registered Person can even choose to reject the complete recommendations of the Auditor and not make the payment at all.
- ✓ Before an Auditor ventures into recommending any additional tax liability due care, caution and diligence must be exercised. For instance, in respect of commodity classification based on HSN if an Auditor believes that there are two possibilities then he may choose to place reliance on an expert opinion. In such a situation, a proper disclosure may suffice.
  - ✓ However, when looked at from the perspective of the government, the recommendation shall form the foundation for an effective show cause notice and enquiry into the affairs of the Registered Person.

**(b) Scope of the Auditor's review for recommendation**

- ✓ On a perusal of the heading to Part V of GSTR 9C, it appears that the responsibility of the Auditor is restricted to report only the additional liability which may arise on account of non-reconciliation matters only. An Auditor may take the view that he is not required to step into the shoes of an investigator to mine any undisclosed supplies which are neither reported in the annual return nor in the financial statements. But at this point in time the instruction provided to fill in the relevant GSTR 9C plays an important role.
- ✓ Para 7 of the instructions provided to the relevant GSTR 9C makes it clear that apart from recommending any additional tax liability that may arise on account of reconciliations matters, an Auditor is also required recommend:
  - cases relating to supplies that are not reported in the annual return;
  - refunds erroneously taken;
  - any outstanding demands that may be settled by the Registered Person.
- ✓ Performing this reconciliation accurately and analysing reasons for the differences falls within the domain of the Auditor's responsibility. Making disclosures in respect of the differences which are accurate, exhaustive and understandable form an intrinsic part of his duty.

**(c) Reasons for additional tax liability**

- ✓ Non-reconciliation between the books of accounts and the annual return can either occur (among other reasons) in respect of the turnover, tax paid or availment of the input tax credit. Any additional tax liability that may arise due to non-reconciliation between the turnovers or the tax payable on such turnovers would be reported in Table 11 of GSTR 9C. Further, any additional tax liability arising due to non-reconciliation of the input tax credit are to be disclosed in Table 16 of GSTR 9C. The amount reported in these two tables would be summarized and reported in Part V of the GSTR 9C.
- ✓ Additional tax liability may arise on account of any other amount paid for supplies not included in the annual return, erroneous refund to be paid back, outstanding demands to be settled, etc., (if any).

Verification	
I hereby solemnly affirm and declare that the information given herein above is true and correct to the best of my knowledge and belief and nothing has been concealed there from.	
	**Signature and stamp/seal of Auditor
Place:	Name of Signatory
Date:	
Membership No.	
Full address	

**Understanding “Verification” under GSTR 9C**

- I. In terms of Rule 80(3) of the CGST rules, 2017 the relevant “verification” portion to the reconciliation statement in Form GSTR 9C reads as under :
- II. The verification part of the said GSTR 9C is quite crucial in so far as the GST Auditor is concerned. Several important words and phrases are used in this part, such as **“solemnly affirm, declare, true and correct, knowledge and belief, conceal etc.,”**. An understanding of the true import of these words is crucial for understanding the manner in which the Auditor is expected to meet his professional obligation.
- III. According to The Random House Dictionary the word solemn means **“serious or earnest”** and the word **affirm** means **“confirm, establish or ratify”**. A solemn affirmation is ratification under a statute.
- IV. In the case of Dilip N. Shroff V. Joint Commissioner of Income tax, 2007 (219) ELT 15 (SC) their lordships extracted the meaning of the word “conceal” from the Law

Lexicon which reads:

“to hide or keep secret. The word “conceal” is con + celare which implies to hide. It means to hide or withdraw from observation; to cover or keep from sight; to prevent the discovery of; to withhold knowledge of. The offence of concealment is, thus, a direct attempt to hide an item of income or a portion thereof from the knowledge of the income tax authorities.”

In the very same judgement in para 67 and 68 the Honourable Supreme Court goes on to analyse certain phrases, which are relevant and reproduced below:

‘Concealment of income’ and ‘furnishing of inaccurate particulars’ are different. Both concealment and furnishing inaccurate particulars refer to deliberate act on the part of the Registered person. A mere omission or negligence would not constitute a deliberate act of suppressio veri or suggestio falsi. Although it may not be very accurate or apt but suppressio veri would amount to concealment, suggestio falsi would amount to furnishing of inaccurate particulars.

The authorities did not arrive at a finding that the consideration amount fixed for the sale of property was wholly inadequate. The authorities also do not show the inaccurate particulars furnished by the Appellant. They also do not state what should have been the accepted principles of valuation. We, therefore, do not accept the submissions of the learned Additional Solicitor General that concealment or furnishing of inaccurate particulars would overlap each other, the same would not mean that they do not represent different concepts. Had they not been so, the Parliament would not have used the different terminologies.

To conclude, malafide or dolus molus becomes a pre-requisite to prove an act of concealment. While every action is not malafide – negligence, carelessness, recklessness coupled with intention to withhold information tantamount to malafide. It is reiterated that mere failure to provide information or providing inaccurate information also would not amount to concealment.

#### V. Certificate and Report:

A certificate is a written confirmation of the accuracy of the facts stated therein and does not involve any estimate or opinion. It is certification of factual accuracy of what is stated therein.

A report, on the other hand, is a formal statement usually made after an enquiry, examination or review of specified matters under report and includes the reporting an opinion thereon. It is giving an opinion based on factual data and that is arrived at by the application of due care and skill.

<b>Part B - GSTR 9C – An analysis</b>
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**Module I – Certification in cases where the reconciliation statement (FORM GSTR 9C) is drawn up by the person who had conducted the audit and GST audit certification**

Hierarchy of Clauses for Certification

Step 1: 'Examine' the 'financials'

Step 2: Based on such 'audit', report that books of account, etc. under the GST Acts have or have not been maintained

Step 3: Report the following observations / comments / discrepancies / inconsistencies, if any:

Step 3(b): Report further whether:

Step 3(b) (A): Information and explanations has / has not been obtained which were necessary

Step 3(b)(B): Proper books of accounts have / have not been kept Step 3(b)(C): Financials are/are not in agreement with the books

Step 4: State whether GSTR 9C and other relevant documents are annexed

Step 5: Particulars in GSTR 9C are 'true and correct' subject to observations / qualifications:

Step 5(a): .....

Step 5(b): ..... refer list of matter's for Auditor's attention listed below.....

Step 5(c): .....

Step 6: Signature and Stamp and Seal of the Auditor duly disclosing the date, place and full address

**Module II – Certification in cases where the reconciliation statement in (GSTR 9C) is drawn up by a person other than the person who had conducted the audit of the accounts**

Hierarchy of Clauses for Certificate

Step 1: Audit conducted by another Auditor and a copy of the Audit Report and Financials to be annexed

Step 2: Even without conducting audit, report whether books of account, etc. under the Act have / have not been maintained; It means the Auditor has to analyse, understand and check the nature of books and records that are to be maintained or have / have not been maintained;

Step 3: Report the following observations / comments / discrepancies / inconsistencies

Step 4: State whether GSTR 9C is annexed

Step 5(a): Now 'examine' books of accounts and other relevant documents Step

5(b): Then, particulars in GSTR 9C are true and correct subject to:

Step 5(c): .....

Step 5(d): .....refer list of matter's for the Auditor's attention listed below.....

Step 5(e): .....

Step 6: Signature and Stamp and Seal of the Auditor duly disclosing the date, place and full address

### 1.11 Format of Audit report under the GST law: Form GST ADT - 04

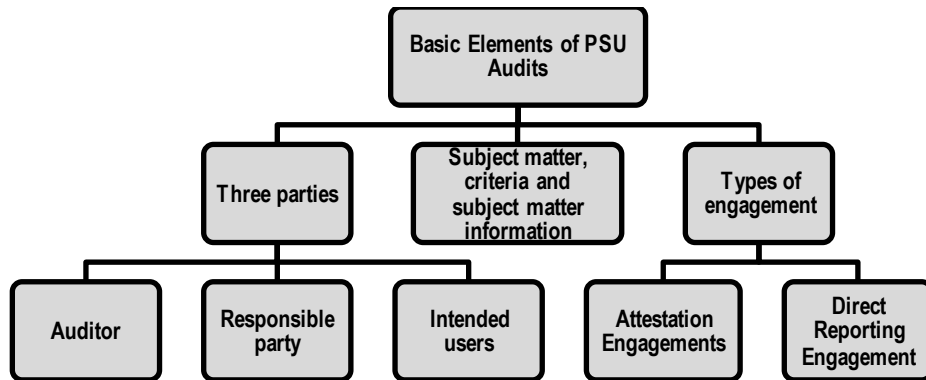
Form GST ADT-04				
[See Rule 102(2)]				
Reference No. :				
Date :				
To,				
-----				
GSTIN .....				
Name .....				
Address .....				
Information of Findings upon Special Audit				
Your books of account and records for the F.Y..... has been examined by ..... (chartered accountant/cost accountant) and this Audit Report is prepared on the basis of information available/documents furnished by you and the findings/discrepancies are as under :				
Short payment of	Integrated tax	Central tax	State/UT tax	Cess
Tax				
Interest				
Any other amount				
[Upload pdf file containing audit observation]				
You are directed to discharge your statutory liabilities in this regard as per the provisions of the Act and the rules made thereunder, failing which proceedings as deemed fit may be initiated against you under the provisions of the Act.				
Signature .....				
Name .....				
Designation .....				



**Chapter 18 - Audit of Public Sector Undertakings**

**Elements of PSU Audits:** Public sector auditing augments the confidence of the intended users by providing relevant information and independent and objective assessments concerning deviations from accepted standards or principles of good governance.

Audit of all public-sector undertakings has the following basic elements:



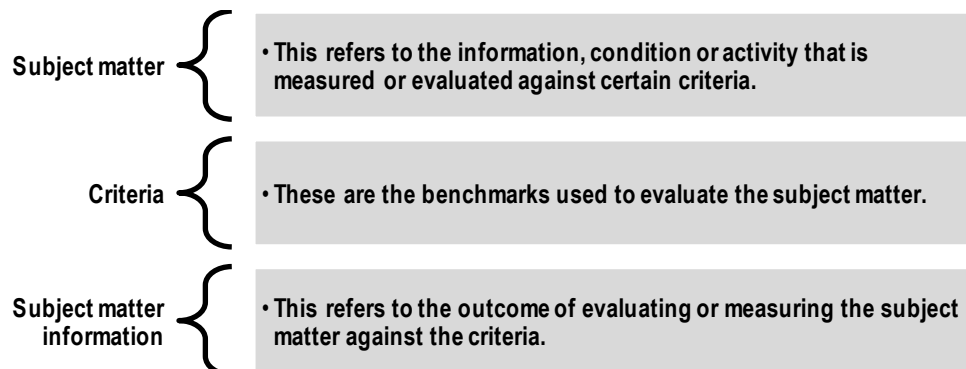
**(a) The Three parties - Auditor, Responsible party and Intended users.**

**Auditor:** The role of auditor is fulfilled by Supreme Audit Institution (SAI), India and by its personnel delegated with the duty of conducting audits.

**Responsible party:** The relevant responsibilities are determined by constitutional or legislative arrangement. Generally, auditable entities and those charged with governance of the auditable entities would be the responsible parties. The responsible parties may be responsible for the subject matter information, for managing the subject matter or for addressing recommendations.

**Intended users:** Intended users are the individuals, organizations or classes thereof for whom the auditor prepares the audit report.

**(b) Subject matter, criteria and subject matter information.**



## (c) Types of engagement - Attestation Engagements and Direct Reporting Engagement.

**Attestation Engagements:** In attestation engagements, the responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion.

**Direct Reporting Engagement:** In direct reporting engagements, it is the auditor who measures or evaluates the subject matter against the criteria.

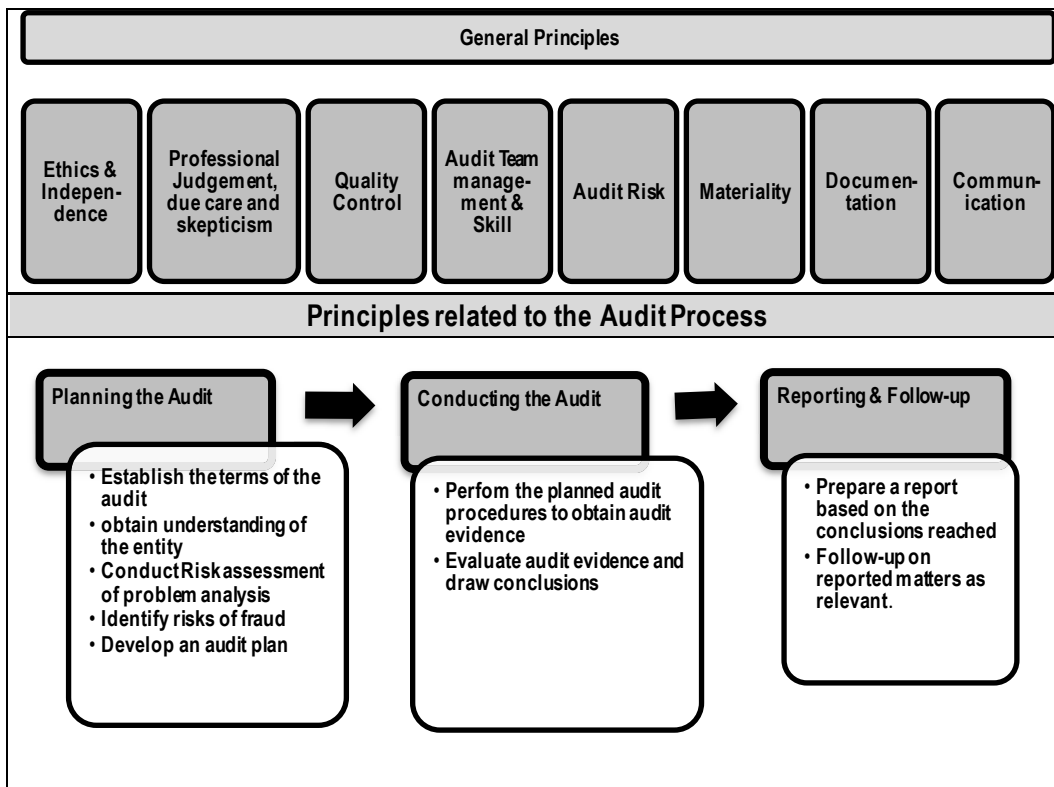
*Financial audits are always attestation engagements, as they are based on financial information presented by the responsible party.*

*Performance audits and compliance audits are generally direct reporting engagements.*

**Principles of PSU Audits:** The principles of PSU Audits constitute the general standards that apply to SAI India's personnel as auditors and are fundamental to the conduct of all types of PSU Audits.

The principles are categorized into two distinct groups as below:

- I. General Principles
- II. Principles related to the Audit Process



**Financial Audit:** Financial audit is primarily conducted to:

- ✔ express an audit opinion on the financial statements
- ✔ enhance the degree of confidence of intended users in the financial statements.

The C&AG shall express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

In the case of financial statements prepared in accordance with a fair presentation financial reporting framework, whether the financial statements are presented fairly, in all material respects, or give a true and fair view, in accordance with that framework.

**Compliance Audit:** Compliance audit is the independent assessment of whether a given subject matter is in compliance with the applicable authorities identified as criteria.

This audit is carried out by assessing whether activities, financial transactions and information comply in all material respects, with the regulatory and other authorities which govern the audited entity.

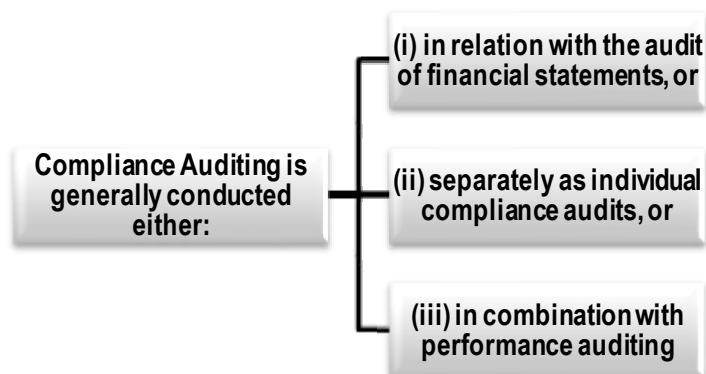
**Compliance audit is concerned with:**

- (a) **Regularity**- adherence of the subject matter to the formal criteria emanating from relevant laws, regulations and agreements applicable to the entity.
- (b) **Propriety**- observance of the general principles governing sound financial management and the ethical conduct of public officials.

While regularity is emphasized in compliance auditing, propriety is equally pertinent in the public-sector context, in which there are certain expectations concerning financial management and the conduct of officials.

**Perspective of Compliance Audit:** Compliance Audit is part of a combined audit that may also include other aspects. Compliance auditing is generally conducted either-

- (i) in relation with the audit of financial statements, or
- (ii) separately as individual compliance audits, or
- (iii) in combination with performance auditing.



### Chapter 22 - Code of Ethics

**KYC Norms for CA in Practice:** The financial services industry globally is required to obtain information of their clients and comply with Know Your Client Norms (KYC norms). Keeping in mind the highest standards of Chartered Accountancy profession in India, the Council of ICAI thought it necessary to issue such norms to be observed by the members of the profession who are in practice.

In light of this background, the Council of ICAI approved the following KYC Norms which are mandatory in nature and shall apply in all assignments pertaining to attest functions.

The KYC Norms approved by the Council of ICAI are given below:

#### 1. Where Client is an Individual/Proprietor

- A. General Information
  - 👤 Name of the Individual
  - 👤 PAN No. or Aadhar Card No. of the Individual
  - 👤 Business Description
  - 👤 Copy of last Audited Financial Statement
- B. Engagement Information
  - 👤 Type of Engagement

#### 2. Where Client is a Corporate Entity

- A. General Information
  - 👤 Name and Address of the Entity
  - 👤 Business Description
  - 👤 Name of the Parent Company in case of Subsidiary
  - 👤 Copy of last Audited Financial Statement
- B. Engagement Information
  - 👤 Type of Engagement
- C. Regulatory Information
  - 👤 Company PAN No.
  - 👤 Company Identification No.
  - 👤 Directors' Names & Addresses
  - 👤 Directors' Identification No.

#### 3. Where Client is a Non-Corporate Entity

- A. General Information
  - 👤 Name and Address of the Entity
  - 👤 Copy of PAN No.
  - 👤 Business Description
  - 👤 Partner's Names & Addresses (with their PAN/Aadhar Card/DIN No.)

- |   |
|---|
| <ul style="list-style-type: none"> <li>📎 Copy of last Audited Financial Statement</li> <li>B. Engagement Information</li> <li>📎 Type of Engagement</li> </ul> |
|---|

### **Recent Decisions of Ethical Standards Board**

1. A Chartered Accountant in practice may be an equity research adviser, but he cannot publish retail report, as it would amount to other business or occupation.
2. A Chartered Accountant, who is a member of a Trust, cannot be the auditor of the said trust.
3. A Chartered Accountant in practice may engage himself as Registration Authority (RA) for obtaining digital signatures for clients.
4. A Chartered accountant can hold the credit card of a bank when he is also the auditor of the bank, provided the outstanding balance on the said card does not exceed rupees 10000 beyond the prescribed credit period limit on credit card given to him.
5. A Chartered Accountant in practice can act as mediator in Court, since acting as a “mediator” would be deemed to be covered within the meaning of “arbitrator”; which is inter-alia permitted to members in practice as per Regulation 191 of the Chartered Accountants Regulations, 1988.
6. A Chartered Accountant in practice is not permitted to accept audit assignment of a bank in case he has taken loan against a Fixed Deposit held by him in that bank.
7. The Ethical Standards Board in 2013 generally apply the stipulations contained in the then amended Rule 11U of Income Tax generally, wherein statutory auditor /tax auditor cannot be the valuer of unquoted equity shares of the same entity.

The Board has at its recent Meeting (January, 2017) has reviewed the above, and decided that where law prohibits for instance in the Income Tax Act and the rules framed thereunder, such prohibition on statutory auditor/tax auditor to be the valuer will continue, but where there is no specific restriction under any law, the said eventuality will be permissible, subject to compliance with the provisions, as contained in the Code of Ethics relating to independence.

8. The Ethical Standards Board had in 2011 decided that it is not permissible for a member who has been Director of a Company, upon resignation from the Company to be appointed as an auditor of the said Company, and the cooling period for the same may be 2 years.

The Board has at its recent Meeting (January, 2017) has reviewed the above, and noted that the Section 141 of Companies Act, 2013 on disqualification of auditors does not mention such prohibition; though threats pertaining to the said eventuality have been mentioned in Code of Ethics.

Further, the Board was of the view that a member may take decision in such situation based on the provisions of Companies Act, 2013 and provisions of Code of Ethics.

9. A chartered accountant in practice cannot become Financial Advisors and receive fees/commission from Financial Institutions such as Mutual Funds, Insurance Companies, NBFCs etc.
10. A chartered accountant cannot exercise lien over the client documents/records for non-payment of his fees.
11. It is not permissible for CA Firm to print its vision and values behind the visiting cards, as it would result in solicitation and therefore would be violation of the provisions of Clause (6) of Part-I of First Schedule to the Chartered Accountants Act, 1949.
12. It is not permissible for chartered accountants in practice to take agencies of UTI, GIC or NSDL.
13. It is permissible for a member in practice to be a settlor of a trust.
14. A member in practice cannot hold Customs Brokers Licence under section 146 of the Customs Act, 1962 read with Customs Brokers Licensing Regulations, 2013 in terms of the provisions of Code of Ethics.
15. A Chartered accountant in service may appear as tax representative before tax authorities on behalf of his employer, but not on behalf of other employees of the employer.
16. A chartered accountant who is the statutory auditor of a bank cannot for the same financial year accept stock audit of the same branch of the bank or any of the branches of the same bank or sister concern of the bank, for the same financial year.
17. A CA Firm which has been appointed as the internal auditor of a PF Trust by a Government Company cannot be appointed as its Statutory Auditor.
18. A concurrent auditor of a bank 'X' cannot be appointed as statutory auditor of bank 'Y', which is sponsored by 'X'.
19. A CACA Firm can act as the internal auditor of a company & statutory auditor of its employees PF Fund under the new Companies Act (2013).
20. The Ethical Standards Board while noting that there is requirement for a Director u/s 149(3) of the Companies Act, 2013 to reside in India for a minimum period of 182 days in the previous calendar year, decided that such a Director would be within the scope of Director Simplificor (which is generally permitted as per ICAI norms), if he is non – executive director, required in the Board Meetings only, and not paid any remuneration except for attending such Board Meetings.
21. Internal Auditor not to undertake GST Audit simultaneously.

**Note:** Students are also advised to refer RTP of Paper 1 Financial Reporting (for AS, Ind AS and NBFCs updates) and Paper 4 Corporate and Allied Laws (for academic updates relating to Company Law).

