

**FINAL COURSE
(UNDER REVISED SCHEME OF
EDUCATION AND TRAINING)
GROUP – I**

REVISION TEST PAPERS

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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Edition : February, 2019

Website : www.icai.org

Department/Committee : Board of Studies

E-mail : bosnoida@icai.in

Price :

ISBN No. :

Published by : The Publication Department on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi- 110 002, India

Typeset and designed at Board of Studies.

Printed by :

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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:

- Planning and preparing for examination
- Subject-wise guidance – An overview
- Updates applicable for a particular exam in the relevant subjects
- Topic-wise questions and detailed answers thereof in respect of each paper
- Relevant 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.

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.icai.org under the BOS knowledge portal in students section for downloading.

II. Planning and preparing for examination

Ideally, when the RTP reaches your hand, you must have finished reading the relevant Study Materials of all the subjects. Make sure that you have read the Study Materials thoroughly as they cover the syllabus comprehensively. Get a good grasp of the concepts/ provisions discussed therein. Solve each and every question/illustration given therein to understand the application of the concepts and provisions.

After reading the Study Materials thoroughly, you should go through the Updates provided in the RTP and then proceed to solve the questions given in the RTP on your own. RTP is an effective tool to revise and refresh the concepts and provisions discussed in the Study Material. RTPs are provided to you to help you assess your level of preparation. Hence you must solve the questions given therein on your own and thereafter compare your answers with the answers given therein.

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 answers 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

For Paper 1 : Financial Reporting Revised November, 2018 edition of the study material is applicable. The Study Material has been divided into six modules for ease of handling by students. Module 1 deals with select Accounting Standards and Guidance Notes. Modules 2 to 5 is devoted to Ind AS and the last Module 6 is on Accounting and Reporting of contemporary topics.

For understanding the coverage of syllabus, it is important to read the Study Material along with the reference to Study Guidelines. It contains the detailed topic-wise inclusion / exclusions from the syllabus. It also covers the list of select EAC opinions relevant for the paper. The Study Guidelines is given as part of “Applicability of Standards/Guidance Notes/Legislative Amendments etc. for May, 2019 – Final Examination” appended at the end of this Revision Test Paper.

You have to read the Study Material (alongwith the corrigendum and the modified chapters, uploaded on the website) thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the questions at the end of each chapter to hone your problem solving skills. Compare your answers with the answers given to test your level of understanding.

Thereafter, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination. The Revisionary Test Paper (RTP) of Financial Reporting contains twenty questions and their answers.

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.

Students may also note that the relevant amendments including relevant Notifications / Circulars / Rules issued by the Companies Act, 2013 and other relevant legislations up to 31st October, 2018 will be applicable for May, 2019 Examination. Reference of the same is also given in the Study Guidelines appended at the end of this Revision Test Paper.

PAPER 2: STRATEGIC FINANCIAL MANAGEMENT

Basically, the subject of Strategic Financial Management is to acquire the ability to apply financial management theories and techniques in strategic decision making. The major topics from which numerical questions are normally asked are as follows:

- Risk Management
- Security Analysis & Valuation
- Portfolio Management
- Mutual Funds
- Derivatives
- Foreign Exchange Exposure and Risk Management
- International Financial Management
- Interest Rate Risk Management
- Corporate Valuation
- Mergers and Acquisitions

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

Question No.	Topic
1	Security Valuation
2	Security Valuation
3	Portfolio Management
4	Portfolio Management
5	Mutual Fund
6	Derivatives
7	Derivatives

8	Foreign Exchange Exposure and Risk Management
9	Foreign Exchange Exposure and Risk Management
10	International Financial Management
11	Interest Rate Risk Management
12	Corporate Valuation
13	Mergers and Acquisitions and Valuation of Business.
14	A blend of questions requiring a straight forward answer 'what it is' in short paragraph or a sequence of sentences explaining each other.
15	A blend of questions requiring a straight forward answer 'what it is' in short paragraph or a sequence of sentences explaining each other.

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. Total 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 25 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 including Audit Reports and Certificates for Special Purpose Engagements, 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 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 31st 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 ECONOMIC LAWS

In the paper of Corporate and Economic 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 : Multiple Choice Questions with their 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 31st 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	Appointment and Qualifications of Directors
2	Meetings of Board and its powers
3	Appointment and Qualifications of Directors
4	Miscellaneous Provisions
5	The Insolvency and Bankruptcy Code, 2016
6	The Prevention of Money Laundering Act, 2002
7	Appointment and remuneration of Managerial Personnel
8(i)	Miscellaneous Provisions
8(ii)	Appointment and Qualifications of Directors
9	Meetings of Board and its powers
10	Miscellaneous Provisions

11	Inspection, inquiry and Investigation
12	Corporate Secretarial Practice—Drafting of Notices, Resolutions, Minutes and Reports
13(i)	National Company Law Tribunal and Appellate Tribunal
13(ii)	Winding Up
14	Prevention of Oppression and Mismanagement
15	Companies incorporated outside India
16	The Securities Exchange Board of India Act, 1992, SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 and SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015
17	The Insolvency and Bankruptcy Code, 2016
18	The Foreign Exchange Management Act, 1999
19(i)	The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
19(ii)	The Foreign Contribution Regulation Act, 2010
20(i)	The Prevention of Money Laundering Act, 2002
20(ii)	The Arbitration and Conciliation Act, 1996

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 ‘VII. 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 20th 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 28th 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. (Refer Chapter 5 of November, 2018 edition of the study material)
- 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. Relevant Sections of the Companies Act, 2013

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

B. Not applicable for May, 2019 Examination

Division III of Schedule III (stating format of financial statements for NBFCs) notified by MCA on 12.10.2018 has not been made applicable for May, 2019 examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Ind AS 36

1. Elia limited is a manufacturing company which deals in to manufacturing of cold drinks and beverages. It is having various plants across India. There is a Machinery A in the Baroda plant which is used for the purpose of bottling. There is one more machinery which is Machinery B clubbed with Machinery A. Machinery A can individually have an output and also sold independently in the open market. Machinery B cannot be sold in isolation and without clubbing with Machine A it cannot produce output as well. The Company considers this group of assets as a Cash Generating Unit and an Inventory amounting to ₹ 2 Lakh and Goodwill amounting to ₹ 1.50 Lakhs is included in such CGU.

Machinery A was purchased on 1st April 2013 for ₹ 10 Lakhs and residual value is ₹ 50 thousands. Machinery B was purchased on 1st April, 2015 for ₹ 5 Lakhs with no residual value. The useful life of both Machine A and B is 10 years. The Company expects following cash flows in the next 5 years pertaining to Machinery A. The incremental borrowing rate of the company is 10%.

Year	Cash Flows from Machinery A
1	1,50,000
2	1,00,000
3	1,00,000
4	1,50,000
5	<u>1,00,000</u> (excluding Residual Value)
Total	6,00,000

On 31st March, 2018, the professional valuers have estimated that the current market value of Machinery A is ₹ 7 lakhs. The valuation fee was ₹ 1 lakh. There is a need to dismantle the machinery before delivering it to the buyer. Dismantling cost is ₹ 1.50 lakhs. Specialised packaging cost would be ₹ 25 thousand and legal fees would be ₹ 75 thousand.

The Inventory has been valued in accordance with Ind AS 2. The recoverable value of CGU is ₹ 10 Lakh as on 31st March, 2018. In the next year, the company has done the assessment of recoverability of the CGU and found that the value of such CGU is ₹ 11 Lakhs ie on 31st March, 2019. The Recoverable value of Machine A is ₹ 4,50,000 and combined Machine A and B is ₹ 7,60,000 as on 31st March, 2019.

Required:

- Compute the impairment loss on CGU and carrying value of each asset after charging impairment loss for the year ending 31st March, 2018 by providing all the relevant working notes to arrive at such calculation.
- Compute the prospective depreciation for the year 2018-2019 on the above assets.
- Compute the carrying value of CGU as at 31st March, 2019.

Ind AS 12

2. PQR Ltd., a manufacturing company, prepares consolidated financial statements to 31st March each year. During the year ended 31st March, 2018, the following events affected the tax position of the group:
 - QPR Ltd., a wholly owned subsidiary of PQR Ltd., incurred a loss adjusted for tax purposes of ₹ 30,00,000. QPR Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow QPR Ltd. to transfer the tax loss to other group companies. However, it allows QPR Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of PQR Ltd. do not consider that QPR Ltd. will make taxable profits in the foreseeable future.
 - During the year ended 31st March, 2018, PQR Ltd. capitalised development costs which satisfied the criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalised was ₹ 16,00,000. The development project began to generate economic benefits for PQR Ltd. from 1st January, 2018. The directors of PQR Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st March, 2018.
 - On 1st April, 2017, PQR Ltd. borrowed ₹ 1,00,00,000. The cost to PQR Ltd. of arranging the borrowing was ₹ 2,00,000 and this cost qualified for a tax deduction on 1st April 2017. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st March 2020 will be ₹ 1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax

Act, a further tax deduction of ₹ 30,43,800 will be claimable when the loan is repaid on 31st March, 2020.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of PQR Ltd. group at 31st March, 2018 as per Ind AS. The rate of corporate income tax is 30%.

Ind AS 103

3. How should contingent consideration payable in relation to a business combination be accounted for on initial recognition and at the subsequent measurement as per Ind AS in the following cases:

- (i) On 1 April 2016, A Ltd. acquires 100% interest in B Ltd. As per the terms of agreement the purchase consideration is payable in the following 2 tranches:
 - a. an immediate issuance of 10 lakhs shares of A Ltd. having face value of INR 10 per share;
 - b. a further issuance of 2 lakhs shares after one year if the profit before interest and tax of B Ltd. for the first year following acquisition exceeds INR 1 crore.
 - i. The fair value of the shares of A Ltd. on the date of acquisition is INR 20 per share. Further, the management has estimated that on the date of acquisition, the fair value of contingent consideration is ₹25 lakhs.
 - ii. During the year ended 31 March 2017, the profit before interest and tax of B Ltd. exceeded ₹1 crore. As on 31 March 2017, the fair value of shares of A Ltd. is ₹25 per share.
- (ii) Continuing with the fact pattern in (a) above except for:
 - c. The number of shares to be issued after one year is not fixed.
 - d. Rather, A Ltd. agreed to issue variable number of shares having a fair value equal to ₹40 lakhs after one year, if the profit before interest and tax for the first year following acquisition exceeds ₹1 crore. A Ltd. issued shares with ₹40 lakhs after a year.

Ind AS 115

4. KK Ltd. runs a departmental store which awards 10 points for every purchase of ₹ 500 which can be discounted by the customers for further shopping with the same merchant. Each point is redeemable on any future purchases of KK Ltd.'s products within 3 years. Value of each point is ₹ 0.50. During the accounting period 2017-2018, the entity awarded 1,00,00,000 points to various customers of which 18,00,000 points remained undiscounted (to be redeemed till 31st March, 2020). The management expects only 80% of the remaining will be discounted in future.

The Company has approached your firm with the following queries and has asked you to suggest the accounting treatment (Journal Entries) under the applicable Ind AS for these award points:

(a)	How should the recognition be done for the sale of goods worth ₹ 10,00,000 on a particular day?
(b)	How should the redemption transaction be recorded in the year 2017-2018? The Company has requested you to present the sale of goods and redemption as independent transaction. Total sales of the entity is ₹ 5,000 lakhs.
(c)	How much of the deferred revenue should be recognised at the year-end (2017-2018) because of the estimation that only 80% of the outstanding points will be redeemed?
(d)	In the next year 2018-2019, 60% of the outstanding points were discounted. Balance 40% of the outstanding points of 2017-2018 still remained outstanding. How much of the deferred revenue should the merchant recognize in the year 2018-2019 and what will be the amount of balance deferred revenue?
(e)	How much revenue will the merchant recognized in the year 2019-2020, if 3,00,000 points are redeemed in the year 2019-2020?

Ind AS 21

5. Supplier, A Ltd., enters into a contract with a customer, B Ltd., on 1st January, 2018 to deliver goods in exchange for total consideration of USD 50 million and receives an upfront payment of USD 20 million on this date. The functional currency of the supplier is INR. The goods are delivered and revenue is recognised on 31st March, 2018. USD 30 million is received on 1st April, 2018 in full and final settlement of the purchase consideration.

State the date of transaction for advance consideration and recognition of revenue. Also state the amount of revenue in INR to be recognized on the date of recognition of revenue. The exchange rates on 1st January, 2018 and 31st March, 2018 are ₹ 72 per USD and ₹ 75 per USD respectively.

Ind AS 102

6. A parent grants 200 share options to each of 100 employees of its subsidiary, conditional upon the completion of two years' service with the subsidiary. The fair value of the share options on grant date is ₹ 30 each. At grant date, the subsidiary estimates that 80 percent of the employees will complete the two-year service period. This estimate does not change during the vesting period. At the end of the vesting period, 81 employees complete the required two years of service. The parent does not require the subsidiary to pay for the shares needed to settle the grant of share options.

Pass the necessary journal entries for giving effect to the above arrangement.

Ind AS 10

7. XYZ Ltd. was formed to secure the tenders floated by a telecom company for publication of telephone directories. It bagged the tender for publishing directories for Pune circle for 5 years. It has made a profit in 2013-2014, 2014-2015, 2015-2016 and 2016-2017. It bid in tenders for publication of directories for other circles – Nagpur, Nashik, Mumbai, Hyderabad but as per the results declared on 23rd April, 2017, the company failed to bag any of these. Its only activity till date is publication of Pune directory. The contract for publication of directories for Pune will expire on 31st December 2017. The financial statements for the F.Y. 2016-17 have been approved by the Board of Directors on July 10, 2017.

Whether it is appropriate to prepare financial statements on going concern basis?

Ind AS 28 / Ind AS 110

8. Angel Ltd. has adopted Ind AS with a transition date of 1st April, 2017. Prior to Ind AS adoption, it followed Accounting Standards notified under Companies (Accounting Standards) Rules, 2006 (hereinafter referred to as "IGAAP").

It has made investments in equity shares of Pharma Ltd., a listed company engaged in the business of pharmaceuticals. The shareholding pattern of Pharma Ltd. is given below:

Shareholders (refer Note 1)	Percentage shareholding as on 1st April, 2017
Angel Ltd.	21%
Little Angel Ltd. (refer Note 2)	24%
Wealth Master Mutual Fund (refer Note 3)	3%
Individual public shareholders (refer Note 4)	52%

Notes:

- (1) None of the shareholders have entered into any shareholders' agreement.
- (2) Little Angel Ltd. is a subsidiary of Angel Ltd. (under Ind AS) in which Angel Ltd. holds 51% voting power.
- (3) Wealth Master Mutual Fund is not related party of either Little Angel Ltd. or Pharma Ltd.
- (4) Individual public shareholders represent 17,455 individuals. None of the individual shareholders hold more than 1% of voting power in Pharma Ltd.

All commercial decisions of Pharma Ltd. are taken by its directors who are appointed by a simple majority vote of the shareholders in the annual general meetings ("AGM"). The following table shows the voting pattern of past AGMs of Pharma Ltd.:

Shareholders	AGM for the financial year:		
	2013-14	2014-15	2015-16
Angel Ltd.	Attended and voted in favour of all the resolutions	Attended and voted in favour of all the resolutions	Attended and voted in favour of all the resolutions
Little Angel Ltd.	Attended and voted as per directions of Angel Ltd.	Attended and voted as per directions of Angel Ltd	Attended and voted as per directions of Angel Ltd
Wealth Master Mutual Fund	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors
Individuals	7% of the individual shareholders attended the AGM. All the individual shareholders voted in favour of all the resolutions, except that 50% of the individual Shareholders voted against the resolution to appoint the retiring directors.	8% of the individual shareholders attended the AGM. All the individual shareholders voted in favour of all the resolutions, except that 50% of the individual Shareholders voted against the resolution to appoint the retiring directors.	6% of the individual shareholders attended the AGM. All the individual shareholders voted in favour of all the resolutions, except that 50% of the individual Shareholders voted against the resolution to appoint the retiring directors.

Pharma Ltd. has obtained substantial long term borrowings from a bank. The loan is payable in 20 years from 1st April, 2017. As per the terms of the borrowing, following actions by Pharma Ltd. will require prior approval of the bank:

- Payment of dividends to the shareholders in cash or kind;
- Buyback of its own equity shares;
- Issue of bonus equity shares;
- Amalgamation of Pharma Ltd. with any other entity; and
- Obtaining additional loans from any entity.

Recently, the Board of Directors of Pharma Ltd. proposed a dividend of ₹5 per share. However, when the CFO of Pharma Ltd. approached the bank for obtaining their approval, the bank rejected the proposal citing concerns over the short-term cash liquidity of Pharma Ltd. Having learned about the developments, the Directors of Angel Ltd. along with the Directors of Little Angel Ltd. approached the bank with a request to re-consider its decision. The Directors of Angel Ltd. and Little Angel Ltd. urged the bank to approve a reduced dividend of at least ₹2 per share. However, the bank categorically refused to approve any payout of dividend.

Under IGAAP, Angel Ltd. has classified Pharma Ltd. as its associate. As the CFO of Angel Ltd., you are required to comment on the correct classification of Pharma Ltd. on transition to Ind AS.

Ind AS 109

9. KK Ltd. has granted an interest free loan of ₹ 10,00,000 to its wholly owned Indian Subsidiary YK Ltd. There is no transaction cost attached to the said loan. The Company has not finalised any terms and conditions including the applicable interest rates on such loans. The Board of Directors of the Company are evaluating various options and has requested your firm to provide your views under Ind AS in following situations:

- (i) The Loan given by KK Ltd. to its wholly owned subsidiary YK Ltd. is interest free and such loan is repayable on demand.
- (ii) The said Loan is interest free and will be repayable after 3 years from the date of granting such loan. The current market rate of interest for similar loan is 10%. Considering the same, the fair value of the loan at initial recognition is ₹ 8,10,150.
- (iii) The said loan is interest free and will be repaid as and when the YK Ltd. has funds to repay the Loan amount.

Based on the same, KK Ltd. has requested you to suggest the accounting treatment of the above loan in the stand-alone financial statements of KK Ltd. and YK Ltd. and also in the consolidated financial statements of the group. Consider interest for only one year for the above loan.

Further the Company is also planning to grant interest free loan from YK Ltd. to KK Ltd. in the subsequent period. What will be the accounting treatment of the same under applicable Ind AS?

Ind AS 38

10. As part of its business expansion strategy, KK Ltd. is in process of setting up a pharma intermediates business which is at very initial stage. For this purpose, KK Ltd. has acquired on 1st April, 2018, 100% shares of ABR Ltd. that manufactures pharma intermediates. The purchase consideration for the same was by way of a share exchange valued at ₹ 35 crores. The fair value of ABR Ltd.'s net assets was ₹ 15 crores, but does not include:

- (i) A patent owned by ABR Ltd. for an established successful intermediate drug that has a remaining life of 8 years. A consultant has estimated the value of this patent to be ₹ 10 crores. However, the outcome of clinical trials for the same are awaited. If the trials are successful, the value of the drug would fetch the estimated ₹ 15 crores.
- (ii) ABR Ltd. has developed and patented a new drug which has been approved for clinical use. The cost of developing the drug was ₹ 12 crores. Based on early assessment of its sales success, the valuer has estimated its market value at ₹ 20 crores.
- (iii) ABR Ltd.'s manufacturing facilities have received a favourable inspection by a government department. As a result of this, the Company has been granted an exclusive five-year license to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is a valuable asset which assures guaranteed sales and the value for the same is estimated at ₹ 10 crores.

KK Ltd. has requested you to suggest the accounting treatment of the above transaction under applicable Ind AS. .

Ind AS 101

11. XYZ Pvt. Ltd. is a company registered under the Companies Act, 2013 following Accounting Standards notified under Companies (Accounting Standards) Rules, 2006. The Company has decided to voluntary adopt Ind AS w.e.f 1st April, 2018 with a transition date of 1st April, 2017.

The Company has one Wholly Owned Subsidiary and one Joint Venture which are into manufacturing of automobile spare parts.

The -consolidated financial statements of the Company under Indian GAAP are as under:

Consolidated Financial Statements

(₹ in Lakhs)

Particulars	31.03.2018	31.03.2017
Shareholder's Funds		
Share Capital	7,953	7,953
Reserves & Surplus	16,547	16,597
Non-Current Liabilities		
Long Term Borrowings	1,000	1,000
Long Term Provisions	1,101	691
Other Long-Term Liabilities	5,202	5,904

Current Liabilities		
Trade Payables	9,905	8,455
Short Term Provisions	500	475
Total	42,208	41,075
Non-Current Assets		
Property Plant & Equipment	21,488	22,288
Goodwill on Consolidation of subsidiary and JV	1,507	1,507
Investment Property	5,245	5,245
Long Term Loans & Advances	6,350	6,350
Current Assets		
Trade Receivables	4,801	1,818
Investments	1,263	3,763
Other Current Assets	1,554	104
Total	42,208	41,075

Additional Information:

The Company has entered into a joint arrangement by acquiring 50% of the equity shares of ABC Pvt. Ltd. Presently, the same has been accounted as per the proportionate consolidated method. The proportionate share of assets and liabilities of ABC Pvt. Ltd. included in the consolidated financial statement of XYZ Pvt. Ltd. is as under:

Particulars	₹ in Lakhs
Property, Plant & Equipment	1,200
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Trade Payables	75
Short Term Provisions	35

The Investment is in the nature of Joint Venture as per Ind AS 111.

The Company has approached you to advice and suggest the accounting adjustments which are required to be made in the opening Balance Sheet as on 1st April, 2017.

Ind AS 105

12. CK Ltd. prepares the financial statement under Ind AS for the quarter year ended 30th June, 2018. During the 3 months ended 30th June, 2018 following events occurred:

On 1st April, 2018, the Company has decided to sell one of its divisions as a going concern following a recent change in its geographical focus. The proposed sale would involve the buyer acquiring the non-monetary assets (including goodwill) of the division, with the Company collecting any outstanding trade receivables relating to the division and settling any current liabilities.

On 1st April, 2018, the carrying amount of the assets of the division were as follows:

- Purchased Goodwill – ₹ 60,000
- Property, Plant & Equipment (average remaining estimated useful life two years) - ₹ 20,00,000
- Inventories - ₹ 10,00,000

From 1st April, 2018, the Company has started to actively market the division and has received number of serious enquiries. On 1st April, 2018 the directors estimated that they would receive ₹ 32,00,000 from the sale of the division. Since 1st April, 2018, market condition has improved and as on 1st August, 2018 the Company received and accepted a firm offer to purchase the division for ₹ 33,00,000.

The sale is expected to be completed on 30th September, 2018 and ₹ 33,00,000 can be assumed to be a reasonable estimate of the value of the division as on 30th June, 2018. During the period from 1st April to 30th June inventories of the division costing ₹ 8,00,000 were sold for ₹ 12,00,000. At 30th June, 2018, the total cost of the inventories of the division was ₹ 9,00,000. All of these inventories have an estimated net realisable value that is in excess of their cost.

The Company has approached you to suggest how the proposed sale will be reported in the interim financial statements for the quarter ended 30th June, 2018 giving relevant explanations.

Ind AS 8

13. ABC Ltd. changed its method adopted for inventory valuation in the year 2018-2019. Prior to the change, inventory was valued using the first in first out method (FIFO). However, it was felt that in order to match current practice and to make the financial statements more relevant and reliable, a weighted average valuation model would be more appropriate.

The effect of the change in the method of valuation of inventory was as follows:

- 31st March, 2017 - Increase of ₹ 10 million
- 31st March, 2018 - Increase of ₹ 15 million
- 31st March, 2019 - Increase of ₹ 20 million

Profit or loss under the FIFO valuation model are as follows:

	2018-2019	2017-2018
Revenue	324	296
Cost of goods sold	(173)	(164)
Gross profit	151	132
Expenses	(83)	(74)
Profit	68	58

Retained earnings at 31st March, 2017 were ₹ 423 million

Present the change in accounting policy in the profit or loss and produce an extract of the statement of changes in equity in accordance with Ind AS 8.

AS 15 / Ind AS 19

14. ABC Limited operates a defined benefit plan which provides to the employees covered under the plan a pension benefit which is equal to 0.75% final salary for each year of completed service. An employee needs to complete minimum of five years' service for becoming eligible to the benefit. On 1st April, 2015, the entity improves the pension benefit to 1% of final salary for each year of service, including prior years. The present value of the defined benefit obligation is therefore, increased by ₹ 80 million. Given below is the composition of this amount:

Employees with more than 5 years' of service at 1 st April, 2015	₹ 60 million
Employees with less than 5 years' of service at 1 st April, 2015	₹ 20 million

The employees in the second category have completed average 2 and half years of service. Hence, they need to complete another two and half year of service until vesting.

Comment on the treatment of ₹ 80 million of the defined benefit obligation in the financial statements both as per AS 15 and Ind AS 19.

Corporate Social Responsibility Reporting

15. ABC Ltd. is a company which has a net worth of INR 200 crores, it manufactures rubber parts for automobiles. The sales of the company are affected due to low demand of its products.

The previous year's financial state: (₹ in Crore)

	March 31, 2019 (Current year)	March 31, 2018	March 31, 2017	March 31, 2016
Net Profit	3.00	8.50	4.00	3.00
Sales (turnover)	850	950	900	800

Does the Company have an obligation to form a CSR committee since the applicability criteria is not satisfied in the current financial year?

Ind AS 33

16. An entity issues 2,000 convertible bonds at the beginning of Year 1. The bonds have a three-year term, and are issued at par with a face value of ₹ 1,000 per bond, giving total proceeds of ₹ 2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 per cent. Each bond is convertible at any time up to maturity into 250 ordinary shares. The entity has an option to settle the principal amount of the convertible bonds in ordinary shares or in cash.

When the bonds are issued, the prevailing market interest rate for similar debt without a conversion option is 9 per cent. At the issue date, the market price of one ordinary share is ₹ 3. Income tax is ignored.

Calculate basic and diluted EPS when

Profit attributable to ordinary equity holders of the parent entity Year 1	₹ 1,000,000
Ordinary shares outstanding	1,200,000
Convertible bonds outstanding	2,000

Ind AS 7

17. Z Ltd. has no foreign currency cash flow for the year 2017. It holds some deposit in a bank in the USA. The balances as on 31.12.2017 and 31.12.2018 were US\$ 100,000 and US\$ 102,000 respectively. The exchange rate on December 31, 2017 was US\$1 = ₹ 45. The same on 31.12.2018 was US\$1 = ₹ 50. The increase in the balance was on account of interest credited on 31.12.2018. Thus, the deposit was reported at ₹ 45,00,000 in the balance sheet as on December 31, 2017. It was reported at ₹ 51,00,000 in the balance sheet as on 31.12.2018. How these transactions should be presented in cash flow for the year ended 31.12.2018 as per Ind AS 7?