## PART – II : QUESTIONS AND ANSWERS

## QUESTIONS

## PART A : MULTIPLE CHOICE QUESTIONS

1. AJ & Co LLP is a firm of Chartered Accountants. The firm has 10 Partners. The firm has a good portfolio of clients for statutory audits but the same clients had some other firms as their tax auditors. In the current year (FY 2018-19), many existing clients for whom AJ & Co LLP happens to be the statutory auditor have requested the firm to carry out their tax audits as well. The firm is expecting the no of tax audits to increase significantly this year. One of the partners of the firm has also raised a point that the firm can accept tax audits upto a maximum limit. However, other partners are of the strong view that limits on audits is applicable in case of statutory audits and not for tax audits. This needs to be decided as soon as possible so that the appointment formalities can also be completed.  
You are requested to advise the firm in this matter.
  - a. There is no limit on no of tax audits in case of LLP.
  - b. All the partners of the firm can collectively sign 450 tax audit reports.
  - c. All the partners of the firm can collectively sign 600 tax audit reports.
  - d. All the partners of the firm can collectively sign 450 tax audit reports. However, one partner can individually sign maximum 60 tax audit reports.
2. Ram & Shyam Co LLP is an old firm of Chartered Accountants with Ram and Shyam as the audit partners. The firm has various statutory audit and internal audit engagements which are looked after by Ram and Shyam respectively. In the previous year ended 31 March 2018, one of the audit engagements of the firm was picked up for peer review and peer reviewer raised various observations regarding the audit documentation. Some of the information regarding audits were missing from the audit files as per the observation of the peer reviewer.  
Ram & Shyam are in the process of establishing a robust mechanism for audit documentation so that the same is available for a long duration and would lead to audit efficiencies also in the future years. Ram and Shyam would like to understand the period for which audit documentation should be maintained by them as per the Standard on Auditing 230. Please advise.
  - a. 10 years.
  - b. 9 years.
  - c. 8 years.
  - d. 7 years.

3. KJA Ltd is in the business of manufacturing of tiles and sanitaryware. The company has a large inventory every year. Annual turnover of the company is INR 3000 crores. The company has 7 plants across India. The management of the company carries out physical verification of inventory every year at the time of reporting date. During the year ended 31 March 2018, it was found by the management that the inventory sheets of 31 March 2017 did not include five pages containing details of inventory worth INR 24.5 crores. Management has included this inventory in the valuation of inventory as of 31 March 2018. Management has also explained that considering the size of the company this may happen at times as the inventory is huge and lying at various locations. Moreover, the amount of the inventory is insignificant if considered as a percentage of revenue or inventory. State how you will deal with this matter as an auditor in the accounts of the company (towards substantive audit procedures and excluding the impact on auditor's assessment under Internal Financial Control Framework) for the year ended 31 March 2018.
- Since the matter is not relevant/ material to current period figures, no reporting in respect of this matter would be required in the auditors report for the year ended 31 March 2018.
  - Management should restate the financials to adjust the error. Otherwise auditor may modify his opinion on current year's financial statements considering the materiality.
  - Considering the matter is not relevant/ material to current period figures, the management may include a note in the financial statements and basis that no reporting in respect of this matter would be required in the auditors report for the year ended 31 March 2018.
  - Include an emphasis of matter because of the effects or possible effects of the error in the auditors report for the year ended 31 March 2018.
4. IRC Ltd is in the business of construction and infrastructure. The company is listed in India having an annual turnover of INR 2500 crores. The company has various projects offices/ operations in India and outside India. The functional currency of the company and its project offices is INR. The company has five joint ventures and various jointly controlled operations. The company has been audited by Luthra & Associates, a firm of Chartered Accountants, since beginning. During the year ended 31 March 2018, new auditors were appointed as the statutory auditors of the company for the audit of the financial statements for the year ended 31 March 2018. New statutory auditors have raised various points related to the consolidation procedures followed by the company. Management did not agree to the observations of the auditors as they have been following this since many years now and there was no observation of previous auditors in respect of the same. Auditors have highlighted a point that joint ventures have been consolidated by the company in its standalone financial statements. However, management has an argument that those are in the nature of its operations and hence to reflect the true and fair view it would be appropriate to consolidate the same in the standalone financial statements.
- Please advise as auditors how would you deal with this matter.



- a. Since the matter is related to consolidation which is more relevant for consolidated financial statements, hence no reporting in respect of this matter would be required in the auditors report for the year ended 31 March 2018.
  - b. Auditor should look at the materiality and conservatism principle. Company has included extra information in the financials which can be considered by the auditors and basis that clean audit report should be given.
  - c. Management should restate the financials to adjust the error related to consolidation of joint ventures in standalone financial statements. Otherwise auditor may modify his opinion on current year's financial statements considering the materiality.
  - d. As per the requirements of accounting standard, joint venture if consolidated in standalone financial statements should not be consolidated again in the consolidated financial statements. Basis that this point should be dropped by the auditor.
5. WCO Private Ltd is a joint venture of WCO Gmbh and MSON Ltd. WCO Gmbh is a company based out of Germany and is also listed in Germany. WCO Gmbh prepares its financial statements as per IFRS. MSON Ltd is a company based out of India and is also listed in India. MSON Ltd prepares its financial statements as per Ind AS. For the purpose of reporting of financial information to WCO Gmbh and MSON Ltd for consolidation purposes, WCO Private Ltd uses reporting package (which comprises of balance sheet, profit and loss and other notes to accounts). WCO Private Ltd prepares its financial statements as per Ind AS.

WCO Private Ltd has taken useful life of some fixed assets in its Ind AS financial statements based on their useful lives which is different from the useful lives of similar nature fixed assets taken by WCO Gmbh (in line with their accounting policies). The reporting package of WCO Private Ltd is audited before reporting to WCO Gmbh. The auditor audits the reporting package which is prepared in line with the Group accounting policies of WCO Gmbh and mentions in his report that the reporting package has been prepared as per the Group accounting policies of WCO Gmbh.

WCO Private Ltd makes an adjustment for changes in useful lives in the reporting package on the basis of Group accounting policies of WCO Gmbh. The auditor has asked the management to take same useful lives of fixed assets in the reporting package which have also been taken by them in its Ind AS financial statements. Management has not agreed with the view of the auditor. Please suggest the right course of action.

- a. Position taken by the management is correct.
- b. Position suggested by the auditor is correct and if the management does not agree then auditor may have to modify his report on the basis of materiality.
- c. The matter relates to an estimate (i.e. useful life) which may be subject to changes under different GAAPs and hence auditor should ignore this point.
- d. The report would be for special purpose which should always be a clean report.

6. DCHI Ltd is in the business of optics and imaging products. It is a wholly owned subsidiary of Japanese company, DCHJ Ltd. DCHI Ltd has many expatriates (Expats) working in the company whose tenure range from 2 to 5 years. During the course of audit of financial statements of the company, the statutory auditors observed that the company has not been deducting and depositing the TDS (tax deducted at source) on salaries of expats. The auditors assessed that the impact of this can be significant as the company has many expats and salary amount is significant. Management explained that TDS on salary of expats would lead to unnecessary hassles to the expats and they serve the company only for a short period. How should the auditors of DCHI Ltd deal with this matter?
- Considering this as a statutory non-compliance, the auditor should look at the significance of the matter and accordingly should report the same in CARO.
  - Considering this as a statutory non-compliance, the auditor should look at the significance of the matter and accordingly should consider reporting this in the main report along with CARO.
  - The auditor should agree to the management's view as the expats are temporary workers and this may not be convenient for the management.
  - Since the matter relates to statutory liability only, the reporting requirements do not arise till the time this becomes disputed.
7. You have only eight working hours for raw material inventory verification. Based on your observation during these eight hours, you have to form an opinion with respect to the correctness of inventory value calculated by the management. The company uses ERP system for updating and recording raw material inventory. The ERP system of the company has passed all the ITGC checks and inventory rates are calculated by ERP on moving average price (MAP) basis. The company has done ABC analysis of all raw material inventory items and has vast number of items in each category. You will form your opinion based on
- Based on ABC analysis, check physical inventory of all "A" class items during allotted time and matching it with ERP stock.
  - Understand the process of recording of inventory in ERP to ascertain potential weaknesses and checking physical inventory of mostly "A" class items, some "B" class items and some "C" class items.
  - Check physical inventory of "A" class items as much as possible along with certain "B" class items and certain "C" class items on sample basis in value wise descending order, compare the physical stock with ERP system, and tabulate the result. The exercise should be continued till the end of allotted eight hours.
  - Check physical stock of only those items, which have standard packaging so that verification is faster considering the eight hour time limit.

8. ABC Pvt Ltd had turnover of ₹ 39 crores as at 31 March 2018. The Company had taken a loan of ₹ 39 crores from various banks and financial institutions during the year ended 31 March 2018. These loans were paid by the Company before 31 March 2018. The Company is of the view that the auditors' reporting on adequacy and operating effectiveness of internal financial controls (IFC) under Section 143(3)(i) of the Companies Act, 2013 would not be required. The auditors of the Company have a different view. What should be correct option?
- The turnover of ABC Pvt Ltd is below required threshold and hence IFC will not be applicable.
  - The turnover of ABC Pvt Ltd is below required threshold and loan amount was fully paid before year end i.e. 31 March 2018. Hence IFC will not be applicable.
  - The turnover of ABC Pvt Ltd is below required threshold but loan amount was above required threshold. Irrespective of the fact that loan was outstanding as at 31 March 2018 or not, IFC would be applicable.
  - In the given case because of the repayment of the loan before year end i.e. 31 March 2018, applicability of IFC becomes optional.
9. AS Ltd. is a manufacturing company and started its business in the year 2000. The net profit after tax of the company was 15% up to the financial year 2014-15, but for the financial year 2015-16 and 2016-17 the company's profit declined even when there was increase in the sales and production of goods by the company. So, the management of AS Ltd. felt a need to get the management audit conducted with the objective of detecting and overcoming current managerial deficiencies. What criteria do you think management should keep in mind while selecting management auditor for the purpose?
- Qualification and experience, courage to report the facts and the relationship with staff of the department/s that's functioning, has to be audited.
  - Qualification and experience, courage to report the facts, clear understanding of the organisational structure and working environment, understanding the purpose for which the audit is being conducted, healthy relationship with staff of the department that's functioning has to be audited and with the top management, and analytical skill.
  - The management auditor should have the required qualification and experience only.
  - The management auditor should have healthy relationship with the various departmental staff in the organisation and with the top management.
10. The Advances Bank Ltd. has sanctioned overdraft limit of ₹ 44 crore to ASG Ltd. on the working capital of the company as on 31<sup>st</sup> March 2015. As per bank norms the drawing power in the overdraft account need to be reviewed on quarterly basis as per the audited stock statement of the company. As a central statutory auditor for the year 2016-17, while verifying the advances for the year ending 31<sup>st</sup> March 2017, you noticed that the bank has not obtained the stock statement of ASG Ltd. for the two quarters ending 31<sup>st</sup> December

2016 and 31st March 2017 and no provision of NPA has been made for this account in the financial statements for the year 2016-17. What will be your decision as a central statutory auditor?

- a. Classify the borrower's account as NPA as the borrower's financial position cannot be determined due to non-submission of stock statement.
- b. Instruct the bank to obtain the audited stock statement for both the quarters and review the credit limit accordingly.
- c. As per bank norms the drawing power need to be determined on the basis of stock statement and it was more than three months old as on 31st March 2017, so the outstanding in the account will be deemed as irregular.
- d. You should give a qualificatory note in the audit report as per SA700.

#### **PART B : DESCRIPTIVE QUESTIONS**

Standards on Auditing, Statements and Guidance Notes

11. (a) A Pvt Ltd is engaged in the business of real estate. The auditor of the company requested the information from the management to review the outcome of accounting estimates (like estimated costs considered for percentage completion etc) included in the prior period financial statements and their subsequent re-estimation for the purpose of the current period.

The management has refused the information to the auditor saying that the review of prior period information should not be done by the auditor. Please advise.

- (b) X Ltd had a net worth of INR 1300 crores because of which Ind AS became applicable to them. The company had various derivative contracts – options, forward contracts, interest rate swaps etc. which were required to be fair valued for which company got the fair valuation done through an external third party. The statutory auditors of the company involved an auditor's expert to audit valuation of derivatives. Auditor and auditor's expert were new to each other i.e. they were working for the first time together but developed a good bonding during the course of the audit. The auditor did not enter into any formal agreement with the auditor's expert. Please advise.
- (c) BSS & Associates is a partnership firm of Chartered Accountants which was established five years back. The firm was offering only advisory services at the beginning, however, after audit rotation and advent of GST, firm sees lot of potential in these areas also and started looking for opportunities in these areas also. These services being assurance in nature, the firm required some internal restructuring and set up some policies and procedures for compliance year on year.

The firm started getting new clients for these new services and is now looking to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with

an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it has been setting up a process to document how the issues were resolved.

The firm is now looking to work with only select clients which are in line with the policies of the firm. The firm understands that the extent of knowledge it will have regarding the integrity of a client will grow within the context of an ongoing relationship with that client. With regard to the integrity of a client, you are required to give some examples of the matters to be considered by the firm as per the requirements given in SQC 1.

### **Audit Strategy Planning and Programming**

12. (a) AKJ Ltd is a small-sized 30 years old company having business of manufacturing of pipes. Company has a plant based out of Dehradun and have their corporate office in Delhi. Recently the company appointed new firm of Chartered Accountants as their statutory auditors.

The statutory auditors want to enter into an engagement letter with the company in respect of their services but the management has contended that since the statutory audit is mandated by law, engagement letter may not be required. Auditors did not agree to this and have shared a format of engagement letter with the management for their reference before getting that signed. In this respect management would like to understand that as per SA 210 (auditing standard referred to by the auditors), if the agreed terms of the engagement shall be recorded in an engagement letter or other suitable form of written agreement, what should be included in terms of agreed audit engagement letter?

- (b) During the audit of FMP Ltd, a listed company, Engagement Partner (EP) completed his reviews and also ensured compliance with independence requirements that apply to the audit engagement. The engagement files were also reviewed by the Engagement Quality Control Reviewer (EQCR) except the independence assessment documentation. Engagement Partner was of the view that matters related to independence assessment are the responsibility of the Engagement Partner and not Engagement Quality Control Reviewer. Engagement Quality Control Reviewer objected to this and refused to sign off the documentation. Please advise as per SA 220.

### **Risk Assessment and Internal Control**

13. Compute the overall Audit Risk if looking to the nature of business there are chances that 40% bills of services provided would be defalcated, inquiring on the same matter management has assured that internal control can prevent such defalcation to 75%. At his part the Auditor assesses that the procedure he could apply in the remaining time to complete Audit gives him satisfaction level of detection of frauds & error to an extent of 60%. Analyse the Risk of Material Misstatement and find out the overall Audit Risk.

**Special Audit Techniques**

14. ST Ltd is a growing company and currently engaged in the business of manufacturing of tiles. The company is planning to expand and diversify its operations. The management has increased the focus on the internal controls to ensure better governance. The management had a discussion with the statutory auditors to ensure the steps required to be taken so that the statutory audit is risk based and focused on areas of greatest risk to the achievement of the company's objectives. Please advise the management and the auditor on the steps that should be taken for the same.

**The Company Audit**

15. (a) AARK Ltd is a large-sized listed company having annual turnover of INR 4000 crores. The company also has a plan to get listed on New York Stock Exchange next year. The company has paid good amount of dividend during the year to its shareholders which is significantly higher as compared to earlier years. The statutory auditors would like to focus on this aspect at the time of their statutory audit. Please advise the relevant procedures that the statutory auditors should perform in respect of this area.
- (b) RAJ Ltd has a branch office which maintains its separate set of books of accounts. The statutory audit of RAJ Ltd and its branch office is conducted by two separate firms of Chartered Accountants. RAJ Ltd being the company with Head Office, its statutory auditors, always intervene in the work of the statutory auditors of branch office. Due to this, the audit completion takes longer period. Due to the company's internal policies, they need to continue with two separate auditors for head office and branch office. Please explain the aspects related to reporting and responsibilities of parent auditor (auditor of HO) and branch office auditors.
- (c) IFFCO Company follows the method of providing depreciation as per Section 123 of the Companies Act, 2013 using the useful lives prescribed as per Schedule II of the Companies Act, 2013. It has provided depreciation on computers which are used during all the 3 shifts using the rates stipulated for continuous process plant since these assets are used for 24 hours (3 shifts). Comment.

**Audit Report**

16. Whilst the Audit team has identified various matters, they need your advice to include the same in your audit report in view of CARO 2016:-
- (a) The long term borrowings from the parent has no agreed terms and neither the interest nor the principal has been repaid so far.
- (b) The Company is in the process of selling its office along with the freehold land available at Chandigarh and is actively on the lookout for potential buyers. Whilst the same was purchased at ₹ 25 Lakhs in 2008, the current market value is ₹ 250 Lakhs,

This property is pending to be registered in the name of the Company, due to certain procedural issues associated with the Registration though the Company is having a valid possession and has paid its purchase cost in full. The Company has disclosed this amount under Fixed Assets though no disclosure of non-registration is made in the notes forming part of the accounts.

- (c) An amount of ₹ 3.25 Lakhs per month is paid to M/s. WE CARE Associates, a partnership firm, which is a 'related party' in accordance with the provisions of the Companies Act, 2013 for the marketing services rendered by them. Based on an independent assessment, the consideration paid is higher than the arm's length pricing by ₹ 0.25 Lakhs per month. Whilst the transaction was accounted in the financial statements based on the amounts' paid, no separate disclosure has been made in the notes forming part of the accounts highlighting the same as a 'related party' transaction.
- (d) The Internal Auditor of the Company has identified a fraud in the recruitment of employees by the HR department wherein certain sums were alleged to have been taken as kick-back from the employees for taking them on board with the Company. After due investigation, the concerned HR Manager was sacked. The amount of such kickbacks is expected to be in the range of ₹12 Lakhs.

#### Liabilities of Auditor

17. Indicate the precise nature of auditor's liability in the following situations and support your views with authority, if any:
- (i) Certain weaknesses in the internal control procedure in the payment of wages in a large construction company were noticed by the statutory auditor who in turn brought the same to the knowledge of the Managing Director of the company. In the subsequent year huge defalcation came to the notice of the management. The origin of the same was traced to the earlier year. The management wants to sue the auditor for negligence and also plans to file a complaint with the Institute.
  - (ii) Based upon the legal opinion of a leading advocate, X Ltd. made a provision of ₹ 3.5 crores towards Income Tax liability. The assessing authority has worked out the liability at ₹ 5 crores. It is observed that the opinion of the advocate was inconsistent with legal position with regard to certain revenue items.

#### Audit of Banks

18. (a) ABC Chartered Accountants have been appointed as concurrent auditors for the branches of Effective Bank Ltd. for the year 2017-18. You are part of the audit team for Agra branch of the bank and have been instructed by your senior to verify the advances of the audit period. You are required to guide your assistant about the areas to be taken care while doing verification during the concurrent audit.
- (b) Write a short note on reversal of income under bank audit.

**Audit under Fiscal Laws**

19. In terms of **Sl. No. 5G** of **Form GSTR 9C**, the turnovers included in the audited financial statement for the period April 2017 to June 2017 shall be declared and deducted from the annual turnover to arrive at the turnover as per the GST Laws.

Please specify which of the following supplies would form part of reporting under turnover for the period April 2017 to June 2017

- (a) Goods were manufactured and cleared from a factory on 1.6.2017 on sale or approval basis. The goods were not approved by the recipient and returned back on 25.12.2017.
- (b) Goods were manufactured and cleared from a factory located in Bangalore on 30.4.2017. The goods were cleared to its showroom located in Hyderabad and eventually been sold from there on 30.8.2017. The audit under the GST Law will be conducted for Bangalore GSTIN.
- (c) Continuous supply of service in the nature of telecommunication service has been provided for the period 1.6.2017 to 30.6.2017. The bill is raised on 3.7.2017. The bill is payable by the customer only on 21.7.2017. Should the revenue be recognised in the month of June 2017 and reduced from total turnover or should it form part of turnover for the period July 2017 to March 2018 since the due date for payment of consideration is 21.7.2017. The entity recognised the revenue in the month of June 2017.

**Cost Audit**

20. (a) RX Ltd. is a sugar manufacturing company. The company appointed Mr. Suresh, a practicing cost accountant, to conduct cost audit of its cost records under section 148 of the Companies Act, 2013. While conducting audit, Mr. Suresh found some misstatement resulting into fraud committed by the officers of the company amounting rupees 1.5 crore. However, he did not report the matter to the Central Government believing that liability for such reporting lies only with statutory auditor of the company. Advise.
- (b) Conducting Cost Audit is useful to the management, society, shareholders and the government in many ways. Briefly mention some of the advantages of cost audit to the government.

**Special Audit Assignments**

21. (a) Energy shortage and the cost of environmental quality control have made the use of energy very costly to many industrial establishments. As a result, many factories have opted for establishing energy management programmes to cope with severe energy shortages and for improving the profitability of their operations. The steps to be followed are general in nature which includes conducting energy audits.



In view of the above, you are required to briefly explain what is energy audit and state some of the key functions of the energy auditor.

- (b) Write short notes on the following-
  - (i) Margins (Under Stock Exchange Trading Regulations).
  - (ii) Types of market under NEAT (National Exchange Automated Trading).

#### **Internal Audit, Management and Operational Audit**

- 22. (a) Employees of GIG Ltd. have to travel frequently for business purposes, so the company entered into a contract with a Simony Travels Ltd. for managing booking, cancellation and other services required by their employees. As per contract terms, Simony travels has to raise its monthly bills for the tickets booked or cancelled during the period and the same are paid by GIG Ltd. within 15 days of the bill date. The bills raised by Simony travels were of huge amount, so the management of GIG Ltd. decided to get an audit conducted of the process followed for booking/ cancellation of tickets and verify the accuracy of bills raised by the travel agency. Which audit do you feel the management should opt for? Also briefly discuss the qualities the auditor should possess for such audit.
- (b) OPQ Ltd is in the business of software consultancy. The company has had large balances of accounts receivables in the past years which have been assessed as area of high risk. For the year ended 31 March 2018, in respect of the valuation of accounts receivable, the statutory auditor has assigned the checking of the accuracy of the aging of the accounts receivables and provision based on ageing to the internal auditor providing direct assistance to him. Please advise.

#### **Investigation and Due Diligence**

- 23. Mr Sharma is reviewing the anti-fraud controls for a construction company. The company has witnessed a few frauds in the past mainly in the nature of material stolen from the sites and fake expense vouchers.

Mr. Sharma is evaluating options for verifying the process to reveal fraud and the corrective action to be taken in such cases. As an expert, you are required to brief Mr. Sharma about the inventory fraud and verification procedure with respect to defalcation of inventory?

#### **Professional Ethics**

- 24. Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:
  - (a) Mr Bold, a chartered accountant in practice, created his own website in attractive format and highlighted the contents in blue colour. He also circulated the information contained in the website through E-mail to acknowledge public at large about his expertise. However, due to shortage of time, he could not intimate his website address to the Institute.

- (b) The manager of ZedEx (P) Ltd. approached CA. Vineet in the need of a certificate in respect of a consumption statement of raw material. Without having certificate of practice (CoP), CA. Vineet issued the certificate to the manager of the company, acting as a CA in practice and applied for the CoP to the Institute on very next day to avoid any dispute.
- (c) WCP & Co LLP are the internal auditors of DEF Ltd. WCP & Co LLP also agreed to undertake Goods and Service Tax (GST) Audit of DEF Ltd simultaneously.
- (d) Mr. Pramod, a Chartered Accountant in practice entered into a partnership with Mr. Lucky, an advocate for sharing of fees for work sent by one to the other. However, due to some disputes, the partnership was dissolved after 1 month without any fees having been received.
25. Write a short note on the following:
- (a) Technical, ethical and professional standards as per statement on peer review.
- (b) Areas covered in Comprehensive Audit.
- (c) Key features of the Qualified and Independent Audit Committee set up under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
- (d) Powers and duties of an auditor of a Multi-state Cooperative Society.

### SUGGESTED ANSWERS/HINTS

#### PART A : ANSWERS TO MULTIPLE CHOICE QUESTIONS

1	c	All the partners of the firm can collectively sign 600 tax audit reports.
2	d	7 years.
3	b	Management should restate the financials to adjust the error. Otherwise auditor may modify his opinion on current year's financial statements considering the materiality.
4	c	Management should restate the financials to adjust the error related to consolidation of joint ventures in standalone financial statements. Otherwise auditor may modify his opinion on current year's financial statements considering the materiality.
5	a	Position taken by the management is correct.
6	b	Considering this as a statutory non-compliance, the auditor should look at the significance of the matter and accordingly should consider reporting this in the main report along with CARO.
7	c	Check physical inventory of "A" class items as much as possible along with certain "B" class items and certain "C" class items on sample basis in value wise

		descending order, compare the physical stock with ERP system, and tabulate the result. The exercise should be continued till the end of allotted eight hours.
8	c	The turnover of ABC Pvt Ltd is below required threshold but loan amount was above required threshold. Irrespective of the fact that loan was outstanding as at 31 March 2018 or not, IFC would be applicable.
9	b	Qualification and experience, courage to report the facts, clear understanding of the organisational structure and working environment, understanding the purpose for which the audit is being conducted, healthy relationship with staff of the department that's functioning has to be audited and with the top management, and analytical skill.
10	c	As per bank norms the drawing power need to be determined on the basis of stock statement and it was more than three months old as on 31st March 2017, so the outstanding in the account will be deemed as irregular.

#### PART B : ANSWERS TO DESCRIPTIVE QUESTIONS

11. (a) As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", the auditor shall review the outcome of accounting estimates included in the prior period financial statements, or, where applicable, their subsequent re-estimation for the purpose of the current period. The nature and extent of the auditor's review takes account of the nature of the accounting estimates, and whether the information obtained from the review would be relevant to identifying and assessing risks of material misstatement of accounting estimates made in the current period financial statements.

The outcome of an accounting estimate will often differ from the accounting estimate recognised in the prior period financial statements. By performing risk assessment procedures to identify and understand the reasons for such differences, the auditor may obtain:

- Information regarding the effectiveness of management's prior period estimation process, from which the auditor can judge the likely effectiveness of management's current process.
- Audit evidence that is pertinent to the re-estimation, in the current period, of prior period accounting estimates.
- Audit evidence of matters, such as estimation uncertainty, that may be required to be disclosed in the financial statements.

The review of prior period accounting estimates may also assist the auditor, in the current period, in identifying circumstances or conditions that increase the susceptibility of accounting estimates to, or indicate the presence of, possible management bias. The auditor's professional skepticism assists in identifying such

circumstances or conditions and in determining the nature, timing and extent of further audit procedures.

However, the review is not intended to call into question the judgments made in the prior periods that were based on information available at that time.

In the given case, the management is not correct in refusing the relevant information to the auditor.

- (b) As per SA 620, Using the work of an Auditor's Expert, the nature, scope and objectives of the auditor's expert's work may vary considerably with the circumstances, as may the respective roles and responsibilities of the auditor and the auditor's expert, and the nature, timing and extent of communication between the auditor and the auditor's expert. It is therefore required that these matters are agreed between the auditor and the auditor's expert.

In certain situations, the need for a detailed agreement in writing is required like -

- The auditor's expert will have access to sensitive or confidential entity information.
- The matter to which the auditor's expert's work relates is highly complex.
- The auditor has not previously used work performed by that expert.
- The greater the extent of the auditor's expert's work, and its significance in the context of the audit.

In the given case, considering the complexity involved in the valuation and volume of derivatives and also due to the fact that the auditor and auditor's expert were new to each other, auditor should have signed a formal agreement/ engagement letter with the auditor's expert in respect of the work assigned to him.

- (c) As per SQC 1, the firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved.

With regard to the integrity of a client, matters that the firm considers include, for example:

- The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance.
- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.

- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
- Indications of an inappropriate limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.

The extent of knowledge a firm will have regarding the integrity of a client will generally grow within the context of an ongoing relationship with that client.

12. (a) **As per SA 210** Agreeing the Terms of Audit Engagements The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate.

The agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include:

- (i) The objective and scope of the audit of the financial statements;
  - (ii) The responsibilities of the auditor;
  - (iii) The responsibilities of management;
  - (iv) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
  - (v) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.
- (b) **As per SA 220**, Engagement Partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, Engagement Partner shall:
- Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
  - Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
  - Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.

Engagement Partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures.

As per SA 220, "Quality Control for Audit of Financial Statements", for audits of financial statements of listed entities, Engagement Quality Control Reviewer (EQCR), on performing an engagement quality control review, shall also consider the engagement team's evaluation of the firm's independence in relation to the audit engagement.

In the given case, Engagement Partner is not right. The independence assessment documentation should also be given to Engagement Quality Control Reviewer for his review.

13. According to SA-200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", the Audit Risk is a risk that Auditor will issue an inappropriate opinion while Financial Statements are materially misstated.

Audit Risk, has two components: Risk of material Misstatement and Detection Risk. The relationship can be defined as follows.

**Audit Risk = Risk of material Misstatement X Detection Risk**

Risk of material Misstatement: - Risk of Material Misstatement is anticipated risk that a material Misstatement may exist in Financial Statement before start of the Audit. It has two components Inherent risk and Control risk. The relationship can be defined as

**Risk of material Misstatement = Inherent risk X control risk**

Inherent risk: it is a susceptibility of an assertion about account balance; class of transaction, disclosure towards misstatements which may be either individually or collectively with other Misstatement becomes material before considering any related internal control which is 40% in the given case.

Control risk: it is a risk that there may be chances of material Misstatement even if there is a control applied by the management and it has prevented defalcation to 75%.

Hence, control risk is 25% (100%-75%)

Risk of material Misstatement: Inherent risk X control risk i.e. 40% X 25% = 10%

Chances of material Misstatement are reduced to 10% by the internal control applied by management.

Detection risk: It is a risk that a material Misstatement remained undetected even if all Audit procedures applied, Detection Risk is 100-60=40%

In the given case, overall Audit Risk can be reduced up to 4% as follows:

Audit Risk: Risk of Material Misstatement X Detection Risk = 10 X 40% = 4%

14. Audit should be risk-based or focused on areas of greatest risk to the achievement of the audited entity's objectives. Risk-based audit (RBA) is an approach to audit that analyzes

audit risks, sets materiality thresholds based on audit risk analysis and develops audit programmes that allocate a larger portion of audit resources to high-risk areas.

RBA consists of four main phases starting with the identification and prioritization of risks, to the determination of residual risk, reduction of residual risk to acceptable level and the reporting to auditee of audit results. These are achieved through the following:

**Step 1 - Understand auditee operations to identify and prioritize risks:** Understanding auditee operations involves processes for reviewing and understanding the audited organization's risk management processes for its strategies, framework of operations, operational performance and information process framework, in order to identify and prioritize the error and fraud risks that impact the audit of financial statements. The environment in which the auditee operates, the information required to monitor changes in the environment, and the process or activities integral to the audited entity's success in meeting its objectives are the key factors to an understanding of agency risks. Likewise, a performance review of the audited entity's delivery of service by comparing expectations against actual results may also aid in understanding agency operations.

**Step 2 - Assess auditee management strategies and controls to determine residual audit risk:** Assessment of management risk strategies and controls is the determination as to how controls within the auditee are designed. The role of internal audit in promoting a sound accounting system and internal control is recognized, thus the SAI should evaluate the effectiveness of internal audit to determine the extent to which reliance can be placed upon it in the conduct of substantive tests.

**Step 3 - Manage residual risk to reduce it to acceptable level:** Management of residual risk requires the design and execution of a risk reduction approach that is efficient and effective to bring down residual audit risk to an acceptable level. This includes the design and execution of necessary audit procedures and substantive testing to obtain evidence in support of transactions and balances. More resources should be allocated to areas of high audit risks, which were earlier known through the analytical procedures undertaken.

**Step 4 - Inform auditee of audit results through appropriate report:** The results of audit shall be communicated by the auditor to the audited entity. The auditor must immediately communicate to the auditee reportable conditions that have been observed even before completion of the audit, such as weaknesses in the internal control system, deficiencies in the design and operation of internal controls that affect the organization's ability to record, process, summarize and report financial data.

15. (a) The Auditor should obtain appropriate audit evidence as regard to audit of payment of dividends. The procedures include the following:
- (i) Check that all the rules and regulations concerning the declaration or payment of dividends have been complied with.
  - (ii) Examine that the accounting and disclosure procedure has been complied with related to the declaration and payment of dividend like depreciation has been

provided before declaration, disclosure has been made by way of notes to the accounts etc.

- (iii) Scrutinize that the dividends have been declared or paid only out of distributable profit i.e. profits for the current year for which dividend is declared, or accumulated profits of the previous years, or money provided by the Central or State Government as per Section 123(1) of the Companies Act, 2013.
- (iv) Inspect that the dividend has been paid only out of "free reserves" i.e. the reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend except- any amount representing unrealized gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or any change in carrying amount of an asset or of a liability recognized in equity, including surplus in statement of profit and loss on measurement of the asset or the liability at fair value, as laid down under third proviso to Section 123(1) read with Section 2(43) of the Companies Act, 2013.
- (v) If dividend has been paid out of accumulated profits, earned by it in previous years and transferred to the reserves, in case of inadequacy or absence of profits in any financial years, verify that the rules related to such distribution has been complied i.e. the maximum amount allowable to be distributed as a dividend in case of inadequate or no profit as required by second proviso to Section 123(1) of the Companies Act, 2013.
- (vi) Verify that the dividend recommended by the Board has been approved by the members at the annual general meeting.
- (vii) Verify that the dividend has been transferred to the separate scheduled bank account within 5 days from the declaration of such dividend as required by Section 123(4) of the Companies Act, 2013.
- (viii) Verify that the dividend has been paid within 30 days from the declaration. If in case the dividend has not been claimed or paid within 30 days from the declaration, verify that the unpaid or unclaimed dividend amount has been transferred to a special account called unpaid dividend account as per Section 124(1) of the Companies Act, 2013.
- (ix) Verify that the company has prepared a statement within a period of 90 days of making any transfer of an amount to the Unpaid Dividend Account containing the names, their last known addresses and the unpaid dividend to be paid to each person, and have placed it on the website of the company, if any, and also on any other website approved by the Central Government for this purpose as required under Section 124(2) of the Companies Act, 2013.
- (x) Check the procedures that have been followed for the payment of unclaimed dividend out of unpaid dividend account.
- (xi) Verify that, if any money transferred to Unpaid Dividend Account has remained



unpaid or unclaimed for a period of 7 years from the date of such transfer then, whether it has been transferred by the company along with interest accrued, if any, thereon to the Investor Education and Protection Fund established under section 125(1) of the Companies Act, 2013 and a statement regarding such transfer has also been sent to the authority which administers such fund.

- (xii) In case the company has outsourced the activity to the Service Organisation, check that all the compliances with laws, regulations, accounting and disclosure related to the dividends have been made appropriately.
- (b) Sub-section (8) of Section 143 of the Companies Act, 2013, prescribes the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor. Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under Companies Act, 2013 or by any other person qualified for appointment as an auditor of the company under Companies Act, 2013 and appointed as such under section 139, or where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed.

The branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.

Further as per Rule 12 of the Companies (Audit and Auditors) Rules, 2014, the branch auditor shall submit his report to the company's auditor and reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.

When the accounts of the branch are audited by a person other than the company's auditor, there is need for a clear understanding of the role of such auditor and the company's auditor in relation to the audit of the accounts of the branch and the audit of the company as a whole; also, there is great necessity for a proper rapport between these two auditors for the purpose of an effective audit. In recognition of these needs, the Council of the Institute of Chartered Accountants of India has dealt with these issues in SA 600, "Using the Work of another Auditor". It makes clear that in certain situations, the statute governing the entity may confer a right on the principal auditor to visit a component and examine the books of account and other records of the said component, if he thinks it necessary to do so. Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and

other records of the said component. Further, it requires that the principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment. When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:

- (a) advise the other auditor of the use that is to be made of the other auditor's work and report and make sufficient arrangements for co-ordination of their efforts at the planning stage of the audit. The principal auditor would inform the other auditor of matters such as areas requiring special consideration, procedures for the identification of inter-component transactions that may require disclosure and the time-table for completion of audit; and
- (b) advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.

The principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or check-list. The principal auditor may also wish to visit the other auditor. The nature, timing and extent of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of the previous audit work of the other auditor.

- (c) IFFCO company followed the method of providing depreciation as per section 123 of the Companies Act, 2013 using the useful lives prescribed as per Schedule II of the Companies Act, 2013 is correct, however, they have provided depreciation using the rates stipulated for continuous process plant is not correct.

As per Schedule II Computers does not fall in continuous process plant category. Further, computers are included as NESD in Part 2 of Schedule II, which is category of assets in respect of which no extra shift depreciation is permitted.

Therefore, though computers are used for 24 hours i.e. triple shift but no extra shift depreciation is permitted on the same. In the instant case, the Company has provided depreciation on computers which are used during all the 3 shifts using the rates stipulated for continuous process plant as per its accounting policy is incorrect and would be misleading resulting into material misstatement and hence impacting true and fair view.

The auditor, therefore, should discuss with the management to make necessary changes in respect of same and if not agreed to, the auditor may qualify the report accordingly.

- 16. (a) As per clause (xiii) of para 3 of CARO 2016 the auditor is required to report, "whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards".

In the present case, the auditor is required to report as per clause xiii of para 3 of CARO 2016 regarding receipt of long term borrowing from Parent Company which qualifies as a transaction with the related party.

- (b) As per clause (i) (c) of para 3 of CARO 2016 the auditor is required to report, “whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof.”

In the present case, the Company has office along with freehold land in Chandigarh. Though company has paid its purchase cost in full however, this property is pending to be registered in the name of the company i.e. title deed is not in the name of Company since 2008. Therefore, the auditor is required to report the same in accordance with clause (i)(c) of para 3 of CARO 2016.

The reporting under this clause, where the title deeds of the immovable property are not held in the name of the Company, may be made incorporating following details, in the form of a table or otherwise in **case of land:-**

- total number of cases,
  - whether leasehold / freehold,
  - gross block and net block, (as at Balance Sheet date), and
  - remarks, if any.
- (c) As per clause (xiii) of para 3 of CARO 2016, the auditor is required to report, “whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards;”

Therefore, the duty of the auditor, under this clause is to report (i) Whether all transactions with the related parties are in compliance with section 177 and 188 of the Companies Act, 2013 (“Act”); (ii) Whether related party disclosures as required by relevant Accounting Standards (AS 18, as may be applicable) are disclosed in the financial statements.

In the present case, the auditor is required to report as per clause xiii of para 3 of CARO 2016, as one of related party transaction amounting 3.25 lakhs per month i.e. in lieu of marketing services has been noticed of which amount ₹ 0.25 lakh per month is exceeding the arm's length price has not been disclosed highlighting the same as related party transactions as per AS 18. Thus, the auditor is required to report accordingly.

- (d) As per clause Clause (x) of para 3 of CARO 2016 the auditor is required to report, “whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.”

In the instant case, a fraud has been identified in recruitment of employees by the HR Department wherein certain sums were alleged to have been taken as kickback from the company amounting rupees approx. 12 lakh. The auditor is required to report on the same in accordance with clause (x) of para 3 of CARO 2016.

17. (i) In the given case, certain weaknesses in the internal control procedure in the payment of wages in a large construction company were noticed by the statutory auditor and brought the same to the knowledge of the Managing Director of the company. In the subsequent year, a huge defalcation took place, the ramification of which stretched to the earlier year. The management of the company desires to sue the statutory auditor for negligence. The precise nature of auditor's liability in the case can be ascertained on the basis of the under noted considerations:
- (a) Whether the defalcation emanated from the weaknesses noticed by the statutory auditor, the information regarding which was passed on to the management; and
  - (b) Whether the statutory auditor properly and adequately extended the audit programme of the previous year having regard to the weaknesses noticed.

SA 265 on "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management" clearly mentions that, "The auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control. If the auditor has identified one or more deficiencies in internal control, the auditor shall determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies. The auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis. The auditor shall also communicate to management at an appropriate level of responsibility on a timely basis". The fact, however, remains that, weaknesses in the design of the internal control system and non-compliance with identified control procedures increase the risk of fraud or error. If circumstances indicate the possible existence of fraud or error, the auditor should consider the potential effect of the suspected fraud or error on the financial information. If the auditor believes the suspected fraud or error could have a material effect on the financial information, he should perform such modified or additional procedures as he determines to be appropriate. Thus, normally speaking, as long as the auditor took due care in performing the audit work, he cannot be held liable.

The fact that the matter was brought to the notice of the managing director may be a good defence for the auditor as well. According to the judgement of the classic case. In re Kingston Cotton Mills Ltd., (1896) it is the duty of the auditor to probe into the depth only when his suspicion is aroused. The statutory auditor, by bringing the weakness to the notice of the managing director had alerted the management which is judicially held to be primarily responsible for protection of the assets of the company and can put forth this as defence against any claim arising subsequent to passing of

the information to the management. In a similar case S.P. Catterson & Sons Ltd. (81 Acct. L. R.68), the auditor was acquitted of the charge.

- (ii) SA 500 on "Audit Evidence" discusses the auditor's responsibility in relation to and the procedures the auditor should consider in, using the work of an expert as audit evidence. During the audit, the auditor may seek to obtain, in conjunction with the client or independently, audit evidence in the form of reports, opinions, valuations and statements of an expert, e.g., legal opinions concerning interpretations of agreements, statutes, regulations, notifications, circulars, etc. Before relying on advocate's opinion, the auditor should have seen that opinion given by the management's expert is *prima facie* dependable. The question states very clearly that the opinion of the advocate was inconsistent with legal position with regard to certain items. It is, perhaps, quite possible that auditor did not seek reasonable assurance as to the appropriateness of the source data, assumptions and methods used by the expert properly.

In fact, SA 500 makes it incumbent upon the part of the auditor to resolve the inconsistency by discussion with the management and the expert. In case, the expert's work does not support the related representation in the financial information the inconsistency in legal opinions could have been detected by the auditor if he had gone through the same. This seems apparent having regard to wide difference in the liability worked out by the assessing authority. Under the circumstance, the auditor should have rejected the opinion and insisted upon making proper provision.

**18. (a) Verification of Advances as a Concurrent Auditor:**

- (i) Ensure that loans and advances have been sanctioned properly (i.e. after due scrutiny and at the appropriate level).
- (ii) Verify whether the sanctions are in accordance with delegated authority.
- (iii) Ensure that securities and documents have been received and properly charged/ registered.
- (iv) Ensure that post disbursement supervision and follow-up is proper, such as receipt of stock statements, instalments, renewal of limits, etc.
- (v) Verify whether there is any mis utilisation of the loans and whether there are instances indicative of diversion of funds.
- (vi) Check whether the letters of credit issued by the branch are within the delegated power and ensure that they are for genuine trade transactions.
- (vii) Check the bank guarantees issued, whether they have been properly worded and recorded in the register of the bank. Whether they have been promptly renewed on the due dates.
- (viii) Ensure proper follow-up of overdue bills of exchange.

- (ix) Verify whether the classification of advances has been done as per RBI guidelines.
  - (x) Verify whether the submission of claims to DICGC and ECGC is in time.
  - (xi) Verify that instances of exceeding delegated powers have been promptly reported to controlling/Head Office by the branch and have been got confirmed or ratified at the required level.
  - (xii) Verify the frequency and genuineness of such exercise of authority beyond the delegated powers by the concerned officials.
- (b) Reversal of Income:** If any advance, including bills purchased and discounted, becomes Non-Performing Assets as at the close of any year, the entire interest accrued and credited to income account in the past periods, should be reversed or provided for if the same is not realised. This will apply to Government guaranteed accounts also.

In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed or provided for with respect to past periods, if uncollected.

Further, in case of banks which have wrongly recognised income in the past should reverse the interest if it was recognised as income during the current year or make a provision for an equivalent amount if it was recognised as income in the previous year(s).

- 19. (a)** Since the goods were not approved and returned after the stipulated period of 6 months, the value of the said supplies would not be included in turnover in the audited financial statements. However, as per the 2nd proviso to Section 142(12) of the CGST Act since the goods were returned after 6 months from appointed date (i.e. 1.6.2017), GST would be payable for the tax period December 2017. Though the transaction originated in the period April 2017 to June 2017, the turnover will not be reflected under this Sl.No. However, one may reflect such adjustment under Part II, sl. No. 5 Clause O – 'Adjustments in turnover due to reasons not listed above' as addition.
- (b)** The said goods are liable to excise duty since the goods have been cleared on 30.4.2017. The goods would not form part of turnover as per the financial statements since it is a branch transfer. It would stand reflected as branch transfers under the State Level VAT laws. Since audit is being conducted for Bangalore GSTIN and since supply has occurred from Hyderabad GSTIN, it would not be necessary to make adjustments for the period April 2017 to June 2017.
- (c)** As per proviso to Rule 3(b) of the Clause of Taxation Rules, 2011, the point of taxation in the impugned case would be the date on which bill has been raised i.e. 3.7.2017. Though invoice has been raised in the GST regime, service tax is payable since service has been provided during the currency of the Finance Act, 1994. The date for payment of service tax as per the machinery provision i.e. POTR, 2011 may be

3.7.2017 but the said service would be liable to service tax because the charge u/s 66B gets attracted for the period June 2017. Further as per S.142(11)(b) since if a transaction is *liable* for service tax, then tax would not be payable under the GST Laws. Hence the said amount should be deducted as turnover under this Sl. No. for the period April 2017 to June 2017.

20. (a) **Reporting of Fraud by Cost Accountant:** As per section 143(12) of the Companies Act, 2013 read alongwith Rule 13 of the Companies (Audit and Auditors) Rules, 2014 if an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of ₹ 1 crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government after following the prescribed procedure.

It may be noted that the provisions related to reporting of fraud shall also apply, *mutatis mutandis*, to a cost accountant in practice conducting cost audit under section 148 of the Companies Act, 2013.

In the given case, Mr. Suresh, being the cost auditor of RX Ltd., found misstatement resulting into fraud amounting 1.5 crore committed by the officers of the company, was required to report the fraud to the Central Government which he failed to do so.

- (b) **Advantages of Cost Audit to Government:** Cost Audit will be advantageous to the Government in the following manner-
- (i) Where the Government enters into a cost-plus contract, cost audit helps government to fix the price of the contract at a reasonable level.
  - (ii) Cost audit helps in the fixation of ceiling prices of essential commodities and thus undue profiteering is checked.
  - (iii) Cost audit enables the government to focus its attention on inefficient units.
  - (iv) Cost audit enables the government to decide in favour of giving protection to certain industries.
  - (v) Cost audit facilitates settlement of trade disputes brought to the government.
  - (vi) Cost audit and consequent management action can create a healthy competition among the various units in an industry. This imposes an automatic check on inflation.
21. (a) **Energy Audit** is defined as “the verification, monitoring and analysis of use of energy including submission of technical report containing recommendations for improving energy efficiency with cost benefit analysis and an action plan to reduce energy consumption.