Ind AS 17

18. The building, if purchased outright, would have a useful economic life of 50 years. The lease term, which would commence on 1 January 2019, is for 30 years. D Ltd would pay 40% of the asset's value upfront. At the end of each of the 30 years, there is also an annual rental payment due. This is equivalent to 6% of the asset's value as at 1 January 2019 or a contingent rent, if higher, at the year end. Legal title at the end of the lease remains with the lessor, but D Ltd can continue to lease the asset indefinitely at a rental that is substantially below its market value. If D Ltd cancels the lease, it must make a payment to the lessor to recover their remaining investment.

As per Ind AS 17 Leases, should the lease be classified as an operating lease or a finance lease?

Ind AS 16

19. Company X performed a revaluation of all of its plant and machinery at the beginning of 2018-2019. The following information relates to one of the machinery:

	Amount ('000)
Gross carrying amount	₹ 200
Accumulated depreciation (straight-line method)	₹ 80
Net carrying amount	₹ 120
Fair value	₹ 150

The useful life of the machinery is 10 years and the company uses Straight line method of depreciation. The revaluation was performed at the end of the 4th year.

How should the Company account for revaluation of plant and machinery and depreciation subsequent to revaluation?

Ind AS 108

20. An entity uses the weighted average cost formula to assign costs to inventories and cost of goods sold for financial reporting purposes, but the reports provided to the chief operating decision maker use the First-In, First-Out (FIFO) method for evaluating the performance of segment operations. Which cost formula should be used for Ind AS 108 disclosure purposes?

ANSWERS

1. (a) Computation of impairment loss and carrying value of each of the asset in CGU after impairment loss
 (i) Calculation of carrying value of Machinery A and B before impairment

<u>Machinery A</u>		
Cost	(A)	₹ 10,00,000
Residual Value		₹ 50,000
Useful life		10 years
Useful life already elapsed		5 years
Yearly depreciation	(B)	₹ 95,000
WDV as at 31st March, 2018 [A- (B x 5)]		₹ 5,25,000
<u>Machinery B</u>		
Cost	(C)	₹ 5,00,000

Residual Value	-
Useful life	10 years
Useful life already elapsed	3 years
Yearly depreciation	(D) ₹ 50,000
WDV as at 31st March, 2018 [C- (D x 3)]	₹ 3,50,000

(ii) Calculation of Value-in-use of Machinery A

Period	Cash Flows (₹)	PVF	PV
1	1,50,000	0.909	1,36,350
2	1,00,000	0.826	82,600
3	1,00,000	0.751	75,100
4	1,50,000	0.683	1,02,450
5	1,00,000	0.621	62,100
Value in use	50,000	0.621	31,050
			4,89,650

(iii) Calculation of Fair Value less cost of disposal of Machinery A

	₹
Fair Value	7,00,000
Less: Dismantling cost	(1,50,000)
Packaging cost	(25,000)
Legal Fees	(75,000)
Fair value less cost of disposal	4,50,000

(iv) Calculation of Impairment loss on Machinery A

	₹
Carrying Value	5,25,000
Less: Recoverable Value ie higher of Value-in-use and Fair value less cost of disposal	4,89,650
Impairment Loss	35,350

(v) Calculation of Impairment loss of CGU

- First goodwill will be impaired fully and then the remaining impairment loss of ₹ 75,000 will be allocated to Machinery A and B.
- If we allocate remaining impairment loss to Machinery A and B on pro-rata basis, it would come to ₹ 45,000 on Machinery A. However, the

impairment loss of Machinery A cannot exceed ₹ 35,350. Hence, impairment to CGU will be as follows:

	Carrying value before impairment loss	Impairment loss	Carrying value after impairment loss
	₹	₹	₹
Machinery A	5,25,000	35,350	4,89,650
Machinery B	3,50,000	39,650*	3,10,350
Inventory	2,00,000	-	2,00,000
Goodwill	1,50,000	1,50,000	-
Total	12,25,000	2,25,000	10,00,000

* Balancing figure.

(b) Carrying value after adjustment of depreciation

	₹
Machinery A [4,89,650 – {(4,89,650-50,000)/5}]	4,01,720
Machinery B [3,10,350 – (3,10,350/7)]	2,66,014
Inventory	2,00,000
Goodwill	-
Total	8,67,734

(c) Calculation of carrying value of CGU as on 31st March, 2019

The revised value of CGU is ₹ 11 Lakh. However, impaired goodwill cannot be reversed. Further, the individual assets cannot be increased by lower of recoverable value or Carrying Value as if the assets were never impaired.

Accordingly, the carrying value as on 31st March, 2019 assuming that the impairment loss had never incurred, will be:

	Carrying Value	Recoverable Value	Final CV as at 31 st Mar 2019
Machinery A	4,30,000	4,50,000	4,30,000
Machinery B	3,00,000	(7,60,000 – 4,50,000) 3,10,000	3,00,000
Inventory	2,00,000	2,00,000	2,00,000
Goodwill	-	-	-
Total	9,30,000	9,60,000	9,30,000

Hence the impairment loss to be reversed will be limited to ₹ 62,266 only (₹ 9,30,000 – ₹ 8,67,734).

2. Impact on consolidated balance sheet of PQR Ltd. group at 31st March, 2018

- The tax loss creates a potential deferred tax asset for the PQR Ltd. group since its carrying value is nil and its tax base is ₹ 30,00,000. However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.
- The development costs have a carrying value of ₹ 15,20,000 (₹ 16,00,000 – (₹ 16,00,000 x 1/5 x 3/12)). The tax base of the development costs is nil since the relevant tax deduction has already been claimed. The deferred tax liability will be ₹ 4,56,000 (₹ 15,20,000 x 30%). All deferred tax liabilities are shown as non-current.
- The carrying value of the loan at 31st March, 2018 is ₹ 1,07,80,000 (₹ 1,00,00,000 – ₹ 200,000 + (₹ 98,00,000 x 10%)). The tax base of the loan is 1,00,00,000. This creates a deductible temporary difference of ₹ 7,80,000 and a potential deferred tax asset of ₹ 2,34,000 (₹ 7,80,000 x 30%).

3. Paragraph 37 of Ind AS 103, *inter alia*, provides that the consideration transferred in a business combination should be measured at fair value, which should be calculated as the sum of (a) the acquisition-date fair values of the assets transferred by the acquirer, (b) the liabilities incurred by the acquirer to former owners of the acquiree and (c) the equity interests issued by the acquirer.

Further, paragraph 39 of Ind AS 103 provides that the consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

With respect to contingent consideration, obligations of an acquirer under contingent consideration arrangements are classified as equity or a liability in accordance with Ind AS 32 or other applicable Ind AS, i.e., for the rare case of non-financial contingent consideration. Paragraph 40 provides that the acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 11 of Ind AS 32, *Financial Instruments: Presentation*. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration.

(i) In the given case the amount of purchase consideration to be recognized on initial recognition shall be as follows:

Fair value of shares issued (10,00,000 x ₹20)	₹2,00,00,000
Fair value of contingent consideration	₹25,00,000
Total purchase consideration	₹2,25,00,000

Subsequent measurement of contingent consideration payable for business combination

In general, an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ind AS 32 describes an equity instrument as one that meets both of the following conditions:

- (a) There is no contractual obligation to deliver cash or another financial asset to another party, or to exchange financial assets or financial liabilities with another party under potentially unfavorable conditions (for the issuer of the instrument).
- (b) If the instrument will or may be settled in the issuer's own equity instruments, then it is:
 - (i) a non-derivative that comprises an obligation for the issuer to deliver a fixed number of its own equity instruments; or
 - (ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

In the given case, given that the acquirer has an obligation to issue fixed number of shares on fulfilment of the contingency, the contingent consideration will be classified as equity as per the requirements of Ind AS 32.

As per paragraph 58 of Ind AS 103, contingent consideration classified as equity should not be re-measured and its subsequent settlement should be accounted for within equity.

Here, the obligation to pay contingent consideration amounting to ₹25,00,000 is recognized as a part of equity and therefore not re-measured subsequently or on issuance of shares.

- (ii) The amount of purchase consideration to be recognized on initial recognition is shall be as follows:

Fair value shares issued (10,00,000 x ₹20)	₹2,00,00,000
Fair value of contingent consideration	₹25,00,000
Total purchase consideration	₹2,25,00,000

Subsequent measurement of contingent consideration payable for business combination

The contingent consideration will be classified as liability as per Ind AS 32.

As per paragraph 58 of Ind AS 103, contingent consideration not classified as equity should be measured at fair value at each reporting date and changes in fair value should be recognized in profit or loss.

As at 31 March 2017, (being the date of settlement of contingent consideration), the liability would be measured at its fair value and the resulting loss of ₹15,00,000 (₹40,00,000 - ₹25,00,000) should be recognized in the profit or loss for the period. A Ltd. would recognize issuance of 160,000 (₹40,00,000/25) shares at a premium of ₹15 per share.

4. (a) Points earned on ₹ 10,00,000 @ 10 points on every ₹ 500 = [(10,00,000/500) x 10] = 20,000 points.

Value of points = 20,000 points x ₹ 0.5 each point = ₹ 10,000

Revenue recognized for sale of goods	₹ 9,90,099	[10,00,000 x (10,00,000/10,10,000)]
Revenue for points deferred	₹ 9,901	[10,00,000 x (10,00,000/10,10,000)]

Journal Entry

		₹	₹
Bank A/c	Dr.	10,00,000	
To Sales A/c			9,90,099
To Liability under Customer Loyalty programme			9,901

(b) Points earned on ₹ 50,00,00,000 @ 10 points on every ₹ 500 = [(50,00,00,000/500) x 10] = 1,00,00,000 points.

Value of points = 1,00,00,000 points x ₹ 0.5 each point = ₹ 50,00,000

Revenue recognized for sale of goods = ₹ 49,50,49,505 [50,00,00,000 x (50,00,00,000 / 50,50,00,000)]

Revenue for points = ₹ 49,50,495 [50,00,00,000 x (50,00,00,000 / 50,50,00,000)]

Journal Entries in the year 2017-18

		₹	₹
Bank A/c	Dr.	50,00,00,000	
To Sales A/c			49,50,49,505
To Liability under Customer Loyalty programme			49,50,495
(On sale of Goods)			

Liability under Customer Loyalty programme To Sales A/c (On redemption of (100 lakhs - 18 lakhs) points)	Dr.	42,11,002	42,11,002
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Revenue for points to be recognized

Undiscounted points estimated to be recognized next year $18,00,000 \times 80\% = 14,40,000$ points

Total expected points to be redeemed in 2018-2019 and 2019-2020 = $[(1,00,00,000 - 18,00,000) + 14,40,000] = 96,40,000$

Revenue to be recognised with respect to discounted point = $49,50,495 \times (82,00,000/96,40,000) = 42,11,002$

- (c) Revenue to be deferred with respect to undiscounted point in 2017-2018 = $49,50,495 - 42,11,002 = 7,39,493$
- (d) In 2018-2019, KK Ltd. would recognize revenue for discounting of 60% of outstanding points as follows:

Outstanding points = $18,00,000 \times 60\% = 10,80,000$ points

Total points discounted till date = $82,00,000 + 10,80,000 = 92,80,000$ points

Revenue to be recognized in the year 2018-2019 = $\{[49,50,495 \times (92,80,000 / 96,40,000)} - 42,11,002\} = ₹ 5,54,620$.

Journal Entry in the year 2018-2019

		₹	₹
Liability under Customer Loyalty programme To Sales A/c (On redemption of further 10,80,000 points)	Dr.	5,54,620	5,54,620

The Liability under Customer Loyalty programme at the end of the year 2018-2019 will be $₹ 7,39,493 - 5,54,620 = 1,84,873$.

- (e) In the year 2019-2020, the merchant will recognize the balance revenue of ₹ 1,84,873 irrespective of the points redeemed as this is the last year for redeeming the points. Journal entry will be as follows:

Journal Entry in the year 2019-2020

		₹	₹
Liability under Customer Loyalty programme To Sales A/c (On redemption of further 10,80,000 points)	Dr.	1,84,873	1,84,873

5. This is the case of Revenue recognised at a single point in time with multiple payments. As per the guidance given in Appendix B to Ind AS 21:

A Ltd. will recognise a non-monetary contract liability amounting ₹ 1,440 million, by translating USD 20 million at the exchange rate on 1st January, 2018 ie ₹ 72 per USD.

A Ltd. will recognise revenue at 31st March, 2018 (that is, the date on which it transfers the goods to the customer).

A Ltd. determines that the date of the transaction for the revenue relating to the advance consideration of USD 20 million is 1st January, 2018. Applying paragraph 22 of Ind AS 21, A Ltd. determines that the date of the transaction for the remainder of the revenue as 31st March, 2018.

On 31st March, 2018, A Ltd. will:

- derecognise the non-monetary contract liability of USD 20 million and recognise USD 20 million of revenue using the exchange rate as at 1st January, 2018 ie ₹ 72 per USD; and
- recognise revenue and a receivable for the remaining USD 30 million, using the exchange rate on 31st March, 2018 ie ₹ 75 per USD.
- The receivable of USD 30 million is a monetary item, so it should be translated using the closing rate until the receivable is settled.

6. As required by paragraph B53 of the Ind AS 102, over the two-year vesting period, the subsidiary measures the services received from the employees in accordance, the requirements applicable to equity-settled share-based payment transactions as given in paragraph 43B. Thus, the subsidiary measures the services received from the employees on the basis of the fair value of the share options at grant date. An increase in equity is recognised as a contribution from the parent in the separate or individual financial statements of the subsidiary.

The journal entries recorded by the subsidiary for each of the two years are as follows:

Year 1	₹	₹
Remuneration expense (200 x 100 employees x ₹ 30 x 80% x ½)	Dr.	2,40,000
To Equity (Contribution from the parent)		2,40,000
Year 2		
Remuneration expense [(200 x 81 employees x ₹ 30) – 2,40,000]	Dr.	2,46,000
To Equity (Contribution from the parent)		2,46,000

7. With regard to going concern basis to be followed for preparation of financial statements, Ind AS 10 provides as follows:

“14 An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

15 Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting.”

In accordance with the above, an entity needs to change the basis of accounting if the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

In the instant case, since contract is expiring on 31st December 2017 and it is confirmed on 23rd April, 2017, i.e., after the end of the reporting period and before the approval of the financial statements, that no further contact is secured, implies that the entity's operations are expected to come to an end. Accordingly, if entity's operations are expected to come to an end, the entity needs to make a judgement as to whether it has any realistic possibility to continue or not. In case, the entity determines that it has no realistic alternative of continuing the business, preparation of financial statements for 2016-17 and thereafter on going concern basis may not be appropriate.

8. To determine whether Pharma Limited can be continued to be classified as an associate on transition to Ind AS, we will have to determine whether Angel Limited controls Pharma Limited as defined under Ind AS 110.

An investor controls an investee if and only if the investor has all the following:

- (a) Power over investee
- (b) Exposure, or rights, to variable returns from its involvement with the investee
- (c) Ability to use power over the investee to affect the amount of the investor's returns.

Since Angel Ltd. does not have majority voting rights in Pharma Ltd. we will have to determine whether the existing voting rights of Angel Ltd. are sufficient to provide it power over Pharma Ltd.

Analysis of each of the three elements of the definition of control:

Elements / conditions	Analysis
Power over investee	Angel Limited along with its subsidiary Little Angel Limited (hereinafter referred to as "the Angel group")

	<p>does not have majority voting rights in Pharma Limited. Therefore, in order to determine whether Angel group have power over Pharma Limited. we will need to analyse whether Angel group, by virtue of its non-majority voting power, have <u>practical ability to unilaterally direct the relevant activities</u> of Pharma Limited. In other words, we will need to analyse whether Angel group has de facto power over Pharma Limited. Following is the analysis of <i>de facto</i> power of Angel over Pharma Limited:</p> <ul style="list-style-type: none"> - The public shareholding of Pharma Limited (that is, 52% represents thousands of shareholders none individually holding material shareholding, - The actual participation of Individual public shareholders in the general meetings is minimal (that is, in the range of 6% to 8%). - Even the public shareholders who attend the meeting do not consult with each other to vote. - Therefore, as per guidance of Ind AS 110, the public shareholders will not be able to outvote Angel group (who is the largest shareholder group) in any general meeting. <p>Based on the above-mentioned analysis, we can conclude that Angel group has <i>de facto</i> power over Pharma Limited.</p>
Exposure, or rights, to variable returns from its involvement with the investee	Angel group has exposure to variable returns from its involvement with Pharma Limited by virtue of its equity stake.
Ability to use power over the investee to affect the amount of the investor's returns	<p>Angel group has ability to use its power (in the capacity of a principal and not an agent) to affect the amount of returns from Pharma Limited because it is in the position to appoint directors of Pharma Limited who would take all the decisions regarding relevant activities of Pharma Limited.</p> <p>Here, it is worthwhile to evaluate whether certain rights held by the bank would prevent Angel Limited's ability to use the power over Pharma Limited to affect its returns. It is to be noted that, all the rights held by the bank in relation to Pharma Limited are protective in nature as they do not relate to the relevant activities</p>

	<p>(that is, activities that significantly affect the Pharma Limited's returns) of Pharma Limited.</p> <p>As per Ind AS 110, protective rights are the rights designed to protect the interest of the party holding those rights <u>without giving that party power over the entity to which those rights relate</u>.</p> <p>Therefore, the protective rights held by the bank should not be considered while evaluating whether or not Angel Group has control over Pharma Limited.</p>
<p>Conclusion: Since all the three elements of definition of control is present, it can be concluded that Angel Limited has control over Pharma Limited.</p>	

Since it has been established that Angel Limited has control over Pharma Limited, upon transition to Ind AS, Angel Limited shall classify Pharma Limited as its subsidiary.

9. Scenario (i)

Since the loan is repayable on demand, it has fair value equal to cash consideration given. KK Ltd. and YK Ltd. should recognize financial asset and liability, respectively, at the amount of loan given (assuming that loan is repayable within a year). Upon repayment, both the entities should reverse the entries that were made at the origination.

Journal entries in the books of KK Ltd.

<i>At origination</i>			
Loan to YK Ltd. A/c	Dr.	₹ 10,00,000	
To Bank A/c			₹ 10,00,000
<i>On repayment</i>			
Bank A/c	Dr.	₹ 10,00,000	
To Loan to YK Ltd. A/c			₹ 10,00,000

Journal entries in the books of YK Ltd.

<i>At origination</i>			
Bank A/c	Dr.	₹ 10,00,000	
To Loan from KK Ltd. A/c			₹ 10,00,000
<i>On repayment</i>			
Loan from KK Ltd. A/c	Dr.	₹ 10,00,000	
To Bank A/c			₹ 10,00,000

In the consolidated financial statements, there will be no entry in this regard since loan receivable and loan payable will get set off.

Scenario (ii)

Applying the guidance in Ind AS 109, a 'financial asset' shall be recorded at its fair value upon initial recognition. Fair value is normally the transaction price. However, sometimes certain type of instruments may be exchanged at off market terms (ie, different from market terms for a similar instrument if exchanged between market participants).

If a long-term loan or receivable that carries no interest while similar instruments if exchanged between market participants carry interest, then fair value for such loan receivable will be lower from its transaction price owing to the loss of interest that the holder bears. In such cases where part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument. The difference in fair value and transaction cost will be treated as investment in Subsidiary YK Ltd.

Both KK Ltd. and YK Ltd. should recognise financial asset and liability, respectively, at fair value on initial recognition, i.e., the present value of ₹ 10,00,000 payable at the end of 3 years using discounting factor of 10%. Since the question mentions fair value of the loan at initial recognition as ₹ 8,10,150, the same has been considered. The difference between the loan amount and its fair value is treated as an equity contribution to the subsidiary. This represents a further investment by the parent in the subsidiary.

Journal entries in the books of KK Ltd. (for one year)

<i>At origination</i>		
Loan to YK Ltd. A/c	Dr.	₹ 8,10,150
Investment in YK Ltd. A/c	Dr.	₹ 1,89,850
To Bank A/c		₹ 10,00,000
<i>During periods to repayment- to recognise interest</i>		
<i>Year 1 – Charging of Interest</i>		
Loan to YK Ltd. A/c	Dr.	₹ 81,015
To Interest income A/c		₹ 81,015
<i>Transferring of interest to Profit and Loss</i>		
Interest income A/c	Dr.	₹ 81,015
To Profit and Loss A/c		₹ 81,015
<i>On repayment</i>		
Bank A/c	Dr.	₹ 10,00,000
To Loan to YK Ltd. A/c		₹ 10,00,000
Note- Interest needs to be recognised in statement of profit and loss. The same cannot be adjusted against capital contribution recognised at origination.		

Journal entries in the books of YK Ltd. (for one year)

<i>At origination</i>			
Bank A/c	Dr.	₹ 10,00,000	
To Loan from KK Ltd. A/c			₹ 8,10,150
To Equity Contribution in KK Ltd. A/c			₹ 1,89,850
<i>During periods to repayment- to recognise interest</i>			
<i>Year 1</i>			
Interest expense A/c	Dr.	₹ 81,015	
To Loan from KK Ltd. A/c			₹ 81,015
<i>On repayment</i>			
Loan from KK Ltd. A/c	Dr.	₹ 10,00,000	
To Bank A/c			₹ 10,00,000

In the consolidated financial statements, there will be no entry in this regard since loan and interest income/expense will get set off.

Scenario (iii)

Generally, a loan which is repayable when funds are available, cannot be stated as loan repayable on demand. Rather the entity needs to estimate the repayment date and determine its measurement accordingly by applying the concept prescribed in Scenario (ii).

In the consolidated financial statements, there will be no entry in this regard since loan and interest income/expense will get set off.

In case the subsidiary YK Ltd. is planning to grant interest free loan to KK Ltd., then the difference between the fair value of the loan on initial recognition and its nominal value should be treated as dividend distribution by YK Ltd. and dividend income by the parent KK Ltd.

10. As per para 13 of Ind AS 103 'Business Combination', the acquire's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements. This may be the case when the asset is developed by the entity internally and charged the related costs to expense.

Based on the above, the company can recognise following Intangible assets while determining Goodwill / Bargain Purchase for the transaction:

(i) **Patent owned by ABR Ltd.:** The patent owned will be recognised at fair value by KK Ltd. even though it was not recognised by ABR Ltd. in its financial statements. The patent will be amortised over the remaining useful life of the asset i.e. 8 years. Since the company is awaiting the outcome of the trials, the value of the patent

cannot be estimated at ₹ 15 crore and the extra ₹ 5 crore should only be disclosed as a Contingent Asset and not recognised.

(ii) **Patent internally developed by ABR Ltd.:** Further as per para 75 of Ind AS 38 'Intangible Assets', after initial recognition, an intangible asset shall be carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market.

From the information given in the question, it appears that there is no active market for patents since the fair value is based on early assessment of its sale success. Hence it is suggested to use the cost model and recognise the patent at the actual development cost of ₹ 12 crore.

(iii) **Grant of Licence to ABR Ltd. by the Government:** As regards to the five-year license, para 44 of Ind AS 38 requires to recognize grant asset at fair value. KK Ltd. can recognize both the asset (license) and the grant at ₹ 10 crore to be amortised over 5 years.

Hence the revised working would be as follows:

Fair value of net assets of ABR Ltd.	₹ 15 crore
Add: Patent (10 + 12)	₹ 22 crore
Add: License	₹ 10 crore
Less: Grant for License	(₹ 10 crore)
	₹ 37 crores
Purchase Consideration	₹ 35 crores
Bargain purchase	₹ 2 crore

11. As per paras D31AA and D31AB of Ind AS 101, when changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture at transition date to Ind AS.

That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the **relative** carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged. The balance of the investment in joint venture at the date of transition to Ind AS, determined in accordance with paragraph D31AA above is regarded as the deemed cost of the investment at initial recognition.

Accordingly, the deemed cost of the investment will be

Property, Plant & Equipment	1,200
Goodwill (Refer Note below)	119
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	<u>50</u>
Total Assets	2054
Less: Trade Payables	75
Short Term Provisions	<u>35</u>
Deemed cost of the investment in JV	<u>1944</u>

Calculation of proportionate goodwill share of Joint Venture ie ABC Pvt. Ltd.

Property, Plant & Equipment	22,288
Goodwill	1,507
Long Term Loans & Advances	6,350
Trade Receivables	1,818
Other Current Assets	<u>104</u>
Total Assets	32,067
Less: Trade Payables	8,455
Short Term Provisions	<u>475</u>
	<u>23,137</u>

Proportionate Goodwill of Joint Venture

$$\begin{aligned}
 &= [(Goodwill on consolidation of subsidiary and JV/Total relative net asset) \times \text{Net asset of JV}] \\
 &= (1507 / 23,137) \times 1825 = 119 \text{ (approx.)}
 \end{aligned}$$

Accordingly, the proportional share of assets and liabilities of Joint Venture will be removed from the respective values assets and liabilities appearing in the balance sheet on 31.3.2017 and Investment in JV will appear under non-current asset in the transition date balance sheet as on 1.4.2017.

Adjustments made in I GAAP balance sheet to arrive at Transition date Ind AS Balance Sheet

Particulars	31.3.2017	Ind AS Adjustment	Transition date Balance Sheet as per Ind AS
Non-Current Assets			
Property Plant & Equipment	22,288	(1,200)	21,088

Intangible assets - Goodwill on Consolidation	1,507	(119)	1,388
Investment Property	5,245	-	5,245
Long Term Loans & Advances	6,350	(405)	5,945
Non- current investment in JV	-	1,944	1,944
Current Assets	-		
Trade Receivables	1,818	(280)	1,538
Investments	3,763	-	3,763
Other Current Assets	<u>104</u>	<u>(50)</u>	<u>54</u>
Total	<u>41,075</u>	<u>(110)</u>	<u>40,965</u>
Shareholder's Funds			
Share Capital	7,953	-	7,953
Reserves & Surplus	16,597	-	16,597
Non-Current Liabilities			
Long Term Borrowings	1,000		1,000
Long Term Provisions	691		691
Other Long-Term Liabilities	5,904		5,904
Current Liabilities			
Trade Payables	8,455	(75)	8,380
Short Term Provisions	<u>475</u>	<u>(35)</u>	<u>440</u>
Total	<u>41,075</u>	<u>(110)</u>	<u>40,965</u>

12. The decision to offer the division for sale on 1st April, 2018 means that from that date the division has been classified as held for sale. The division available for immediate sale, is being actively marketed at a reasonable price and the sale is expected to be completed within one year.