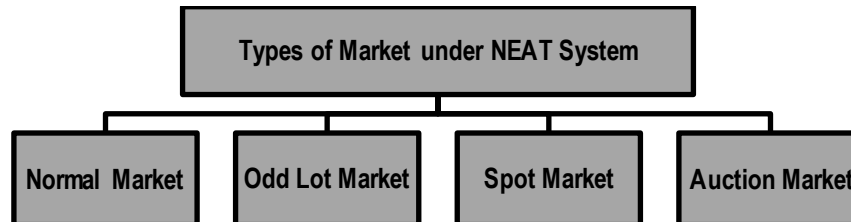
**The following are some of the key functions of the energy auditor:**

- (i) Quantify energy costs and quantities.

- (ii) Correlate trends of production or activity to energy costs.
  - (iii) Devise energy database formats to ensure they depict the correct picture – by product, department, consumer, etc.
  - (iv) Advise and check the compliance of the organisation for policy and regulation aspects.
  - (v) Highlight areas that need attention for detailed investigations.
  - (vi) Conduct preliminary and detailed energy audits which should include the following:
    - (a) Data collection and analysis.
    - (b) Measurements, mass and energy balances.
    - (c) Reviewing energy procurement practices.
    - (d) Identification of energy efficiency projects and techno-economic evaluation.
    - (e) Establishing action plan including energy saving targets, staffing requirements, implementation time requirements, procurement issues, details and cost estimates.
    - (f) Recommendations on goal setting for energy saving, record keeping, reporting and energy accounting, organisation requirements, communications and public relations.
- (b) (i) **Margins:** Margin refers to deposit made by members with the stock exchange authorities. There can be wide fluctuations at the time of settlement in the prices of securities since the closing rate of the earlier settlement. In order to restrict excessive speculation and also to safeguard the interests of the investors, members are required to keep certain deposits with the stock exchange authorities. These deposits are termed 'margins'. The members are required to collect the margin from their clients, wherever applicable, and deposit the amount collected with the Clearing House. Margin is intended to protect the members by providing them with funds to cover anticipated fluctuations in prices of securities, particularly, if the client delays in paying the amount or is unable to meet his commitments. Margins also help prevent excessive speculation as clients would be required to invest some funds and not indulge in speculation without adequate resources. A member is required to pay or deposit different margins such as Gross Exposure Margin, Mark to Market (MTM) Margin, Volatility Margin (VM), Additional Volatility Margin (AVM), Special Margin and Adhoc Margin. The members are required to compute margin payable for all securities traded by them and make the margin payments on the due date to the Stock Exchange authorities. Different types of margins are payable at stipulated time, as decided by the Exchange or Clearing House of the Exchange.



- (ii) **Type of markets under NEAT:** The NEAT system has four main types of market. They are:



**Normal Market:** All orders which are of regular lot size or multiples thereof are traded in the normal market. For shares which are traded in the compulsory dematerialised mode the market lot of these shares is one. Normal market consists of various book types wherein orders are segregated as regular lot orders, special term orders, negotiated trade orders and stop loss orders, depending on their order attributes.

**Odd Lot Market:** An order is called an odd lot order if the order size is less than regular lot size; such orders are traded in the odd-lot market. These orders do not have any special terms or attributes attached to them. In an odd-lot market, both the price and quantity of both the orders (buy and sell) should exactly match for the trade to take place.

**Spot Market:** Spot orders are similar to the normal market orders except that spot orders have different settlement periods vis-à-vis normal market. These orders do not have any special terms or attributes attached to them.

**Auction Market:** In the auction market, auctions are initiated by the Exchange on behalf of trading members for completing the settlement process.

22. (a) **Operational audit,** (functional audit) as it is the audit for the management and involves verifying the effectiveness, efficiency and economy of operations done by the Simony travels for the organisation.

The operational auditor should possess some very essential personal qualities to be effective in his work:

1. In areas beyond accounting and finance, his knowledge ordinarily would be rather scanty and this is a reason which should make him even more inquisitive.
2. He should ask the who, why, how of everything. He should try to visualise whether simpler alternative means are available to do a particular work.
3. He should try to see everything as to whether that properly fits in the business frame and organisational policy. He should be persistent and should possess an attitude of skepticism.
4. He should not give up or feel satisfied easily. He should imbibe a constructive approach rather than a fault-finding approach and should give a feeling that his

efforts are to help attaining an improved operation and not merely fault finding.

5. If the auditor succeeds in giving a feeling of help and assistance through constructive criticism, he will be able to obtain co-operation of the persons who are involved in the operations. This will itself be a tremendous achievement of the operational auditor. He should try to develop a team comprised of people of different backgrounds. Involvement of technical people in operational auditing is generally helpful.
- (b) As per SA 610 Using the Work of Internal Auditor, the external auditor (Statutory Auditor) shall not use internal auditors to provide direct assistance to perform procedures that:
- (a) Involve making significant judgments in the audit;
  - (b) Relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited;
  - (c) Relate to work with which the internal auditors have been involved and which has already been, or will be, reported to management or those charged with governance by the internal audit function; or
  - (d) Relate to decisions the external auditor makes in accordance with this SA regarding the internal audit function and the use of its work or direct assistance.

In the given case where the valuation of accounts receivable is assessed as an area of higher risk, the statutory auditor could assign the checking of the accuracy of the aging to an internal auditor providing direct assistance. However, because the evaluation of the adequacy of the provision based on the aging would involve more than limited judgment, it would not be appropriate to assign that latter procedure to an internal auditor providing direct assistance.

**23. Inventory frauds** - Inventory frauds are many and varied but here we are concerned with misappropriation of goods and their concealment.

- (i) Employees may simply remove goods from the premises.
- (ii) Theft of goods may be concealed by writing them off as damaged goods, etc.
- (iii) Inventory records may be manipulated by employees who have committed theft so that book quantities tally with the actual quantities of inventories in hand.

**Verification Procedure for Defalcation of inventory** - It may be of trading stock, raw materials, manufacturing stores, tools or of other similar items (readily) capable of conversion into cash. The loss may be the result of a theft by an employee once or repeatedly over a long period, when the same have not been detected. Such thefts usually are possible through collusion among a number of persons. Therefore, for their detection,

the entire system of receipts, storage and despatch of all goods, etc. should be reviewed to localise the weakness in the system.

The determination of factors which have been responsible for the theft and the establishment of guilt would be difficult in the absence of:

- (a) a system of inventory control, and existence of detailed record of the movement of inventory, or
- (b) availability of sufficient data from which such a record can be constructed.

The first step in such an investigation is to establish the different items of inventory defalcated and their quantities by checking physically the quantities in inventory held and those shown by the Inventory Book.

Afterwards, all the receipts and issues of inventory recorded in the Inventory Book should be verified by reference to entries in the Goods Inward and Outward Registers and the documentary evidence as regards purchases and sales. This would reveal the particulars of inventory not received but paid for as well as that issued but not charged to customers. Further, entries in respect of returns, both inward and outward, recorded in the financial books should be checked with corresponding entries in the Inventory Book. Also, the totals of the Inventory Book should be checked. Finally, the shortages observed on physical verification of inventory should be reconciled with the discrepancies observed on checking the books in the manner mentioned above. In the case of an industrial concern, issue of raw materials, stores and tools to the factory and receipts of manufactured goods in the godown also should be verified with relative source documents.

Defalcations of inventory, sometimes, also are committed by the management, by diverting a part of production and the consequent shortages in production being adjusted by inflating the wastage in production; similar defalcations of inventories and stores are covered up by inflating quantities issued for production. For detecting such shortages, the investigating accountant should take assistance of an engineer. For that he will be more conversant with factors which are responsible for shortage in production and thus will be able to correctly determine the extent to which the shortage in production has been inflated. In this regard, guidance can also be taken from past records showing the extent of wastage in production in the past. Similarly, he would be able to better judge whether the material issued for production was excessive and, if so to what extent. The per hour capacity of the machine and the time that it took to complete one cycle of production, also would show whether the issues have been larger than those required.

24. (a) **Circulating Information Contained in Own Website:** As per Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

However, the guidelines approved by the Council of the Institute of Chartered Accountants of India permit creation of own website by a chartered accountant in his or his firm name and no standard format or restriction on colours is there. The chartered accountant or firm, as per the guidelines, should ensure that none of the information contained in the website be circulated on their own or through E-mail or by any other mode except on a specific "Pull" request.

Further, members are not required to intimate the Website address to the Institute. Members are only required to comply with the Website Guidelines issued by the Institute in this regard.

In the given case, Mr. Bold has circulated the information contained in the website through E-mail to public at large. Therefore, he is guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the said Act. However, there is no such misconduct for not intimating website address to the Institute.

- (b) Issuing Certificate without having Certificate of Practice:** As per Clause (1) of Part II of Second Schedule to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council.

This clause requires every member of the Institute to act within the framework of the Chartered Accountants Act and the Regulations made thereunder. Any violation either of the Act or the Regulations by a member would amount to misconduct.

In the given case, CA Vineet has issued a certificate in respect of a consumption statement of raw material to the manager of ZedEx (P) Ltd., as a Chartered Accountant in practice when he had not even applied for the CoP to the Institute, thereby contravening the provisions of section 6 of the Chartered Accountants Act, 1949.

Therefore, CA Vineet will be held guilty of professional misconduct in terms of Clause (1) of Part II of Second Schedule to the Chartered Accountants Act, 1949 for contravention of provisions of this Act.

- (c)** The Council of the Institute, while considering the issue whether an internal auditor of an entity can also undertake GST Audit of the same entity as required under the Central Goods and Service Act, 2017, decided, that internal auditor of an assessee, whether working with the organization or independently practising Chartered Accountant being an individual chartered accountant or a firm of chartered accountants, cannot be appointed as his Tax auditor (under the Income Tax Act, 1961). Upon consideration, the Council decided that based on the conflict in roles as statutory and internal auditor simultaneously, the bar on internal auditor of an entity to accept tax audit (under Income Tax Act, 1961) will also be applicable to GST Audit

(under the Central Goods and Service Act, 2017). Accordingly, an Internal Auditor of an entity cannot undertake GST Audit of the same entity.

In the instant case, WCP & Co LLP are the internal auditors of DEF Ltd. and it also agreed to undertake Goods and Service Tax (GST) Audit of DEF Ltd simultaneously. WCP & Co LLP will be held guilty for misconduct.

- (d) **Partnership with an Advocate:** As per Clause (4) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a chartered accountant will be guilty of professional misconduct if he enters into partnership with any person other than a chartered accountant in practice or a person resident without India who but for his residence abroad would be entitled to be registered as a member under Clause (v) of Sub-section (1) of Section 4 or whose qualification are recognized by the Central Government or the Council for the purpose of permitting such partnership.

However, Regulation 53B of the Chartered Accountants Regulations, 1988 permits a Chartered Accountant in practice to enter into partnership with other prescribed Professionals which includes an Advocate, a member of Bar Council of India.

In the instant case, Mr. Prakash, a chartered accountant, has entered into partnership with Mr. Lucky, an advocate.

Thus, he would not be guilty of professional misconduct as per Clause (4) of Part I of First Schedule read with Regulation 53B.

25. (a) **Technical, Ethical and Professional Standards as per Statement on Peer Review:** As per the Statement, Technical, Professional and Ethical Standards means-
1. Accounting Standards issued by ICAI and /or prescribed and notified by the Central Government of India;
  2. Standards issued by the Institute of Chartered Accountants of India including-
    - (i) Engagement standards
    - (ii) Statements
    - (iii) Guidance notes
    - (iv) Standards on Internal Audit
    - (v) Statements on Quality Control
    - (vi) Notifications / Directions / Announcements / Guidelines / Pronouncements/ Professional standards issued from time to time by the Council or any of its committees.
  3. Framework for the Preparation and presentation of financial statements, framework of statements and Standard on Auditing, Standard on Assurance Engagements, Standards on Quality Control and Guidance Notes on related services issued, from time to time, by the Institute of Chartered Accountants of

India and framework for assurance engagements;

4. Provisions of the various relevant statutes and / or regulations which are applicable in the context of the specific engagements being reviewed including instructions, guidelines, notifications, directions issued by regulatory bodies as covered in the scope of assurance engagements.
- (b) The areas covered in comprehensive audit will naturally vary from enterprise to enterprise depending on the nature of the enterprise, its objectives and operations. Some of the broad areas are listed below:
- ◆ Comparison of overall capital cost of the project with the approved planned costs.
  - ◆ Production or operational outputs vis-a-vis under-utilisation of the installed capacity.
  - ◆ Systems of project formulation and implementation.
  - ◆ Planned rate of return.
  - ◆ Cost control measures.
  - ◆ Research and development programmes.
  - ◆ System of repairs and maintenance.
  - ◆ adequate purchase policies.
  - ◆ Effective and economical procedures.
  - ◆ Project planning.
  - ◆ Undue waste, unproductive time for men and machines, wasteful utilisation or even non-utilisation of resources.
- (c) **The main features of a qualified and independent audit committee to be set up under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 are as follows:**
1. The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors;
  2. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise;
- Explanation (i): The term “financially literate” means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.
- Explanation (ii): A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other

comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

3. The Chairperson of the Audit Committee shall be an independent director;
  4. The Chairperson of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries;
  5. The Audit Committee at its discretion shall invite the finance director or the head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee; provided that occasionally, the Audit Committee may meet without the presence of any executives of the listed entity.;
  6. The Company Secretary shall act as the secretary to the committee.
- (d) **Powers and duties of an auditor of a Multi-state Cooperative Society:** Under Section 73 of the Multi-State Cooperative Societies Act, 2002 every auditor of a multi-State Co-operative Society shall have a right of access at all times to the books, accounts and vouchers of the Multi-State Co-operative Society whether kept at the head office of the Multi-State Co-operative Society or elsewhere and shall be entitled to require from the officers or other employees of the Multi-State Co-operative Society such information and explanation as the auditor may think necessary for the performance of the duties as an auditor.

As per section 73 (2) the auditor shall make the following inquiries:

- (i) Whether loans and advances made by the Multi-State Co-operative Society on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the Multi-State Co-operative or its members;
- (ii) Whether transactions of the Multi-State Co-operative Society which are represented merely by book entries are not prejudicial to the interest of the Multi-State Co-operative Society;
- (iii) Whether personal expenses have been charged to revenue account; and
- (iv) Where it is stated in the books and papers of the Multi-State Co-operative Society that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

## PAPER – 4 : CORPORATE AND ALLIED LAWS

### PART – I: RELEVANT AMENDMENTS APPLICABLE FOR MAY 2019 EXAMINATION

#### (A) Applicability of Relevant Amendments/ Circulars/ Notifications/ Regulations etc.

For May 2019 examinations for Paper 4: Corporate and Allied Laws, the significant amendments made upto 31<sup>st</sup> October, 2018 are relevant.

**Relevant publications:** Students are advised to refer the following publications -

1	Study Material (Revised edition June 2018) containing Legislative amendments made upto 30 <sup>th</sup> April, 2018.
2	RTP of May 2019 examination containing a gist of all the significant legislative amendments of one year i.e. from 1 <sup>st</sup> May 2018 to 31 <sup>st</sup> October, 2018 along with the suggested sample questions and answers for understanding and practice.

**Relevant amendments:** Given here are the relevant amendments which shall be read in line with the principal Act. These amendments are arranged chapter wise as per the study material for the convenience of the students

#### SECTION A: COMPANY LAW

##### CHAPTER 2: ACCOUNTS AND AUDIT

#### 1. Enforcement of the *Companies (Audit and Auditors) second Amendment Rules, 2018* vide Notification G.S.R. 432 (E) dated 7<sup>th</sup> May 2018

The Central Government makes the *Companies (Audit and Auditors) second Amendment Rules, 2018* to amend the *Companies (Audit and Auditors) Rules, 2014*.

In the *Companies (Audit and Auditors) Rules, 2014*,

- (i) In **rule 3** which deals with the **Manner and Procedure of selection and appointment of auditors**, following at the amendments:
  - (a) Explanation shall be omitted.
  - (b) proviso to sub-rule (7) shall be omitted.
- (ii) In the principal rules, **rule 9** which deals with the **Liability to devolve on concerned partners** only, shall be omitted.
- (iii) In the principal rules, in **rule 10A** i.e., related to **Internal Financial controls system**, for the words "adequate internal financial controls system", the words "internal financial controls with reference to financial statements" shall be substituted.
- (iv) In the principal rules, in **rule 14** which deals with **the remuneration of the cost auditor**, following are the changes-
  - (a) in clause (a), in sub-clause (i), for the words, "who is a cost accountant in practice", the words "who is a cost accountant" shall be substituted;



(b) in clause (b) for the words "who is a cost accountant in practice", the words "who is a cost accountant" shall be substituted.

**2. Enforcement of the Companies (Accounts) Amendment Rules, 2018 vide Notification G.S.R. 725(E) dated 31<sup>st</sup> July, 2018**

The Central Government makes the *Companies (Accounts) Amendment Rules, 2018* to amend the *Companies (Accounts) Rules, 2014*.

*In the Companies (Accounts) Rules, 2014,*

(i) In sub-rule (5) of **Rule 8** which deals with the **Matters to be included in Board's report**, after clause (vii) the following clauses shall be inserted, namely:-

“(ix) a disclosure, as to whether maintenance of cost records as specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013, is required by the Company and accordingly such accounts and records are made and maintained,

(x) a statement that the company has complied with provisions relating to the constitution of Internal Complaints Committee under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 [14 of 2013],”

(ii) after sub-rule (5), the following **Sub Rule (6)**, rule shall be inserted, namely:-

“(6) This rule shall not apply to One Person Company or Small Company”.

(iii) after rule 8, the following **rule 8A** shall be inserted, namely:-

“8A. Matters to be included in Board's Report for One Person Company and Small Company-

(1) The Board's Report of One Person Company and Small Company shall be prepared based on the stand alone financial statement of the company, which shall be in abridged form and contain the following:-

- (a) the web address, if any, where annual return referred to in sub-section (3) of section 92 has been placed;
- (b) number of meetings of the Board;
- (c) Directors' Responsibility Statement as referred to in sub-section (5) of section 134;
- (d) details in respect of frauds reported by auditors under sub-section (12) of section 143 other than those which are reportable to the Central Government;
- (e) explanations or comments by the Board on every qualification, reservation or adverse remark or disclaimer made by the auditor in his report;
- (f) the state of the company's affairs;

- (g) the financial summary or highlights;
- (h) material changes from the date of closure of the financial year in the nature of business and their effect on the financial position of the company;
- (i) the details of directors who were appointed or have resigned during the year;
- (j) the details or significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and company's operations in future.

(2) The Report of the Board shall contain the particulars of contracts or arrangements with related parties referred to in sub-section (1) of section 188 in the Form AOC-2."

**3. Enforcement of the *Companies (Corporate Social Responsibility Policy) Amendment Rules, 2018* vide Notification G.S.R. 865 (E) dated 19<sup>th</sup> September, 2018**

The Central Government makes *the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2018* to amend the *Companies (Corporate Social Responsibility Policy) Rules, 2014*.

In *Companies (Corporate Social Responsibility Policy) Rules, 2014*,

- (i) in **rule 2** which deals with the **definitions**, -
  - (a) in sub-rule (1), in sub-clause (i) of clause (c) which defines "Corporate Social Responsibility (CSR)", after the words "relating to activities", the words ", areas or subjects" shall be inserted;
  - (b) in sub-rule (1), in sub-clause (ii) of clause (c), for the words "cover subjects enumerated", the words "include activities, areas or subjects specified" shall be substituted;
  - (c) in sub-rule (1), in clause (e) which defines "CSR Policy", for the words "company as", the words "company in areas or subjects" shall be substituted.
- (ii) in **rule 5** which deals with the "**CSR Committees**", in clause (i) of sub rule (1), for the words "an unlisted public company or a private company", the words "a company" shall be substituted.
- (iii) In **rule 6** which states of **CSR Policy**, following are the changes-
  - (a) in sub-rule (1), in clause (a), for the words "falling within the purview of" the words "areas or subjects specified in" shall be substituted;
  - (b) in sub-rule (1), in second proviso to clause (b), for the words, "activities included in Schedule VII" the words "areas or subjects specified in Schedule VII" shall be substituted.

(iv) in rule 7 i.e., “**CSR Expenditure**”, for the words, “purview of”, the words “areas or subjects, specified in” shall be substituted.

#### 4. Constitution of NFRA

The Central Government vide Notification No. S.O. 5099(E) appoints the 1<sup>st</sup> October, 2018 as the date of constitution of National Financial Reporting Authority.

#### 5. Enforcement of sub-sections (2), (4), (5), (10), (13), (14) and (15) of section 132 i.e., related “Constitution of National Financial Reporting Authority” of the Companies Act, 2013

The Central Government vide Notification S.O. 5385(E) appoints the 24<sup>th</sup> October, 2018 as the date on which the sub-sections (2), (4), (5), (10), (13), (14) and (15) of section 132 of the Companies Act, 2013 shall come into force.

#### 6. Amendments through the Companies (Amendment) Act, 2017

Relevant sections	Amendment
Amendment of section 129 (Financial statement)	In section 129 of the principal Act, for <b>sub-section (3)</b> , the following sub-section shall be substituted, namely:— “(3) Where a company has one or more subsidiaries or associate companies, it shall, in addition to financial statements provided under sub-section (2), prepare a consolidated financial statement of the company and of all the subsidiaries and associate companies in the same form and manner as that of its own and in accordance with applicable accounting standards, which shall also be laid before the annual general meeting of the company along with the laying of its financial statement under sub-section (2): Provided that the company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries and associate company or companies in such form as may be prescribed: Provided further that the Central Government may provide for the consolidation of accounts of companies in such manner as may be prescribed.”
Amendment of section 134 (Financial statement, Board's report, etc)	In section 134 of the principal Act,— (a) for <b>sub-section (1)</b> , the following sub-section shall be substituted, namely:— “(1) The financial statement, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on

	<p>behalf of the Board by the chairperson of the company where he is authorised by the Board or by two directors out of which one shall be managing director, if any, and the Chief Executive Officer, the Chief Financial Officer and the company secretary of the company, wherever they are appointed, or in the case of One Person Company, only by one director, for submission to the auditor for his report thereon.";</p> <p>(b) in <b>sub-section (3)</b>,—</p> <p>(i) for clause (a), the following clause shall be substituted, namely:—  "(a) the web address, if any, where annual return referred to in sub-section (3) of section 92 has been placed;"</p> <p>(ii) in clause (p), for the words "annual evaluation has been made by the Board of its own performance and that of its committees and individual directors", the words "annual evaluation of the performance of the Board, its Committees and of individual directors has been made" shall be substituted;</p> <p>(iii) after clause (q), the following provisos shall be inserted, namely:—  "Provided that where disclosures referred to in this sub-section have been included in the financial statements, such disclosures shall be referred to instead of being repeated in the Board's report:  Provided further that where the policy referred to in clause (e) or clause (o) is made available on company's website, if any, it shall be sufficient compliance of the requirements under such clauses if the salient features of the policy and any change therein are specified in brief in the Board's report and the web-address is indicated therein at which the complete policy is available.";</p> <p>(c) after sub-section (3), the following <b>sub-section 3A</b> shall be inserted, namely:— "(3A) The Central Government may prescribe an abridged Board's report, for the purpose of compliance with this section by One Person Company or small company."</p>
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<p>Amendment of section 135 (Corporate Social Responsibility)</p>	<p>In section 135 of the principal Act,—</p> <p>(i) in <b>sub-section (1)</b>,—</p> <p>(a) for the words "any financial year", the words "the immediately preceding financial year" shall be substituted;</p> <p>(b) the following proviso shall be inserted, namely:— "Provided that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its Corporate Social Responsibility Committee two or more directors.";</p> <p>(ii) in <b>sub-section (3)</b>, in clause (a), for the words and figures "as specified in Schedule VII", the words and figures "in areas or subject, specified in Schedule VII" shall be substituted;</p> <p>(iii) in <b>sub-section (5)</b>, for the Explanation, the following Explanation shall be substituted, namely:— 'Explanation.—For the purposes of this section "net profit" shall not include such sums as may be prescribed, and shall be calculated in accordance with the provisions of section 198.'</p>
<p>Amendment of section 137 (Copy of financial statement* to be filed with Registrar).</p>	<p>In section 137 of the principal Act,—</p> <p>(i) in <b>sub-section (1)</b>,—</p> <p>(a) the words and figures "within the time specified under section 403" shall be omitted;</p> <p>(b) in the second proviso, the words and figures "within the time specified under section 403" shall be omitted;</p> <p>(c) after the fourth proviso, the following proviso shall be inserted, namely:— 'Provided also that in the case of a subsidiary which has been incorporated outside India (herein referred to as "foreign subsidiary"), which is not required to get its financial statement audited under any law of the country of its incorporation and which does not get such financial statement audited, the requirements of the fourth proviso shall be met if the holding Indian company files such unaudited financial statement along with a declaration to this effect and where such financial statement is in a language other than English, along with a translated copy of the financial statement in English.'</p>

	(ii) in sub-section (2), the words and figures "within the time specified, under section 403" shall be omitted;
	(iii) in sub-section (3), for the words and figures "in section 403", the word "therein" shall be substituted.
Amendment of section 139 (Appointment of auditors).	In section 139 of the principal Act, in <b>sub-section (1)</b> , the first proviso shall be omitted.