The consequence of this classification is that the assets of the division will be measured at the lower of their existing carrying amounts and their fair value less cost to sell. Here the division shall be measured at their existing carrying amount ie ₹ 30,60,000 since it is less than the fair value less cost to sell ₹ 32,00,000.

The increase in expected selling price will not be accounted for since earlier there was no impairment to division held for sale.

The assets of the division need to be presented separately from other assets in the balance sheet. Their major classes should be separately disclosed either on the face of the balance sheet or in the notes.

The Property, Plant and Equipment shall not be depreciated after 1st April, 2018 so its carrying value at 30th June, 2018 will be ₹ 20,00,000 only. The inventories of the division will be shown at ₹ 9,00,000.

The division will be regarded as discontinued operation for the quarter ended 30th June, 2018. It represents a separate line of business and is held for sale at the year end.

The Statement of Profit and Loss should disclose, as a single amount, the post-tax profit or loss of the division on classification as held for sale.

Further, as per Ind AS 33, EPS will also be disclosed separately for the discontinued operation.

13. Profit or loss under weighted average valuation method is as follows:

	2018-2019	2017-2018 (Restated)
Revenue	324	296
Cost of goods sold	(168)	(159)
Gross profit	156	137
Expenses	(83)	(74)
Profit	73	63

Statement of changes in Equity (extract)

	Retained earnings	Retained earnings (Original)
At 1 st April, 2017	423	423
Change in inventory valuation policy	10	—
At 1st April, 2017 (Restated)	433	—
Profit for the year 2017-2018	63	58
At 31st March, 2018	496	481
Profit for the 2018-2019	73	68
At 31st March, 2019	569	549

14. Under AS 15, a past service cost of ₹ 60 million needs to be recognized immediately, as those benefits are already vested. The remaining ₹ 20 million cost is recognized on a straight line basis over the vesting period, i.e., period to two and half years commencing from 1st April, 2015.

Under Ind AS 19, the entire past service cost of ₹ 80 million needs to be recognized and charged in profit or loss immediately. ABC Ltd. cannot defer any part of this cost.

15. It has been clarified that 'any financial year' referred to under sub-section (1) of section 135 of the Act read with Rule 3(2) of Companies CSR Rule, 2014, implies '**any of the three** preceding financial years'.

A company which meets the net worth, turnover or net profits criteria in any of the preceding three financial years, but which does not meet the criteria in the relevant financial year, will still need to constitute a CSR Committee and comply with provisions of sections 135(2) to (5) read with the CSR Rules.

As per the criteria to constitute CSR committee -

- 1) Net worth greater than or equal to INR 500 Crores: This criterion is not satisfied.
- 2) Sales greater than or equal to INR 1000 Crores: This criterion is not satisfied.
- 3) Net Profit greater than or equal to INR 5 Crores: This criterion is satisfied in financial year ended March 31, 2018.

Hence, the Company will be required to form a CSR committee.

16. **Allocation of proceeds of the bond issue:**

Liability component (Refer Note 1)	₹ 1,848,122
Equity component	₹ 151,878
	₹ 2,000,000

The liability and equity components would be determined in accordance with Ind AS 32. These amounts are recognised as the initial carrying amounts of the liability and equity components. The amount assigned to the issuer conversion option equity element is an addition to equity and is not adjusted.

Basic earnings per share Year 1:

$$\frac{\text{₹ } 1,000,000}{1,200,000} = \text{₹ } 0.83 \text{ per ordinary share}$$

Diluted earnings per share Year 1:

It is presumed that the issuer will settle the contract by the issue of ordinary shares. The dilutive effect is therefore calculated in accordance with the Standard.

$$\frac{\text{₹ } 1,000,000 + \text{₹ } 166,331}{1,200,000 + 500,000} = \text{₹ } 0.69 \text{ per ordinary share}$$

Notes:

1. This represents the present value of the principal and interest discounted at 9% – ₹ 2,000,000 payable at the end of three years; ₹ 120,000 payable annually in arrears for three years.
2. Profit is adjusted for the accretion of ₹ 166,331 (₹ 1,848,122 × 9%) of the liability because of the passage of time. However, it is assumed that interest @ 6% for the year has already been adjusted.
3. 500,000 ordinary shares = 250 ordinary shares x 2,000 convertible bonds

17. The profit and loss account was credited by ₹ 1,00,000 (US\$ 2000 × ₹ 50) towards interest income. It was credited by the exchange difference of US\$ 100,000 × (₹ 50 - ₹45) that is, ₹ 500,000. In preparing the cash flow statement, ₹ 500,000, the exchange difference, should be deducted from the 'net profit before taxes, and extraordinary item'. However, in order to reconcile the opening balance of the cash and cash equivalents with its closing balance, the exchange difference ₹ 500,000, should be added to the opening balance in note to cash flow statement.

Cash flows arising from transactions in a foreign currency shall be recorded in Z Ltd.'s functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

18. A finance lease is a lease where the risks and rewards of ownership transfer from the lessor to the lessee.

Key indications that a lease is a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term.
- The lease term is for the major part of the asset's economic life.
- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.
- If the lessee can cancel the lease, the lessor's losses are borne by the lessee.
- The lessee has the ability to lease the asset for a secondary period at a rent that is substantially lower than market rent.

The lease term is only for 60% (30 years/50 years) of the asset's useful life. Legal title also does not pass at the end of the lease. These factors suggest that the lease is an operating lease. However, D Ltd can continue to lease the asset at the end of the lease term for a value that is substantially below market value. This suggests that D Ltd will benefit from building over its useful life and is therefore an indication of a finance lease. D Ltd is also unable to cancel the lease without paying the lessor. This is an indication

that the lessor is guaranteed to recoup their investment and therefore that they have relinquished the risks of ownership: It also seems likely that the present value of the minimum lease payments will be substantially all of the asset's fair value. Contingent rentals should be excluded from minimum lease payments - the impact of the potential rental increase should be ignored as this is contingent upon a future event. The minimum lease payments (ignoring discounting) equate to 40% of the fair value, payable upfront, and then another 180% (30 years x 6%) of the fair value over the lease term. Therefore, this again suggests that the lease is a finance lease.

The fact that there is a contingent rental can be suggestive of an operating or a finance lease. This must be examined more closely to see whether it suggests a transfer of the risks and rewards of ownership. "In this particular case, an increase in the value of the building will mean that the lessor receives greater payments from the lessee. However, a decrease in the value of the building will mean that the rent is fixed at 6% of the fair value at inception. This appears to be guaranteeing the lessor their required return on the investment, suggesting that the risks of ownership have been transferred to the lessee.

All things considered, it appears that the lease is a finance lease.

19. According to paragraph 35 of Ind AS 16, when an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

- The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
- The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with the paragraphs 39 and 40 of Ind AS 16.

If the Company opts for the treatment as per option (a), then the revised carrying amount of the machinery will be:

Gross carrying amount	₹ 250	[(200/120) x 150]
Net carrying amount	₹150	
Accumulated depreciation	₹ 100	(₹ 250 – ₹ 150)

Journal entry

Plant and Machinery A/c (Gross Block)	Dr.	₹ 50	
To Accumulated Depreciation			₹ 20
To Revaluation Reserve			₹ 30

If the balance of accumulated depreciation is eliminated as per option (b), then the revised carrying amount of the machinery will be as follows:

Gross carrying amount is restated to ₹150 to reflect the fair value and Accumulated depreciation is set at zero.

Journal entry

Accumulated Depreciation	Dr.	₹ 80	
To Plant and Machinery A/c (Gross Block)			₹ 80
Plant and Machinery A/c (Gross Block)	Dr.	₹ 30	
To Revaluation Reserve			₹ 30

Depreciation

Option (a) – Since the Gross Block has been restated, the depreciation charge will be ₹ 25 per annum (₹ 250 / 10 years).

Option (b) – Since the Revalued amount is the revised Gross Block, the useful life to be considered is the remaining useful life of the asset which results in the same depreciation charge of ₹ 25 per annum as per Option A (₹ 150 / 6 years).

20. The entity should use First-In, First-Out (FIFO) method for its Ind AS 108 disclosures, even though it uses the weighted average cost formula for measuring inventories for inclusion in its financial statements. Where chief operating decision maker uses only one measure of segment asset, same measure should be used to report segment information. Accordingly, in the given case, the method used in preparing the financial information for the chief operating decision maker should be used for reporting under Ind AS 108. However, reconciliation between the segment results and results as per financial statements needs to be given by the entity in its segment report.

PAPER – 2: STRATEGIC FINANCIAL MANAGEMENT
QUESTIONS

Security Valuation

1. Based on the credit rating of bonds, Mr. Z has decided to apply the following discount rates for valuing bonds:

Credit Rating	Discount Rate
AAA	364 day T bill rate + 3% spread
AA	AAA + 2% spread
A	AAA + 3% spread

He is considering to invest in AA rated, ₹ 1,000 face value bond currently selling at ₹ 1,025.86. The bond has five years to maturity and the coupon rate on the bond is 15% p.a. payable annually. The next interest payment is due one year from today and the bond is redeemable at par. (Assume the 364 day T-bill rate to be 9%).

You are required to calculate the intrinsic value of the bond for Mr. Z. Should he invest in the bond? Also calculate the current yield and the Yield to Maturity (YTM) of the bond.

2. Seawell Corporation, a manufacturer of do-it-yourself hardware and housewares, reported earnings per share of € 2.10 in 2013, on which it paid dividends per share of €0.69. Earnings are expected to grow 15% a year from 2004 to 2008, during this period the dividend payout ratio is expected to remain unchanged. After 2018, the earnings growth rate is expected to drop to a stable rate of 6%, and the payout ratio is expected to increase to 65% of earnings. The firm has a beta of 1.40 currently, and is expected to have a beta of 1.10 after 2018. The market risk premium is 5.5%. The Treasury bond rate is 6.25%.

- What is the expected price of the stock at the end of 2018?
- What is the value of the stock, using the two-stage dividend discount model?

Portfolio Management

3. An investor has decided to invest ₹ 1,00,000 in the shares of two companies, namely, ABC and XYZ. The projections of returns from the shares of the two companies along with their probabilities are as follows:

Probability	ABC(%)	XYZ(%)
20	12	16
25	14	10
25	-7	28
30	28	-2

You are required to

- (i) Comment on return and risk of investment in individual shares.
- (ii) Compare the risk and return of these two shares with a Portfolio of these shares in equal proportions.
- (iii) Find out the proportion of each of the above shares to formulate a minimum risk portfolio.

4. X Co., Ltd., invested on 1.4.2009 in certain equity shares as below:

Name of Co.	No. of shares	Cost (₹)
M Ltd.	1,000 (₹ 100 each)	2,00,000
N Ltd.	500 (₹ 10 each)	1,50,000

In September, 2009, 10% dividend was paid out by M Ltd. and in October, 2009, 30% dividend paid out by N Ltd. On 31.3.2010 market quotations showed a value of ₹ 220 and ₹ 290 per share for M Ltd. and N Ltd. respectively.

On 1.4.2010, investment advisors indicate (a) that the dividends from M Ltd. and N Ltd. for the year ending 31.3.2011 are likely to be 20% and 35%, respectively and (b) that the probabilities of market quotations on 31.3.2011 are as below:

Probability factor	Price/share of M Ltd.	Price/share of N Ltd.
0.2	220	290
0.5	250	310
0.3	280	330

You are required to:

- (i) Calculate the average return from the portfolio for the year ended 31.3.2010;
- (ii) Calculate the expected average return from the portfolio for the year 2010-11; and
- (iii) Advise X Co. Ltd., of the comparative risk in the two investments by calculating the standard deviation in each case.

Mutual Fund

5. There are two Mutual Funds viz. D Mutual Fund Ltd. and K Mutual Fund Ltd. Each having close ended equity schemes.

NAV as on 31-12-2014 of equity schemes of D Mutual Fund Ltd. is ₹ 70.71 (consisting 99% equity and remaining cash balance) and that of K Mutual Fund Ltd. is 62.50 (consisting 96% equity and balance in cash).

Following is the other information:

Particular	Equity Schemes	
	D Mutual Fund Ltd.	K Mutual Fund Ltd.
Sharpe Ratio	2	3.3
Treynor Ratio	15	15
Standard deviation	11.25	5

There is no change in portfolios during the next month and annual average cost is ₹ 3 per unit for the schemes of both the Mutual Funds.

If Share Market goes down by 5% within a month, calculate expected NAV after a month for the schemes of both the Mutual Funds.

For calculation, consider 12 months in a year and ignore number of days for particular month.

Derivatives

6. The market received rumour about ABC corporation's tie-up with a multinational company. This has induced the market price to move up. If the rumour is false, the ABC corporation stock price will probably fall dramatically. To protect from this an investor has bought the call and put options.

He purchased one 3 months call with a striking price of ₹42 for ₹2 premium, and paid Re.1 per share premium for a 3 months put with a striking price of ₹40.

- (i) Determine the Investor's position if the tie up offer bids the price of ABC Corporation's stock up to ₹43 in 3 months.
- (ii) Determine the Investor's ending position, if the tie up programme fails and the price of the stocks falls to ₹ 36 in 3 months.

7. Indira has a fund of ₹ 3 lacs which she wants to invest in share market with rebalancing target after every 10 days to start with for a period of one month from now. The present NIFTY is 5326. The minimum NIFTY within a month can at most be 4793.4. She wants to know as to how she should rebalance her portfolio under the following situations, according to the theory of Constant Proportion Portfolio Insurance Policy, using "2" as the multiplier:

- (1) Immediately to start with.
- (2) 10 days later-being the 1st day of rebalancing if NIFTY falls to 5122.96.
- (3) 10 days further from the above date if the NIFTY touches 5539.04.

For the sake of simplicity, assume that the value of her equity component will change in tandem with that of the NIFTY and the risk free securities in which she is going to invest will have no Beta.

Foreign Exchange Exposure and Risk Management

8. XYZ Ltd. is an export oriented business house based in Mumbai. The Company invoices in customers' currency. Its receipt of US \$ 1,00,000 is due on September 1, 2009.

Market information as at June 1, 2009 is:

Exchange Rates		Currency Futures		
US \$/₹		US \$/₹	Contract size	₹ 4,72,000
Spot	0.02140	June	0.02126	
1 Month Forward	0.02136	September	0.02118	
3 Months Forward	0.02127			
		Initial Margin		Interest Rates in India
June		₹ 10,000		7.50%
September		₹ 15,000		8.00%

On September 1, 2009 the spot rate US \$/Re. is 0.02133 and currency future rate is 0.02134. Comment which of the following methods would be most advantageous for XYZ Ltd.

- (a) Using forward contract
- (b) Using currency futures
- (c) Not hedging currency risks.

It may be assumed that variation in margin would be settled on the maturity of the futures contract.

9. An exporter is a UK based company. Invoice amount is \$3,50,000. Credit period is three months. Exchange rates in London are:

Spot Rate (\$/£) 1.5865 – 1.5905
 3-month Forward Rate (\$/£) 1.6100 – 1.6140

Rates of interest in Money Market:

	Deposit	Loan
\$	7%	9%
£	5%	8%

Compute and show how a money market hedge can be put in place. Compare and contrast the outcome with a forward contract.

International Financial Management

10. The directors of Implant Inc. wishes to make an equity issue to finance a \$10 m (million) expansion scheme which has an excepted 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
	43,000
15% Term Bonds	6,000
11% Debenture (2012-2020)	8,000
	57,000

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.

Interest Rate Risk Management

11. XYZ Inc. issues a £ 10 million floating rate loan on July 1, 2016 with resetting of coupon rate every 6 months equal to LIBOR + 50 bp. XYZ is interested in a collar strategy by selling a Floor and buying a Cap. XYZ buys the 3 years Cap and sell 3 years Floor as per the following details on July 1, 2016:

Notional Principal Amount	\$ 10 million
Reference Rate	6 months LIBOR
Strike Rate	4% for Floor and 7% for Cap
Premium	0*

*Since Premium paid for Cap = Premium received for Floor

Using the following data you are required to determine:

- (i) Effective interest paid out at each reset date,
- (ii) The average overall effective rate of interest p.a.

Reset Date	LIBOR (%)
31-12-2016	6.00
30-06-2017	7.50
31-12-2017	5.00
30-06-2018	4.00
31-12-2018	3.75
30-06-2019	4.25

Corporate Valuation

12. The valuation of Hansel Limited has been done by an investment analyst. Based on an expected free cash flow of ₹ 54 lakhs for the following year and an expected growth rate of 9 percent, the analyst has estimated the value of Hansel Limited to be ₹ 1800 lakhs. However, he committed a mistake of using the book values of debt and equity.

The book value weights employed by the analyst are not known, but you know that Hansel Limited has a cost of equity of 20 percent and post tax cost of debt of 10 percent. The value of equity is thrice its book value, whereas the market value of its debt is nine-tenths of its book value. What is the correct value of Hansel Ltd?

Mergers, Acquisitions and Corporate Restructuring

13. Reliable Industries Ltd. (RIL) is considering a takeover of Sunflower Industries Ltd. (SIL). The particulars of 2 companies are given below:

Particulars	Reliable Industries Ltd	Sunflower Industries Ltd.
Earnings After Tax (EAT)	₹ 20,00,000	₹ 10,00,000
Equity shares O/s	10,00,000	10,00,000
Earnings per share (EPS)	2	1
PE Ratio (Times)	10	5

Required:

- (i) What is the market value of each Company before merger?
- (ii) Assume that the management of RIL estimates that the shareholders of SIL will accept an offer of one share of RIL for four shares of SIL. If there are no synergic effects, what is the market value of the Post-merger RIL? What is the new price per

share? Are the shareholders of RIL better or worse off than they were before the merger?

(iii) Due to synergic effects, the management of RIL estimates that the earnings will increase by 20%. What are the new post-merger EPS and Price per share? Will the shareholders be better off or worse off than before the merger?

Theoretical Questions

14. (a) EXPLAIN the concept of side pocketing in mutual funds.
 (b) EXPLAIN cash settlement and physical settlement in derivative contracts and their relative advantages and disadvantages.
 (c) EXPLAIN the importance of IRDA.
15. (a) EXPLAIN Co-location/Proximity Hosting.
 (b) DESCRIBE the factors affecting Industry Analysis.
 (c) EXPLAIN the need for finance in case of a MSME unit. Describe the process for arrangement of finance in the case of MSME.

SUGGESTED ANSWERS/HINTS

1. The appropriate discount rate for valuing the bond for Mr. Z is:

$$R = 9\% + 3\% + 2\% = 14\%$$

Time	CF	PVIF 14% PV (CF)	PV (CF)
1	150	0.877	131.55
2	150	0.769	115.35
3	150	0.675	101.25
4	150	0.592	88.80
5	1150	0.519	596.85
		$\sum PV (CF)$ i.e. $P_0 =$	1033.80

Since, the current market value is less than the intrinsic value; Mr. Z should buy the bond. Current yield = Annual Interest / Price = 150 / 1025.86 = 14.62%

The YTM of the bond is calculated as follows:

@15%

$$\begin{aligned}
 P &= 150 \times PVIFA_{15\%, 4} + 1150 \times PVIF_{15\%, 5} \\
 &= 150 \times 2.855 + 1150 \times 0.497 = 428.25 + 571.55 = 999.80
 \end{aligned}$$

@14%

As found in sub part (a) $P_0 = 1033.80$

By interpolation we get,

$$= 14\% + \frac{7.94}{7.94 - (-26.06)} \times (15\% - 14\%) = 14\% + \frac{7.94}{34}\%$$

$$YTM = 14.23\%$$

2. The expected rate of return on equity after 2018 = $0.0625 + 1.10(0.055) = 12.3\%$

The dividends from 2013 onwards can be estimated as:

Year	2013	2014	2015	2016	2017	2018	2019
Earnings Per Share (€)	2.1	2.415	2.78	3.19	3.67	4.22	4.48
Dividends Per Share (€)	0.69	0.794	0.913	1.048	1.206	1.387	2.91

a. The price as of 2018 = $€2.91/(0.123 - 0.06) = €46.19$
b. The required rate of return upto 2018 = $0.0625 + 1.4(0.055) = 13.95\%$. The dividends upto 2018 are discounted using this rate as follow:

Year	PV of Dividend
2014	$0.794/1.1395 = 0.70$
2015	$0.913/(1.1395)^2 = 0.70$
2016	$1.048/(1.1395)^3 = 0.70$
2017	$1.206/(1.1395)^4 = 0.72$
2018	$1.387/(1.1395)^5 = 0.72$
Total	3.54

The current price = $€3.54 + €46.19/(1.1395)^5 = €27.58$.

3. (i)

Probability	ABC (%)	XYZ (%)	1X2 (%)	1X3 (%)
(1)	(2)	(3)	(4)	(5)
0.20	12	16	2.40	3.2
0.25	14	10	3.50	2.5
0.25	-7	28	-1.75	7.0
0.30	28	-2	8.40	-0.6
Average return			12.55	12.1

Hence the expected return from ABC = 12.55% and XYZ is 12.1%

Probability	(ABC- \bar{ABC})	$(ABC- \bar{ABC})^2$	1X3	(XYZ- \bar{XYZ})	$(XYZ- \bar{XYZ})^2$	(1)X(6)
(1)	(2)	(3)	(4)	(5)	(6)	
0.20	-0.55	0.3025	0.06	3.9	15.21	3.04
0.25	1.45	2.1025	0.53	-2.1	4.41	1.10
0.25	-19.55	382.2025	95.55	15.9	252.81	63.20
0.30	15.45	238.7025	<u>71.61</u>	-14.1	198.81	<u>59.64</u>
			<u>167.75</u>			<u>126.98</u>

$$\sigma^2_{ABC} = 167.75(\%)^2 ; \sigma_{ABC} = 12.95\%$$

$$\sigma^2_{XYZ} = 126.98(\%)^2 ; \sigma_{XYZ} = 11.27\%$$

(ii) In order to find risk of portfolio of two shares, the covariance between the two is necessary here.

Probability	(ABC- \bar{ABC})	(XYZ- \bar{XYZ})	2X3	1X4
(1)	(2)	(3)	(4)	(5)
0.20	-0.55	3.9	-2.145	-0.429
0.25	1.45	-2.1	-3.045	-0.761
0.25	-19.55	15.9	-310.845	-77.71
0.30	15.45	-14.1	-217.845	<u>-65.35</u>
				<u>-144.25</u>

$$\sigma^2_P = (0.5^2 \times 167.75) + (0.5^2 \times 126.98) + 2 \times (-144.25) \times 0.5 \times 0.5$$

$$\sigma^2_P = 41.9375 + 31.745 - 72.125$$

$$\sigma^2_P = 1.5575 \text{ or } 1.56(\%)$$

$$\sigma_P = \sqrt{1.56} = 1.25\%$$

$$E(R_P) = (0.5 \times 12.55) + (0.5 \times 12.1) = 12.325\%$$

Hence, the return is 12.325% with the risk of 1.25% for the portfolio. Thus the portfolio results in the reduction of risk by the combination of two shares.

(iii) For constructing the minimum risk portfolio the condition to be satisfied is

$$X_{ABC} = \frac{\sigma_X^2 - r_{AX} \sigma_A \sigma_X}{\sigma_A^2 + \sigma_X^2 - 2r_{AX} \sigma_A \sigma_X} \text{ or } = \frac{\sigma_X^2 - \text{Cov}_AX}{\sigma_A^2 + \sigma_X^2 - 2\text{Cov}_AX}$$

$$\sigma_X = \text{Std. Deviation of XYZ}$$

σ_A = Std. Deviation of ABC

r_{AX} = Coefficient of Correlation between XYZ and ABC

Cov_{AX} = Covariance between XYZ and ABC.

Therefore,

$$\% \text{ ABC} = \frac{126.98 - (-144.25)}{126.98 + 167.75 - [2 \times (-144.25)]} = \frac{271.23}{583.23} = 0.46 \text{ or } 46\%$$

$\% \text{ ABC} = 46\%$, $\text{XYZ} = 54\%$

$$(1 - 0.46) = 0.54$$

4.

Calculation of return on portfolio for 2009-10	(Calculation in ₹ / share)		
	M	N	
Dividend received during the year	10	3	
Capital gain/loss by 31.03.10			
Market value by 31.03.10	220	290	
Cost of investment	200	300	
Gain/loss	20	(-)10	
Yield	30	(-)7	
Cost	200	300	
% return	15%	(-)2.33%	
Weight in the portfolio	57	43	
Weighted average return			7.55%
Calculation of estimated return for 2010-11			
Expected dividend	20	3.5	
Capital gain by 31.03.11			
$(220 \times 0.2) + (250 \times 0.5) + (280 \times 0.3) - 220 = (253 - 220)$	33	-	
$(290 \times 0.2) + (310 \times 0.5) + (330 \times 0.3) - 290 = (312 - 290)$	-	22	
Yield	53	25.5	
*Market Value 01.04.10	220	290	
% return	24.09%	8.79%	
*Weight in portfolio $(1,000 \times 220) : (500 \times 290)$	60.3	39.7	
Weighted average (Expected) return			18.02%
(*The market value on 31.03.10 is used as the base for calculating yield for 10-11)			

Calculation of Standard Deviation**M Ltd.**

Exp. market value	Exp. gain	Exp. div.	Exp. Yield (1)	Prob. Factor (2)	(1) X(2)	Dev. ($P_M - \bar{P}_M$)	Square of dev. (3)	(2) X (3)
220	0	20	20	0.2	4	-33	1089	217.80
250	30	20	50	0.5	25	-3	9	4.50
280	60	20	80	0.3	24	27	729	218.70
							$\sigma^2_M = 441.00$	

Standard Deviation (σ_M)

21

N Ltd.

Exp. market value	Exp. gain	Exp. div.	Exp. Yield (1)	Prob. Factor (2)	(1) X (2)	Dev. ($P_N - \bar{P}_N$)	Square of dev. (3)	(2) X (3)
290	0	3.5	3.5	0.2	0.7	-22	484	96.80
310	20	3.5	23.5	0.5	11.75	-2	4	2.00
330	40	3.5	43.5	0.3	13.05	18	324	97.20
							$\sigma^2_N = 196.00$	

Standard Deviation (σ_N)

14

Share of company M Ltd. is more risky as the S.D. is more than company N Ltd.