### CHAPTER 3-APPOINTMENT AND QUALIFICATION OF DIRECTORS

#### 1. Enforcement of the *Companies (Appointment and Qualification of Directors) Second Amendment Rules, 2018* vide Notification G.S.R. 431(E) dated 7th May 2018

The Central Government makes the *Companies (Appointment and Qualification of Directors) Second Amendment Rules, 2018* to amend the *Companies (Appointment and Qualification of Directors) Rules, 2014*.

In the *Companies (Appointment and Qualification of Directors) Rules, 2014*,

- (a) **rule 5** which deals with the Qualifications of Independent director, shall be numbered as sub-rule (1) thereof, and after sub-rule (1) as so numbered, the following sub-rule shall be inserted, namely:-

"(2) None of the relatives of an independent director, for the purposes of sub-clauses (ii) and (iii) of clause (d) of sub-section (6) of section 149,-

- (i) is indebted to the company, its holding, subsidiary or associate company or their promoters, or directors; or
- (ii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, its holding, subsidiary or associate company or their promoters, or directors of such holding company, for an amount of fifty lakhs rupees, at any time during the two immediately preceding financial years or during the current financial year."

- (b) In the principal rules, in **rule 16** which deals with the **copy of resignation of director to be forwarded by him**, for the word "shall", the word "may" shall be substituted.

#### 2. Enforcement of the *Companies (Appointment and Qualification of Directors) Third Amendment Rules, 2018* vide Notification G.S.R. 558 (E) dated 12th June 2018

The Central Government makes the *Companies (Appointment and Qualification of Directors) Third Amendment Rules, 2018* to amend the *Companies (Appointment and Qualification of Directors) Rules, 2014*.

In the *Companies (Appointment and Qualification of Directors) Rules, 2014*, in the annexure, for form DIR-3 which deals with the Application for allotment of Director Identification Number, a new form shall be substituted.

**3. Enforcement of the *Companies (Appointment and Qualification of Directors) fourth Amendment Rules, 2018* vide Notification G.S.R. 615(E) w.e.f. 10<sup>th</sup> July, 2018**

The Central Government makes the *Companies (Appointment and Qualification of Directors) Fourth Amendment Rules, 2018* to amend the *Companies (Appointment and Qualification of Directors) Rules, 2014*.

In *Companies (Appointment and Qualification of Directors) Rules, 2014*,

- (i) The **rule 11** (related to cancellation or surrender or deactivation of DIN) shall be renumbered as sub-rule (1) thereof and after sub-rule (1) as so renumbered, the following sub-rules shall be inserted, namely:-

"(2) The Central Government or Regional Director (Northern Region), or any officer authorised by the Central Government or Regional Director (Northern Region) shall, deactivate the Director Identification Number (DIN), of an individual who does not intimate his particulars in e-form DIR-3-KYC within stipulated time in accordance with Rule 12A.

(3) The de-activated DIN shall be re-activated only after e-form DIR-3-KYC is filed along with fee as prescribed under *Companies (Registration Offices and Fees) Rules, 2014*.

- (ii) after rule 12, the following **rule 12A** shall be inserted, namely:-

"12A Directors KYC:- Every individual who has been allotted a Director Identification Number (DIN) as on 31<sup>st</sup> March of a financial year as per these rules shall, submit e-form DIR-3-KYC to the Central Government on or before 30<sup>th</sup> April of immediate next financial year.

Provided that every individual who has already been allotted a Director Identification Number (DIN) as at 31<sup>st</sup> March, 2018, shall submit e-form DIR-3 KYC on or before 31<sup>st</sup> August, 2018.";

- (iii) In the Annexure after Form DIR-3 the Form DIR-3-KYC shall be inserted.

**4. Enforcement of the *Companies (Appointment and Qualification of Directors) Fifth Amendment Rules, 2018* vide Notification G.S.R. 798 (E) dated 21st August 2018**

The Central Government makes the *Companies (Appointment and Qualification of Directors) Fifth Amendment Rules, 2018* to amend the *Companies (Appointment and Qualification of Directors) Rules, 2014*.

In the *Companies (Appointment and Qualification of Directors) Rules, 2014*,

- (i) in the proviso to **rule 12A** i.e., Directors KYC, for the words and numbers "DIR-3 KYC on or before 31st August, 2018, the words and numbers "DIR-3 KYC on or before 15th September, 2018" shall be substituted.

- (ii) in the Annexure, for Form No.DIR-3 KYC, a new Form shall be substituted.

**5. Enforcement of the Companies (Appointment and Qualification of Directors) Sixth Amendment Rules, 2018 vide Notification G.S.R. 904(E) dated 20th September 2018**

The Central Government makes the *Companies (Appointment and Qualification of Directors) Sixth Amendment Rules, 2018* to amend the *Companies (Appointment and Qualification of Directors) Rules, 2014*.

In the *Companies (Appointment and Qualification of Directors) Rules, 2014*, in the proviso to **rule 12A**, for the words and figures "before 15th September, 2018," the words and figures "**before 5th October, 2018**" shall be substituted.

**6. Amendments through the Companies (Amendment) Act, 2017**

Relevant sections	Amendment
Amendment of section 149 (Company to have board of directors)	<p>In section 149 of the principal Act,—</p> <p>(i) for <b>sub-section (3)</b>, the following sub-section shall be substituted, namely:—            "(3) Every company shall have at least one director who stays in India for a total period of not less than one hundred and eighty-two days during the financial year:            Provided that in case of a newly incorporated company the requirement under this sub-section shall apply proportionately at the end of the financial year in which it is incorporated.";</p> <p>(ii) in <b>sub-section (6)</b>,—</p> <p>(a) in clause (c), for the words "pecuniary relationship", the words "pecuniary relationship, other than remuneration as such director or having transaction not exceeding ten per cent. of his total income or such amount as may be prescribed," shall be substituted;</p> <p>(b) for clause (d), the following clause shall be substituted, namely:—            "(d) none of whose relatives—            (i) is holding any security of or interest in the company, its holding, subsidiary or associate company during the two immediately preceding financial years or during the current financial year:            Provided that the relative may hold security or interest in the company of face value not exceeding fifty lakh rupees or two per cent. of the paid-up capital of the company, its holding,</p>



	<p>subsidiary or associate company or such higher sum as may be prescribed;</p> <p>(ii) is indebted to the company, its holding, subsidiary or associate company or their promoters, or directors, in excess of such amount as may be prescribed during the two immediately preceding financial years or during the current financial year;</p> <p>(iii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, its holding, subsidiary or associate company or their promoters, or directors of such holding company, for such amount as may be prescribed during the two immediately preceding financial years or during the current financial year; or</p> <p>(iv) has any other pecuniary transaction or relationship with the company, or its subsidiary, or its holding or associate company amounting to two per cent. or more of its gross turnover or total income singly or in combination with the transactions referred to in sub-clause (i), (ii) or (iii);"</p> <p>(c) in clause (e), in sub-clause (i), the following proviso shall be inserted, namely:— "Provided that in case of a relative who is an employee, the restriction under this clause shall not apply for his employment during preceding three financial years."</p>
Amendment of Section 157 (Company to inform DIN to registrar)	<p>In section 157 of the principal Act,—</p> <p>(i) in <b>sub-section (1)</b>, the words and figures, "within the time specified under section 403" shall be omitted;</p> <p>(ii) in <b>sub-section (2)</b>, the words and figures, "before the expiry of the period specified under section 403 with additional fee", shall be omitted.</p>
Amendment of section 164 (Disqualifications for appointment of director")	<p>In section 164 of the principal Act,—</p> <p>(i) in <b>sub-section (2)</b>, the following proviso shall be inserted, namely:— "Provided that where a person is appointed as a director of a company which is in default of clause (a) or clause (b), he shall not incur the disqualification for a period of six months from the date of his appointment.";</p>

	<p>(ii) in <b>sub-section (3)</b>, for the proviso, the following proviso shall be substituted, namely:—</p> <p>"Provided that the disqualifications referred to in clauses (d), (e) and (g) of sub-section (1) shall continue to apply even if the appeal or petition has been filed against the order of conviction or disqualification."</p>
Amendment of section 167 (Vacations of office of director).	<p>In section 167 of the principal Act, in <b>sub-section (1)</b>,—</p> <p>(i) in clause (a), the following proviso shall be inserted, namely:—</p> <p>"Provided that where he incurs disqualification under sub-section (2) of section 164, the office of the director shall become vacant in all the companies, other than the company which is in default under that sub-section.";</p> <p>(ii) in clause (f), for the proviso the following proviso shall be substituted, namely,—</p> <p>"Provided that the office shall not be vacated by the director in case of orders referred to in clauses (e) and (f)—</p> <p>(i) for thirty days from the date of conviction or order of disqualification;</p> <p>(ii) where an appeal or petition is preferred within thirty days as aforesaid against the conviction resulting in sentence or order, until expiry of seven days from the date on which such appeal or petition is disposed of; or</p> <p>(iii) where any further appeal or petition is preferred against order or sentence within seven days, until such further appeal or petition is disposed of."</p>
Amendment of Section 168 (Resignation of Director)	<p>In section 168 of the principal Act, in <b>sub-section (1)</b>, in the proviso, for the words, "director shall also forward", the words "director may also forward" shall be substituted.</p>

#### CHAPTER 4: APPOINTMENT AND REMUNERATION OF MANAGERIAL PERSONNEL

##### 1. Enforcement of the *Companies (Appointment and Remuneration of Managerial Personnel) Amendment Rules, 2018* vide Notification G.S.R 875(E) dated 12th September 2018

The Central Government makes the *Companies (Appointment and Remuneration of Managerial Personnel) Amendment Rules, 2018* to amend the *Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014*. This amendment has omitted the requirement of approval of the Central Government for making payment of

remuneration to the Managerial personnel (in case of inadequacy of profit) and accordingly e-form MR-2 has also been amended.

In *Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014*,

- (i) in **rule 6** which deals with the Parameters for consideration of remuneration, following are the amendments:
- (a) for the heading 'application to the Central Government' the heading 'Parameters for consideration of remuneration' shall be substituted.
  - (b) the words 'Central Government' shall be omitted.
- (ii) in **rule 7** i.e., related to Fees, sub-rule (2) shall be omitted
- (iii) for form no.MR-2, a new form MR-2 shall be substituted.

### 2. Amendment in Schedule V to the Companies Act, 2013

The Central Government vide Notification No. S.O. 4822(E) dated 12th September 2018 has amended the Schedule V to the Companies Act, 2013.

### 3. Amendments through the Companies (Amendment) Act, 2017

Relevant Sections	Amendment
Amendment of section 196 (Appointment of MD, WTD, Manager)	In section 196 of the principal Act,— (a) in <b>sub-section (3)</b> , in clause (a), after the proviso, the following proviso shall be inserted, namely:— "Provided further that where no such special resolution is passed but votes cast in favour of the motion exceed the votes, if any, cast against the motion and the Central Government is satisfied, on an application made by the Board, that such appointment is most beneficial to the company, the appointment of the person who has attained the age of seventy years may be made."; (b) in <b>sub-section (4)</b> , for the words "specified in that Schedule", the words "specified in Part I of that Schedule" shall be substituted.
Amendment of Section 197 (Overall maximum managerial remuneration and managerial remuneration in case of absence or	In section 197 of the principal Act,— (a) in <b>sub-section (1)</b> ,— (i) in the first proviso, the words "with the approval of the Central Government," shall be omitted; (ii) in the second proviso, after the words "general meeting," the words "by a special resolution," shall be inserted; (iii) after the second proviso, the following proviso shall be inserted, namely:—

<p>inadequacy of profits)</p>	<p>"Provided also that, where the company has defaulted in payment of dues to any bank or public financial institution or non-convertible debenture holders or any other secured creditor, the prior approval of the bank or public financial institution concerned or the non-convertible debenture holders or other secured creditor, as the case may be, shall be obtained by the company before obtaining the approval in the general meeting.";</p> <p>(b) in <b>sub-section (3)</b>, the words "and if it is not able to comply with such provisions, with the previous approval of the Central Government" shall be omitted;</p> <p>(c) for <b>sub-section (9)</b>, the following sub-section shall be substituted, namely:—  "(9) If any director draws or receives, directly or indirectly, by way of remuneration any such sums in excess of the limit prescribed by this section or without approval required under this section, he shall refund such sums to the company, within two years or such lesser period as may be allowed by the company, and until such sum is refunded, hold it in trust for the company.";</p> <p>(d) in <b>sub-section (10)</b>,—  (i) for the words "permitted by the Central Government", the words "approved by the company by special resolution within two years from the date the sum becomes refundable" shall be substituted;  (ii) the following proviso shall be inserted, namely:—  "Provided that where the company has defaulted in payment of dues to any bank or public financial institution or non-convertible debenture holders or any other secured creditor, the prior approval of the bank or public financial institution concerned or the non-convertible debenture holders or other secured creditor, as the case may be, shall be obtained by the company before obtaining approval of such waiver.";</p> <p>(e) in <b>sub-section (11)</b>, the words "and if such conditions are not being complied, the approval of the Central Government had been obtained" shall be omitted;</p> <p>(f) after <b>sub-section (15)</b>, the following sub-sections shall be inserted, namely:—</p>
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	<p>"(16) The auditor of the company shall, in his report under section 143, make a statement as to whether the remuneration paid by the company to its directors is in accordance with the provisions of this section, whether remuneration paid to any director is in excess of the limit laid down under this section and give such other details as may be prescribed.</p> <p>(17) On and from the commencement of the Companies (Amendment) Act, 2017, any application made to the Central Government under the provisions of this section [as it stood before such commencement], which is pending with that Government shall abate, and the company shall, within one year of such commencement, obtain the approval in accordance with the provisions of this section, as so amended."</p>
Amendment of Section 198 (Calculations of Profits)	<p>In section 198 of the principal Act,—</p> <p>(i) in <b>sub-section (3)</b>,—</p> <p>(a) in clause (a), after the words "sold by the company", the words, letter, brackets and figures "unless the company is an investment company as referred to in clause (a) of the Explanation to section 186" shall be inserted;</p> <p>(b) after clause (e), the following clause (f) shall be inserted, namely:—</p> <p>"(f) any amount representing unrealised gains, notional gains or revaluation of assets.";</p> <p>(ii) in <b>sub-section (4)</b>, in clause (l), the words "which begins at or after the commencement of this Act" shall be omitted.</p>
Amendment of section 200 (Central Government or company to fix limit with regard to remuneration).	<p>In section 200 of the principal Act, the words "the Central Government or" appearing at both the places shall be omitted.</p>
Amendment of section 201 (Forms of, and procedure in relation to, certain applications).	<p>In section 201 of the principal Act,—</p> <p>(a) in <b>sub-section (1)</b>, for the words "this Chapter", the word and figures "section 196" shall be substituted;</p> <p>(b) in <b>sub-section (2)</b>, in clause (a), for the words "any of the sections aforesaid", the word and figures "section 196" shall be substituted.</p>

## CHAPTER 5 : MEETING OF BOARD AND ITS POWERS

### 1. Enforcement of the *Companies (Meetings of Board and its Powers) Amendment Rules, 2018* vide Notification G.S.R. 429 (E) dated 7th May, 2018

The Central Government makes the *Companies (Meetings of Board and its Powers) Amendment Rules, 2018* to amend the *Companies (Meetings of Board and its Powers) Rules, 2014*.

In *Companies (Meetings of Board and its Powers) Rules, 2014*,

- (i) in **rule 4** i.e., **related the matters not to be dealt with in a meeting through video conferencing or other audio visual means**, the following proviso shall be inserted, namely:-

“Provided that where there is quorum in a meeting through physical presence of directors, any other director may participate through video conferencing or other audio visual means.”

- (ii) In the principal rules, in **rule 6** related to the **Committees to the Board**, for the words “every listed company”, the words “every listed public company” shall be substituted.

- (iii) In the principal rules, for **rule 13** i.e. related to the **Special Resolution**, the following rule shall be substituted, namely:-

“13. Special Resolution- A resolution passed at a general meeting in terms of sub-section (3) of section 186 to give any loan or guarantee or investment or providing any security or the acquisition under sub-section (2) of section 186 shall specify the total amount up to which the Board of Directors are authorised to give such loan or guarantee, to provide such security or make such acquisition:

Provided that the company shall disclose to the members in the financial statement the full particulars in accordance with the provisions of sub-section (4) of section 186.”

### 2. Amendments through the *Companies (Amendment) Act, 2017*

Relevant sections	Amendment
Amendment of section 173 (Meetings of Board)	In section 173 of the principal Act, in <b>sub-section (2)</b> , after the first proviso, the following proviso shall be inserted, namely:— "Provided further that where there is quorum in a meeting through physical presence of directors, any other director may participate through video conferencing or other audio visual means in such meeting on any matter specified under the first proviso."
Amendment of section 177 (Audit Committee).	In section 177 of the principal Act,—

	<p>(i) in <b>sub-section (1)</b>, for the words "every listed company", the words "every listed public company" shall be substituted;</p> <p>(ii) in <b>sub-section (4)</b>, in clause (iv), after the proviso, the following provisos shall be inserted, namely:—  "Provided further that in case of transaction, other than transactions referred to in section 188, and where Audit Committee does not approve the transaction, it shall make its recommendations to the Board:  Provided also that in case any transaction involving any amount not exceeding one crore rupees is entered into by a director or officer of the company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee and if the transaction is with the related party to any director or is authorised by any other director, the director concerned shall indemnify the company against any loss incurred by it:  Provided also that the provisions of this clause shall not apply to a transaction, other than a transaction referred to in section 188, between a holding company and its wholly owned subsidiary company."</p>
Amendment of Section 178 (Nomination and Remuneration Committee and stake holders Relationship committee)	<p>In section 178 of the principal Act,—</p> <p>(i) in <b>sub-section (1)</b>, for the words "every listed company", the words "every listed public company" shall be substituted;</p> <p>(ii) in <b>sub-section (2)</b>, for the words "shall carry out evaluation of every director's performance", the words "shall specify the manner for effective evaluation of performance of Board, its committees and individual directors to be carried out either by the Board, by the Nomination and Remuneration Committee or by an independent external agency and review its implementation and compliance" shall be substituted;</p> <p>(iii) in <b>sub-section (4)</b>, in clause (c), for the proviso, the following proviso shall be substituted, namely:—</p>

	<p>"Provided that such policy shall be placed on the website of the company, if any, and the salient features of the policy and changes therein, if any, along with the web address of the policy, if any, shall be disclosed in the Board's report.";</p> <p>(iv) in <b>sub-section (8)</b>, in the proviso, for the words "non-consideration of resolution of any grievance", the words "inability to resolve or consider any grievance" shall be substituted.</p>
<p>Substitution of new section for section 185. (Loan to Directors)</p>	<p>For <b>section 185</b> of the principal Act, the following section shall be substituted, namely:—</p> <p>'185. (1) No company shall, directly or indirectly, advance any loan, including any loan represented by a book debt to, or give any guarantee or provide any security in connection with any loan taken by,—</p> <p>(a) any director of company, or of a company which is its holding company or any partner or relative of any such director; or</p> <p>(b) any firm in which any such director or relative is a partner.</p> <p>(2) A company may advance any loan including any loan represented by a book debt, or give any guarantee or provide any security in connection with any loan taken by any person in whom any of the director of the company is interested, subject to the condition that—</p> <p>(a) a special resolution is passed by the company in general meeting:</p> <p>Provided that the explanatory statement to the notice for the relevant general meeting shall disclose the full particulars of the loans given, or guarantee given or security provided and the purpose for which the loan or guarantee or security is proposed to be utilised by the recipient of the loan or guarantee or security and any other relevant fact; and</p> <p>(b) the loans are utilised by the borrowing company for its principal business activities.</p> <p><i>Explanation.</i>—For the purposes of this sub-section, the expression "any person in whom any of the director of the company is interested" means—</p>



	<p>(a) any private company of which any such director is a director or member;</p> <p>(b) any body corporate at a general meeting of which not less than twenty-five per cent. of the total voting power may be exercised or controlled by any such director, or by two or more such directors, together; or</p> <p>(c) any body corporate, the Board of directors, managing director or manager, whereof is accustomed to act in accordance with the directions or instructions of the Board, or of any director or directors, of the lending company.</p> <p>(3) Nothing contained in sub-sections (1) and (2) shall apply to—</p> <p>(a) the giving of any loan to a managing or whole-time director—</p> <p style="padding-left: 20px;">(i) as a part of the conditions of service extended by the company to all its employees; or</p> <p style="padding-left: 20px;">(ii) pursuant to any scheme approved by the members by a special resolution; or</p> <p>(b) a company which in the ordinary course of its business provides loans or gives guarantees or securities for the due repayment of any loan and in respect of such loans an interest is charged at a rate not less than the rate of prevailing yield of one year, three years, five years or ten years Government security closest to the tenor of the loan; or</p> <p>(c) any loan made by a holding company to its wholly owned subsidiary company or any guarantee given or security provided by a holding company in respect of any loan made to its wholly owned subsidiary company; or</p> <p>(d) any guarantee given or security provided by a holding company in respect of loan made by any bank or financial institution to its subsidiary company:</p> <p>Provided that the loans made under clauses (c) and (d) are utilized by the subsidiary company for its principal business activities.</p>
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	<p>(4) If any loan is advanced or a guarantee or security is given or provided or utilised in contravention of the provisions of this section,—</p> <p>(i) the company shall be punishable with fine which shall not be less than five lakh rupees but which may extend to twenty-five lakh rupees;</p> <p>(ii) every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than five lakh rupees but which may extend to twenty-five lakh rupees; and</p> <p>(iii) the director or the other person to whom any loan is advanced or guarantee or security is given or provided in connection with any loan taken by him or the other person, shall be punishable with imprisonment which may extend to six months or with fine which shall not be less than five lakh rupees but which may extend to twenty-five lakh rupees, or with both.'</p>
<p>Amendment of section 186 (Loan and investment by company).</p>	<p>In section 186 of the principal Act,—</p> <p>(i) in <b>sub-section (2)</b>, the following Explanation shall be inserted, namely:— <i>Explanation.</i>—For the purposes of this sub-section, the word "person" does not include any individual who is in the employment of the company.;</p> <p>(ii) for <b>sub-section (3)</b>, the following sub-section shall be substituted, namely:— '(3) Where the aggregate of the loans and investment so far made, the amount for which guarantee or security so far provided to or in all other bodies corporate along with the investment, loan, guarantee or security proposed to be made or given by the Board, exceed the limits specified under sub-section (2), no investment or loan shall be made or guarantee shall be given or security shall be provided unless previously authorised by a special resolution passed in a general meeting: Provided that where a loan or guarantee is given or where a security has been provided by a company to its wholly owned subsidiary</p>

	<p>company or a joint venture company, or acquisition is made by a holding company, by way of subscription, purchase or otherwise of, the securities of its wholly owned subsidiary company, the requirement of this sub-section shall not apply.</p> <p>Provided further that the company shall disclose the details of such loans or guarantee or security or acquisition in the financial statement as provided under sub-section (4).”.</p> <p>(iii) for <b>sub-section (11)</b>, the following sub-section shall be substituted, namely:—</p> <p>“(11) Nothing contained in this section, except sub-section (1), shall apply—</p> <p>(a) to any loan made, any guarantee given or any security provided or any investment made by a banking company, or an insurance company, or a housing finance company in the ordinary course of its business, or a company established with the object of and engaged in the business of financing industrial enterprises, or of providing infrastructural facilities;</p> <p>(b) to any investment—</p> <p>(i) made by an investment company;</p> <p>(ii) made in shares allotted in pursuance of clause (a) of sub-section (1) of section 62 or in shares allotted in pursuance of rights issues made by a body corporate;</p> <p>(iii) made, in respect of investment or lending activities, by a non-banking financial company registered under Chapter III-B of the Reserve Bank of India Act, 1934 and whose principal business is acquisition of securities.”;</p> <p>(iv) in the <b>Explanation</b>, in <b>clause (a)</b>, after the words "other securities" the following shall be inserted, namely:—</p> <p>"and a company will be deemed to be principally engaged in the business of acquisition of shares,</p>
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	debentures or other securities, if its assets in the form of investment in shares, debentures or other securities constitute not less than fifty per cent. of its total assets, or if its income derived from investment business constitutes not less than fifty per cent. as a proportion of its gross income."
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#### CHAPTER 15: NATIONAL COMPANY LAW TRIBUNAL AND APPELLATE TRIBUNAL

##### Amendments through the Companies (Amendment) Act, 2017

Relevant sections	Amendment
Amendment of section 410 (Constitution of Appellate Tribunal)	In <b>section 410</b> of the principal Act, for the words "orders of the Tribunal", the words "orders of the Tribunal or of the National Financial Reporting Authority" shall be substituted.