5. Working Notes:

(i) Decomposition of Funds in Equity and Cash Components

	D Mutual Fund Ltd.	K Mutual Fund Ltd.
NAV on 31.12.14	₹ 70.71	₹ 62.50
% of Equity	99%	96%
Equity element in NAV	₹ 70	₹ 60
Cash element in NAV	₹ 0.71	₹ 2.50

(ii) Calculation of Beta

(a) D Mutual Fund Ltd.

$$\text{Sharpe Ratio} = 2 = \frac{E(R) - R_f}{\sigma_D} = \frac{E(R) - R_f}{11.25}$$

$$E(R) - R_f = 22.50$$

$$\text{Treynor Ratio} = 15 = \frac{E(R) - R_f}{\beta_D} = \frac{22.50}{\beta_D}$$

$$\beta_D = 22.50/15 = 1.50$$

(b) K Mutual Fund Ltd.

$$\text{Sharpe Ratio} = 3.3 = \frac{E(R) - R_f}{\sigma_K} = \frac{E(R) - R_f}{5}$$

$$E(R) - R_f = 16.50$$

$$\text{Treynor Ratio} = 15 = \frac{E(R) - R_f}{\beta_K} = \frac{16.50}{\beta_K}$$

$$\beta_K = 16.50/15 = 1.10$$

(iii) Decrease in the Value of Equity

	D Mutual Fund Ltd.	K Mutual Fund Ltd.
Market goes down by	5.00%	5.00%
Beta	1.50	1.10
Equity component goes down	7.50%	5.50%

(iv) Balance of Cash after 1 month

	D Mutual Fund Ltd.	K Mutual Fund Ltd.
Cash in Hand on 31.12.14	₹ 0.71	₹ 2.50
Less: Exp. Per month	₹ 0.25	₹ 0.25
Balance after 1 month	₹ 0.46	₹ 2.25

NAV after 1 month

	D Mutual Fund Ltd.	K Mutual Fund Ltd.
Value of Equity after 1 month		
70 x (1 - 0.075)	₹ 64.75	-
60 x (1 - 0.055)	-	₹ 56.70
Cash Balance	0.46	2.25
	65.21	58.95

6. Cost of Call and Put Options

$$\begin{aligned}
 &= (\text{₹ 2 per share}) \times (100 \text{ share call}) + (\text{₹ 1 per share}) \times (100 \text{ share put}) \\
 &= \text{₹ 2} \times 100 + 1 \times 100 \\
 &= \text{₹ 300}
 \end{aligned}$$

(i) Price increases to ₹43. Since the market price is higher than the strike price of the call, the investor will exercise it.

$$\begin{aligned}
 \text{Ending position} &= (-\text{₹ 300 cost of 2 option}) + (\text{₹ 1 per share gain on call}) \times 100 \\
 &= -\text{₹ 300} + 100
 \end{aligned}$$

$$\text{Net Loss} = -\text{₹ 200}$$

(ii) The price of the stock falls to ₹36. Since the market price is lower than the strike price, the investor may not exercise the call option.

$$\begin{aligned}
 \text{Ending Position} &= (-\text{₹300 cost of 2 options}) + (\text{₹4 per stock gain on put}) \times 100 \\
 &= -\text{₹300} + 400 \\
 \text{Gain} &= \text{₹100}
 \end{aligned}$$

7. Maximum decline in one month = $\frac{5326 - 4793.40}{5326} \times 100 = 10\%$

(1) Immediately to start with

$$\begin{aligned}
 \text{Investment in equity} &= \text{Multiplier} \times (\text{Portfolio value} - \text{Floor value}) \\
 &= 2 (3,00,000 - 2,70,000) = \text{₹ 60,000}
 \end{aligned}$$

Indira may invest ₹ 60,000 in equity and balance in risk free securities.

(2) After 10 days

$$\text{Value of equity} = 60,000 \times 5122.96/5326 = \text{₹ 57,713}$$

$$\text{Value of risk free investment} = \underline{\text{₹ 2,40,000}}$$

$$\text{Total value of portfolio} = \underline{\text{₹ 2,97,713}}$$

$$\text{Investment in equity} = \text{Multiplier} \times (\text{Portfolio value} - \text{Floor value})$$

$$= 2 (2,97,713 - 2,70,000) = \text{₹ 55,426}$$

Revised Portfolio:

$$\text{Equity} = \text{₹ 55,426}$$

$$\text{Risk free Securities} = \text{₹ 2,97,713} - \text{₹ 55,426} = \text{₹ 2,42,287}$$

(3) After another 10 days

$$\text{Value of equity} = 55,426 \times 5539.04/5122.96 = \text{₹ 59,928}$$

Value of risk free investment = ₹ 2,42,287

Total value of portfolio = ₹ 3,02,215

Investment in equity = Multiplier x (Portfolio value – Floor value)

= 2 (3,02,215 – 2,70,000) = ₹ 64,430

Revised Portfolio:

Equity = ₹ 64,430

Risk Free Securities = ₹ 3,02,215 – ₹ 64,430 = ₹ 2,37,785

The investor should off-load 4502 of risk free securities and divert to Equity.

8.

Receipts using a forward contract (1,00,000/0.02127)	= ₹ 47,01,457
Receipts using currency futures	
The number of contracts needed is (1,00,000/0.02118)/4,72,000 = 10	
Initial margin payable is 10 x ₹ 15,000 = ₹ 1,50,000	
On September 1 Close at 0.02134	
Receipts = US\$ 1,00,000/0.02133	= 46,88,233
Variation Margin = [(0.02134 – 0.02118) x 10 x 472000/-]/0.02133	
OR (0.00016 x 10 x 472000)/0.02133 = 755.2/0.02133	<u>35,406</u>
	47,23,639
Less: Interest Cost – 1,50,000 x 0.08 x 3/12	<u>₹ 3,000</u>
Net Receipts	<u>₹ 47,20,639</u>
Receipts under different methods of hedging	
Forward contract	₹ 47,01,457
Futures	₹ 47,20,639
No hedge	
US\$ 1,00,000/0.02133	₹ 46,88,233
The most advantageous option would have been to hedge with futures.	

9. **Identify:** Foreign currency is an asset. Amount \$ 3,50,000.

Create: \$ Liability.

Borrow: In \$. The borrowing rate is 9% per annum or 2.25% per quarter.

Amount to be borrowed: 3,50,000 / 1.0225 = \$ 3,42,298.29

Convert: Sell \$ and buy £. The relevant rate is the Ask rate, namely, 1.5905 per £,

(Note: This is an indirect quote). Amount of £s received on conversion is 2,15,214.27 (3,42,298.29/1.5905).

Invest: £ 2,15,214.27 will be invested at 5% for 3 months and get £ 2,17,904.45

Settle: The liability of \$3,42,298.29 at interest of 2.25 per cent quarter matures to \$3,50,000 receivable from customer.

Using forward rate, amount receivable is = 3,50,000 / 1.6140 = £2,16,852.54

Amount received through money market hedge = £2,17,904.45

Gain = 2,17,904.45 – 2,16,852.54 = £1,051.91

So, money market hedge is beneficial for the exporter

10 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)
PV of Benefit of early redemption		
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
Expected Share Price of Company		\$ 0.848

11. (a) The pay-off of each leg shall be computed as follows:

Cap Receipt

Max {0, [Notional principal x (LIBOR on Reset date – Cap Strike Rate) x Number of days in the settlement period] }
365

Floor Pay-off

$$\frac{\text{Max} \{0, [\text{Notional principal} \times (\text{Floor Strike Rate} - \text{LIBOR on Reset date}) \times \text{Number of days in the settlement period}]\}}{365}$$

Statement showing effective interest on each re-set date

Reset Date	LIBOR (%)	Days	Interest Payment (\$) LIBOR+0.50%	Cap Receipts (\$)	Floor Pay-off (\$)	Effective Interest
31-12-2016	6.00	184	3,27,671	0	0	3,27,671
30-06-2017	7.50	181	3,96,712	24,795	0	3,71,917
31-12-2017	5.00	184	2,77,260	0	0	2,77,260
30-06-2018	4.00	181	1,98,356	0	0	1,98,356
31-12-2018	3.75	184	1,89,041	0	12,603	2,01,644
30-06-2019	4.25	182	2,36,849	0	0	2,36,849
Total		1096				16,26,094

(b) Average Annual Effective Interest Rate shall be computed as follows:

$$\frac{16,26,094}{1,00,00,000} \times \frac{365}{1096} \times 100 = 5.42\%$$

12. Cost of capital by applying Free Cash Flow to Firm (FCFF) Model is as follows:-

$$\text{Value of Firm} = V_0 = \frac{\text{FCFF}_1}{K_c - g_n}$$

Where –

FCFF_1 = Expected FCFF in the year 1

K_c = Cost of capital

g_n = Growth rate forever

Thus, ₹ 1800 lakhs = ₹ 54 lakhs $/(K_c - g)$

Since $g = 9\%$, then $K_c = 12\%$

Now, let X be the weight of debt and given cost of equity = 20% and cost of debt = 10%,
then $20\% (1 - X) + 10\% X = 12\%$

Hence, $X = 0.80$, so book value weight for debt was 80%

\therefore Correct weight should be 60 of equity and 72 of debt.

\therefore Cost of capital = $K_c = 20\% (60/132) + 10\% (72/132) = 14.5455\%$ and correct firm's value

= ₹ 54 lakhs/(0.1454 – 0.09) = ₹ 974.73 lakhs.

13. (i) Market value of Companies before Merger

Particulars	RIL	SIL
EPS	₹ 2	Re.1
P/E Ratio	10	5
Market Price Per Share	₹ 20	₹ 5
Equity Shares	10,00,000	10,00,000
Total Market Value	2,00,00,000	50,00,000

(ii) Post Merger Effects on RIL

	₹
Post merger earnings	30,00,000
Exchange Ratio (1:4)	
No. of equity shares o/s (10,00,000 + 2,50,000)	12,50,000
EPS: 30,00,000/12,50,000	2.4
PE Ratio	10
Market Value 10 x 2.4	24
Total Value (12,50,000 x 24)	3,00,00,000
Gains From Merger:	₹
Post-Merger Market Value of the Firm	3,00,00,000
Less: Pre-Merger Market Value	
RIL 2,00,00,000	
SIL <u>50,00,000</u>	<u>2,50,00,000</u>
Total gains from Merger	<u>50,00,000</u>

Apportionment of Gains between the Shareholders:

Particulars	RIL(₹)	SIL(₹)
Post Merger Market Value:		
10,00,000 x 24	2,40,00,000	--
2,50,000 x 24	-	60,00,000
Less: Pre-Merger Market Value	2,00,00,000	50,00,000
Gains from Merger:	40,00,000	10,00,000

Thus, the shareholders of both the companies (RIL + SIL) are better off than before

(iii) Post-Merger Earnings:

Increase in Earnings by 20%	
New Earnings: ₹ 30,00,000 x (1+0.20)	₹ 36,00,000
No .of equity shares outstanding:	12,50,000
EPS (₹ 36,00,000/12,50,000)	₹ 2.88
PE Ratio	10
Market Price Per Share: = ₹2.88 x 10	₹ 28.80

∴ Shareholders will be better-off than before the merger situation.

14. (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 physical settlement in case of derivative contracts means that underlying assets are actually delivered on the specified delivery date. In other words, traders will have to take delivery of the shares against position taken in the derivative contract.

In case of cash settlement, the seller of the derivative contract does not deliver the underlying asset but transfers the Cash. It is similar to Index Futures where the purchaser, who wants to settle the contract in cash, will have to pay or receive the difference between the Spot price of the contract on the settlement date and the

Futures price decided beforehand since it is impossible to effect the physical ownership of the underlying securities.

The main advantage of cash settlement in derivative contract is high liquidity because of more derivative volume in cash segment. Moreover, the underlying stocks in derivative contracts has constricted bid-ask spreads. And, trading in such stocks can be effected at lower impact cost. If the stock is liquid, the impact cost of bigger trades will be lower.

Further, an adverse move can be hedged. For example, the investors can take a covered short derivative position by selling the future while still holding the underlying security.

Also, a liquid derivative market facilitates the traders to do speculation. The speculative trading may worry the regulators but it is also true that without speculative trading, it will not be possible for the derivative market to stay liquid.

So, this leads to some arguments in favour of physical settlement in derivative contract. One advantage of physical settlement is that it is not subject to manipulation by both the parties to the derivative contract. This is so because the entire activity is monitored by the broker and the clearing exchange.

However, one main disadvantage of physical delivery is that it is almost impossible to short sell a stock in the Indian Market.

Therefore, in the end, it can be concluded that, though, physical settlement in derivative contract does curb manipulation it also affects the liquidity in the derivative segment.

(c) Importance of Insurance Regulatory and Development Authority (IRDA)

- (i) Regulation of Insurance Sector: IRDA has a significant effect on the overall regulation of Indian Insurance Sector. In order to keep the proper protection of the policy holder's interests, Insurance Regulatory and Development Authority (IRDA) closely observe the different activities of insurance sector in India.
- (ii) Protection of Policyholders Interests: The core objective or purpose of the Insurance Regulatory and Development Authority is to protect the interests of policyholders and IRDA is doing that with aplomb.
- (iii) Awareness to Insurance: In order to increase the awareness of insurance in the society, IRDA is trying to convince the prospective investors about the transparency of the system and the effort being put by the regulator to put this into practice.
- (iv) Insurance Market: Insurance sector has grown leap and bounds due to the concerted efforts of Insurance Regulatory and Development Authority with respect to marketing of insurance products, competition & customer awareness.

- (v) Development of Insurance Product: Insurance Regulatory and Development Authority (IRDA) has brought a revolution in the development of insurance products. The development of ULIPs (Unit-Linked Insurance Plans) is the result of privatization of the insurance sector.
- (vi) Competition in the Insurance Sector: After the advent of privatization in the insurance sector by inviting private players, competition in the insurance sector has increased significantly leading to comparatively cheaper services and greater customer satisfaction.
- (vii) Saving and Investment of Individual: Insurance Regulatory and Development Authority has made insurance a popular & profitable mode of investment and inculcate saving habits among various sections of the society.
- (viii) Government Responsibility: Insurance Regulatory and Development Authority (IRDA) has made it sure that uniformity in the insurance sector is being ensured by helping in constant increase in the number of insurers, increasing competition, number of diversified products and diversification in the activities of the insurers.
- (ix) Banks and Post Offices: Insurance sector is now giving security against any kind of uncertainty or risk, so the insurance sector has now become a popular medium for savings & investments and is gradually diverting the flow of funds from banks & post offices to insurance industry.
- (x) Individual Life's: Insurance Regulatory and Development Authority has helped in developing an understanding of insurance by putting across a great impression over the life of a common man of the society.
- (xi) Stock Market: Private players in the insurance have developed ULIPs (Unit-Linked Insurance plans) in order to attract more customers. ULIP is a byproduct of modern insurance market. Therefore, insurance products have made it simple for the companies to raise funds and have also attracted various sections of the society to invest in the stock market indirectly.
- (xii) Indian Economy: Insurance Regulatory and Development Authority has an impact over the economic development of the country because money invested by investors or individuals in various types of insurance products has channelized the funds of a country for a non-economic activity to economic activity & has made available to the governments of a country in order to implement the various developmental activities in the country.

15. (a) 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.

(b) The following factors may particularly be kept in mind while assessing the factors relating to an industry.

- (i) *Product Life-Cycle*: An industry usually exhibits high profitability in the initial and growth stages, medium but steady profitability in the maturity stage and a sharp decline in profitability in the last stage of growth.
- (ii) *Demand Supply Gap*: Excess supply reduces the profitability of the industry because of the decline in the unit price realization, while insufficient supply tends to improve the profitability because of higher unit price realization.
- (iii) *Barriers to Entry*: Any industry with high profitability would attract fresh investments. The potential entrants to the industry, however, face different types of barriers to entry. Some of these barriers are innate to the product and the technology of production, while other barriers are created by existing firms in the industry.
- (iv) *Government Attitude*: The attitude of the government towards an industry is a crucial determinant of its prospects.
- (v) *State of Competition in the Industry*: Factors to be noted are- firms with leadership capability and the nature of competition amongst them in foreign and domestic market, type of products manufactured viz. homogeneous or highly differentiated, demand prospects through classification viz. customer-wise/area-wise, changes in demand patterns in the long/immediate/ short run,

type of industry the firm is placed viz. growth, cyclical, defensive or decline.

- (vi) *Cost Conditions and Profitability:* The price of a share depends on its return, which in turn depends on profitability of the firm. Profitability depends on the state of competition in the industry, cost control measures adopted by its units and growth in demand for its products.
- (vii) *Technology and Research:* They play a vital role in the growth and survival of a particular industry. Technology is subject to change very fast leading to obsolescence. Industries which update themselves have a competitive advantage over others in terms of quality, price etc.

(c) No MSME unit can take off without monetary support. This **need** for finance can be classified into following types:

- Long and medium term loans
- Short term or working capital requirements
- Risk Capital
- Seed Capital/Marginal Money
- Bridge loans

Financial assistance in India for MSME units is available from a variety of institutions. The important ones are:

- (i) Commercial/Regional Rural/Co-operative Banks.
- (ii) SIDBI: Small Industries Development Bank of India (refinance and direct lending)
- (iii) SFCs/SIDCs: State Financial Corporations (e.g. Delhi Financial Corporation)/State Industrial Development Corporations.

Long and medium term loans are provided by SFCs, SIDBI and SIDCs. Banks also finance term loans. This type of financing is needed to fund purchase of land, construction of factory building/shed and for purchase of machinery and equipment. The short-term loans are required for working capital requirements, which fund the purchase of raw materials and consumables, payment of wages and other immediate manufacturing and administrative expenses. Such loans are generally available from commercial banks. The commercial banks also sanction composite loan comprising of working capital and term loan up to a loan limit of Rs.1 crore.

For loans from financial institutions and commercial banks a formal application needs to be made. The details of documentation that need to be provided with the loan application are indicated below:

- Balance Sheet and Profit Loss Statement for last three consecutive years of firms owned by promoters

- Income Tax Assessment Certificates of Partners/Directors
- Proof of Possession of Land/Building
- Architect's estimate for construction cost
- Partnership deed/Memorandum and Articles of Associations of Company
- Project Report
- Budgetary Quotations of Plant and Machinery

A sanction or rejection letter is issued by bank after its assessment of the application. After receiving a sanction letter, applicants need to indicate in writing their acceptance of terms and conditions laid down by FI/Banks.

Subsequently, loan is disbursed according to the phased implementation of the project. In today's environment there are other choices apart from commercial banks and Government owned financial institutions. These options include venture capital funds and non-government finance companies.

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 relating 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.

Chapter 5 : 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 21st 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) 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, whichever 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 8 : 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):

Applicability	<ul style="list-style-type: none"> (a) specified securities listed on main board or SME Exchange or institutional trading platform; (b) non-convertible debt securities, non-convertible redeemable preference shares, perpetual debt instrument, perpetual non-cumulative preference shares; (c) Indian depository receipts; (d) securitised debt instruments; (e) security receipts (added w.e.f. September 06, 2018); (f) units issued by mutual funds; (g) any other securities as may be specified by the Board.
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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 12 : Audit of Non-Banking Financial Companies

1. **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.

2. **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 ₹)
ASSETS			
(1) Financial Assets			
(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			
(2) Non-Financial Assets			
(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)			
Total Assets			
LIABILITIES AND EQUITY			
LIABILITIES			
(1) Financial Liabilities			
(a) Derivative financial instruments (b) Payables			

Particulars	Notes No.	Figures as at the end of current reporting period (₹)	Figures as at the end of previous reporting period (₹)
(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)			
(2) Non-financial Liabilities (a) Current tax liabilities (net) (b) Provisions (c) Deferred Tax Liabilities (net) (d) Other non-financial liabilities (to be specified)			
(3) Non-financial Liabilities (a) Equity share capital (b) Other equity			
Total Liabilities and Equity			

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 (₹)
Revenue from operations			
(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)			
Total revenue from operations (I)			
Other income (to be specified) (II)			
Total Income (III = I + II)			
Expenses			
(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			
(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)			
Total Expenses (IV)			

Particulars	Notes No.	Figures as at the end of current reporting period (₹)	Figures as at the end of previous reporting period (₹)
Profit / (loss) before exceptional items and tax (V= III - IV)			
Exceptional items (VI)			
Profit / (loss) before tax (VII= V - VI)			
Tax Expense (VIII):			
(1) Current tax			
(2) Deferred tax			
Profit / (loss) for the period from continuing operations (IX= VII - VIII)			
Profit / (loss) for the period from discontinued operations (X)			
Tax Expense of discontinued operations (XI)			
Profit / (loss) for the period from discontinued operations after tax (XII= X - XI)			
Profit / (loss) for the period (XIII = IX + XII)			
Other Comprehensive Income (XIV)			
(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 SUB-TOTAL (A)			
(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)			
Other Comprehensive Income (A+B)			
Total Comprehensive Income for the period (XV = XIII + XIV) (Comprising			

Particulars	Notes No.	Figures as at the end of current reporting period (₹)	Figures as at the end of previous reporting period (₹)
Profit (Loss) and other Comprehensive Income for the period)			
Earnings per equity share (for continuing operations) (XVI) Basic (₹) Diluted (₹)			
Earnings per equity share (for discontinued operations) (XVII) Basic (₹) Diluted (₹)			
Earnings per equity share (for continuing and discontinued operations) (XVIII) Basic (₹) Diluted (₹)			

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

3 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 13 : Audit under Fiscal Laws

A. AUDIT PROVISIONS UNDER DIRECT TAX LAWS

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, 32AD, 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 Rs.) 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 (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;
- (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 ₹);
- (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;
- (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 2 of 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 or 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 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/actions 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 PROVISIONS UNDER INDIRECT TAX LAWS



The GST roll out on 1st 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:

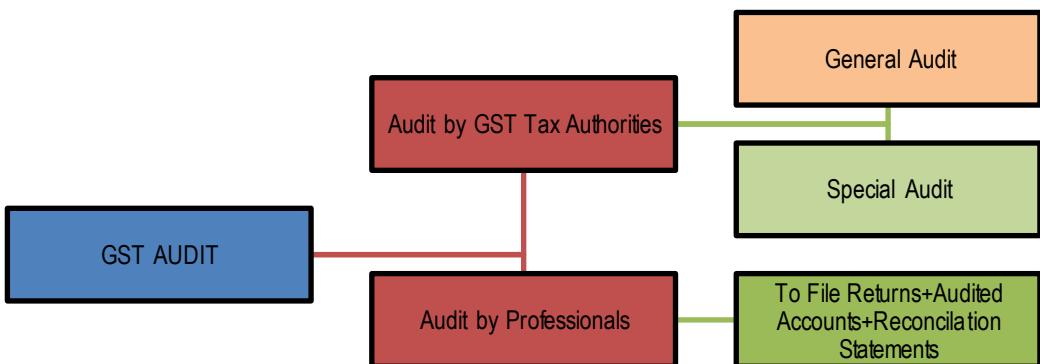
- (a) Audit is examination of records, returns and other documents;
- (b) Those records, returns and documents might have been maintained or furnished under GST Law or any other law;
- (c) The examination is to verify the correctness of
 - (i) Turnover declared;
 - (ii) Taxes paid;
 - (iii) Refund claimed; 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 maynote that the expression **turnover in State or turnover in the Union territory** is defined. In this backdrop the following understanding is relevant:

- (a) 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;
- (b) It is therefore, reasonable to interpret that the word turnover used in Section 35(5) ought to be understood as aggregate turnover.
- (c) 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 rescribed 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]

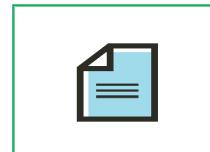
As per sub-section 5 of section 35 read alongwith section 44(2) and rule 80 of the CGST Rules, 2017 stipulates as follows:

<p>(i) Every registered person must get his accounts audited by a Chartered Accountant or a Cost Accountant if his aggregate turnover during a FY exceeds ₹ 2 crores.</p>	<p>Such registered person is required to furnish electronically through the common portal alongwith Annual Return a copy of:</p> <ul style="list-style-type: none"> <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



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 facilityextended by the Act is in Section 66 where an officer not below the rank of Assistant Commissioner, dulyapproved, 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 of 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 this 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.	Part – I	Basic details of the taxpayer. This detail will be auto-populated.
2.	Part – II	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.	Part – III	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.	Part – IV	Details of tax paid as declared in returns filed during the FY.
5.	Part – V	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	Part – VI	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.

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.
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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 ("NRTP"), 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.

Sl. No. 5B. Unbilled revenue at the beginning of Financial Year

To comprehend the scope of these Sl. 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 1st July 2017 one needs to be careful to exclude invoices raised during the period April 2017 to June 2017 from the computation.

Sl. No. 5C Add: Unadjusted advances at the end of the Financial Year

The scope of Part II Sl 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 which 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 of 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 eligible 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.

SI. 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.

SI. 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.

SI. No. - 5J. Credit notes accounted for in the audited Annual Financial Statement but are not permissible under GST

This SI. 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.

SI. 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.

SI. 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 SI. 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.

SI. 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.

SI. 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.

SI. No. 5O. Adjustments in turnover due to reasons not listed above (+/-)

Clause 5O is a residuary SI.No. which requires disclosure of reconciliation details relating to adjustments for which specific column is not provided under any other SI.No.s under Item No. 5. This SI.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.

SI. No. 5P: Annual turnover after adjustments as above

The reconciliation statement in SI.No.5P is auto-populated and based on the values declared against SI. Nos. 5B to 5O.

SI. 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 SI.No. 5N as per the Annual Return in GSTR – 9 should be declared under SI.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 SI.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 SI.No. 5N of the Annual Return in Form GSTR 9 shall be the turnover to be declared against SI.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 SI.No. 5O for the purpose of matching the turnover between the annual return and the audited annual financial statements. The turnover as arrived at SI.No. 5N of the Annual Return in Form GSTR 9 shall be declared against SI.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 SI. No. 6.

SI. No. 5R: non-reconciled turnover (Q-P)

The un-reconciled turnover at SI. No. 5R is the difference between the 'Annual turnover after adjustments as above' at SI.No. 5P and 'turnover as declared in the Annual Returns (GSTR 9)' as declared at SI.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 SI.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 Sl.No. 5P is higher than the 'turnover as declared in the Annual Return (GSTR 9)' at Sl.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 Sl.No. 5P is lower than the 'turnover as declared in the Annual Return (GSTR 9)' at Sl.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 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.

SI. 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)

- (b) 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)

SI. 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 SI.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 SI.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 SI.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 SI.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.

SI 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 note 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 charge 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 Sl. 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 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.

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:

- 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.
- 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.
- 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					
	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)					
II	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	PT 1				

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 GSTR 9C 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)					
	To be paid through Cash					
Description	Taxable Value	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

SI. 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 GSTINs (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	(+)	
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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 GSTR 3B 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 GSTR 3B 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	(-)	
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Clause 12C of GSTR 9C is the Input tax Credit which is booked in the current financial year but claimed in the returns of GSTR 3B 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 GSTR 3B 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 GSTR 9. 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 GSTR 9.

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	
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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	Reason 1	<<Text>>
B	Reason 2	<<Text>>
C	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 GSTIN claimed in returns of GSTIN 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	Reconciliation of ITC declared in Annual Return (GSTR9) with ITC availed on
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expenses as per audited Annual Financial Statement or books of account				
	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	ITC 2		

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:

- ITC on purchase of raw material: ₹ 1,50,000 (Purchase value: 20,00,000)
- ITC on purchase of consumable: ₹ 60,000 (Purchase value: 4,00,000)
- 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 GSTR 3B of the subsequent year. This can be correlated with point 13 of GSTR 9.

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					
	To be paid through Cash					
Description	Value	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 resolves 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 to 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.

Part B - GSTR 9C – An analysis

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 16 : 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.]

Chapter 20 - Code of Ethics

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 CA/CA 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 Simplicitor (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 other updates) and Paper 4 Part A -Corporate 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.

a. 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.

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.

- c. 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.
- d. 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?

- a. 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.
- 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.
- c. The auditor should agree to the management's view as the expats are temporary workers and this may not be convenient for the management.

d. 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. Which of the following is an example of Direct Entity level control
 - a. Ethics policy
 - b. Human resource policy
 - c. Business performance reviews
 - d. Job roles & responsibilities of employees
10. The Advances Bank Ltd. has sanctioned overdraft limit of Rs. 44 crore to ASG Ltd. on the working capital of the company as on 31st 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 31st March 2017, you noticed that the bank has not obtained the stock statement of ASG Ltd. for the two quarters ending 31st 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) PRSH & Co is the statutory auditor of Make My Journey Ltd. The company is in the business of tours and travels. Annual turnover of the company is INR 2000 crores and profits are INR 190 crores. During the planning meeting of the management and the auditors, it was discussed that the management needs to provide written representation letter to the auditors for the preparation of the financial statements and for the completeness of the information provided to the auditor. At the time of closure of the audit, there has been some confusion about the requirements of the written representation letter. Management argued that representation need not be written, it can also be verbal which has been provided to the audit team during the course of their audit. Auditors have completed their documentation and hence in a way, representation based on verbal discussions with the auditors has also got documented. Auditors explained that this is mandatory to obtain written representation in accordance with the requirements of SA 580. However, still some

confusion remains regarding the date and period covered by the written representation. You are required to advise about the date of and period covered by written representation in view of SA 580.

(b) 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 of SQC 1.

(c) 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.

Audit Planning Strategy and Execution

12. (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.

Risk Assessment and Internal Control

13. 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.

Special Aspects of Auditing in an Automated Environment

14. In an automated environment, the data stored and processed in systems can be used to get various insights into the way business operates. This data can be useful for preparation of management information system (MIS) reports and electronic dashboards that give a high-level snapshot of business performance. In view of above you are required to briefly discuss the meaning of data analytics and example of circumstances when auditing in an automated environment, auditors can apply the concepts of data analytics.

The Company Audit

15. (a) MKc LLP is a newly set up LLP (Limited Liability Partnership). The operations of the LLP have been picking up and management is currently in the process of setting up processes and procedures in place. As per the understanding of the management of the LLP, its accounts would not be required to be audited mandatory because of its operations but still the management has decided that they would get the accounts audited voluntarily. In this regard, the management would like to understand some of the aspects which they should consider not only limited to audit but also about the maintenance of books of accounts as per the relevant laws. Please advise.

(b) 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.

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 **SI. 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.

Audit of Insurance Companies

20. As at 31st March 2018 while auditing Safe Insurance Ltd, you observed that a policy has been issued on 25th March 2018 for fire risk favouring one of the leading corporate houses in the country without the actual receipt of premium and it was reflected as premium receivable. The company maintained that it is a usual practice in respect of big customers and the money was collected on 5th April, 2018. You further noticed that there was a fire accident in the premises of the insured on 31st March 2018 and a claim was lodged for the same. The insurance company also made a provision for claim. Please advise.

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 ab, 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:

- 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.
- 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.
- 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.
- Mr. M, a Chartered Accountant in practice, has printed visiting cards which besides other details also carries a Quick Response (QR) code. The visiting card as well the QR code contains his name, office and residential address, contact details, e-mail id and name of the firm's website.

25. Write a short note on the following:

- Technical, ethical and professional standards as per statement on peer review.
- Areas covered in Comprehensive Audit.
- Key features of the Qualified and Independent Audit Committee set up under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
- Classification of Frauds by NBFC

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	c	Business performance reviews
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

11. (a) As per SA 580, "Written Representations", as written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the auditor's report cannot be dated, before the date of the written representations. Furthermore, because the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements.

In some circumstances it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the course of the audit. Where this is the case, it may be necessary to request an updated written representation.

The written representations are for all periods referred to in the auditor's report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates written

representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

Situations may arise where current management were not present during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all of the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole. Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies.

(b) 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.

(c) 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.

12. (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.

13. 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.

14. Data Analytics: Generating and preparing meaningful information from raw system data using processes, tools, and techniques is known as Data Analytics. The data analytics methods used in an audit are known as Computer Assisted Auditing Techniques or CAATs. When auditing in an automated environment, auditors can apply the concepts of data analytics for several aspects of an audit including the following:

- preliminary analytics;
- risk assessment;
- control testing;
- non-standard journal analysis;
- evaluation of deficiencies;

- fraud risk assessment.

15. (a) An LLP shall be under obligation to maintain annual accounts reflecting true and fair view of its state of affairs. The accounts of every LLP shall be audited in accordance with Rule 24 of LLP Rules 2009. Such rules, inter-alia, provides that any LLP, whose turnover does not exceed, in any financial year, forty lakh rupees, or whose contribution does not exceed twenty five lakh rupees, is not required to get its accounts audited. However, if the partners of such limited liability partnership decide to get the accounts of such LLP audited, the accounts shall be audited only in accordance with such rule.

Appointment of Auditor: The auditor may be appointed by the designated partners of the LLP –

1. At any time for the first financial year but before the end of first financial year,
2. At least thirty days prior to the end of each financial year (other than the first financial year),
3. To fill the causal vacancy in the office of auditor,
4. To fill the causal vacancy caused by removal of auditor.

The partners may appoint the auditors if the designated partners have failed to appoint them.

LLPs are required to maintain books of accounts which shall contain -

1. Particulars of all sums of money received and expended by the LLP and the matters in respect of which the receipt and expenditure takes place,
2. A record of the assets and liabilities of the LLP,
3. Statements of costs of goods purchased, inventories, work-in-progress, finished goods and costs of goods sold,
4. Any other particulars which the partners may decide.

The auditor should read the LLP agreement & note the following provisions

- (a) Nature of the business of the LLP
- (b) Amount of capital contributed by each partner
- (c) Interest – in respect of additional capital contributed
- (d) Duration of partnership
- (e) Drawings allowed to the partners
- (f) Salaries, commission etc payable to partners
- (g) Borrowing powers of the LLP
- (h) Rights & duties of partners

- (i) Method of settlement of accounts between partners at the time of admission, retirement, admission etc.
- (j) Any loans advanced by the partners
- (k) Profit sharing ratio.

(b) 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.

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 (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 of 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. Provision for Claim: No risk can be assumed by the insurer unless the premium is received. According to section 64VB of the Insurance Act, 1938, no insurer should assume any risk in India in respect of any insurance business on which premium is ordinarily payable in India unless and until the premium payable is received or is guaranteed to be paid by such person in such manner and within such time, as may be prescribed, or unless and until deposit of such amount, as may be prescribed, is made in advance in the prescribed manner. The premium receipt of insurance companies carrying on general insurance business normally arise out of three sources, viz, premium received from direct

business, premium received from reinsurance business and the share of co-insurance premium.

In view of the above, the insurance company is not liable to pay the claim and hence no provision for claim is required.

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.

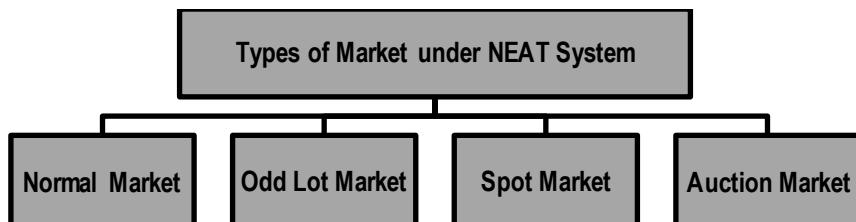
The following are some of the key functions of the energy auditor:

- (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) **Printing of QR Code on Visiting Cards: As per Clause (7) of Part I of First Schedule** to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he advertises his professional attainments or services.

Ethical Standards Board has also clarified that a member in practice is allowed to print Quick Response Code (QR Code) on the visiting Card, provided that the Code does not contain information that is not otherwise permissible to be printed on a visiting Card.

In the given case, Mr. M has printed visiting cards which carries Quick Response Code (QR Code) besides other details. The visiting card as well as the QR Code contains his name, office and residential address, contact details, e-mail id and name of the firm's website which are otherwise allowed to be printed on the visiting cards of a Chartered Accountant in practice.

Thus, Mr. M is not guilty under Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949.

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) Classification of Frauds by NBFC: In order to have uniformity in reporting, frauds have been classified as under based mainly on the provisions of the Indian Penal Code:

- (i) Misappropriation and criminal breach of trust.
- (ii) Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.
- (iii) Unauthorised credit facilities extended for reward or for illegal gratification.
- (iv) Negligence and cash shortages.
- (v) Cheating and forgery.
- (vi) Irregularities in foreign exchange transactions.
- (vii) Any other type of fraud not coming under the specific heads as above.

Cases of 'negligence and cash shortages' and 'irregularities in foreign exchange transactions' referred to in items (d) and (f) above are to be reported as fraud if the intention to cheat/ defraud is suspected/ proved. However, the following cases where fraudulent intention is not suspected/ proved, at the time of detection, will be treated as fraud and reported accordingly:

- (i) cases of cash shortages more than ₹ 10,000/- and
- (ii) cases of cash shortages more than ₹ 5000/- if detected by management/ auditor/ inspecting officer and not reported on the occurrence by the persons handling cash.

NBFCs having overseas branches/offices should report all frauds perpetrated at such branches/offices also to the Reserve Bank as per the prescribed format and procedures.

PAPER 4: CORPORATE AND ECONOMIC LAWS

PART – I: RELEVANT AMENDMENTS APPLICABLE FOR MAY, 2019 EXAMINATION

Applicability of Relevant Amendments/ Circulars/ Notifications/Regulations etc.

For May 2019 examinations for Paper 4: Corporate and Economic Laws, the significant amendments made in the respective subject for the period 1st May 2017 to 31st October, 2018 are relevant and applicable for said examinations.

This RTP of May 2019 examination will help the students to know of the significant changes, that are relevant and applicable for May 2019 examination.

Relevant amendments: Here are the given relevant amendments arranged chapter wise.

PART I: CORPORATE LAWS

SECTION A: COMPANY LAW

CHAPTER 1: APPOINTMENT AND QUALIFICATION OF DIRECTORS

1. Exemptions to Government Companies Vide Notification G.S.R. 582(E) Dated 13th June, 2017

The Central Government amends the Notification G.S.R. 463(E), dated 5th June 2015. Following are the amendments:

According to the amendment, section 152(6) & (7) shall not apply to –

- (a) a Government company, which is not a listed company, in which not less than fifty-one per cent. of paid up share capital is held by the Central Government, or by any State Government or Governments or by the Central Government and one or more State Governments;
- (b) a subsidiary of a Government company, referred to in (a) above.

2. Insertion of Paragraph 2A in the principal notification G.S.R. 463(E), dated 5th June 2015 vide Notification G.S.R. 582(E) Dated 13th June, 2017

In the principal notification, after paragraph 2, the following paragraph shall be inserted, namely:-

“2A. The exceptions, modifications and adaptations provided in column (3) of the aforesaid Table shall be applicable to a Government company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar.”

3. Exemptions to Companies covered section 8 of the Companies Act, 2013 vide Notification G.S.R. 584(E) Dated 13th June, 2017

The Central Government amends the Notification G.S.R. 466(E), dated 5th June 2015. Following are the amendments:

Section 149(1)(b) & first proviso shall not apply on section 8 companies.

Insertion of Paragraph 2A in the principal notification G.S.R. 466 (E), dated 5th June 2015 Vide Notification G.S.R. 584(E) Dated 13th June, 2017

In the principal notification, after paragraph 2, the following paragraph shall be inserted, namely:- "2A. The exceptions, modifications and adaptations provided in column (3) of the aforesaid Table shall be applicable to a company covered under section 8 of the said Act which has not committed a default in filing its financial statements under section 137 or annual return under section 92 of the said Act with the Registrar.

4. Enforcement of the Companies (Appointment and Qualification of Directors) Amendment Rules, 2017 Vide Notification G.S.R. 839(E) dated 5th July 2017

The Central Government hereby makes the following rules further to amend the *Companies (Appointment and Qualification of Directors) Rules, 2014*.

In the *Companies (Appointment and Qualification of Directors) Rules, 2014*, rule 4 shall be numbered as sub-rule (1) and after sub-rule (1) as so renumbered, the following sub-rule shall be inserted namely :-

"(2) The following classes of unlisted public company shall not be covered under sub-rule (1), namely:-

- (a) a joint venture;
- (b) a wholly owned subsidiary; and
- (c) a dormant company as defined under section 455 of the Act."

5. Exemptions given to certain unlisted public companies under the Companies (Appointment and Qualification of Directors) Rules, 2014 from appointment of Independent Directors Vide notification of circular 09/2017 dated 5th September 2017

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* inter-alia amending rule 4 of the *Companies (Appointment and Qualification of Directors) Rules, 2014*.

The said amended Rule 4 provides 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.

Through the issue of this circular, it is hereby clarified that a "joint venture", would mean a joint arrangement, entered into in writing, whereby the parties that have joint control of the arrangement, have rights to the net assets of the arrangement. The usage of the term is similar to that under the Accounting Standards.

6. Enforcement of the Companies (Appointment and Qualification of Directors) Amendment Rules, 2018 Vide Notification G.S.R.51(E) dated 22nd January, 2018

The Central Government hereby makes the following rules further to amend the *Companies (Appointment and Qualification of Directors) Rules, 2014*

In the *Companies (Appointment and Qualification of Directors) Rules, 2014*, in rule 9,

(A) for the marginal heading, the following marginal heading shall be substituted, namely:-

“Application for allotment of Director Identification Number before appointment in an existing company”;

(B) for sub-rule (1), the following shall be substituted, namely:-

“(1) Every applicant, who intends to be appointed as director of an existing company shall make an application electronically in Form DIR-3, to the Central Government for allotment of a Director Identification Number (DIN) along with such fees as provided under the *Companies (Registration Offices and Fees) Rules, 2014*.

Provided that in case of proposed directors not having approved DIN, the particulars of maximum three directors shall be mentioned in Form No. INC-32 (SPICe) and DIN may be allotted to maximum three proposed directors through Form INC-32 (SPICe)”;

(C) in sub-rule (3),

(I) In sub-clause (a), after sub-clause (iii), the following sub-clause shall be inserted, namely:-

“(iiia) board resolution proposing his appointment as director in an existing company”;

(II) for clause (b), the following clause shall be substituted, namely:-

“(b) Form DIR-3 shall be signed and submitted electronically by the applicant using his or her own Digital Signature Certificate and shall be verified digitally by a company secretary in full time employment of the company or by the managing director or director or CEO or CFO of the company in which the applicant is intended to be appointed as director in an existing company.”

7. *Companies (Removal of Difficulties) Order, 2018 S.O. 768(E) dated 21st February, 2018*

In the *Companies Act, 2013*, in section 169, in sub-section (1), –

(i) before the proviso, the following proviso shall be inserted, namely :-

“Provided that an independent director re-appointed for second term under sub-section (10) of section 149 shall be removed by the company only by passing a special resolution and after giving him a reasonable opportunity of being heard.”;

(ii) in the existing proviso, for the words “Provided that”, the words “Provided further that” shall be substituted.

8. 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 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, for the word "shall", the word "may" shall be substituted.

9. 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, a new form shall be substituted.

10. Enforcement of the *Companies (Appointment and Qualification of Directors) fourth Amendment Rules, 2018* vide Notification G.S.R. 615(E) w.e.f. 10th 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 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 shall be inserted, namely:-

“12A Directors KYC:- Every individual who has been allotted a Director Identification Number (DIN) as on 31st March of a financial year as per these rules shall, submit e-form DIR-3-KYC to the Central Government on or before 30th April of immediate next financial year.

Provided that every individual who has already been allotted a Director Identification Number (DIN) as at 31st March, 2018, shall submit e-form DIR-3 KYC on or before 31st August, 2018.”;

(iii) In the Annexure after Form DIR-3 the Form DIR-3-KYC shall be inserted.

11. 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, 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.

12. 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.

13. Amendments through the Companies (Amendment) Act, 2017

Relevant sections	Amendment
Amendment of section 149	<p>In section 149 of the principal Act,—</p> <p>(i) for sub-section (3), the following sub-section shall be substituted, namely:—</p> <p>"(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 sub-section (6),—</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:—</p> <p>"(d) none of whose relatives—</p> <p>(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, 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</p>

	<p>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:—</p> <p>"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 152	<p>In section 152 of the principal Act,—</p> <p>(a) in sub-section (3), after the word and figures "section 154", the words and figures "or any other number as may be prescribed under section 153" shall be inserted;</p> <p>(b) in sub-section (4), after the word "Number", the words and figures "or such other number as may be prescribed under section 153" shall be inserted.</p>
Amendment of section 153	<p>In section 153 of the principal Act, the following proviso shall be inserted, namely:—</p> <p>"Provided that the Central Government may prescribe any identification number which shall be treated as Director Identification Number for the purposes of this Act and in case any individual holds or acquires such identification number, the requirement of this section shall not apply or apply in such manner as may be prescribed."</p>
Amendment of Section 157	<p>In section 157 of the principal Act,—</p> <p>(i) in sub-section (1), the words and figures, "within the time specified under section 403" shall be omitted;</p> <p>(ii) in sub-section (2), the words and figures, "before the expiry of the period specified under section 403 with additional fee", shall be omitted.</p>

Amendment of section 160.	In section 160 of the principal Act, in sub-section (1), the following proviso shall be inserted, namely:— “Provided that requirements of deposit of amount shall not apply in case of appointment of an independent director or a director recommended by the Nomination and Remuneration Committee, if any, constituted under sub-section (1) of section 178 or a director recommended by the Board of Directors of the Company, in the case of a company not required to constitute Nomination and Remuneration Committee.”
Amendment of section 161.	In section 161 of the principal Act,— (i) in sub-section (2), after the words "alternate directorship for any other director in the company", the words "or holding directorship in the same company" shall be inserted; (ii) in sub-section (4),— (a) the words "In the case of a public company," shall be omitted; (b) after the words "meeting of the Board", the words "which shall be subsequently approved by members in the immediate next general meeting" shall be inserted.
Amendment of section 164	In section 164 of the principal Act,— (i) in sub-section (2), 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.;" (ii) in sub-section (3), for the proviso, the following proviso shall be substituted, namely:— "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."
Amendment of section 165.	In section 165 of the principal Act, in sub-section (1), the Explanation shall be renumbered as Explanation I and after Explanation I as so numbered, the following Explanation shall be inserted, namely:— "Explanation II.—For reckoning the limit of directorships of twenty companies, the directorship in a dormant company shall

	not be included."
Amendment of section 167.	<p>In section 167 of the principal Act, in sub-section (1),—</p> <p>(i) in clause (a), the following proviso shall be inserted, namely:— "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,— "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	In section 168 of the principal Act, in sub-section (1), in the proviso, for the words, "director shall also forward", the words "director may also forward" shall be substituted.

CHAPTER 2: 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. 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*.

In *Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014*,

- (i) in rule 6,
 - (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, 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 in Section 2(51)	<p>in clause (51),—</p> <ul style="list-style-type: none"> (a) in sub-clause (iv), the word "and" shall be omitted; (b) for sub-clause (v), the following sub-clauses shall be substituted, namely:— <p style="padding-left: 20px;">"(v) such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and</p> <p style="padding-left: 20px;">(vi) such other officer as may be prescribed;"</p>
Amendment of section 196	<p>In section 196 of the principal Act,—</p> <ul style="list-style-type: none"> (a) in sub-section (3), in clause (a), after the proviso, the following proviso shall be inserted, namely:— <p style="padding-left: 20px;">"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.";</p> <ul style="list-style-type: none"> (b) in sub-section (4), for the words "specified in that Schedule", the words "specified in Part I of that Schedule" shall be substituted.
Amendment of Section 197	<p>In section 197 of the principal Act,—</p> <ul style="list-style-type: none"> (a) in sub-section (1),— <ul style="list-style-type: none"> (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;

	<p>(iii) after the second proviso, the following proviso shall be inserted, namely:—</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 sub-section (3), 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 sub-section (9), the following sub-section shall be substituted, namely:—</p> <p>"(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 sub-section (10),—</p> <p>(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;</p> <p>(ii) the following proviso shall be inserted, namely:—</p> <p>"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>
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	<p>(e) in sub-section (11), 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 sub-section (15), the following sub-sections shall be inserted, namely:—</p> <p style="padding-left: 40px;">"(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 style="padding-left: 40px;">(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	<p>In section 198 of the principal Act,—</p> <p>(i) in sub-section (3),—</p> <p style="padding-left: 20px;">(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 style="padding-left: 20px;">(b) after clause (e), the following clause shall be inserted, namely:—</p> <p style="padding-left: 40px;">"(f) any amount representing unrealised gains, notional gains or revaluation of assets.";</p> <p>(ii) in sub-section (4), in clause (l), the words "which begins at or after the commencement of this Act" shall be omitted.</p>
Amendment of section 200.	In section 200 of the principal Act, the words "the Central Government or" appearing at both the places shall be omitted.
Amendment of section 201.	In section 201 of the principal Act,—

	<ul style="list-style-type: none"> (a) in sub-section (1), for the words "this Chapter", the word and figures "section 196" shall be substituted; (b) in sub-section (2), in clause (a), for the words "any of the sections aforesaid", the word and figures "section 196" shall be substituted.
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CHAPTER 3: MEETING OF BOARD AND ITS POWERS

1. Exemptions to Private Companies Vide Notification G.S.R. 583(E) Dated 13th June, 2017

The Central Government amends the Notification G.S.R. 464(E), dated 5th June 2015. Following are the amendments:

- (i) With respect to Section 173(5), the following sub- section shall be substituted:
 - (5) A One Person Company, small company, dormant company and a private company (if such private company is a start-up) shall be deemed to have complied with the provisions of this section if at least one meeting of the Board of Directors has been conducted in each half of a calendar year and the gap between the two meetings is not less than ninety days:

Provided that nothing contained in this subsection and in section 174 shall apply to One person Company in which there is only one director on its Board of Directors.

- (ii) With respect to section 174(3)-

It shall apply with the exception that the interested director may also be counted towards quorum in such meeting after disclosure of his interest pursuant to section 184.

2. Insertion of Paragraph 2A in the principal notification G.S.R. 464(E), dated 5th June 2015 Vide Notification G.S.R. 583(E) Dated 13th June, 2017

In the principal notification, after paragraph 2, the following paragraph shall be inserted, namely:- "2A. The exceptions, modifications and adaptations provided in column (3) of the aforesaid Table shall be applicable to a private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar."

3. Exemptions to Companies covered section 8 of the Companies Act, 2013 Vide Notification G.S.R. 584(E) Dated 13th June, 2017

The Central Government amends the Notification G.S.R. 466(E), dated 5th June 2015. Following are the amendments:

In section 186(7)- following proviso shall be inserted-

Provided that nothing contained in this sub-section shall apply to a company in which twenty-six per cent. or more of the paid-up share capital is held by the Central Government or one or more State Governments or both, in respect of loans provided by such company for funding Industrial Research and Development projects in furtherance objects as stated in its memorandum of association.”.

4. Insertion of Paragraph 2A in the principal notification G.S.R. 466 (E), dated 5th June 2015 Vide Notification G.S.R. 584(E) Dated 13th June, 2017

In the principal notification, after paragraph 2, the following paragraph shall be inserted, namely:- “2A. The exceptions, modifications and adaptations provided in column (3) of the aforesaid Table shall be applicable to a company covered under section 8 of the said Act which has not committed a default in filing its financial statements under section 137 or annual return under section 92 of the said Act with the Registrar.”

5. Enforcement of the *Companies (Meetings of Board and its Powers) Second Amendment Rules, 2017* vide Notification G.S.R. 880(E) Dated 13th July 2017

The Central Government hereby makes the following rules further to *amend the Companies (Meetings of Board and its Powers) Rules, 2014*.

Following are the amendments:

(1) In rule 3 for clause (e), the following shall be substituted, -

“(e) Any director who intends to participate in the meeting through electronic mode may intimate about such participation at the beginning of the calendar year and such declaration shall be valid for one year: Provided that such declaration shall not debar him from participation in the meeting in person in which case he shall intimate the company sufficiently in advance of his intention to participate in person.”

(2) In the principal rules, for rule 6, the following rule shall be substituted, namely:-

“6. Committees of the Board. - The Board of directors of every listed company and a company covered under rule 4 of the *Companies (Appointment and Qualification of Directors) Rules, 2014* shall constitute an 'Audit Committee' and a 'Nomination and Remuneration Committee of the Board'.