#### CHAPTER 16: SPECIAL COURTS

##### Amendments through the Companies (Amendment) Act, 2017

Relevant sections	Amendment
Amendment of section 435. (Establishment of Special Courts)	For section 435 of the principal Act, the following shall be substituted, namely:— 435. (1) The Central Government may, for the purpose of providing speedy trial of offences under this Act, by notification, establish or designate as many Special Courts as may be necessary. (2) A Special Court shall consist of— (a) a single judge holding office as Session Judge or Additional Session Judge, in case of offences punishable under this Act with imprisonment of two years or more; and (b) a Metropolitan Magistrate or a Judicial Magistrate of the First Class, in the case of other offences, who shall be appointed by the Central Government with the concurrence of the Chief Justice of the High Court within whose jurisdiction the judge to be appointed is working."
Amendment of section 438 (Application of Code to proceedings before Special court)	In section 438 of the principal Act, for the words "deemed to be a Court of Session", the words "deemed to be a Court of Session or the court of Metropolitan Magistrate or a Judicial Magistrate of the First Class, as the case may be," shall be substituted.

Amendment of section 439 (Offences to be non cogizable).	In section 439 of the principal Act, in <b>sub-section (2)</b> , after the words "a shareholder", the words "or a member" shall be inserted.
Amendment of section 440(Transitional provisions).	In section 440 of the principal Act, for the words "Court of Session", at both the places, the words "Court of Session or the Court of Metropolitan Magistrate or a Judicial Magistrate of the First Class, as the case may be" shall be substituted.

### CHAPTER 17: MISCELLANEOUS PROVISIONS

#### 1. Enforcement of the *Companies (Registered Valuers and Valuation) Second Amendment Rules, 2018* vide Notification G.S.R. 559(E) dated 13th June, 2018

The Central Government makes the *Companies (Registered Valuers and Valuation) Second Amendment Rules, 2018* to amend the *Companies (Registered Valuers and Valuation) Rules, 2017*.

In *Companies (Registered Valuers and Valuation) Rules, 2017*, in **rule 19** which relates to Committee to advise on valuation matters, in sub-rule 2, after clause (g), the following clause shall be inserted, namely:-

“(h) Presidents of, the Institute of Chartered Accountants of India, the Institute of Company Secretaries of India, the Institute of Cost Accountants of India as ex-officio members.”.

#### 2. Enforcement of the *Companies (Registered Valuers and Valuation) Third Amendment Rules, 2018* vide Notification G.S.R. G.S.R. 925(E) dated 25th September, 2018

The Central Government makes the *Companies (Registered Valuers and Valuation) Third Amendment Rules, 2018* to amend the *Companies (Registered Valuers and Valuation) Rules, 2017*.

In the *Companies (Registered Valuers and Valuation) Rules, 2017*,

(i) in **rule 11** i.e., related to **Transitional Arrangement**, for the figures, letters and word “30<sup>th</sup> September, 2018” occurring at both the places, the figures, letters and word “31st January, 2019” shall be substituted.

(ii) In the said **rules**, in **rule 14** i.e., related to **Conditions of Recognition**, in clause (f), for the words “one year”, the words “two years” shall be substituted.

#### 3. Amendments through the *Companies (Amendment) Act, 2017*

Relevant sections	Amendment
Amendment of section 403	In section 403 of the principal Act,— (i) in <b>sub-section (1)</b> , for the first and second provisos, the following provisos shall be substituted, namely:—

(Fee for filing, etc.)	<p>“Provided that where any document, fact or information required to be submitted, filed, registered or recorded, as the case may be, under section 92 or 137 is not submitted, filed, registered or recorded, as the case may be, within the period provided in those sections, without prejudice to any other legal action or liability under this Act, it may be submitted, filed, registered or recorded, as the case may be, after expiry of the period so provided in those sections, on payment of such additional fee as may be prescribed, which shall not be less than one hundred rupees per day and different amounts may be prescribed for different classes of companies:</p> <p>(ii) for <b>sub-section (2)</b>, the following sub-section shall be substituted, namely:—</p> <p>“(2) Where a company fails or commits any default to submit, file, register or record any document, fact or information under sub-section (1) before the expiry of the period specified in the relevant section, the company and the officers of the company who are in default, shall, without prejudice to the liability for the payment of fee and additional fee, be liable for the penalty or punishment provided under this Act for such failure or default.”</p>
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#### CHAPTER 19: INSOLVENCY AND BANKRUPTCY CODE, 2016

##### (1) The Insolvency and Bankruptcy Code (Second Amendment) Act, 2018

Vide Notification dated 17<sup>th</sup> August, 2018, Ministry of Law and Justice here by amended the Insolvency and Bankruptcy Code, 2016 through the enforcement of the Insolvency and Bankruptcy Code (Second Amendment) Act, 2018. With the enforcement of this Amendment Act, the Insolvency and Bankruptcy Code (Amendment) Ordinance, 2018 have been repealed. This amendment Act is effective from **6<sup>th</sup> June, 2018**.

##### Following are the relevant amendments:

- (1) In **section 3(12)**, in the Insolvency and Bankruptcy Code, 2016 (Principal Act), for the word "repaid", the word "paid" shall be substituted.
- (2) In **section 5** of the principal Act,
  - (i) after clause (5) i.e., after the definition of Corporate applicant, the following **clause 5A** shall be inserted, namely:—
 

'(5A) "corporate guarantor" means a corporate person who is the surety in a contract of guarantee to a corporate debtor;'
  - (ii) in **clause (8)** prescribing the term "**Financial Debt**" in the Code, in sub-clause (f), the following Explanation shall be inserted, namely:—

'Explanation.—For the purposes of this sub-clause,—

- (i) any amount raised from an allottee under a real estate project shall be deemed to be an amount having the commercial effect of a borrowing; and
- (ii) the expressions, "allottee" and "real estate project" shall have the meanings respectively assigned to them in clauses (d) and (zn) of section 2 of the Real Estate (Regulation and Development) Act, 2016;
- (iii) in **clause (12)** i.e., as to the "**Insolvency commencement date**", the following proviso shall be inserted, namely:—

"Provided that where the interim resolution professional is not appointed in the order admitting application under section 7, 9 or section 10, the insolvency commencement date shall be the date on which such interim resolution professional is appointed by the Adjudicating Authority;"

- (iv) **after clause (24)**, the following clause shall be inserted, namely:—

**'(24A) "related party"**, in relation to an individual, means—

- (a) a person who is a relative of the individual or a relative of the spouse of the individual;
- (b) a partner of a limited liability partnership, or a limited liability partnership or a partnership firm, in which the individual is a partner;
- (c) a person who is a trustee of a trust in which the beneficiary of the trust includes the individual, or the terms of the trust confers a power on the trustee which may be exercised for the benefit of the individual;
- (d) a private company in which the individual is a director and holds along with his relatives, more than two per cent. of its share capital;
- (e) a public company in which the individual is a director and holds along with relatives, more than two per cent. of its paid-up share capital;
- (f) a body corporate whose board of directors, managing director or manager, in the ordinary course of business, acts on the advice, directions or instructions of the individual;
- (g) a limited liability partnership or a partnership firm whose partners or employees in the ordinary course of business, act on the advice, directions or instructions of the individual;
- (h) a person on whose advice, directions or instructions, the individual is accustomed to act;
- (i) a company, where the individual or the individual along with its related party, own more than fifty per cent. of the share capital of the company or controls the appointment of the board of directors of the company.

Explanation.—For the purposes of this clause,—

- (a) "relative", with reference to any person, means anyone who is related to another, in the following manner, namely:—
- (i) members of a Hindu Undivided Family,
  - (ii) husband,
  - (iii) wife,
  - (iv) father,
  - (v) mother,
  - (vi) son,
  - (vii) daughter,
  - (viii) son's daughter and son,
  - (ix) daughter's daughter and son,
  - (x) grandson's daughter and son,
  - (xi) granddaughter's daughter and son,
  - (xii) brother,
  - (xiii) sister,
  - (xiv) brother's son and daughter,
  - (xv) sister's son and daughter,
  - (xvi) father's father and mother,
  - (xvii) mother's father and mother,
  - (xviii) father's brother and sister,
  - (xix) mother's brother and sister, and
- (b) wherever the relation is that of a son, daughter, sister or brother, their spouses shall also be included;
- (3) In **section 7(1)** of the principal Act which deals with the initiation of CIRP by financial creditor, for the words "other financial creditors", the words "other financial creditors, or any other person on behalf of the financial creditor, as may be notified by the Central Government," shall be substituted.
- (4) In **section 8(2)** of the principal Act which deals with the Insolvency resolution by operational creditor, following are the amendments—
- (i) in **clause (a)**, for the words "if any, and", the words "if any, or" shall be substituted;
  - (ii) in **clause (b)**, for the word "repayment", the word "payment" shall be substituted;



- In the Explanation, for the word "repayment", the word "payment" shall be substituted.
- (5) In **section 9(3)** of the principal Act, which states of the provision related to the filing of an application for initiation of corporate insolvency resolution process by operational creditor—
- (i) in **clause (c)**, for the words "by the corporate debtor; and", the words "by the corporate debtor, if available;" shall be substituted;
  - (ii) for **clause (d)**, the following clauses shall be substituted, namely:—
    - "(d) a copy of any record with information utility confirming that there is no payment of an unpaid operational debt by the corporate debtor, if available; and
    - (e) any other proof confirming that there is no payment of an unpaid operational debt by the corporate debtor or such other information, as may be prescribed.";
- (6) in **section 9(5)** of the principle Code which deals with the provision related to the filing of an application for initiation of corporate insolvency resolution process by operational creditor —
- (a) in **clause (i), in sub-clause (b)**, for the word "repayment", the word "payment" shall be substituted;
  - (b) in **clause (ii), in sub-clause (b)**, for the word "repayment", the word "payment" shall be substituted.
- (7) **Section 10 (3)** of the principal Act, deals with the initiation of corporate insolvency resolution process by corporate applicant, shall be substituted with the following-
- "(3) The corporate applicant shall, along with the application, furnish—
- (a) the information relating to its books of account and such other documents for such period as may be specified;
  - (b) the information relating to the resolution professional proposed to be appointed as an interim resolution professional; and
  - (c) the special resolution passed by shareholders of the corporate debtor or the resolution passed by at least three-fourth of the total number of partners of the corporate debtor, as the case may be, approving filing of the application.";
- (8) In **Section 10 (4)** related to the initiation of corporate insolvency resolution process by corporate applicant, following amendments have been made—
- (i) in **clause (a)**, after the words "if it is complete", the words "and no disciplinary proceeding is pending against the proposed resolution professional" shall be inserted;

- (ii) in **clause (b)**, after the words "if it is incomplete", the words "or any disciplinary proceeding is pending against the proposed resolution professional" shall be inserted.
- (9) In **section 12(2)** of the principal Act, related to the time limit for completion of corporate insolvency resolution process, for the word "seventy-five", the word "sixty-six" shall be substituted.
- (10) **After section 12** of the principal Act, the section 12A shall be inserted-  
**"12A. Withdrawal of application admitted under section 7, 9, or 10:** The Adjudicating Authority may allow the withdrawal of application admitted under section 7 or section 9 or section 10, on an application made by the applicant with the approval of ninety per cent. voting share of the committee of creditors, in such manner as may be specified."
- (11) **Section 14(3)** of the principal Act which deals with the moratorium, shall be substituted, with the following—  
 "(3) The provisions of **sub-section (1)** shall not apply to—  
 (a) such transaction as may be notified by the Central Government in consultation with any financial regulator;  
 (b) a surety in a contract of guarantee to a corporate debtor."
- (12) In **section 15(1)(c)** of the principal Act which deals with the provisions related to the public announcement, for the word "claims", the words "claims, as may be specified" shall be substituted.
- (13) In **section 16(5)** of the principal Act which is related to the appointment and tenure of interim resolution professional, for the words "shall not exceed thirty days from date of his appointment", the words and figures "shall continue till the date of appointment of the resolution professional under section 22" shall be substituted.
- (14) In **section 17(2)(d)** of the principal Act which deals with the management of affairs of corporate debtor by IRP, for the words "may be specified.", the words "may be specified; and" shall be substituted;
- (15) **After section 17(2)(d)** which deals with the management of affairs of corporate debtor by IRP, the following **section 17(2)(e)**, shall be inserted,  
 "(e) be responsible for complying with the requirements under any law for the time being in force on behalf of the corporate debtor."
- (16) In **section 21** of the principal Act, which deals with the committee of creditors, following are the relevant amendments —  
 (i) **in sub-section (2), — in the proviso**, for the words "related party to whom a corporate debtor owes a financial debt", the words, brackets, figures and letter "financial creditor or the authorised representative of the financial creditor referred

to in sub-section (6) or sub-section (6A) or sub-section (5) of section 24, if it is a related party of the corporate debtor," shall be substituted;

- (ii) after this proviso under sub-section (2), the following **provisos** inserted-  
 "Provided further that the first proviso shall not apply to a financial creditor, regulated by a financial sector regulator, if it is a related party of the corporate debtor solely on account of conversion or substitution of debt into equity shares or instruments convertible into equity shares, prior to the insolvency commencement date.";
- (iii) **Insertion of new sub-section 6(A) & 6(B)** after sub-section (6)-  
 "(6A) Where a financial debt—  
 (a) is in the form of securities or deposits and the terms of the financial debt provide for appointment of a trustee or agent to act as authorised representative for all the financial creditors, such trustee or agent shall act on behalf of such financial creditors;  
 (b) is owed to a class of creditors exceeding the number as maybe specified, other than the creditors covered under clause (a) or sub-section (6), the interim resolution professional shall make an application to the Adjudicating Authority along with the list of all financial creditors, containing the name of an insolvency professional, other than the interim resolution professional, to act as their authorised representative who shall be appointed by the Adjudicating Authority prior to the first meeting of the committee of creditors;  
 (c) is represented by a guardian, executor or administrator, such person shall act as authorised representative on behalf of such financial creditors,  
 and such authorised representative under clause (a) or clause (b) or clause (c) shall attend the meetings of the committee of creditors, and vote on behalf of each financial creditor to the extent of his voting share.  
 (6B) The remuneration payable to the authorised representative—  
 (i) under clauses (a) and (c) of sub-section (6A), if any, shall be as per the terms of the financial debt or the relevant documentation; and  
 (ii) under clause (b) of sub-section (6A) shall be as specified which shall form part of the insolvency resolution process costs.";
- (iv) for **sub-sections (7) and (8)**, the following sub-sections shall be substituted, namely:—  
 "(7) The Board may specify the manner of voting and the determining of the voting share in respect of financial debts covered under sub-sections (6) and (6A).  
 (8) Save as otherwise provided in this Code, all decisions of the committee of creditors shall be taken by a vote of not less than fifty-one per cent. of voting

share of the financial creditors:

Provided that where a corporate debtor does not have any financial creditors, the committee of creditors shall be constituted and shall comprise of such persons to exercise such functions in such manner as may be specified."

- (17) In **section 22(2)** of the principal Act, for the word, "seventy-five", the word "sixty-six" shall be substituted;
- (18) In **section 23(1)** of the principal Act, the following proviso shall be inserted-
- "Provided that the resolution professional shall, if the resolution plan under sub-section (6) of section 30 has been submitted, continue to manage the operations of the corporate debtor after the expiry of the corporate insolvency resolution process period until an order is passed by the Adjudicating Authority under section 31."
- (19) In **section 24(3)** of the principal Act, in clause (a), for the words "Committee of creditors", the words, brackets, figures and letter "committee of creditors, including the authorised representatives referred to in sub-sections (6) and (6A) of section 21 and sub-section (5)" shall be substituted;
- (20) **Insertion of new section 25A** which deals with the Rights and duties of authorised representative of financial creditors.

**'25A. (1) Right to participate and Vote on behalf of FC:** The authorised representative (AR) under section 21(6) & 21(6A) or section 24(5) shall have the right to participate and vote in meetings of the committee of creditors on behalf of the financial creditor (FC) he represents in accordance with the prior voting instructions of such creditors obtained through physical or electronic means.

**Duty of AR to circulate agenda & minutes to FC:** It shall be the duty of the authorised representative to circulate the agenda and minutes of the meeting of the committee of creditors to the financial creditor he represents.

**AR to act on instruction of FC:** The authorised representative shall not act against the interest of the financial creditor he represents and shall always act in accordance with their prior instructions:

Provided that if the authorised representative represents several financial creditors, then he shall cast his vote in respect of each financial creditor in accordance with instructions received from each financial creditor, to the extent of his voting share:

Provided further that if any financial creditor does not give prior instructions through physical or electronic means, the authorised representative shall abstain from voting on behalf of such creditor.

(2) **To ensure recording of instruction by IRP/RP:** The authorised representative shall file with the committee of creditors any instructions received by way of physical or electronic means, from the financial creditor he represents, for voting in accordance

therewith, to ensure that the appropriate voting instructions of the financial creditor he represents is correctly recorded by the interim resolution professional or resolution professional, as the case may be.

- (21) **Amendment in section 27(2)** of the principal Act which deals with the Replacement of Resolution Professional (RP) by Committee of creditors (CoC): This sub-section is substituted with the following provision-

"The committee of creditors may, at a meeting, by a vote of sixty-six per cent. of voting shares, resolve to replace the resolution professional appointed under section 22 with another resolution professional, subject to a written consent from the proposed resolution professional in the specified form."

- (22) Amendment in **section 28(3)** of the principal Act which deals with the approval of committee of creditors for certain actions, for the word, "seventy-five", the word "sixty-six" shall be substituted.

- (23) **Amendment in Section 29 A**, dealt with the persons not eligible to be resolution applicant came into enforcement on 23rd day of November 2017 through the enforcement of Insolvency and Bankruptcy Code (Amendment) Act, 2018 vide notification dated 19th January, 2018.

**(i) in clause (c),—**

- (a) for the words "has an account,", the words "at the time of submission of the resolution plan has an account," shall be substituted;
- (b) after the words and figures "the Banking Regulation Act, 1949", the words "or the guidelines of a financial sector regulator issued under any other law for the time being in force," shall be inserted;
- (c) after the proviso, the following shall be inserted, namely:—"Provided further that nothing in this clause shall apply to a resolution applicant where such applicant is a financial entity and is not a related party to the corporate debtor.

The expression "**related party**" here shall not include a financial entity, regulated by a financial sector regulator, if it is a financial creditor of the corporate debtor and is a related party of the corporate debtor solely on account of conversion or substitution of debt into equity shares or instruments convertible into equity shares, prior to the insolvency commencement date.

For the purposes of this clause, where a resolution applicant has an account, or an account of a corporate debtor under the management or control of such person or of whom such person is a promoter, classified as non-performing asset and such account was acquired pursuant to a prior resolution plan approved under this Code, then, the provisions of this clause shall not apply to such resolution applicant for a period of three years from the date of approval of such resolution plan by the Adjudicating Authority under this Code;";

(ii) for clause (d), the following clause shall be substituted, namely:—

"(d) has been convicted for any offence punishable with imprisonment—

- (i) for two years or more under any Act specified under the Twelfth Schedule; or
- (ii) for seven years or more under any other law for the time being in force:

Provided that this clause shall not apply to a person after the expiry of a period of two years from the date of his release from imprisonment:

Provided further that this clause shall not apply in relation to a connected person referred to in clause (iii) of Explanation I;"

(iii) in clause (e), the following proviso shall be inserted, namely:—

"Provided that this clause shall not apply in relation to a connected person referred to in clause (iii) of Explanation I;"

(iv) in clause (g), the following proviso shall be inserted, namely:—

"Provided that this clause shall not apply if a preferential transaction, undervalued transaction, extortionate credit transaction or fraudulent transaction has taken place prior to the acquisition of the corporate debtor by the resolution applicant pursuant to a resolution plan approved under this Code or pursuant to a scheme or plan approved by a financial sector regulator or a court, and such resolution applicant has not otherwise contributed to the preferential transaction, undervalued transaction, extortionate credit transaction or fraudulent transaction;"

(v) in clause (h), —

- (a) for the words "an enforceable guarantee", the words "a guarantee" shall be substituted;
- (b) after the words "under this Code", the words "and such guarantee has been invoked by the creditor and remains unpaid in full or part" shall be inserted;

(vi) in clause (i), for the words "has been", the word "is" shall be substituted;

(vii) the Explanation occurring after clause (j) shall be numbered as *Explanation I*, and in *Explanation I* as so numbered, for the proviso, the following provisos shall be substituted, namely:—

'Provided that nothing in clause (iii) of *Explanation I* shall apply to a resolution applicant where such applicant is a financial entity and is not a related party of the corporate debtor:

Provided further that the expression "related party" shall not include a financial entity, regulated by a financial sector regulator, if it is a financial creditor of the corporate debtor and is a related party of the corporate debtor solely on account of conversion or substitution of debt into equity shares or instruments convertible into equity shares, prior to the insolvency commencement date;"

(viii) after **Explanation I** as so numbered, the following Explanation shall be inserted, namely:—

'Explanation II—For the purposes of this section, "financial entity" shall mean the following entities which meet such criteria or conditions as the Central Government may, in consultation with the financial sector regulator, notify in this behalf, namely:—

- (a) a scheduled bank;
- (b) any entity regulated by a foreign central bank or a securities market regulator or other financial sector regulator of a jurisdiction outside India which jurisdiction is compliant with the Financial Action Task Force Standards and is a signatory to the International Organisation of Securities Commissions Multilateral Memorandum of Understanding;
- (c) any investment vehicle, registered foreign institutional investor, registered foreign portfolio investor or a foreign venture capital investor, where the terms shall have the meaning assigned to them in regulation 2 of the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017 made under the Foreign Exchange Management Act, 1999.
- (d) an asset reconstruction company registered with the Reserve Bank of India under section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
- (e) an Alternate Investment Fund registered with the Securities and Exchange Board of India;
- (f) such categories of persons as may be notified by the Central Government.'