6. Enforcement of the *Companies (Restriction on number of layers) Rules, 2017* in exercise of the powers conferred under proviso to clause (87) of section 2 Vide notification G.S.R. 1176(E), dated 20th September 2017

Restriction on number of layers for certain classes of holding companies-

(1) On and from the date of commencement of these rules, no company, other than a company belonging to a class specified in sub-rule (2) , shall have more than two layers of subsidiaries:

Provided that the provisions of this sub-rule shall not affect a company from acquiring a company incorporated outside India with subsidiaries beyond two layers as per the laws of such country:

Provided further that for computing the number of layers under this rule, one layer which consists of one or more wholly owned subsidiary or subsidiaries shall not be taken into account.

- (2) **The provisions of this rule shall not apply to the following classes of companies, namely:—**
 - (a) a banking company as defined in the Banking Regulation Act, 1949
 - (b) a non-banking financial company as defined in the Reserve Bank of India Act, 1934 which is registered with the Reserve Bank of India and considered as systematically important non-banking financial company by the Reserve Bank of India;
 - (c) an insurance company being a company which carries on the business of insurance in accordance with provisions of the Insurance Act, 1938 and the Insurance Regulatory Development Authority Act, 1999
 - (d) a Government company referred to in clause (45) of section 2 of the Companies Act.
- (3) The provisions of this rule shall not be in derogation of the proviso to sub-section (1) of section 186 of the Act.
- (4) Every company, other than a company referred to in sub-rule (2), existing on or before the commencement of these rules, which has number of layers of subsidiaries in excess of the layers specified in sub-rule (1) –
 - (i) shall file, with the Registrar a return disclosing the details specified therein, within a period of one hundred and fifty days from the date of publication of these rules in the Official Gazette;
 - (ii) shall not, after the date of commencement of these rules, have any additional layer of subsidiaries over and above the layers existing on such date; and (iii) shall not, in case one or more layers are reduced by it subsequent to the commencement of these rules, have the number of layers beyond the number of layers it has after such reduction or maximum layers allowed in sub rule (1), whichever is more.
- (5) If any company contravenes any provision of these rules the company and every officer of the company who is in default shall be punishable with fine which may extend to ten thousand rupees and where the contravention is a continuing one, with a further fine which may extend to one thousand rupees for every day after the first during which such contravention continues.

7. 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, 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, for the words "every listed company", the words "every listed public company" shall be substituted.

(iii) In the principal rules, for rule 13, 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."

8. Amendments through the *Companies (Amendment) Act, 2017*

Relevant sections	Amendment
Amendment of section 173	<p>In section 173 of the principal Act, in sub-section (2), after the first proviso, the following proviso shall be inserted, namely:—</p> <p>"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".</p>
Amendment of section 177.	<p>In section 177 of the principal Act,—</p> <p>(i) in sub-section (1), for the words "every listed company", the words "every listed public company" shall be substituted;</p> <p>(ii) in sub-section (4), in clause (iv), after the proviso, the following provisos shall be inserted, namely:—</p> <p>"Provided further that in case of transaction, other than transactions referred to in section 188, and</p>

	<p>where Audit Committee does not approve the transaction, it shall make its recommendations to the Board:</p> <p>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:</p> <p>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	<p>In section 178 of the principal Act,—</p> <ul style="list-style-type: none"> (i) in sub-section (1), for the words "every listed company", the words "every listed public company" shall be substituted; (ii) in sub-section (2), 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; (iii) in sub-section (4), in clause (c), for the proviso, the following proviso shall be substituted, namely:— "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."; (iv) in sub-section (8), 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.
Amendment of Section 180	In section 180 of the principal Act, in sub-section (1), in clause (c), for the words "paid-up share capital and free reserves", the words "paid-up share capital, free reserves and securities premium" shall be substituted.
Amendment of Section 184	In section 184 of the principal Act,— (i) in sub-section (4), the words "shall not be less than fifty thousand rupees but which" shall be omitted; (ii) in sub-section (5), for clause (b), the following clause shall be substituted, namely:— "(b) shall apply to any contract or arrangement entered into or to be entered into between two companies or between one or more companies and one or more bodies corporate where any of the directors of the one company or body corporate or two or more of them together holds or hold not more than two per cent. of the paid-up share capital in the other company or the body corporate."
Substitution of new section for section 185. Loan to Directors	For section 185 of the principal Act, the following section shall be substituted, namely:— '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,— (a) any director of company, or of a company which is its holding company or any partner or relative of any such director; or (b) any firm in which any such director or relative is a partner. (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— (a) a special resolution is passed by the company in general meeting: Provided that the explanatory statement to the notice for the relevant general meeting shall disclose the full particulars of the loans given, or

	<p>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>(i) as a part of the conditions of service extended by the company to all its employees; or</p> <p>(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</p>
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	<p>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> <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> <ul style="list-style-type: none"> (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; (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 (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.'
Amendment of section 186.	<p>In section 186 of the principal Act,—</p> <ul style="list-style-type: none"> (i) in sub-section (2), the following Explanation shall be inserted, namely:— <i>'Explanation.—For the purposes of this sub-section, the word "person" does not include any individual who is in the employment of the company.'</i> (ii) for sub-section (3), 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

	<p>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:</p> <p>Provided that where a loan or guarantee is given or where a security has been provided by a company to its wholly owned subsidiary 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 sub-section (11), 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</p>
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	<p>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 <i>Explanation</i>, in clause (a), 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, 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."</p>
Amendment of section 188.	<p>In section 188 of the principal Act,—</p> <p>(i) in sub-section (1), after the second proviso, the following proviso shall be inserted, namely:—</p> <p>"Provided also that nothing contained in the second proviso shall apply to a company in which ninety per cent. or more members, in number, are relatives of promoters or are related parties."</p> <p>(ii) in sub-section (3), for the words "shall be voidable at the option of the Board", the words "shall be voidable at the option of the Board or, as the case may be, of the shareholders" shall be substituted.</p>
Omission of section 194	Section 194 of the principal Act shall be omitted.
Omission of section 195	Section 195 of the principal Act shall be omitted.

CHAPTER 4: INSPECTION, INQUIRY AND INVESTIGATION

1. Enforcement of Section 212(8), (9), & (10) vide Notification S.O. 2751(E) dated 24th of August, 2017

The Central Government notified the provisions of sub-sections (8), (9) and sub-section (10) of section 212 of the Companies Act, 2013 with effect from 24th day of August, 2017.

2. Enforcement of the *Companies (Arrests in connection with Investigation by Serious Fraud Investigation Office) Rules, 2017* Vide Notification G.S.R. 1062(E) dated 24th of August 2017

In exercise of the powers conferred under sub-section (1) of section 469 read with section 212 of the Companies Act, 2013, Central Government enforced the *Companies (Arrests in connection with Investigation by Serious Fraud Investigation Office) Rules, 2017*.

According to the Rule where any person has been guilty of any offence punishable under section 212 of the Act, he may be arrested as per the respective rules.

The *Companies (Arrests in Connection with Investigation by Serious Fraud Investigation Office) Rules, 2017*

- a. **In case of other than government companies/foreign companies:** Where the Director, Additional Director or Assistant Director of the Serious Fraud Investigation Office (herein after referred to as SFIO) investigating into the affairs of a company other than a Government company or foreign company has, on the basis of material in his possession, reason to believe (the reason for such belief to be recorded in writing) that any person has been guilty of any offence punishable under section 212 of the Act, he may arrest such person; Provided that in case of an arrest being made by Additional Director or Assistant Director, the prior written approval of the Director SFIO shall be obtained.
- b. **Competent authority:** The Director SFIO shall be the competent authority for all decisions pertaining to arrest.
- c. **In case of Government Company/foreign company:** Where an arrest of a person is to be made in connection with a Government company or a foreign company under investigation, such arrest shall be made with prior written approval of the Central Government. Provided that the intimation of such arrest shall also be given to the Managing Director or the person in-charge of the affairs of the Government Company and where the person arrested is the Managing Director or person in-charge of the Government Company, to the Secretary of the administrative ministry concerned, by the arresting officer.
- d. **Serving of Arrest order to arrestee:** The Director, Additional Director or Assistant Director, while exercising powers under sub-section (8) of section 212 of the Act, shall sign the arrest order together with personal search memo in the Form appended to these rules and shall serve it on the arrestee and obtain written acknowledgement of service.
- e. **Forwarding of copy of arrest order and other documents:** The Director, Additional Director or Assistant Director shall forward a copy of the arrest order along with the material in his possession and all the other documents including personal search memo to the office of Director, SFIO in a sealed envelope with a forwarding letter after signing on each page of these documents, so as to reach the office of the Director, SFIO within twenty four hours through the quickest possible means.

- f. **Maintenance of arrest order:** An arrest register shall be maintained in the office of Director, SFIO and the Director or any officer nominated by Director shall ensure that entries with regard to particulars of the arrestee, date and time of arrest and other relevant information pertaining to the arrest are made in the arrest register in respect of all arrests made by the arresting officers.
- g. **Entry in arrest register:** The entry regarding arrest of the person and information given to such person shall be made in the arrest register immediately on receipt of the documents as specified under rule 5 in the arrest register maintained by the SFIO office.
- h. **Preservation of copy of arrest order:** The office of Director, SFIO shall preserve the copy of arrest order together with supporting materials for a period of five years a) from the date of judgment or final order of the Trial Court, in cases where the said judgment has not been impugned in the appellate court; or b) from the date of disposal of the matter before the final appellate court, in cases where the said judgment or final order has been impugned, whichever is later.
- i. **Applicability of provision of Cr.P.C:** The provisions of the Code of Criminal Procedure, 1973 (2 of 1974), relating to arrest shall be applied mutatis mutandis to every arrest made under this Act.

3. Amendments through the Companies (Amendment) Act, 2017

Relevant sections	Amendment
Amendment of section 223.	In section 223 of the principal Act, in sub-section (3), after the words "may be obtained", the words "by members, creditors or any other person whose interest is likely to be affected" shall be inserted.

CHAPTER 5: COMPROMISES, ARRANGEMENTS AND AMALGAMATIONS

1. Exemptions to Government Companies Vide Notification G.S.R. 582(E) Dated 13th June, 2017

The Central Government amends the Notification G.S.R. 463(E), dated 5th June 2015. Following are the amendments:

The word "Tribunal" wherever it occurs in sections 230 to 232, the words "Central Government" shall be substituted.

2. Amendments through the Companies (Amendment) Act, 2017

Relevant sections	Amendment
Amendment of section 236.	In section 236 of the principal Act, in sub-sections (4), (5) and (6), for the words, "transferor company", wherever they occur, the words "company whose shares are being transferred" shall be substituted.

CHAPTER 9: COMPANIES INCORPORATED OUTSIDE INDIA

Amendments through the Companies (Amendment) Act, 2017

Relevant sections	Amendment
Amendment of section 379.	<p>Section 379 of the principal Act shall be renumbered as sub-section (2) thereof and before sub-section (2) as so renumbered, the following sub-section shall be inserted, namely:—</p> <p>"(1) Sections 380 to 386 (both inclusive) and sections 392 and 393 shall apply to all foreign companies:</p> <p>Provided that the Central Government may, by Order published in the Official Gazette, exempt any class of foreign companies, specified in the Order, from any of the provisions of sections 380 to 386 and sections 392 and 393 and a copy of every such Order shall, as soon as maybe after it is made, be laid before both Houses of Parliament."</p>
Amendment of section 384.	<p>In section 384 of the principal Act, in sub-section (2), after the word and figures "section 92", the words and figures "and section 135" shall be inserted.</p>
Amendment of section 391.	<p>In section 391 of the principal Act, for sub-section (2), the following sub-section shall be substituted, namely:—</p> <p>"(2) Subject to the provisions of section 376, the provisions of Chapter XX shall apply <i>mutatis mutandis</i> for closure of the place of business of a foreign company in India as if it were a company incorporated in India in case such foreign company has raised monies through offer or issue of securities under this Chapter which have not been repaid or redeemed."</p>

CHAPTER 10: MISCELLANEOUS PROVISIONS

1. Notification of Section 247 *vide Notification S.O. 3393(E) dated 18th October 2017*

The Central Government hereby appoints the 18th October, 2017 as the date on which the provisions of section 247 of the said Act shall come into force.

Section 247: Valuation by Registered Valuers

- (1) Where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth of a company or its liabilities under the provision of this Act, it shall be valued by ¹a person having such qualifications and experience and registered as a valuer in such manner, on such terms and conditions as may be

¹ Substituted by the Companies (Removal of Difficulties) Second Order 2017

prescribed] and appointed by the audit committee or in its absence by the Board of Directors of that company.

- (2) The valuer appointed under sub-section (1) shall,—
 - (a) make an impartial, true and fair valuation of any assets which may be required to be valued;
 - (b) exercise due diligence while performing the functions as valuer;
 - (c) make the valuation in accordance with such rules as may be prescribed; and
 - (d) not undertake valuation of any assets in which he has a direct or indirect interest or becomes so interested at any time ²[during a period of three years prior to his appointment as valuer or three years after the valuation of assets was conducted by him.]
- (3) If a valuer contravenes the provisions of this section or the rules made thereunder, the valuer shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to one lakh rupees.

However if the valuer has contravened such provisions with the intention to defraud the company or its members, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees.

- (4) Where a valuer has been convicted under sub-section (3), he shall be liable to—
 - (i) refund the remuneration received by him to the company; and
 - (ii) pay for damages to the company or to any other person for loss arising out of incorrect or misleading statements of particulars made in his report.

2. Notification of the *Companies (Registered Valuers and Valuation) Rules, 2017* vide Notification G.S.R 1316(E) dated 18th October, 2017

In exercise of the powers conferred by section 247, the Central Government hereby enforced the *Companies (Registered Valuers and Valuation) Rules, 2017*.

COMPANIES (REGISTERED VALUERS AND VALUATION) RULES, 2017

2. Definitions

- (1) In these rules, unless the context otherwise requires -
 "authority" means an authority specified by the Central Government under section 458 of the Companies Act, 2013 to perform the functions under these rules;

² Amended through the Companies (Amendment) Act, 2017 on 9th February, 2018

"asset class" means a distinct group of assets, such as land and building, machinery and equipment, displaying similar characteristics, that can be classified and requires separate set of valuers for valuation;

"certificate of recognition" means the certificate of recognition granted to a registered valuers organisation under sub-rule (5) of rule 13 and the term "recognition" shall be construed accordingly;

"certificate of registration" means the certificate of registration granted to a valuer under sub-rule (6) of rule 6 and the term "registration" shall be construed accordingly;

"registered valuers organisation" means a registered valuers organization recognised under sub-rule (5) of rule 13;

"valuer" means a person registered with the authority in accordance with these rules and the term "registered valuer" shall be construed accordingly.

3. Eligibility for registered valuers

- (1) A person shall be eligible to be a registered valuer if he-
 - (a) Is a valuer member of a registered valuers organisation;

Explanation.- For the purposes of this clause, "a valuer member" is a member of a registered valuers organisation who possesses the requisite educational qualifications and experience for being registered as a valuer;
 - (b) Is recommended by the registered valuers organisation of which he is a valuer member for registration as a valuer;
 - (c) Has passed the valuation examination under rule 5 within three years preceding the date of making an application for registration under rule 6;
 - (d) Possesses the qualifications and experience as specified in rule 4;
 - (e) Is not a minor;
 - (f) Has not been declared to be of unsound mind;
 - (g) Is not an undischarged bankrupt, or has not applied to be adjudicated as a bankrupt;
 - (h) Is a person resident in India;

Explanation.- For the purposes of these rules 'person resident in India' shall have the same meaning as defined in clause (v) of section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999) as far as it is applicable to an individual;
 - (i) Has not been convicted by any competent court for an offence punishable with imprisonment for a term exceeding six months or for an offence involving moral turpitude, and a period of five years has not elapsed from the date of expiry of the sentence;

Provided that if a person has been convicted of any offence and sentenced in respect thereof to imprisonment for a period of seven years or more, he shall not be eligible to be registered;

- (j) Has not been levied a penalty under section 271J of Income-tax Act, 1961 (43 of 1961) and time limit for filing appeal before Commissioner of Income-tax (Appeals) or Income-tax Appellate Tribunal, as the case may be has expired, or such penalty has been confirmed by Income-tax Appellate Tribunal, and five years have not elapsed after levy of such penalty, and
- (k) Is a fit and proper person:

Explanation.- For determining whether an individual is a fit and proper person under these rules, the authority may take account of any relevant consideration, including but not limited to the following criteria-

- (i) Integrity, reputation and character,
- (ii) Absence of convictions and restraint orders, and
- (iii) Competence and financial solvency.

- (2) No partnership entity or company shall be eligible to be a registered valuer if-
 - (a) It has been set up for objects other than for rendering professional or financial services, including valuation services and that in the case of a company, it is not a subsidiary, joint venture or associate of another company or body corporate;
 - (b) It is undergoing an insolvency resolution or is an undischarged bankrupt;
 - (c) All the partners or directors, as the case may be, are not ineligible under clauses (c), (d), (e), (g), (h), (i), (j) and (k) of sub-rule (1);
 - (d) Three or all the partners or directors, whichever is lower, of the partnership entity or company, as the case may be, are not registered valuers; or
 - (e) None of its partners or directors, as the case may be, is a registered valuer for the asset class, for the valuation of which it seeks to be a registered valuer.

4. Qualifications and experience

An individual shall have the following qualifications and experience to be eligible for registration under rule 3, namely:-

- (a) post-graduate degree or post-graduate diploma, in the specified discipline, from a University or Institute established, recognised or incorporated by law in India and at least three years of experience in the specified discipline thereafter; or
- (b) a Bachelor's degree or equivalent, in the specified discipline, from a University or Institute established, recognised or incorporated by law in India and at least five years of experience in the specified discipline thereafter; or

- (c) membership of a professional institute established by an Act of Parliament enacted for the purpose of regulation of a profession with at least three years' experience after such membership and having qualification mentioned at clause (a) or (b).

Explanation-I- For the purposes of this clause the 'specified discipline' shall mean the specific discipline which is relevant for valuation of an asset class for which the registration as a valuer or recognition as a registered valuers organisation is sought under these rules.

Explanation-II.- Qualifying education and experience and examination or training for various asset classes, is given in an indicative manner in **Annexure-IV** of these rules.

6. Application for certificate of registration

- (1) An individual eligible for registration as a registered valuer under rule 3 may make an application to the authority in Form-A of Annexure-II along with a non-refundable application fee of five thousand rupees in favour of the authority.
- (2) A partnership entity or company eligible for registration as a registered valuer under rule 3 may make an application to the authority in Form-B of Annexure-II along with a non-refundable application fee of ten thousand rupees in favour of the authority.
- (3) The authority shall examine the application, and may grant twenty one days to the applicant to remove the deficiencies, if any, in the application.
- (4) The authority may require the applicant to submit additional documents or clarification within twenty- one days.
- (5) The authority may require the applicant to appear, within twenty one days, before the authority in person, or through its authorised representative for explanation or clarifications required for processing the application.
- (6) If the authority is satisfied, after such scrutiny, inspection or inquiry as it deems necessary, that the applicant is eligible under these rules, it may grant a certificate of registration to the applicant to carry on the activities of a registered valuer for the relevant asset class or classes in Form-C of the Annexure-II within sixty days of receipt of the application, excluding the time given by the authority for presenting additional documents, information or clarification, or appearing in person, as the case may be.
- (7) If, after considering an application made under this rule, the authority is of the *prima facie* opinion that the registration ought not be granted, it shall communicate the reasons for forming such an opinion within forty-five days of receipt of the application, excluding the time given by it for removing the deficiencies, presenting additional documents or clarifications, or appearing in person, as the case may be.

- (8) The applicant shall submit an explanation as to why his/its application should be accepted within fifteen days of the receipt of the communication under sub-rule (7), to enable the authority to form a final opinion.
- (9) After considering the explanation, if any, given by the applicant under sub-rule (8), the authority shall either -
 - (a) accept the application and grant the certificate of registration; or
 - (b) reject the application by an order, giving reasons thereof.
- (10) The authority shall communicate its decision to the applicant within thirty days of receipt of explanation.

7. **Conditions of Registration**

The registration granted under rule 6 shall be subject to the conditions that the valuer shall -

- (a) at all times possess the eligibility and qualification and experience criteria as specified under rule 3 and rule 4;
- (b) at all times comply with the provisions of the Act, these rules and the Bye-laws or internal regulations, as the case may be, of the respective registered valuers organisation;
- (c) in his capacity as a registered valuer, not conduct valuation of the assets or class(es) of assets other than for which he/it has been registered by the authority;
- (d) take prior permission of the authority for shifting his/ its membership from one registered valuers organisation to another;
- (e) take adequate steps for redressal of grievances;
- (f) maintain records of each assignment undertaken by him for at least three years from the completion of such assignment;
- (g) comply with the Code of Conduct of the registered valuers organisation of which he is a member;
- (h) in case a partnership entity or company is the registered valuer, allow only the partner or director who is a registered valuer for the asset class(es) that is being valued to sign and act on behalf of it;
- (i) in case a partnership entity or company is the registered valuer, it shall disclose to the company concerned, the extent of capital employed or contributed in the partnership entity or the company by the partner or director, as the case may be, who would sign and act in respect of relevant valuation assignment for the company;

- (j) in case a partnership entity is the registered valuer, be liable jointly and severally along with the partner who signs and acts in respect of a valuation assignment on behalf of the partnership entity;
- (k) in case a company is the registered valuer, be liable alongwith director who signs and acts in respect of a valuation assignment on behalf of the company;
- (l) in case a partnership entity or company is the registered valuer, immediately inform the authority on the removal of a partner or director, as the case may be, who is a registered valuer along with detailed reasons for such removal; and
- (m) comply with such other conditions as may be imposed by the authority.

8. Conduct of Valuation

- (1) The registered valuer shall, while conducting a valuation, comply with the valuation standards as notified or modified under rule 18:
Provided that until the valuation standards are notified or modified by the Central Government, a valuer shall make valuations as per-
 - (a) internationallyaccepted valuation standards;
 - (b) valuation standards adopted by any registered valuers organisation.
- (2) The registered valuer may obtain inputs for his valuation report or get a separate valuation for an asset class conducted from another registered valuer, in which case he shall fully disclose the details of the inputs and the particulars etc. of the other registered valuer in his report and the liabilities against the resultant valuation, irrespective of the nature of inputs or valuation by the other registered valuer, shall remain of the first mentioned registered valuer.
- (3) The valuer shall, in his report, state the following:-
 - (a) background information of the asset being valued;
 - (b) purpose of valuation and appointing authority;
 - (c) identity of the valuer and any other experts involved in the valuation;
 - (d) disclosure of valuer interest or conflict, if any;
 - (e) date of appointment, valuation date and date of report;
 - (f) inspections and/or investigations undertaken;
 - (g) nature and sources of the information used or relied upon;
 - (h) procedures adopted in carrying out the valuation and valuation standards followed;
 - (i) restrictions on use of the report, if any;
 - (j) major factors that were taken into accountduring the valuation;

- (k) conclusion; and
- (l) caveats, limitations and disclaimers to the extent they explain or elucidate the limitations faced by valuer, which shall not be for the purpose of limiting his responsibility for the valuation report.

9. Temporary surrender

- (1) A registered valuer may temporarily surrender his registration certificate in accordance with the bye-laws or regulations, as the case may be, of the registered valuers organisation and on such surrender, the valuer shall inform the authority for taking such information on record.
- (2) A registered valuers organisation shall inform the authority if any valuer member has temporarily surrendered his/its membership or revived his/ its membership after temporary surrender, not later than seven days from approval of the application for temporary surrender or revival, as the case may be.
- (3) Every registered valuers organisation shall place, on its website, in a searchable format, the names and other details of its valuers members who have surrendered or revived their memberships.

10. Functions of a Valuer

A valuer shall conduct valuation required under the Act as per these rules and he may conduct valuation as per these rules if required under any other law or by any other regulatory authority.

12. Eligibility for registered valuers organisations

- (1) An organisation that meets requirements under sub-rule (2) may be recognised as a registered valuers organisation for valuation of a specific asset class or asset classes if -
 - (i) it has been registered under section 25 of the Companies Act, 1956 (1 of 1956) or section 8 of the Companies Act, 2013 (18 of 2013) with the sole object of dealing with matters relating to regulation of valuers of an asset class or asset classes and has in its bye laws the requirements specified in **Annexure-III**;
 - (ii) a professional institute established by an Act of Parliament enacted for the purpose of regulation of a profession;

Provided that, subject to sub-rule (3), the following organisations may also be recognised as a registered valuers organisation for valuation of a specific asset class or asset classes, namely:-

- (a) an organisation registered as a society under the Societies Registration Act, 1860 (21 of 1860) or any relevant state law, or;
- (b) an organisation set up as a trust governed by the Indian Trust Act, 1882 (2 of 1882).

(2) The organisation referred to in sub-rule (1) shall be recognised if it –

- (a) conducts educational courses in valuation, in accordance with the syllabus determined by the authority, under rule 5, for individuals who may be its valuers members, and delivered in class room or through distance education modules and which includes practical training;
- (b) grants membership or certificate of practice to individuals, who possess the qualifications and experience as specified in rule 4, in respect of valuation of asset class for which it is recognised as a registered valuers organisation;
- (c) conducts training for the individual members before a certificate of practice is issued to them;
- (d) lays down and enforces a code of conduct for valuers who are its members, which includes all the provisions specified in **Annexure-I**;
- (e) provides for continuing education of individuals who are its members;
- (f) monitors and reviews the functioning, including quality of service, of valuers who are its members; and
- (g) has a mechanism to address grievances and conduct disciplinary proceedings against valuers who are its members.

(3) A registered valuers organisation, being an entity under proviso to sub-rule (1), shall convert into or register itself as a company under section 8 of the Companies Act, 2013, and include in its bye laws the requirements specified in **Annexure-III**, within one year from the date of commencement of these rules.

14. Conditions of Recognition

The recognition granted under rule 13 shall be subject to the conditions that the registered valuers organisation shall –

- (a) at all times continue to satisfy the eligibility requirements specified under rule 12;
- (b) maintain a register of members who are registered valuers, which shall be publicly available;
- (c) admits only individuals who possess the educational qualifications and experience requirements, in accordance with rule 4 and as specified in its recognition certificate, as members;
- (d) make such reports to the authority as may be required by it;
- (e) comply with any directions, including with regard to course to be conducted by valuation organisation under clause (a) of sub-rule (2) of rule 12, issued by the authority;

- (f) be converted or registered as company under section 8 of the Act, with governance structure and bye laws specified in **Annexure-III**, within a period of one year from the date of commencement of these rules if it is an organisation referred to in proviso to sub-rule (1) of rule 12;
- (g) shall have the governance structure and incorporate in its bye laws the requirements specified in **Annexure-III** within one year of commencement of these rules if it is an organisation referred to in clause (i) of sub-rule (1) of rule 12 and existing on the date of commencement of these rules;
- (h) display on its website, the status and specified details of every registered valuer being its valuer members including action under rule 17 being taken against him; and
- (i) comply with such other conditions as may be specified by authority.