(24) **Amendment in section 30:** The said section deals with the submission of resolution plan. Following are the amendments-

- (i) in **sub-section (1)**, after the words "resolution plan", the words, figures and letter "along with an affidavit stating that he is eligible under section 29A" shall be inserted;
- (ii) in **sub-section (2)**,—
  - (a) in clauses (a) and (b), for the word "repayment" at both the places where it occurs, the word "payment" shall be substituted;
  - (b) after clause (f), the following *Explanation* shall be inserted, namely:—
 

"*Explanation.*—For the purposes of clause (e), if any approval of shareholders is required under the Companies Act, 2013 or any other law for the time being in force for the implementation of actions under the resolution plan, such approval shall be deemed to have been given and it shall not be a contravention of that Act or law.";

- (iii) in **sub-section (4)**,—
- (a) for the word "seventy-five", the word "sixty-six" shall be substituted;
  - (b) after the third proviso, the following proviso shall be inserted,  
namely:—  
"Provided also that the eligibility criteria in section 29A as amended by the Insolvency and Bankruptcy Code (Amendment) Ordinance, 2018 shall apply to the resolution applicant who has not submitted resolution plan as on the date of commencement of the Insolvency and Bankruptcy Code (Amendment) Ordinance, 2018."
25. **Amendment in section 31** of the principal Act, which deals with the approval of resolution plan—
- (a) in **sub-section (1)**, the following proviso shall be inserted, namely:—  
"Provided that the Adjudicating Authority shall, before passing an order for approval of resolution plan under this sub-section, satisfy that the resolution plan has provisions for its effective implementation."
  - (b) after **sub-section (3)**, the following sub-section shall be inserted namely:—  
"(4) The resolution applicant shall, pursuant to the resolution plan approved under sub-section (1), obtain the necessary approval required under any law for the time being in force within a period of one year from the date of approval of the resolution plan by the Adjudicating Authority under sub-section (1) or within such period as provided for in such law, whichever is later:  
Provided that where the resolution plan contains a provision for combination, as referred to in section 5 of the Competition Act, 2002, the resolution applicant shall obtain the approval of the Competition Commission of India under that Act prior to the approval of such resolution plan by the committee of creditors."
26. Amendment made in **section 33(2)** of the principal Act. This section deals with the initiation of liquidation process. Amendments made is that after the words "decision of the committee of creditors", the words "approved by not less than sixty-six per cent. of the voting share" shall be inserted.
27. In **section 34** of the principal Act, which states of appointment of liquidator and fee to be paid, following amendments are made—
- a. in **sub-section (1)**, for the words and figures "Chapter II shall", the words and figures "Chapter II shall, subject to submission of a written consent by the resolution professional to the Adjudicatory Authority in specified form," shall be substituted;
  - b. in **sub-section (4)**,—



- i. in clause (b), for the words "in writing", the words "in writing; or" shall be substituted;
  - ii. after clause (b), the following clause shall be inserted, namely:—  
"(c) the resolution professional fails to submit written consent under sub-section (1).";
  - c. in **sub-section (5)**, for the word, brackets and letter "clause (a)", the words, brackets and letters "clauses (a) and (c)" shall be substituted;
  - d. in **sub-section (6)**, after the words "another insolvency professional", the words "along with written consent from the insolvency professional in the specified form," shall be inserted.
28. In **section 42** of the principal Act, which deals with the provisions related to the appeal against the decision of liquidator, after the words "of the liquidator", the words "accepting or" shall be inserted.
29. In **section 45(1)** of the principal Act, which deals with the Avoidance of undervalued transactions, the words and figures "of section 43" shall be omitted.

**(B) Non-Applicability of the following chapter of the Study material**

Chapter 9 of the study material (June 18 edition) covering provisions relating to Revival and Rehabilitation of Sick-Industrial Companies, is omitted by the Ministry of Corporate Affairs.

**PART – II : QUESTIONS AND ANSWERS**

**QUESTIONS**

**Multiple Choice Questions**

1. The Board of Directors of XYZ Ltd. decided for the voluntary revision of accounts of the previous financial year 2017-2018 for making necessary correction in the financial statement in terms of section 129. Approval for the revision was given by the Tribunal. In compliance to the Companies Act, 2013, XYZ Ltd. prepared revised financial statement of the said financial year. So accordingly, revised Financial statement were filed with the ROC. Later Directors of company felt that there was non-compliance of section 134, so again applied before the tribunal for revision of accounts of the same financial year.

State the correct statement in the light of the given facts-

- (a) XYZ Ltd. can apply for the revision of the revised financial statement with the approval of the Tribunal.

- (b) XYZ Ltd. can apply for the revision of the revised financial statement on the notice of the tribunal to the Central Government & Income Tax Authorities and consideration of their representations.
- (c) XYZ Ltd. can apply for the revision of the revised financial statements in respect of any three preceding financial years.
- (d) XYZ Ltd. cannot apply for the revision of revised financial statement.
2. Mr. Roop was appointed as an Additional Director of XYZ Limited in July, 2018. Immediately after his appointment, on behalf of the Company he entered into an agreement with NY Private Limited for supplies of raw material. In the ensuing meeting, he was regularized as a Director. He signed Contract with Laxmi vendors. At the end of the December 2018, management came to know that his appointment was not valid as he was disqualified to act as a Director of any Company. He signed one more agreement in January 2019 with Saraswati vendors. In such scenario, what will be the status of contract/agreements he signed on behalf of XYZ Limited?
- (a) All agreement/ contracts will become invalid;
- (b) All agreement/ contracts will be valid;
- (c) All agreement/ contracts before December 2018 will be valid;
- (d) All agreement/ contracts before December 2018 will be invalid;
3. Mr. Nagar decided to resign from MGT Private Limited due to preoccupation. He sent his resignation letter dated 12th June, 2017 to the Company stating that he will resign w.e.f. 15th June, 2017. Due to non receipt of any communication from the Company he dropped a mail on 17th June, 2017, to confirm whether Company has received his letter. Finally Company received his letter on 25th June, 2017. In this case, from which date his resignation will be effective?
- (a) 12th June, 2017
- (b) 15th June, 2017
- (c) 17th June, 2017
- (d) 25th June, 2017
4. If committee of creditors of corporate debtors was constituted on 17.3.2018. Time limit, within which the first meeting of committee of creditors should be held, is -----.
- (a) 20.3.2018
- (b) 22.3.2018
- (c) 24.3.2018
- (d) 31.3.2018

5. Under the IBC, the resolution plan shall be approved by the Committee of Creditors by a vote of not less than-----percent of voting share of the financial creditors.
- (a) 51%
  - (b) 66%
  - (c) 75%
  - (d) 95%
6. Who is empowered to designate court of session as special courts for trial of offence of money laundering?
- (a) Central government in consultation with the chief justice of supreme court
  - (b) High court in consultation with the chief justice of Supreme Court
  - (c) Central government in consultation with the chief justice of session court
  - (d) Central government in consultation with the chief justice of High court

### Descriptive Questions

#### Part I: Corporate Laws

7. RST Ltd. declared dividend at the rate of 20% for the financial year 2017-2018 in the AGM scheduled on 15th June 2018. RST Ltd. left with certain unpaid and unclaimed dividend. It transferred amount of unpaid and unclaimed dividend to UDA (unpaid dividend account). After remaining unpaid and unclaimed for more than 2 years in the UDA, some of the entitled shareholders made liable RST Ltd. for noncompliance of section 124, and claimed for their unpaid dividend amount. The RST Ltd. denies saying that there were certain legal issues on the entitlement of the dividend amount to the respective shareholders.
- State in the light of the given facts, whether the allegation marked by shareholders and claim for the divided amount, against RST Ltd. is justifiable ?
8. Examine the following situations in the light of the Companies Act, 2013
- (i) Mr. Ayush, a Chartered accountant has been appointed as an auditor of X Ltd. in the Annual General Meeting of the company held in September, 2018, in which he accepted the assignment. Subsequently, in January, 2019 he joined B, another Chartered Accountant, who is the Finance executive of X Ltd., as partner. State the legal position as to the holding of Mr. Ayush as an auditor in X Ltd.
  - (ii) "Mr. Abhi", a practicing Chartered Accountant, is holding securities of "Abhiman Ltd." having face value of ` 1000/-. Whether Mr. Abhi is qualified for appointment as an Auditor of Abhiman Ltd.?"
9. Rudraksh Ltd. was incorporated for supply of solar panels for the emerging project of government for construction of highways. However, the said project did not turn up for two years due to some legal implications. During the said period, no any significant accounting

transaction was made and so the company did not file financial statements and annual returns during the last two financial years. In the meantime, the Board proposed for Mr. Ram & Mr. Rahim to be appointed as an Independent Directors for their independent and expertise knowledge and experience for better working and improvement of financial position of the company.

Evaluate in the light of the given facts, the following legal position:

- (i) Accountability for non-filing of financial statements and annual returns for last two financial years, of the Rudraksh Ltd.
  - (ii) Nature of the proposal for an appointment of Mr. Ram & Mr. Rahim in the Rudraksh Ltd. for improvement of financial position of the company.
10. The Board of Directors of ABC Consultants Limited, registered in Maharashtra, proposes to hold the next board meeting in the month of May, 2018. They seek your advice in respect of the following matters:
- (i) Can the board meeting be held in Delhi through video conferencing, when all the directors of the company reside at Maharashtra.
  - (ii) Is it necessary that the notice of the board meeting should specify the nature of business to be transacted?
11. PBX Pvt. Ltd. is a company in which there are 6 shareholders. Mr. S, who is a director and also the legal representative of a deceased shareholder holding less than one tenth of the share capital of the company made a petition to the tribunal for relief against oppression and mismanagement. Examine under the provisions of the Companies Act, 2013 whether the petition made by Mr. S is valid and Maintainable?
12. Decide the liability of the person for commission of the act during the course of inspection, inquiry or investigation under the Companies Act, 2013:
- (i) A person who is required to make statement during the course of investigation pending against its company, is a party to the manipulation of documents related to the transfer of securities and naming of holders in the register of members by the company.
  - (ii) An employee of the company publicized among his social networking of sound financial position of his organization in order to incite the public to purchase the shares of its company. In actuality, the company was running in loss.
13. Board of Directors of the ABC, a listed company, in their meeting passed the resolution for an appointment of company secretary and the compliance officer for the guidance to the Board with regards to their duties, responsibilities and powers and the conduct of the affairs of the company. Draft the Resolution for an appointment of Mr. Nirman as Company Secretary and compliance officer of the company.

14. The financial creditor, Mr Raman, was an investor and a debenture holder of 'Optionally Convertible Debenture Bond (OPDB)' payable on maturity, was issued by the M/s Asset Ltd. (corporate debtor). The zero interest OCD bonds amounted to 2 crore, matured in 2016. The liability to redeem the debentures on maturity along with a redemption premium lay on the debtor, which was not made. Mr. Raman filed the Corporate Insolvency resolution process before the NCLT. Advise in the light of the given facts, the following situations:
- (i) State whether Mr. Raman is eligible for filing of application for initiation of CIRP?
  - (ii) Do the redemption of debenture payable on the maturity date amounts to debt?
15. Mr. Ram, an operational creditor filed an application for corporate insolvency resolution process. He does not proposed for appointment of an interim resolution professional in the application. State the provisions given by the Code in the given situation. State the term of such appointed IRP.
16. Mr. X in lieu of jewellery of his wife, as a security, taken a loan of amount ₹ 5 lakhs from Mr. Y, who runs a business of providing loan. Mr. X, after a year, made the payment of amount and said to return his jewellery (worth ₹ 10 Lakh). During the period, Mr. Y became Insolvent due to loss in business and was declared liquidated. The liquidator was appointed and formed the liquidation estate for recovery of debts to the creditors. Mr. X came to know of the Situation of Mr. Y. Advise, the rights available with Mr. X against Mr. Y on his declaration as liquidated.

**Part II: Allied Laws**

17. Comment on the following situations with reference to the provisions of the FEMA, 1999-
- (i) Mr. Bharat, a person resident in India can remit amount to his son Arjun residing in USA, to buy immovable property there.
  - (ii) Mr. Raghav, a resident of India went to Australia for a business deal. He realised foreign exchange for bearing expenses while staying there for the business purpose. After the maturing the deal, he returned back to India. Mr. Raghav was left with certain unused foreign exchange. He retained the foreign exchange with him for future use.
18. (i) Mr. Kartik was into the insurance business and was director in the ABZ insurance company. State the legal position of Mr. Kartik as to conduct of insurance business being a director to the Insurance Company.
- (ii) ABC Ltd. made an initial public offer of certain number of equity shares. Examine whether these shares can be considered as 'Goods' under the Competition Act, 2002 before allotment.
19. Mr. Ramesh was partner in the Firm, Rajkumar & sons. The said firm was established by Mr. Raj kumar, who is director of the Subh Labh Pvt. Limited which is a one person company. Subh Labh Pvt. Ltd. have foreign income from the clientele being of outside India. Companies generation of foreign income was invested by the Mr. Rajkumar in its

firm without being disclosed in its financial records. Mr. Ramesh was not aware of the such undisclosed flow of fund in the Firm. Give the following answer considering the given facts-

- (i) Liability of Mr. Ramesh being a partner of a firm which is involved in use of income of Subh Labh Pvt. Ltd. obtained from their foreign clientele.
  - (ii) Liability of Mr. Rajkumar being a director of the Subh Labh Pvt. Ltd.
20. (i) Many a time a proviso is added to a Section of the enactment. Explain the function of such a proviso while carrying out the interpretation?
- (ii) Explain the powers, which can be exercised by the Securities and Exchange Board of India under the Securities Contracts (Regulation) Act, 1956, while approving the schemes for corporatisation and demutualization submitted by recognized stock exchanges, so that there is segregation of ownership and management from the trading rights of members of such stock exchanges.

### SUGGESTED ANSWERS/HINTS

#### Multiple Choice Questions Answers

- (1) (d)
- (2) (c)
- (3) (d)
- (4) (c)
- (5) (b)
- (6) (d)

#### Descriptive questions Answers

7. As per section 124 of the Companies Act, 2013, where a dividend has been declared by a company but has not been paid/claimed to/by shareholder within 30 days from the date of the declaration, the company shall, within 7 days from the date of expiry of the said period of 30 days, transfer the total amount of dividend which remains unpaid/unclaimed to the Unpaid Dividend Account.

The company shall, within a period of 90 days of making any transfer of an amount, prepare a statement containing the names, their last known addresses and the unpaid dividend to be paid to each person and place it on the web-site of the company, if any, and also on any other web-site approved by the Central Government for this purpose, in such form, manner and other particulars as may be prescribed.

Accordingly in the given situation, RST Ltd. failed to give statement of Unpaid/unclaimed dividend and so liable for the said noncompliance of section 124 of the Companies Act, 2013. Any person claiming to be entitled to any money transferred under section 124(1) to

the Unpaid Dividend Account of the company may apply to the company for payment of the money claimed. Since RST Ltd. failed to comply with the requirements of this section as to the preparing of a statement of unpaid dividend, so shall be punishable with fine which shall not be less than five lakh rupees but which may extend to twenty-five lakh rupees and every officer of the company who is in default shall be punishable with fine which shall not be less than one lakh rupees but which may extend to 5 lakh rupees.

8. (i) **Provisions and Explanation** : Section 141(3) (c) of the Companies Act, 2013 prescribes that any person who is a partner or in employment of an officer or employee of the company will be disqualified to act as an auditor of a company. Sub-section (4) of Section 141 provides that an auditor who becomes subject, after his appointment, to any of the disqualifications specified in sub-sections (3) of Section 141, he shall be deemed to have vacated his office as an auditor.

**Conclusion** : In the present case, Ayush, an auditor of X Ltd., joined as partner with B, who is Finance executive of X Ltd., has attracted clause (3) (c) of Section 141 and, therefore, he shall be deemed to have vacated office of the auditor of X Limited.

- (ii) As per section 141 (3)(d) (i) an auditor is disqualified to be appointed as an auditor if he, or his relative or partner holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company.

In the present case, Mr. Abhi. is holding security of ` 1000 in the Abhiman Ltd, therefore he is not eligible for appointment as an Auditor of "Abhiman Ltd Ltd".

9. (i) As per the stated facts, Ruraksh Ltd. is an inactive company as per the provision given under the Companies Act, 2013. According to the section 455 of the Companies Act, 2013, where a company is formed and registered under this Act for a future project or to hold an asset or intellectual property and has no significant accounting transaction, such a company or an inactive company (which has not been carrying on any business or operation, or has not made any significant accounting transaction during the last two financial years, or has not filed financial statements and annual returns during the last two financial years;) may make an application to the Registrar for obtaining the status of a dormant company. Since in the given case, neither Rudraksh Ltd. filed an application to the Registrar for obtaining the status nor has filed the financial statements or annual returns for 2 financial years consecutively, therefore, the Registrar shall issue a notice to the company and enter the name of the company in the register maintained for dormant companies.
- (ii) As per section 149(6) read with Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014, the public companies of prescribed class shall require to appoint minimum 2 Independent directors. However, vide Notification number G.S.R. 839(E) dated 5th July, 2017 an amendment was issued through the Companies (Appointment and Qualification of Directors) Amendment Rules, 2017. It provided that an unlisted public company which is a joint venture, a wholly owned

subsidiary or a dormant company will not be required to appoint Independent Directors. So, the proposal for appointment of Independent Director (Mr. Ram & Mr Rahim) is not required.

10. (i) There is no provision in the Companies Act, 2013 under which the board meetings must be held at any particular place. Therefore, there is no difficulty in holding the board meeting at Delhi even if all the directors of the company reside at Maharashtra and the registered office is situated at Maharashtra provided that the requirements regarding the holding of a valid board meeting and the other provisions relating to the signing of register of contracts, taking roll calls, etc. are complied with.
- (ii) Section 173 (3) of the Companies Act, 2013 provides for the giving of notice of every board meeting of not less than seven days to every director of the company. There is no provision in the Act laying down the contents of the notice. Hence, it may be construed that notice may be interpreted as intimation of the meeting and does not necessarily include the sending of the Agenda of the meeting. However, considering the importance of Board Meetings and the responsibilities placed on the directors for decisions taken at the meetings, it is inevitable for them to be properly prepared and informed about the items to be discussed at the Board Meetings.

The Agenda, setting out the business to be transacted at the Meeting, and Notes on Agenda shall be given to the Directors at least seven days before the date of the Meeting, unless the Articles prescribe a longer period as a matter of good secretarial practice.

The articles of association of the company may make it mandatory to do so in almost all cases.

11. 1. According to section 244 of the Companies Act, 2013, in the case of a company having share capital, the following member(s) have the right to apply to the Tribunal under section 241:
- (a) Not less than 100 members of the company or not less than one-tenth of the total number of members, whichever is less; or
  - (b) Any member or members holding not less than one-tenth of the issued share capital of the company provided the applicant(s) have paid all the calls and other sums due on the shares.
2. Legal heir of the deceased shareholder with minority status is entitled to file the petition.

In the given case, there are six shareholders. As per the condition (a) above, 10% of 6 i.e. 1 (round off 0.6) satisfies the condition. Therefore, in the light of the provisions of the Act, a single member (even the legal representative of a deceased shareholder) can present a petition to the Tribunal, regardless of the fact that he holds less than one-tenth of the company's share capital.



Thus, the petition made by Mr. S is valid and maintainable.

12. Section 229 of the Companies Act, 2013 states that where a person who is required to provide an explanation or make a statement during the course of inspection, inquiry or investigation, or an officer or other employee of a company or other body corporate which is also under investigation,—
- (a) destroys, mutilates or falsifies, or conceals or tampers or unauthorisedly removes, or is a party to the destruction, mutilation or falsification or concealment or tampering or unauthorised removal of, documents relating to the property, assets or affairs of the company or the body corporate;
  - (b) makes, or is a party to the making of, a false entry in any document concerning the company or body corporate; or
  - (c) provides an explanation which is false or which he knows to be false,
- he shall be punishable for fraud in the manner as provided in section 447.

As per the above provision:

- (i) With respect to this part of the question, the person shall be liable for fraud. Since, in the given case, he is a party in the manipulation of documents relating to the transfer of securities and in the register of members of the company which is under investigation.
- (ii) Employee shall not be liable here, as the said company in which he is an employee, is not undergoing investigation. Secondly, the person purchasing the shares can act with due diligence before purchasing shares rather fully relying on the publicity made on social networking.

13. **To consider the appointment of Mr. Nirman as company secretary and compliance officer of ABC Ltd.:**

“RESOLVED THAT pursuant to the provisions of section 203 of the Companies Act, 2013 read with Rule 8 of the companies (Appointment and Remuneration) Rules, 2014, approval of the Board be and is hereby given to appoint Mr. Nirman as Whole Time Company Secretary of ABC listed company, with effect from 11/01/2019, to perform the duties which shall be performed by a secretary under the Companies Act, 2013 and other duties as assigned to him by the Board from time to time.

“RESOLVED FURTHER THAT Mr. Nirman be and is hereby appointed as compliance officer of the company with effect from 11/01/2019.

14. As per the Section 5(7) of the Insolvency and Bankruptcy Code, 2016, financial creditor means any person to whom a financial debt is owed and includes a person to whom such debt has been legally assigned or transferred to.

Whereas the term Financial debt defined under Section 5(8) means a debt along with interest, if any, which is disbursed against the consideration for the time value of money

and includes any amount raised pursuant to the issue of bonds, notes, debentures, loan stock or any similar instrument.

As per the facts, Mr. Raman, was an investor and a debenture holder of 'Optionally Convertible Debenture Bond (OPDB)' issued by the M/s Asset Ltd. With the debenture payable, as on the maturity date with interest, it was disbursed against consideration for the time value of the money. Thus, it can be said that debentures on maturity will come under that purview of Section 5(8)(c). Since Mr. Raman is a person to whom a financial debt is owed, he will come within the definition of Financial creditor. Being a debenture-holder and shareholder of the company he, being a creditor is entitled to claim debt amount. Therefore as per section 7, Mr. Raman is entitled to file an application to initiate CIRP against the M/s Asset Ltd.

- 15. Appointment of IRP:** As per Section 16 of the Code where the application for corporate insolvency resolution process is made by an operational creditor and no proposal for an interim resolution professional is made in the said application. The Adjudicating Authority shall make a reference to the Board for the recommendation of an insolvency professional who may act as an interim resolution professional.

The Board shall recommend the name of an insolvency professional to the Adjudicating Authority against whom no disciplinary proceedings are pending, within ten days of the receipt of a reference from the Adjudicating Authority.

**Period of appointment of IRP:** The term of Interim Resolution Professional shall continue till the date of appointment of the resolution professional under section 22 of the Code.

- 16.** According to section 36 of the Insolvency and Bankruptcy Code, for the purposes of liquidation, the liquidator shall form an estate of the assets, which will be called the liquidation estate in relation to the corporate debtor.

The liquidator shall hold the liquidation estate as a fiduciary for the benefit of all the creditors. There are certain exceptions to the assets from inclusion in the liquidation estate assets. Accordingly, where an assets owned by a third party which are in possession of the corporate debtor, including the bailment contracts, it shall not be included in the liquidation estate assets and shall not be used for recovery in the liquidation.

Here in the given instance lending of jewelry as a security in lieu of loan, is considered as an bailment contracts. Therefore, the jewellery of wife of Mr. X which is in possession of Mr. Y shall not be included in the liquidation estate assets and shall not be used for recovery in the liquidation. Besides, bailment contracts has come to an end with the payment of amount. Further, Mr. X's interest shall be protected and his position shall be restored by the Adjudicating authority under section 49 of the Code.

- 17. (i)** According to Regulations on Acquisition and Transfer of Immovable Property outside India, a person resident in India may acquire immovable property outside India, jointly with a relative who is a person resident outside India, provided there is no outflow of funds from India.

In the instant case, Mr. Bharat wants to remit money to buy the immovable property in USA under joint ownership with his son Arjun. Hence, as per the regulations, Mr. Bharat cannot remit amount to buy immovable property in USA.

- (ii) Period for surrender of received/ realised/ unspent/ unused foreign exchange by Resident individuals [Regulation 5 of *Foreign Exchange Management (Realisation, repatriation and surrender of foreign exchange) Regulations, 2015*]: A Person being an individual resident in India shall surrender the received/realised/unspent/ unused foreign exchange whether in the form of currency notes, coins and travellers cheques, etc. to an authorised person within a period of 180 days from the date of such receipt/realisation/purchase/acquisition or date of his return to India, as the case may be. Retention of unused foreign exchange by Mr. Raghav is against the Law.
18. (i) As per section 48A of the Insurance Act, 1938, no insurance agent or intermediary or insurance intermediary shall be eligible to be or remain a director in insurance company. The Authority (IRDA) may permit an agent or intermediary or insurance intermediary to be on the Board of an insurance company subject to such conditions or restrictions as it may impose to protect the interest of policyholders or to avoid conflict of interest. Accordingly, in the given instance, Mr. Kartik, cannot become or remain a director of any insurer i.e. of ABZ Insurance company; however with the permission of IRDA, he can be on the Board of the Insurance company.
- (ii) Section 2(i) of Competition Act, 2002 defines 'goods' as follows:  
 'Goods' means goods as defined the Sale of Goods Act, 1930 and includes –
- (a) products manufactured, processed or mined;
  - (b) debentures, stock and shares after allotment;
  - (c) in relation to goods supplied, distributed or controlled in India, goods imported into India.

Hence, debentures and shares can be considered as 'goods' within the meaning of section 2(i) of Competition Act, 2002 only after allotment and not before allotment.

19. Section 70 of the PMLA, 2002 states of the offences by companies. According to the provision where a person committing a contravention of any of the provisions of this Act or of any rule, direction or order made thereunder is a company, every person who, at the time the contravention was committed, was in charge of and was responsible to the company, for the conduct of the business of the company as well as the company, shall be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly.

Nothing contained in this sub-section shall render any such person liable to punishment if he proves that the contravention took place without his knowledge or that he exercised all due diligence to prevent such contravention.

Where above contravention has been committed by a company and it is proved that the contravention has taken place with the consent or connivance of, or is attributable to any neglect on the part of any director, manager, secretary or other officer of any company, such director, manager, secretary or other officer shall also be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly.

As per the explanation to the section term "Company" means any body corporate and includes a firm or other association of individuals; and the term "Director", in relation to a firm, means a partner in the firm.

Accordingly, following are the answers:

- (i) Though Mr. Ramesh was a partner of a firm, he was not aware of proceeds of crimes. He shall not be liable for the punishment for an offence committed by Rajkumar & sons for using of undisclosed foreign income of Subh Labh Pvt Ltd. However, the firm is liable for commission of the scheduled offence.
  - (ii) Both Mr. Rajkumar, the director and Subh-Labh Pvt. Ltd., the company, are liable for the commission of the scheduled offence as per the above provision.
20. (i) The normal function of a proviso is to except something out of the enactment or to qualify something stated in the enactment which would be within its purview if the proviso were not there. The effect of the proviso is to qualify the preceding enactment which is expressed in terms which are too general. As a general rule, a proviso is added to an enactment to qualify or create an exception to what is in the enactment ordinarily a proviso is not interpreted as it stating a general rule.

It is a cardinal rule of interpretation that a proviso to a particular provision of a statute only embraces the field which is covered by the main provision. It carves out an exception to the provision to which it has been enacted as a proviso and not to the other.

- (ii) Corporatisation and Demutalisation – Power of SEBI under SCRA, 1956

SEBI has been empowered under sub-section (2) of section 4B of Securities Contracts (Regulation) Act, 1956 to approve the scheme of corporatisation and demutalisation with or without modification. SEBI can reject the proposed scheme if it is satisfied that it would not be in the interest of the trade and also in the public interest to approve the scheme. Besides these general powers, SEBI has got certain specific powers under section 4B (6). SEBI, while approving the scheme, may, by an order in writing restrict

- (a) the voting rights of the shareholders who are also stock-brokers of the recognized stock exchange.

- (b) the right of shareholders or a stockbroker of the recognized stock exchange to appoint the representatives on the governing board of the stock exchange.
- (c) the maximum number of representatives of the stock-brokers of the recognized stock exchange to be appointed on the governing board of the stock exchange shall not exceed one-fourth of the total strength of the governing body.

On receipt of approval of scheme, stock exchange will issue shares to public within 12 months so that at least 51% equity shares are with public other than shareholders having trading rights. SEBI can extend the period upto another 12 months [Section 4B(8)].

**Applicability of Standards/Guidance Notes/Legislative Amendments etc.  
for May, 2019 – Final Examination**

**Paper 1: Financial Reporting**

**I. Framework for the Preparation and Presentation of Financial Statements.**

**II. Accounting Standards**

<b>AS No.</b>	<b>AS Title</b>
1	Disclosure of Accounting Policies
2	Valuation of Inventories
3	Cash Flow Statements
4	Contingencies and Events Occurring after the Balance Sheet Date
5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
7	Construction Contracts
9	Revenue Recognition
10	Property, Plant and Equipment
11	The Effects of Changes in Foreign Exchange Rates
12	Accounting for Government Grants
13	Accounting for Investments
14	Accounting for Amalgamations
15	Employee Benefits
16	Borrowing Costs
17	Segment Reporting
18	Related Party Disclosures
19	Leases
20	Earnings Per Share
21	Consolidated Financial Statements
22	Accounting for Taxes on Income
23	Accounting for Investment in Associates in Consolidated Financial Statements
24	Discontinuing Operations

25	Interim Financial Reporting
26	Intangible Assets
27	Financial Reporting of Interests in Joint Ventures
28	Impairment of Assets
29	Provisions, Contingent Liabilities and Contingent Assets

### III. Guidance Notes on Accounting Aspects

1. Guidance Note on Accrual Basis of Accounting.
2. Guidance Note on Terms Used in Financial Statements.
3. Guidance Note on Accounting for Corporate Dividend Tax.
4. Guidance Note on Accounting for Employee Share-based Payments.
5. Guidance Note on Accounting for Credit Available in respect of Minimum Alternate Tax under the Income Tax Act, 1961.
6. Guidance Note on Measurement of Income Tax for Interim Financial Reporting in the context of AS 25.
7. Guidance Note on Applicability of AS 25 to Interim Financial Results.
8. Guidance Note on Turnover in case of Contractors.
9. Guidance Note on Schedule III to the Companies Act, 2013.
10. Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities.
11. Guidance Note on Accounting for Derivative Contracts.

### IV. Applicability of the Companies Act, 2013 and other Legislative Amendments

The relevant notified Sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 31<sup>st</sup> October, 2018 will be applicable for May, 2019 Examination. In specific, notification issued by the MCA on 28.3.2018 for amendments in certain Ind AS and notification of Ind AS 115 will be applicable for May, 2019 examination.

### V. Applicability of Indian Accounting Standard (Ind AS)

The students are expected to have an overall knowledge of the contents covered in the topic of "Introduction of Indian Accounting Standards (Ind AS); Comparative study of ASs vis-a-vis Ind ASs; Carve outs/in in Ind ASs vis-à-vis International Financial Reporting Standards (IFRSs)" which is Chapter 2 of the Study Material.

However, considering the extensive coverage of the contents covered in this topic, *small simple problems involving conceptual issues may be asked in the examination.*

*It may be noted that Accounting Standards will continue to be applicable for May, 2019 examination for all chapters except Chapter 2 as mentioned above and Chapter 6 on 'Accounting and Reporting of Financial Instruments' which would be based on Ind AS 32, 107 and 109.*

*Further, for May, 2019 examination, Ind AS 115 is applicable and not Ind AS 11 and Ind AS 18.*

### Paper 3: Advanced Auditing and Professional Ethics

#### I. Statements and Standards

1. Statement on Reporting under Section 227(1A) of the Companies Act, 1956 (Section 143(1) of the Companies Act, 2013).
2. Framework for Assurance Engagements.

#### II. Engagements and Quality Control Standards on Auditing

S.No	SA	Title of Standard on Auditing
1	SQC 1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements
2	SA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
3	SA 210	Agreeing the Terms of Audit Engagements
4	SA 220	Quality Control for Audit of Financial Statements
5	SA 230	Audit Documentation
6	SA 240	The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements
7	SA 250	Consideration of Laws and Regulations in An Audit of Financial Statements
8	SA 260	Communication with Those Charged with Governance <b>(Revised)</b>
9	SA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
10	SA 299	Joint Audit of Financial Statements <b>(Revised)</b>
11	SA 300	Planning an Audit of Financial Statements
12	SA 315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment
13	SA 320	Materiality in Planning and Performing an Audit



14	SA 330	The Auditor's Responses to Assessed Risks
15	SA 402	Audit Considerations Relating to an Entity Using a Service Organization
16	SA 450	Evaluation of Misstatements Identified during the Audits
17	SA 500	Audit Evidence
18	SA 501	Audit Evidence - Specific Considerations for Selected Items
19	SA 505	External Confirmations
20	SA 510	Initial Audit Engagements-Opening Balances
21	SA 520	Analytical Procedures
22	SA 530	Audit Sampling
23	SA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
24	SA 550	Related Parties
25	SA 560	Subsequent Events
26	SA 570	Going Concern <b>(Revised)</b>
27	SA 580	Written Representations
28	SA 600	Using the Work of Another Auditor
29	SA 610	Using the Work of Internal Auditors <b>(Revised)</b>
30	SA 620	Using the Work of an Auditor's Expert
31	SA 700	Forming an Opinion and Reporting on Financial Statements <b>(Revised)</b>
32	SA 701	Communicating Key Audit Matters in the Independent Auditor's Report <b>(New)</b>
33	SA 705	Modifications to the Opinion in the Independent Auditor's Report <b>(Revised)</b>
34	SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report <b>(Revised)</b>
35	SA 710	Comparative Information – Corresponding Figures and Comparative Financial Statements
36	SA 720	The Auditor's Responsibility in Relation to Other Information <b>(Revised)</b>
37	SA 800	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Framework

38	SA 805	Special Considerations-Audits of Single Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
39	SA 810	Engagements to Report on Summary Financial Statements
40	SRE 2400	Engagements to Review Historical Financial Statements <b>(Revised)</b>
41	SRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity
42	SAE 3400	The Examination of Prospective Financial Information
43	SAE 3402	Assurance Reports on Controls At a Service Organisation
44	SAE 3420	Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus <b>(New)</b>
45	SRS 4400	Engagements to Perform Agreed Upon Procedures Regarding Financial Information
46	SRS 4410	Compilations Engagements <b>(Revised)</b>

### III. Guidance Notes and other publications

1. Code of Ethics
2. Guidance Note on Independence of Auditors.
3. Guidance Note on Audit of Inventories.
4. Guidance Note on Audit of Debtors, Loans and Advances.
5. Guidance Note on Audit of Investments.
6. Guidance Note on Audit of Cash and Bank Balances.
7. Guidance Note on Audit of Liabilities.
8. Guidance Note on Audit of Revenue.
9. Guidance Note on Audit of Expenses.
10. Guidance Note on Computer Assisted Audit Techniques (CAATs).
11. Guidance Note on Audit of Payment of Dividend.
12. Guidance Note on Audit of Capital and Reserves.
13. Guidance Note on Reporting on Fraud under section 143(12) of the Companies Act, 2013.
14. Guidance Note on Reporting under section 143(3)(f) and (h) of the Companies Act, 2013.
15. Guidance Note on Audit under Section 44AB of the Income-tax Act.

16. Guidance Note on Audit of Banks.
17. Guidance Note on Audit of Internal Financial Controls Over Financial Reporting.
18. Guidance Note on the Companies (Auditor's Report) Order, 2016.

**IV Applicability of the Companies Act, 2013:**

- (i) The relevant notified Sections of the Companies Act, 2013 and other legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authorities, cut-off date will be 31<sup>st</sup> October, 2018. It may be noted that the significant notifications and circulars issued which are not covered in the Study Material, would be given as Academic Update in the Revision Test Paper for May 2019 Examination.
- (ii) SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and Companies (Auditor's Report) Order, 2016 are applicable for May, 2019 Examination.
- (iii) Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016 issued by RBI are applicable for May, 2019 Examination.
- (iv) Audit provision under GST Laws are applicable for May, 2019 Examination.

**Paper 4 : Corporate and Allied Laws****Applicability of the following Amendments/Circulars/Notifications:**

The provisions of Companies Act, 2013 along with significant Rules/ Notifications/ Circulars/ Clarification/ Orders issued by the Ministry of Corporate Affairs and the laws covered under the Allied laws, as amended by concerned authority, including significant notifications and circulars issued up to 31<sup>st</sup> October, 2018, are applicable for May 2019 examination.

**Applicability of Insolvency and Bankruptcy Code, 2016**

"Overview of the Insolvency and Bankruptcy Code, 2016" for 10 Marks have been made applicable covering Knowledge and application of the following -

- (1) Important Definitions
- (2) Corporate Insolvency Resolution Process, and
- (3) Liquidation Process

**With the inclusion of the Insolvency and Bankruptcy Code, 2016, marks allocation will be as under:**

Company Law- 60 Marks

Insolvency and Bankruptcy Code, 2016- 10 Marks

Allied Laws- 30 Marks

<b>Inclusions /Exclusions from the syllabus</b>			
(1)	(2)	(3)	(4)
<b>S. No. in the syllabus</b>	<b>Chapters/ Topics of the syllabus</b>	<b>Inclusions (Provisions which are included from the corresponding chapter of the syllabus)</b>	<b>Exclusions (Provisions which are excluded from the corresponding chapter of the syllabus)</b>
Section A- Company Law [60 Marks]	Companies Act, 2013 covering Chapters 1 to 18	The entire content included in the Revised June 2018 edition of the Study Material and the Legislative amendments given in the RTP for May 2019 examinations, shall only be relevant for the said examinations. The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal.	Except the Relevant rules covered in the Revised June 2018 edition of the Study Material and given in RTP for May 2019, all other Rules of the Companies Act, 2013 are excluded.
Section A- Overview on the Insolvency and Bankruptcy Code, 2016 [10 Marks]	Chapter 19: Insolvency and Bankruptcy Code covering important Definitions, Corporate Insolvency Resolution process and Liquidation Process	The entire content included in the Revised June 2018 edition of the Study Material and the Legislative amendments given in the RTP for May 2019 examinations, shall only be relevant for the said examinations. The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal.	Following Provisions are excluded and shall not be applicable for May 2019 Examination- Sections 3(14), 3(22), 3(24)-3(26), 3(38)- 3(29), 3(32), 3(36) – 3(37), 5(2), 5(3), 5(13), 5(19) and section 60 onwards.  Respective Rules of the Code are excluded from the study material.

<p>Section B- Allied Laws [30 Marks]</p>	<p>Chapter 20: SEBI Act, 1992 and the SEBI(ICDR) Regulations, 2009</p>	<p>The entire content included in the Revised June 2018 edition of the Study Material and the Legislative amendments given in the RTP for May 2019 examinations, shall only be relevant for the said examinations.  The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal. .</p>	<p>Following provisions of the SEBI Act, are entirely excluded – Sections 2(1)(b), 2(1)(c), 2(1)(d), 2(1)(da), 2(1)(f), 2(1)(fa), 2(1)(g), 9, 10, 19, 21, 28B, 33, 35 &amp; all the Schedules</p>
<p>Section B- Allied Laws [30 Marks]</p>	<p>Chapter 21: Securities Contracts (Regulation) Act, 1956</p>	<p>The entire content included in the Revised June 2018 edition of the Study Material and the Legislative amendments given in the RTP for May 2019 examinations, shall only be relevant for the said examinations.  The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal.</p>	<p>The Securities Contracts (Regulation) Rules, 1957 are entirely excluded.</p>
<p>Section B- Allied Laws [30 Marks]</p>	<p>Chapter 22: The Foreign Exchange Management Act, 1999 and the significant FEM Regulations</p>	<p>The entire content included in the Revised June 2018 edition of the Study Material and the Legislative amendments given in the RTP for May 2019 examinations, shall only be relevant for the said examinations.</p>	<p>All other FEM(Regulations)/ Rules are entirely excluded.</p>

		<p><b>In specific following FEM(Regulations)/ Rules</b> shall only be applicable to the extent covered in the study material-</p> <ul style="list-style-type: none"> <li>• Foreign Exchange Management (Current Account Transactions) Rules, 2000</li> <li>• Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000</li> <li>• Foreign Exchange Management (Acquisition and Transfer of Immovable Property in India) Regulations, 2000</li> <li>• Foreign Exchange Management (Acquisition and Transfer of Immovable Property outside India) Regulations, 2015</li> <li>• Foreign Exchange Management (Export of Goods and Services) Regulations, 2015</li> <li>• Foreign Exchange Management</li> </ul>	
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		<p>(Realisation, repatriation and surrender of foreign exchange) Regulations, 2015</p> <ul style="list-style-type: none"> <li>• Foreign Exchange Management (Possession and retention of foreign currency) Regulations, 2015</li> </ul> <p>The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal.</p>	
Section B- Allied Laws [30 Marks]	Chapter 23: The Competition Act, 2002	<p>The entire content included in the Revised June 2018 edition of the Study Material and the Legislative amendments given in the RTP for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal.</p>	Following Sections 23, 24, 25, 34, 37, 40 are excluded.
Section B- Allied Laws [30 Marks]	Chapter 24: Overview of Banking Regulations Act, 1949, Insurance Act,	Content of the chapter of the Study Material is covering an overview of the Act with the broad coverage (not in	-

	<p>1938, IRDA, 1999 and the SARFAESI Act, 2002</p>	<p>entirety) of the following sections-</p> <p><b>Under the Banking Regulation Act, 1949:</b> Sections 6, 8, 9, 17, 20, 29, 30, 35, 35A, 35B, 35AA, 35AB, 36, 36AA, 36AB, 36AE, 36AF, 36AG, 36AH, 36AI, 36AJ.</p> <p><b>Insurance Act, 1938:</b> Sections 2(1), 2(1A), 2(2), 2(4A)2(5B), 2(6), 2(6B), 2(6C), 2(7), 2(7A), 2(9), 2(10), 2(10A), 2(11), 2(16B), 2(CB), 6, 6A, 13,14, 15, 27, 29, 30, 32D, 33, 40, 42, 42A, 45, 48A, 52, 64, 64UM, 64V, 64VA.</p> <p><b>IRDA, 1999:</b> Sections 2(a), 2(b), 2(c), 2(d), 2(e), 2(f), 2(g), 3-12, 13, 14, 15-17, 18-32.</p> <p><b>SARFAESI Act, 2002:</b> Covering only significant definitions given under section 2, and all the other provisions (except section 28). Very limited coverage is required in view of Insolvency and Bankruptcy Code.</p> <p>The entire content included in the Revised</p>	
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		<p>June 2018 edition of the Study Material and the Legislative amendments given in the RTP for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal.</p>	
<p>Section B- Allied Laws [30 Marks]</p>	<p>Chapter 25: The Prevention of Money Laundering Act, 2002</p>	<p>The entire content included in the Revised June 2018 edition of the Study Material and the Legislative amendments given in the RTP for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal.</p>	<p>Following are the provisions that are excluded:</p> <p>Section related to definitions under the 2(1)(a), (b)(c), (d), (da), (f), (g), (h), (i), (ia), (ib), (j), (ja), (k), (m), (o), (q), (r), (rc), (s), (sa), (sb), (sc), (t), (va), (z) , (zb) &amp; (2).</p> <p>Sections 6(3) -6(14)- Adjudicating authorities, composition, powers, etc.</p> <p>Section 7- Staff of Adjudicating Authorities</p> <p>Sections 10- 11 Management of properties confiscated under this Chapter &amp; Power regarding summons, production of documents and evidence, etc.</p> <p>Sections 16- 24- Powers related to search, and seizure etc.</p>

			<p>35(3)- 35(5)- Powers of the Appellant Tribunal</p> <p>Sections 37- Power of Chairman to transfer cases</p> <p>Sections 39- 40- Right of appellant to take assistance of authorized representative and of Government to appoint presenting officers &amp; Members, etc., to be public servants.</p> <p>Sections 46(2)-(3)- Application of Code of Criminal Procedure, 1973 to proceedings before Special Court.</p> <p>Sections 49 to 54- Provisions related to the Powers of appointment of authorities and other officers, jurisdiction, inquiry etc.</p> <p>Sections 58A- Special Court to release the property</p> <p>Section 59 –Reciprocal arrangements</p> <p>Section 67-68- Bar of suits and notice</p>
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			Sections 73- 75- Powers related to making of rules and to remove difficulties
Section B- Allied Laws [30 Marks]	Chapter 26: Interpretation of statutes, deeds and documents	Content of this chapter of the Study Material covers the significant rules and principles of interpretation in a broad manner. Thus, the content of the chapter as included in the study material may be taken into consideration	

**Notes:**

- (1) In the above table of exclusion, in respect of the Chapters of the syllabus specified in column (2) the related exclusion is given in column (4). Where an exclusion has been so specified in any topic of the syllabus, the provisions corresponding to such exclusions, covered in other topic(s) forming part of the syllabus, shall also be excluded.
- (2) June 2018 edition of the Study Material is relevant for May 2019 examinations. The amendments - made after the issuance of this Study Material –to the extent covered in RTP for May 2019 examinations, alone shall be relevant for the said examinations The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal.
- (3) Except the exclusions mentioned in the column (4) of the table, the entire content of the syllabus included in the June 2018 edition of the Study Material and the Legislative amendments for May 2019 examinations shall be relevant for the said examinations.