15. Cancellation or suspension of certificate of registration or recognition

The authority may cancel or suspend the registration of a valuer or recognition of a registered valuers organisation for violation of the provisions of the Act, any other law allowing him to perform valuation, these rules or any condition of registration or recognition, as the case may be in the manner specified in rule 17.

16. Complaint against a registered valuer or registered valuers organisation

A complaint may be filed against a registered valuer or registered valuers organisation before the authority in person or by post or courier along with a non-refundable fees of rupees one thousand in favour of the authority and the authority shall examine the complaint and take such necessary action as it deems fit:

Provided that in case of a complaint against a registered valuer, who is a partner of a partnership entity or director of a company, the authority may refer the complaint to the relevant registered valuers organisation and such organisation shall handle the complaint in accordance with its bye laws.

18. Valuation Standards

The Central Government shall notify and may modify (from time to time) the valuation standards on the recommendations of the Committee set up under rule 19.

20. Punishment for contravention

Without prejudice to any other liabilities where a person contravenes any of the provision of these rules he shall be punishable in accordance with sub-section (3) of section 469 of the Act.

21. Punishment for false statement

If in any report, certificate or other document required by, or for, the purposes of any of the provisions of the Act or the rules made thereunder or these rules, any person makes a statement,—

- (a) which is false in any material particulars, knowing it to be false; or
- (b) which omits any material fact, knowing it to be material, he shall be liable under section 448 of the Act.

3. Enforcement of the *Companies (Registered Valuers and Valuation) Amendment Rules, 2018* vide Notification No. G.S.R. 155 (E) dated 9th February, 2018

In exercise of the powers conferred by section 247 read with section 469 of the Companies Act, 2013, the Central Government makes the *Companies (Registered Valuers and Valuation) Amendment Rules, 2018* to amend the *Companies (Registered Valuers and Valuation) Rules, 2017*, namely:-

In the *Companies (Registered Valuers and Valuation) Rules, 2017*, in rule 11, for the figures, letters and word "31st March, 2018", occurring at both the places, the figures, letters and word "30th September, 2018" shall be substituted.

4. 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, 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.".

5. 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, for the figures, letters and word "30th 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, in clause (f), for the words "one year", the words "two years" shall be substituted.

6. Amendments through the *Companies (Amendment) Act, 2017*

Relevant sections	Amendment
Amendment of Section 247	In section 247 of the principal Act, in sub-section (2), in clause (d), for the words "during or after the valuation of assets", the

		words "during a period of three years prior to his appointment as valuer or three years after the valuation of assets was conducted by him" shall be substituted.
Amendment of section 366.	of	<p>In section 366 of the principal Act, in sub-section (2),—</p> <p>(i) for the words "seven or more members", the words "two or more members" shall be substituted;</p> <p>(ii) in the proviso, after clause (vi), the following clause shall be inserted, namely:—</p> <p>"(vii) a company with less than seven members shall register as a private company."</p>
Amendment of section 374.	of	<p>In section 374 of the principal Act, after clause (d), the following proviso shall be inserted, namely:—</p> <p>"Provided that upon registration as a company under this Part a limited liability partnership incorporated under the Limited Liability Partnership Act, 2008 shall be deemed to have been dissolved under that Act without any further act or deed."</p>
Amendment of section 403.	of	<p>In section 403 of the principal Act,—</p> <p>(i) in sub-section (1), for the first and second provisos, the following provisos shall be substituted, namely:—</p> <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 sub-section (2), 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</p>

	fee, be liable for the penalty or punishment provided under this Act for such failure or default."
Amendment of section 447.	<p>In section 447 of the principal Act,—</p> <p>(i) after the words "guilty of fraud", the words "involving an amount of at least ten lakh rupees or one per cent. of the turnover of the company, whichever is lower" shall be inserted;</p> <p>(ii) after the proviso, the following proviso shall be inserted, namely:—</p> <p>"Provided further 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 twenty lakh rupees or with both."</p>
Amendment of section 458	In section 458 of the principal Act, in sub-section (1), the proviso shall be omitted.

CHAPTER 11: COMPOUNDING OF OFFENCES, ADJUDICATION, SPECIAL COURTS

Amendments through the Companies (Amendment) Act, 2017

Relevant sections	Amendment
Amendment of section 435. Establishment of Special Courts	<p>For section 435 of the principal Act, the following shall be substituted, namely:—</p> <p>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.</p> <p>(2) A Special Court shall consist of—</p> <p>(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</p> <p>(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."</p>
Amendment of section 438.	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.	In section 439 of the principal Act, in sub-section (2), after the words "a shareholder", the words "or a member" shall be inserted.
Amendment of section 440.	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.
Amendment of section 441.	In section 441 of the principal Act, in sub-section (1), for the words "with fine only", the words "not being an offence punishable with imprisonment only, or punishable with imprisonment and also with fine" shall be substituted.
Insertion of new section 446A. Factors for determining level of punishment.	After section 446 of the principal Act, the following sections shall be inserted, namely:— "446A. The court or the Special Court, while deciding the amount of fine or imprisonment under this Act, shall have due regard to the following factors, namely:— (a) size of the company; (b) nature of business carried on by the company; (c) injury to public interest; (d) nature of the default; and (e) repetition of the default. 446B. Notwithstanding anything contained in this Act, if a One Person Company or a small company fails to comply with the provisions of sub-section (5) of section 92, sub-section (2) of section 117 or sub-section (3) of section 137, such company and officer in default of such company shall be punishable with fine or imprisonment or fine and imprisonment, as the case may be, which shall not be more than one-half of the fine or imprisonment or fine and imprisonment, as the case may be, of the minimum or maximum fine or imprisonment or fine and imprisonment, as the case may be, specified in such sections."
Lesser penalties for One Person Companies or small companies.	

CHAPTER 12: NATIONAL COMPANY LAW TRIBUNAL AND APPELLATE TRIBUNAL

1. Enforcement of the Companies (Removal of Difficulties) Orders, 2017 Vide Order S.O. 2042(E) dated 29th June, 2017

In the Companies Act, 2013, in section 434, in sub-section (1), in clause (c),-

- (a) in the third proviso, for "Provided further that-", the following shall be substituted, namely:- "Provided also that";

(b) after the third proviso, the following proviso shall be inserted, namely:-

"Provided also that proceedings relating to cases of voluntary winding up of a company where notice of the resolution by advertisement has been given under sub-section (1) of section 485 of the Companies Act, 1956 but the company has not been dissolved before the 1st April, 2017 shall continue to be dealt with in accordance with provisions of the Companies Act, 1956 and the Companies (Court) Rules, 1959."

2. Amendments through the Companies (Amendment) Act, 2017

Relevant sections	Amendment
Amendment of section 409	<p>In section 409 of the principal Act, in sub-section (3),—</p> <p>(i) in clause (a), for the words "out of which at least three years shall be in the pay scale of Joint Secretary to the Government of India or equivalent or above in that service", the words "and has been holding the rank of Secretary or Additional Secretary to the Government of India" shall be substituted;</p> <p>(ii) for clause (e), the following clause shall be substituted, namely:—</p> <p>"(e) is a person of proven ability, integrity and standing having special knowledge and professional experience of not less than fifteen years in industrial finance, industrial management, industrial reconstruction, investment and accountancy".</p>
Amendment of section 410	<p>In section 410 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.</p>
Amendment of section 411.	<p>In section 411 of the principal Act, for sub-section (3), the following sub-section shall be substituted, namely:—</p> <p>"(3) A technical member shall be a person of proven ability, integrity and standing having special knowledge and professional experience of not less than twenty-five years in industrial finance, industrial management, industrial reconstruction, investment and accountancy".</p>
Amendment of section 412	<p>In section 412 of the principal Act, for sub-section (2), the following sub-sections shall be substituted, namely:—</p> <p>"(2) The Members of the Tribunal and the Technical Members of the Appellate Tribunal shall be appointed</p>

	<p>on the recommendation of a Selection Committee consisting of—</p> <ul style="list-style-type: none"> (a) Chief Justice of India or his nominee—Chairperson; (b) a senior Judge of the Supreme Court or Chief Justice of High Court— Member; (c) Secretary in the Ministry of Corporate Affairs— Member; and (d) Secretary in the Ministry of Law and Justice— Member. <p>(2A) Where in a meeting of the Selection Committee, there is equality of votes on any matter, the Chairperson shall have a casting vote.”.</p>
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SECTION B: SECURITIES LAWS

CHAPTER 2: The Securities Exchange Board of India Act, 1992, SEBI (ICDR) REGULATIONS, 2009 & SEBI (LODR) REGULATIONS, 2015

1. SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2018 w.e.f. 12.02.2018

Vide this amendment regulation, Clause (c) of the Regulation 82 which dealt with the conditions for qualified institutions placement has been omitted. Following was the clause prior to the omission.

“(c) it is in compliance with the requirement of minimum public shareholding specified in the Securities Contracts (Regulation) Rules, 1957;”

PART II: ECONOMIC LAWS

CHAPTER 1: The Foreign Exchange and Management Act, 1999

1. Foreign Exchange Management (Acquisition and Transfer of Immovable Property in India) Regulations, 2018

As per the Notification dated 26th of March, 2018, the Reserve Bank of India makes the Foreign Exchange Management (Acquisition and Transfer of Immovable Property in India) Regulations, 2018 with the enforcement from the date of their publication in the Official Gazette i.e., 26th of March, 2018.

2. Relevant Definitions:- In these Regulations, unless the context otherwise requires-

‘Non-Resident Indian (NRI)’ means a person resident outside India who is a citizen of India;

'Overseas Citizen of India (OCI)' means a person resident outside India who is registered as an Overseas Citizen of India Cardholder under Section 7(A) of the Citizenship Act, 1955;

'Repatriation outside India' means the buying or drawing of foreign exchange from an authorised dealer in India and remitting it outside India through banking channels or crediting it to an account denominated in foreign currency or to an account in Indian currency maintained with an authorised dealer from which it can be converted in foreign currency;

3. Acquisition and Transfer of Property in India by a Non-Resident Indian or an Overseas Citizen of India:-

An NRI or an OCI may-

- (a) acquire immovable property in India other than agricultural land/ farm house/ plantation property:

Provided that the consideration, if any, for transfer, shall be made out of (i) funds received in India through banking channels by way of inward remittance from any place outside India or (ii) funds held in any nonresident account maintained in accordance with the provisions of the Act, rules or regulations framed thereunder.

Provided further that no payment for any transfer of immovable property shall be made either by traveler's cheque or by foreign currency notes or by any other mode other than those specifically permitted under this clause.

- (b) acquire any immovable property in India other than agricultural land/ farm house/ plantation property by way of gift from a person resident in India or from an NRI or from an OCI, who in any case is a relative as defined in section 2(77) of the Companies Act, 2013;
- (c) acquire any immovable property in India by way of inheritance from a person resident outside India who had acquired such property (a) in accordance with the provisions of the foreign exchange law in force at the time of acquisition by him or the provisions of these Regulations or (b) from a person resident in India;
- (d) transfer any immovable property in India to a person resident in India;
- (e) transfer any immovable property other than agricultural land/ farm house/ plantation property to an NRI or an OCI.

4. Acquisition of Immovable Property for carrying on a permitted activity:-

A person resident outside India who has established in India in accordance with the Foreign Exchange Management (Establishment in India of a branch office or a liaison office or a project office or any other place of business) Regulations, 2016, as amended from time to time, a branch, office or other place of business for carrying on in India any activity, excluding a liaison office, may -

(a) acquire any immovable property in India, which is necessary for or incidental to carrying on such activity;

Provided that

- i all applicable laws, rules, regulations or directions for the time being in force are duly complied with; and
- ii the person files with the Reserve Bank a declaration in the form IPI as prescribed by Reserve Bank from time to time, not later than ninety days from the date of such acquisition.

(b) transfer by way of mortgage to an authorised dealer as a security for any borrowing, the immovable property acquired in pursuance of clause (a).

Provided no person of Pakistan or Bangladesh or Sri Lanka or Afghanistan or China or Iran or Hong Kong or Macau or Nepal or Bhutan or Democratic People's Republic of Korea (DPRK) shall acquire immovable property, other than on lease not exceeding five years, without prior approval of the Reserve Bank.

5. Purchase/ sale of Immovable Property by Foreign Embassies/ Diplomats/ Consulate Generals:-

A Foreign Embassy/ Diplomat/ Consulate General may purchase/ sell immovable property in India other than agricultural land/ plantation property/ farm house provided (i) clearance from Government of India, Ministry of External Affairs is obtained for such purchase/ sale, and (ii) the consideration for acquisition of immovable property in India is paid out of funds remitted from abroad through banking channels.

6. Joint acquisition by the spouse of an NRI or an OCI:-

A person resident outside India, not being a Non-Resident Indian or an Overseas Citizen of India, who is a spouse of a Non-Resident Indian or an Overseas Citizen of India may acquire one immovable property (other than agricultural land/ farm house/ plantation property), jointly with his/ her NRI/ OCI spouse.

Provided that

- (i) The consideration for transfer, shall be made out of (i) funds received in India through banking channels by way of inward remittance from any place outside India or (ii) funds held in any non-resident account maintained in accordance with the provisions of the Act and the regulations made by the Reserve Bank;
- (ii) No payment for any transfer of immovable property shall be made either by traveler's cheque or by foreign currency notes or by any other mode other than those specifically permitted under this clause;
- (iii) Provided that the marriage has been registered and subsisted for a continuous period of not less than two years immediately preceding the acquisition of such property;

- (iv) Provided further that the non-resident spouse is not otherwise prohibited from such acquisition.

7. Acquisition by a Long-Term Visa holder:-

A person being a citizen of Afghanistan, Bangladesh or Pakistan belonging to minority communities in those countries, namely, Hindus, Sikhs, Buddhists, Jains, Parsis and Christians who is residing in India and has been granted a Long Term Visa (LTV) by the Central Government may purchase only one residential immovable property in India as dwelling unit for self-occupation and only one immovable property for carrying out self-employment subject to the following conditions:

- (a) the property should not be located in and around restricted/ protected areas so notified by the Central Government and cantonment areas;
- (b) the person submits a declaration to the Revenue Authority of the district where the property is located, specifying the source of funds and that he/ she is residing in India on LTV;
- (c) the registration documents of the property should mention the nationality and the fact that such person is on LTV;
- (d) the property of such person may be attached/ confiscated in the event of his/ her indulgence in anti-India activities;
- (e) a copy of the documents of the purchased property shall be submitted to the Deputy Commissioner of Police (DCP)/ Foreigners Registration Office (FRO)/ Foreigners Regional Registration Office (FRRO) concerned and to the Ministry of Home Affairs (Foreigners Division);
- (f) such person shall be eligible to sell the property only after acquiring Indian citizenship. However, transfer of the property before acquiring Indian citizenship shall require prior approval of DCP/FRO/FRRO concerned.

8. Repatriation of sale proceeds:-

- (a) A person referred to in sub-section (5) of Section 6 of the Act, or his successor shall not, except with the general or specific permission of the Reserve Bank, repatriate outside India the sale proceeds of any immovable property referred to in that sub-section;
- (b) In the event of sale of immovable property other than agricultural land/ farm house/ plantation property in India by an NRI or an OCI, the authorised dealer may allow repatriation of the sale proceeds outside India, provided the following conditions are satisfied, namely:
 - (i) the immovable property was acquired by the seller in accordance with the provisions of the foreign exchange law in force at the time of his acquisition or the provisions of these Regulations;

- (ii) the amount for acquisition of the immovable property was paid in foreign exchange received through banking channels or out of funds held in Foreign Currency Non-Resident Account or out of funds held in Non-Resident External account;
- (iii) in the case of residential property, the repatriation of sale proceeds is restricted to not more than two such properties.

(c) In the event of failure in repayment of external commercial borrowing availed by a person resident in India under the provisions of the Foreign Exchange Management (Borrowing or Lending in Foreign Exchange) Regulations, 2000, as amended from time to time, a bank which is an authorised dealer may permit the overseas lender or the security trustee (in whose favour the charge on immovable property has been created to secure the ECB) to sell the immovable property on which the said loan has been secured only to a (by the) person resident in India and to repatriate the sale proceeds towards outstanding dues in respect of the said loan and not any other loan.

9. Prohibition on acquisition or transfer of immovable property in India by citizens of certain countries:-

No person being a citizen of Pakistan, Bangladesh, Sri Lanka, Afghanistan, China, Iran, Nepal, Bhutan, Hong Kong or Macau or Democratic People's Republic of Korea (DPRK) without prior permission of the Reserve Bank shall acquire or transfer immovable property in India, other than lease, not exceeding five years.

Provided this prohibition shall not apply to an OCI.

Explanation: For the purpose of this regulation the term "citizen" shall include natural persons and legal entities.

10. Prohibition on transfer of immovable property in India:-

Save as otherwise provided in the Act or Regulations, no person resident outside India shall transfer any immovable property in India:-

Provided that

- (i) The Reserve Bank may, for sufficient reasons, permit the transfer, subject to such conditions as may be considered necessary.
- (ii) A bank which is an authorised dealer may, subject to the directions issued by the Reserve Bank in this behalf, permit a person resident in India or on behalf of such person to create charge on his immovable property in India in favour of an overseas lender or security trustee, to secure an external commercial borrowing availed under the provisions of the Foreign Exchange Management (Borrowing or Lending in Foreign Exchange) Regulations, 2000, as amended from time to time.
- (iii) An Authorized Dealer in India being the Indian correspondent of an overseas lender may, subject to the directions issued by the Reserve Bank in this regard, create a mortgage on

an immovable property in India owned by an NRI or an OCI, being a director of a company outside India, for a loan to be availed by the company from the said overseas lender.

Provided

- (a) the funds shall be used by the borrowing company only for its core business purposes overseas;
- (b) in case of invocation of charge, the Indian bank shall sell the immovable property to an eligible acquirer and remit the sale proceeds to the overseas lender.
- (iv) A person resident outside India who has acquired any immovable property in India in accordance with foreign exchange laws in force at the time of such acquisition or with the general or specific permission of the Reserve Bank may transfer such property to a person resident in India provided the transaction takes place through banking channels in India and provided that the resident is not otherwise prohibited from such acquisition.

11. Miscellaneous:-

Any transaction involving acquisition or transfer of immovable property under these regulations shall be undertaken:

- (a) through banking channels in India;
- (b) subject to payment of applicable taxes and other duties/levies in India.

12. Saving:-

Any existing holding of immovable property in India by a person resident outside India made in accordance with the policy in existence at the time of such acquisition would not require any modifications to conform to these regulations.

CHAPTER 3: PREVENTION OF MONEY LAUNDERING ACT, 2002

Amendments to the prevention of Money-Laundering Act, 2002 through the Finance Act, 2018 w.e.f. 19.04.2018

In the Prevention of Money-laundering Act, 2002,—

- (a) in section 2, in sub-section (1), in clause (u), after the words “within the country”, the words “or abroad” shall be inserted;
- (b) in section 5,—
 - (i) in sub-section (1), after the second proviso, the following proviso shall be inserted, namely:— “Provided also that for the purposes of computing the period of one hundred and eighty days, the period during which the proceedings under this section is stayed by the High Court, shall be excluded and a further period not exceeding thirty days from the date of order of vacation of such stay order shall be counted.”;
 - (ii) in sub-section (3), for the word, brackets and figure “sub-section (2)”, the word, brackets and figure “sub-section (3)” shall be substituted;

- (c) in section 8,—
 - (i) in sub-section (3), in clause (a), after the words “continue during”, the words “investigation for a period not exceeding ninety days or” shall be inserted;
 - (ii) in sub-section (8), after the proviso, the following proviso shall be inserted, namely:— “Provided further that the Special Court may, if it thinks fit, consider the claim of the claimant for the purposes of restoration of such properties during the trial of the case in such manner as may be prescribed.”;
- (d) in section 19, in sub-section (3),— (i) after the words “be taken to a”, the words “Special Court or” shall be inserted; (ii) in the proviso, after the words “from the place of arrest to the”, the words “Special Court or” shall be inserted;
- (e) in section 45, in sub-section (1), —
 - (i) for the words “punishable for a term of imprisonment of more than three years under Part A of the Schedule”, the words “under this Act” shall be substituted;
 - (ii) in the proviso, after the words “sick and infirm,”, the words “or is accused either on his own or along with other co-accused of money-laundering a sum of less than one crore rupees” shall be inserted;
- (f) in section 50, in sub-section (5), in the proviso, in clause (b), for the word “Director”, the words “Joint Director” shall be substituted;
- (g) section 66 shall be numbered as sub-section (1) thereof, and after sub-section (1) as so numbered, the following sub-section shall be inserted, namely:—

“(2) If the Director or other authority specified under sub-section (1) is of the opinion, on the basis of information or material in his possession, that the provisions of any other law for the time being in force are contravened, then the Director or such other authority shall share the information with the concerned agency for necessary action.”;

In **“Paragraph 29 -Offence Under the Companies Act, 2013”**

Section 447 i.e., punishment for fraud has been inserted.

CHAPTER 6: INSOLVENCY AND BANKRUPTCY CODE, 2016

- (1) **Enforcement of clause (a) to clause (d) of section 2 of the Code Vide notification S.O. 1570(E) , dated 15th May , 2017**

The Central Government hereby appoints the 1st April, 2017 as the date on which the provisions of clause (a) to clause (d) of section 2 of the Code relating to voluntary liquidation or bankruptcy shall come into force.

- (2) **Commencement of sections related to Fast Track Corporate Insolvency Resolution Process Vide Notification S.O. 1910(E) dated 14th June 2017**

The Central Government hereby appoints the 14th day of June, 2017 as the date on which the provisions of section 55 to section 58 (both inclusive) of the said Code shall come into force.

(3) Commencement of sections related to Fast Track Corporate Insolvency Resolution Process u/s 55(2) of the Code Vide Notification S.O.1911(E) dated 14th June 2017

In exercise of the powers conferred by section 55(2) of the Insolvency and Bankruptcy Code, 2016, the Central Government hereby notifies that an application for fast track corporate insolvency resolution process may be made in respect of the following corporate debtors, namely :-

- (a) a small company as defined under clause (85) of section 2 of Companies Act, 2013, or
- (b) a Startup (other than the partnership firm) as defined in the notification of the Government of India in the Ministry of Commerce and Industry number G.S.R. 501(E), dated the 23rd May, 2017, or
- (c) an unlisted company with total assets, as reported in the financial statement of the immediately preceding financial year, not exceeding rupees one crore.

(4) Issue of clarification regarding approval of resolution plans under section 30 and 31 of Insolvency and Bankruptcy Code, 2016 vide general circular IBC/01/ 2017 dated 25th October 2017

Ministry of Corporate Affairs issued a clarification in view of the requirement under section 30(2)(e) of the Code for the resolution professional to confirm that each resolution plan received by him does not contravene any of the provisions of the law for the time being in force.

Accordingly clarification was sought whether approval of shareholders/ members of the corporate debtor/ company is required for a resolution plan at any stage during the process for its consideration and approval as laid down under section 30 & 31 of the Insolvency and Bankruptcy Code and after approval during its implementation, for any actions contained in the resolution plan which would normally require specific approval of shareholders/ members under provisions of Companies Act, 2013 or any other law.

Through the issue of this circular, it has been clarified that the approval of shareholders / members of the corporate debtor/company for a particular action required in the resolution plan for its implementation, which would have been required under the Companies Act, 2013 or any other law if the resolution plan of the company was not being considered under the Code, is deemed to have been given on its approval by the Adjudicating Authority.

(5) Insolvency and Bankruptcy Code (Amendment) Act, 2018

Ministry of Law and Justice, amended the Insolvency and Bankruptcy Code, 2016 (Principal Act) through the enforcement of the Insolvency and Bankruptcy Code (Amendment) Act, 2018 vide notification dated 19th January, 2018. This Act came into enforcement on 23rd day of November 2017.

Significant relevant changes are as follows:

(i) Amendment in section 2 of the Principal Act

- a. in clause (d), the word "and" shall be omitted;
- b. for clause (e), the following clauses shall be substituted, namely:—
"(e) personal guarantors to corporate debtors;
- c. partnership firms and proprietorship firms; and
- d. individuals, other than persons referred to in clause (e),".

(ii) Amendment in section 5 of the Principal Act

in clause (26), for the words "any person", the words "resolution applicant" shall be substituted.

(iii) In section 30 of the principal Act, for sub-section (4), the following sub-section shall be substituted, namely:—

"(4) The committee of creditors may approve a resolution plan by a vote of not less than seventy-five per cent. of voting share of the financial creditors, after considering its feasibility and viability, and such other requirements as may be specified by the Board:

Provided that the committee of creditors shall not approve a resolution plan, submitted before the commencement of the Insolvency and Bankruptcy Code Ord. 7 of (Amendment) Ordinance, 2017, where the resolution applicant is ineligible under 2017. section 29A and may require the resolution professional to invite a fresh resolution plan where no other resolution plan is available with it:

Provided further that where the resolution applicant referred to in the first proviso is ineligible under clause (c) of section 29A, the resolution applicant shall be allowed by the committee of creditors such period, not exceeding thirty days, to make payment of overdue amounts in accordance with the proviso to clause (c) of section 29A:

Provided also that nothing in the second proviso shall be construed as extension of period for the purposes of the proviso to sub-section (3) of section 12, and the corporate insolvency resolution process shall be completed within the period specified in that sub-section."

(2) The Insolvency and Bankruptcy Code (Second Amendment) Act, 2018

Vide Notification dated 17th 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 **6th 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 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 **proviso is 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.";

(iii) (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.

(2) **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.

(3) **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.

- (4) **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 percent 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.

PART II – QUESTION AND ANSWERS

Multiple Choice Questions

1. All the three directors of Cygnus Wires Limited generally remain out of India for developing connections and securing business opportunities on behalf of the company. However, the company must strictly follow the legal requirement that at least one of its directors must stay for the specified statutory period in India. To reckon as 'resident director' for the financial year 2018-19, advise the company as to which period spent in India shall count towards statutory period.
 - (a) Period spent in India during the previous financial year 2017-18.
 - (b) Total of fifty percent each of the period spent in India during the financial year 2016-17 and 2017-18.
 - (c) Period spent in India during the financial year 2018-19.
 - (d) Total of fifty percent each of the period spent in India during the financial year 2017-18 and 2018-19.

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 a director, decided to resign from MGT Private Limited due to preoccupation. He sent his resignation letter dated 12th June, 2018 to the Company stating that he will resign w.e.f. 15th June, 2018. Due to non receipt of any communication from the Company he dropped a mail on 17th June, 2018, to confirm whether Company has received his letter. Finally Company received his letter on 25th June, 2018. In this case, from which date his resignation will be effective?
 - (a) 12th June, 2018
 - (b) 15th June, 2018
 - (c) 17th June, 2018
 - (d) 25th June, 2018
4. Mr. Raman, is appointed as valuer in April, 2018 in ABC Ltd. He undertook the valuation of the assets of the company in 2018. In case, Mr. Raman becomes interested in any property, stock etc. of the company, he may not be eligible to undertake valuation in such property of the company till:
 - (a) 2019
 - (b) 2020
 - (c) 2021
 - (d) He will never be appointed as Registered Valuer of the company.
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?

- Central government in consultation with the Chief Justice of Supreme Court
- High court in consultation with the Chief Justice of Supreme Court
- Central government in consultation with the Chief Justice of Session Court
- Central government in consultation with the Chief Justice of High Court

Descriptive Questions

Part I: Corporate Laws

7. Mr. X, a Director of Sunrise Limited, was appointed on 1st April, 2016, one of the terms of appointment was that in the absence of adequacy of profits or if the company had no profits in a particular year, he will be paid remuneration in accordance with Schedule V. The company suffered heavy losses during the financial year ended 31st March, 2018. The company was not in a position to pay any remuneration, but he was paid ₹ 50 Lakhs for the year, as paid to other directors. The effective capital of the company is ₹ 150 crores. Referring to provisions of the Companies Act, 2013, examine the validity of the above payment of remuneration to Mr. X.

8. Rudraksh Ltd., a public company, 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 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 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:

- Comment upon the accountability for non-filing of financial statements and annual returns for last two financial years of the Rudraksh Ltd.
- Nature of the proposal for an appointment of Mr. Ram & Mr. Rahim in the Rudraksh Ltd. for improvement of the company.

9. The Board of Directors of IBC Consultants Limited, registered in Maharashtra, proposes to hold the next board meeting in the month of May, 2019. They seek your advice in respect of the following matters:

- Can the board meeting be held in Delhi through video conferencing, when all the directors of the company reside at Maharashtra.
- Is it necessary that the notice of the board meeting should specify the nature of

business to be transacted?

10. The Board of Directors of APCO Limited a listed company for carrying out the valuation of the immovable properties standing in the name of the company as required under the provisions of the Companies Act, 2013 proposes to appoint Mr. Mehta, an individual as the valuer. Referring to the provisions of the *Companies Act, 2013 read with the Companies (Registered Valuers and Valuation) Rules, 2017*, the Audit Committee is of the opinion that the Board of Directors does not have the right to appoint the valuer. Decide.
11. 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 them to purchase the shares of its company. In actuality, the company was running in loss.
12. Board of Directors of the ABC Ltd., 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.
13. (i) Mr. RG is a practicing Chartered Accountant and having 15 years of professional experience. Can he be appointed as Technical Member of National Company Law Appellate Tribunal as per section 411 of the Companies Act, 2013? Will your answer be different, if he is appointed as Technical Member of National Company Law Tribunal?
(ii) IJK Limited was wound up with effect from 15th March 2018 by an order of the Court. Mr. A, who ceased to be a member of the company from 1st June 2017, has received a notice from the liquidator that he should deposit a sum of ₹ 5000 as his contribution towards the liability on the shares previously held by him. In this context explain whether Mr. A can be called as a contributory, whether he can be made liable and whether there is any limitation on his liability.
14. M/s DJ Limited, a listed company, as per the audited financial statements as on 31st March, 2018 is having issued and paid-up equity share capital comprising of 10 lakhs shares of ₹ 10 each and issued and paid up preference share capital of 5 Lakhs shares of ₹ 10 each respectively. The members of the company after complying with the provisions of section 169 of the Companies Act, 2013 removed one Mr. Satish from the directorship of the

company on 1st August 2018 before the completion of his term of office. Mr. Satish is also one of the members of the company holding 110000 fully paid-up equity shares. Mr. Satish has alleged oppression on his removal and has moved the jurisdictional Honourable National Company Law Tribunal (NCLT) under section 241 read with section 244 of the Companies Act, 2013. The Board of Directors of the company is of the opinion that the application is not maintainable as per the provisions of Section 244 of the Companies Act, 2013. Decide.

Also, state if any other recourse that is available with Mr. Satish under the provisions of the Companies Act, 2013.

15. DEJY Company Limited incorporated in Singapore desires to establish a place of business at Mumbai. You being a practising Chartered Accountant have been appointed by the company as a liaison officer, for compliance of legal formalities on behalf of the company. Examining the provisions of the Companies Act, 2013, state the documents you are required to furnish on behalf of the company, on the establishment of a place of business at Mumbai.
16. (i) Securities and Exchange Board of India (SEBI) has undertaken inspection of books of accounts and records of LR Ltd., a listed public company. Specify the measures which may be taken by SEBI under the Securities and Exchange Board of India Act, 1992 to protect the interest of investors and securities market, on completion of such inquiry.
(ii) Upon complaints been received by SEBI, regarding the listed securities of Blue Rock Limited at the Guwahati Stock Exchange, SEBI has passed an order to delist the securities of the company from the said stock exchange. Blue Rock Limited is aggrieved by the order of the SEBI. Advise the company on the further step that the company can take against the order of SEBI to delist the securities.

Part II: Economic Laws

17. 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?
18. Answer the following 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 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.

19. (i) On what grounds the Reserve Bank of India can cancel a certificate of registration granted to an Asset Reconstruction Company?

(ii) X is an association having registration to transfer the Foreign Contribution received by it to another organization? Is the valid act of X? If yes, then what is the process to do so? Is there any restriction on transfer of funds to other organisations?

20. (i) The Adjudicating Authority appointed under the Prevention of Money Laundering Act, 2002 issued an order attaching certain properties of XYZ Limited alleged to be involved in money laundering for a specified period. The company aggrieved by the order of the Adjudicating Authority seeks your advice about the remedy that is available under the Act. Advise explaining the relevant provisions of the Prevention of Money Laundering Act, 2002.

(ii) In 2016, Company Amar, food processor manufacturing unit entered into a joint venture agreement with Company USHA, the largest manufacturer of Food processors for supply of parts of mixer & grinder for manufacturing its latest model. Both the companies are registered under the Companies Act 2013. Agreement carries the term that all disputes shall be arbitrated in Mumbai. State the type of arbitration agreement made between them.

SUGGESTED ANSWERS/HINTS

Answers MCQs

1. (c)
2. (c)
3. (d)
4. (c)
5. (b)
6. (d)

Descriptive answers

7. Under Section II of Part II of Schedule V to the Companies Act, 2013, the remuneration payable to managerial personnel is linked to the effective capital of the company. According to section 197(3) of the Companies Act, 2013, where in any financial year during the currency of tenure of a managerial person, a company has no profits or its profits are

inadequate, it may, pay remuneration to the managerial person not exceeding ₹ 120 Lakh in the year in case the effective capital of the company is between ₹100 crore to ₹ 250 crore. However, the remuneration in excess of ₹ 120 Lakhs may be paid if the resolution passed by the shareholders is a special resolution.

From the foregoing provisions contained in schedule V to the Companies Act, 2013 the payment of ₹ 50 Lakh in the year as remuneration to Mr. X is valid in case he accepts it, as under the said schedule he is entitled to a remuneration of ₹ 120 Lakh in the year and his terms of appointment provide for payment of the remuneration as per schedule V.

8. (i) As per the stated facts, Rudraksh 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, Rudraksh Ltd. has not filed financial statements or annual returns for 2 financial years consecutively, the Registrar shall issue a notice to that effect and enter the name 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* inter-alia amending rule 4 of the *Companies (Appointment and Qualification of Directors) Rules, 2014*. It is 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 necessitated.
9. (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.

10. **Valuation by Registered Valuers (Section 247):** According to the provisions of section 247 of the Companies Act, 2013 read with the *Companies (Registered Valuers and Valuation) Rules, 2017*, where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth of a company or its liabilities under the provision of this Act, it shall be valued by a person having such qualifications and experience and registered as a valuer in such manner, on such terms and conditions as may be prescribed and appointed by the audit committee or in its absence by the Board of Directors of that company.

Hence, in the given instance, proposal for appointment of Mr. Mehta as the valuer by the Board of directors of APCO Ltd. is against the said provision. In fact, valuer shall be appointed by the audit committee or in its absence by the Board of Directors of that company.

In view of above, the opinion of the Audit Committee is correct.

11. 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 provisions:

- (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.

12. 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 of Managerial Personnel) 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 11th January 2019, to perform the duties which shall be performed by a Company 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 as per the Regulation 6 of the *SEBI (LODR) Regulations, 2015* with effect from 11th January 2019.

13. (i) **Qualifications of Chairperson and members of Appellate Tribunal [Section 411]**

Section 411 of the Companies Act, 2013 prescribes the qualifications of the chairperson and the members of the Appellate Tribunal.

According to section 411(3), a technical member shall be a person of proven ability, integrity and standing having special knowledge and professional experience of not less than twenty-five years in industrial finance, industrial management, industrial reconstruction, investment and accountancy.”.

Here, in the given case, Mr. RG is having professional experience of 15 years. Hence, Mr. RG cannot be appointed as technical member of NCLAT.

However, as per section 409, Mr. RG is eligible to be appointed as technical member of NCLT as he is meeting up the requirement by being into practice as a Chartered Accountant, for fifteen years.

(ii) **Contributory:** According to section 285 of the Companies Act, 2013, as soon as may be after the passing of a winding up order by the Tribunal, the Tribunal shall settle a list of contributories.

While settling the list of contributories, the Tribunal shall include every person, who is or has been a member, who shall be liable to contribute to the assets of the company an amount sufficient for payment of the debts and liabilities and the costs,

charges and expenses of winding up, and for the adjustment of the rights of the contributories among themselves.

Liability of the contributory: a person who has been a member shall not be liable to contribute if he has ceased to be a member for the preceding one year or more before the commencement of the winding up.

In the given case, M/s, IJK Ltd. was wound up on 15th March 2018. Whereas Mr. A ceased to be a member of the company from 1st June, 2017. So, according to the above provision, Mr. A will be a contributory and be liable to contribute as the time period of one year from the commencement of winding up has not elapsed. So Mr. A is liable to deposit ₹ 5000 (if any unpaid on the shares in respect of which he is liable as member [Section 285 (3) (d)]) as his contribution towards the liability on the shares previously held by him.

14. According to section 244(1) (a) of the Companies Act, 2013, the following members of a company shall have the right to apply under section 241, namely:—

-**in the case of a company having a share capital**, not less than one hundred members of the company or not less than one-tenth of the total number of its members, whichever is less, or any member or members holding not less than one-tenth of the issued share capital of the company, subject to the condition that the applicant or applicants has or have paid all calls and other sums due on his or their shares.

However, the Tribunal may, on an application made to it in this behalf, waive all or any of the requirements specified above so as to enable the members to apply under section 241.

In the instant case, the equity share capital of the company is ₹ 1 crore (10 lakh shares of ₹ 10 each) and preference share capital is ₹ 50 Lakh (5 lakh shares of ₹ 10 each). The total issued and paid up share capital is ₹ 1.50 crore comprising of 15 lakh shares.

Mr. Satish is holding 110000 fully paid up equity shares. His holding is less than one-tenth of the issued share capital of the company [1/10th of 15 Lakh i.e. 150000 shares].

Hence, his application is not maintainable as per provisions of section 244 of the Companies Act, 2013 and therefore the opinion of Board of directors is correct.

However, as per proviso to section 244(1), Mr. Satish may make an application to the Tribunal in this behalf for the waiver of the above condition so that he may apply under section 241.

15. Under section 380(1) of the Companies Act, 2013 every foreign company shall, within 30 days of the establishment of place of business in India, deliver to the Registrar for registration of the following documents:

(a) a certified copy of the charter, statutes or memorandum and articles, of the company or other instrument constituting or defining the constitution of the company. If the instruments are not in the English language, a certified translation thereof in the English language;

- (b) the full address of the registered or principal office of the company;
- (c) a list of the directors and secretary of the company containing such particulars as may be prescribed;

In relation to the nature of particulars to be provided as above, the *Companies (Registration of Foreign Companies) Rules, 2014*, provide that the list of directors and secretary or equivalent (by whatever name called) of the foreign company shall contain the following particulars, for each of the persons included in such list, namely:

- (1) personal name and surname in full;
- (2) any former name or names and surname or surnames in full;
- (3) father's name or mother's name and spouse's name;
- (4) date of birth;
- (5) residential address;
- (6) nationality;
- (7) if the present nationality is not the nationality of origin, his nationality of origin;
- (8) passport Number, date of issue and country of issue; (if a person holds more than one passport then details of all passports to be given)
- (9) income-tax permanent account number (PAN), if applicable;
- (10) occupation, if any;
- (11) whether directorship in any other Indian company, (Director Identification Number(DIN), Name and Corporate Identity Number (CIN) of the company in case of holding directorship);
- (12) other directorship or directorships held by him;
- (13) Membership Number (for Secretary only); and
- (14) e-mail ID.
- (d) the name and address or the names and addresses of one or more persons resident in India authorised to accept on behalf of the company service of process and any notices or other documents required to be served on the company;
- (e) the full address of the office of the company in India which is deemed to be its principal place of business in India;
- (f) particulars of opening and closing of a place of business in India on earlier occasion or occasions;
- (g) declaration that none of the directors of the company or the authorised representative in India has ever been convicted or debarred from formation of companies and management in India or abroad; and

(h) any other information as may be prescribed.

16. (i) As per section 11 (4) of the Securities and Exchange Board of India Act, 1992, the Board may, by an order, for reasons to be recorded in writing, in the interest of investors or securities market, take any of the following measures, either pending investigation or inquiry or on completion of such investigation or inquiry, namely:—

1. suspend the trading of any security in a recognised stock exchange;
2. restrain persons from accessing the securities market and prohibit any person associated with securities market to buy, sell or deal in securities;
3. suspend any office-bearer of any stock exchange or self-regulatory organization from holding such position;
4. impound and retain the proceeds or securities in respect of any transaction which is under investigation;
5. attach, after passing of an order on an application made for approval by the Judicial Magistrate of the first class having jurisdiction, for a period not exceeding one month, one or more bank account or accounts of any intermediary or any person associated with the securities market in any manner involved in violation of any of the provisions of this Act, or the rules or the regulations made thereunder:

However only the bank account or accounts or any transaction entered therein, so far as it relates to the proceeds actually involved in violation of any of the provisions of this Act, or the rules or the regulations made thereunder shall be allowed to be attached;

6. direct any intermediary or any person associated with the securities market in any manner not to dispose of or alienate an asset forming part of any transaction which is under investigation.

(ii) As per the facts of the case given in the question above, the aggrieved company, i.e. Blue Rock Limited may appeal to the Securities Appellate Tribunal ('SAT') against the decision of SEBI within 45 days of date from which the order has been passed, unless further extension has been granted by SAT on reasonable grounds.

As per Section 23L, the Tribunal shall give an opportunity of being heard to the respondent and may pass the order confirming, modifying or setting aside the decision of SEBI.

SAT shall also send a copy of its order to every party to appeal and to the concerned adjudicating officer. Also, the company, Blue Rock Limited should be assured that a speedy decision shall be taken, since the Tribunal is required to dispose of in every 6 months from the date of receipt of appeal.

17. As per 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 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.

18. (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 meet his obligation of 50% in 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.

19. (i) **Cancellation of certificate of registration (Section 4)**

The Reserve Bank may cancel a certificate of registration granted to an ARC, if such company-

- (i) ceases to carry on the business of securitisation or asset reconstruction; or
- (ii) ceases to receive or hold any investment from a qualified buyer; or

- (iii) has failed to comply with any conditions subject to which the certificate of registration has been granted to it; or
- (iv) at any time fails to fulfil any of the conditions referred to in clauses (a) to (g) of sub-section (3) of section 3; or
- (v) fails to-
 - (a) comply with any direction issued by the Reserve Bank under the provisions of this Act; or
 - (b) maintain accounts in accordance with the requirements of any law or any direction or order issued by the Reserve Bank under the provisions of this Act; or
 - (c) submit or offer for inspection its books of account or other relevant documents when so demanded by the Reserve Bank; or
 - (d) obtain prior approval of the Reserve Bank required under sub-section (6) of section 3.

Before cancelling a certificate of registration on the ground that the ARC has failed to comply with the provisions of clause (c) or has failed to fulfil any of the conditions referred to in clause (d) or sub-clause (iv) of clause (e), the Reserve Bank, unless it is of the opinion that the delay in cancelling the certificate of registration granted under sub-section (4) of section 3 shall be prejudicial to the public interest or the interests of the investors or the ARC, shall give an opportunity to such company on such terms as the Reserve Bank may specify for taking necessary steps to comply with such provisions or fulfilment of such conditions.

- (ii) Yes, X can transfer the Foreign Contribution received by it to another organization as section 7 of FCRA, 2010. According to the provision no person who –
 - a. is registered and granted a certificate or has obtained prior permission under this Act; and
 - b. receives any foreign contribution,

shall transfer such foreign contribution to any other person unless such other person is also registered and had been granted the certificate or obtained the prior permission under this Act:

Provided that such person may transfer, with the prior approval of the Central Government, a part of such foreign contribution to any other person who has not been granted a certificate or obtained permission under this Act in accordance with the rules made by the Central Government.”

Restrictions on transfer: Rule 24 of FCRR, 2011, prescribes the procedure for transferring foreign contribution to any unregistered person as under:

- (1) A person who has been granted a certificate of registration or prior permission under section 11 and intends to transfer part of the foreign contribution received by him to a person who has not been granted a certificate of registration or prior permission under the Act, may transfer such foreign contribution to an extent not exceeding ten per cent of the total value thereof and for this purpose, make an application to the Central Government in the prescribed Form.
- (2) Every application made under sub-rule (1) shall be accompanied by a declaration to the effect that- (a) the amount proposed to be transferred during the financial year is less than ten per cent of the total value of the foreign contribution received by him during the financial year; (b) the transferor shall not transfer any amount of foreign contribution until the Central Government approves such transfer.
- (3) A person who has been granted a certificate of registration or prior permission under section 11 shall not be required to seek the prior approval of the Central Government for transferring the foreign contribution received by him to another person who has been granted a certificate of registration or prior permission under the Act provided that the recipient has not been proceeded against under any of the provisions of the Act.
- (4) Both the transferor and the recipient shall be responsible for ensuring proper utilisation of the foreign contribution so transferred and such transfer of foreign contribution shall be reflected in the returns in Form to be submitted by both the transferor and the recipient.

20. (i) Establishment of Appellate Tribunal

According to section 25 of the Prevention of Money Laundering Act, 2002, the Appellate Tribunal constituted under sub-section (1) of section 12 of the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 shall be the Appellate Tribunal for hearing appeals against the orders of the Adjudicating Authority and the other authorities under this Act.

Appeals to Appellate Tribunal

Section 26 deals with the right and time frame to make an appeal to the Appellate Tribunal. The Director or any person aggrieved by an order made by the Adjudicating Authority under this Act may prefer an appeal to the Appellate Tribunal.

The appeal shall be filed within a period of 45 days from the date on which a copy of the order made by the Adjudicating Authority is received and it shall be in such form and be accompanied by prescribed fees. The appeal shall be in such form and be accompanied by such fee as may be prescribed. The Appellate Tribunal may extend the period if it is satisfied that there was sufficient cause for not filing it within the period of 45 days.

The Appellate Tribunal may after giving the parties to the appeal an opportunity of being heard, pass such order as it thinks fit, confirming, modifying or setting aside the order appealed against.

Appeals to High Court

The Act also provides further appeal. According to Section 42 any person aggrieved by any decision or order of the Appellate Tribunal may file an appeal to the High Court within 60 days from the date of communication of the order of the Appellate Tribunal.

In the light of the provisions of the Act explained above the company is advised to prefer an appeal to Appellate Tribunal in the first instance.

- (ii) There are two basic types of arbitration agreement are:
 - (a) **Arbitration clause** - a clause contained within a principal contract. The parties undertake to submit disputes in relation to or in connection with the principal contract that may arise in future to arbitration.
 - (b) **Submission agreement** - an agreement to refer disputes that already exist to arbitration. Such an agreement is entered into after the disputes have arisen.

In this case, the agreement already carries the term that all disputes shall be arbitrated in Mumbai at the time of entering into joint venture agreement. This would be an arbitration clause as it is contained in the principal contract (JVA) and no disputes have arisen till yet. It concerns future disputes that may arise.

**Applicability of Standards/Guidance Notes/Legislative Amendments etc. for
May, 2019 Examination**

Study Guidelines: Final (New) Course

Paper 1: Financial Reporting

A- List of topic-wise inclusion in the syllabus

(1)	(2)	(3)
S. No. in the syllabus	Topics of the syllabus	Inclusions
1.	Application of Existing Accounting Standards	<ol style="list-style-type: none"> 1. AS 15 : Employee Benefits 2. AS 21 : Consolidated Financial Statements 3. AS 23 : Accounting for Investments Associates in Consolidated Financial Statements 4. AS 25 : Interim Financial Reporting 5. AS 27 : Financial Reporting of Interests in Joint Ventures 6. AS 28 : Impairment of Assets
2.	Application of Guidance Notes issued by ICAI on specified accounting aspects.	<ol style="list-style-type: none"> 1. Guidance Note on Measurement of Income Tax Expense for Interim Financial Reporting in the context of AS 25 2. Guidance Note on Applicability of AS 25 to Interim Financial Results 3. Guidance Note on Combined and Carve–Out Financial Statements. 4. Guidance Note on Accounting for Derivative Contracts 5. Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities 6. Guidance Note on Accounting for Self-Generated Certified Emission Reductions (CERs) 7. Guidance Note on Accounting by Dot-Com Companies
1 and 4-9	Application of Existing Accounting Standards and Indian Accounting Standards	<p>On Ind AS</p> <ol style="list-style-type: none"> 1. Discounting of deferred debts (retention money) (Opinion finalised by the Committee on 2.9.2016). https://resource.cdn.icai.org/47574eac37373-11.pdf <p>On AS</p> <ol style="list-style-type: none"> 2. Adjustment of the effect of first recognition of group

	(Expert Advisory Opinions)	gratuity liability against opening balance of reserves and surplus as an appropriation in the current financial year. (Opinion finalised by the Committee on 21.7.2016). (https://resource.cdn.icai.org/33925eac23624-5.pdf) 3. Accounting treatment of pension liability post-separation. (Opinion finalised by the Committee on 23.4.2015) http://115.248.235.50/eacicai/HTML/35/1.html 4. Requirement for preparation of Complete / Condensed set of financial statements (Opinion finalised by the Committee on 3.6.2015.) http://115.248.235.50/eacicai/HTML/35/7.html 5. Amortisation of SAP license and accounting for annual renewal fee. (Opinion finalised by the Committee on 23.4.2015.) http://115.248.235.50/eacicai/HTML/35/3.html
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B- List of topic-wise exclusions from the syllabus

(1)	(2)	(3)
S. No. in the syllabus	Topics of the syllabus	Exclusions
4.	Application of Indian Accounting Standards (Ind AS) with reference to General Purpose Financial Statements	<p>Indian Accounting Standard (Ind AS) 37 'Provisions, Contingent Liabilities and Contingent Assets'</p> <ul style="list-style-type: none"> • Appendix A: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds • Appendix B: Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
6.	Application of Industry specific and Transaction Specific Indian Accounting Standards (other than Business Combination, Financial Instruments and Share Based Payment)	<ul style="list-style-type: none"> • Indian Accounting Standard (Ind AS) 29 : Financial Reporting in Hyperinflationary Economies • Indian Accounting Standard (Ind AS) 104 : Insurance Contracts • Indian Accounting Standard (Ind AS) 106 : Exploration for and Evaluation of Mineral Resources • Indian Accounting Standard (Ind AS) 114 : Regulatory Deferral Accounts

Notes:

- (1) In the above tables 'A' and 'B', in respect of the topics of the syllabus specified in column (2) the related inclusion / exclusion is given in column (3).
- (2) November, 2018 edition of the Study Material is relevant for May, 2019 examinations.
- (3) The relevant amendments including relevant Notifications / Circulars / Rules issued by the Companies Act, 2013 and other relevant legislations up to 31st October, 2018 will be applicable for May, 2019 Examination. **Accordingly, amendments made by MCA on 28.3.2018 (ie notification of Ind AS 115 and withdrawal of Ind AS 11 and Ind AS 18 along with other amendments), 21.9.2018 (amendment in Ind AS 20) and 12.10.2018 (amendments in Division I and Division II of Schedule III to the Companies Act, 2013) are applicable for May, 2019 examination.** However, it may be noted that Division III of Schedule III newly notified on 12.10.2018 is not applicable.

Paper 3: Advanced Auditing and Professional Ethics**A- List of topic-wise inclusion in the syllabus****I. List of applicable Statements and Standards for May, 2019 Examination:**

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. List of applicable Engagements and Quality Control Standards on Auditing for May, 2019 Examination

S.No	SA	<i>Title of Standard on Auditing</i>
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 (Revised)
9	SA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
10	SA 299	Joint Audit of Financial Statements (Revised)
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 (Revised)
27	SA 580	Written Representations
28	SA 600	Using the Work of Another Auditor
29	SA 610	Using the Work of Internal Auditors (Revised)
30	SA 620	Using the Work of an Auditor's Expert
31	SA 700	Forming an Opinion and Reporting on Financial Statements (Revised)
32	SA 701	Communicating Key Audit Matters in the Independent Auditor's Report (New)

33	SA 705	Modifications to the Opinion in the Independent Auditor's Report (Revised)
34	SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report (Revised)
35	SA 710	Comparative Information – Corresponding Figures and Comparative Financial Statements
36	SA 720	The Auditor's Responsibility in Relation to Other Information (Revised)
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 (Revised)
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 (New)
45	SRS 4400	Engagements to Perform Agreed Upon Procedures Regarding Financial Information
46	SRS 4410	Compilations Engagements (Revised)

III. List of applicable Guidance Notes and other publications for May, 2019 Examination:

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 and other Legislative Amendments for May, 2019 Examination

- (i) Students are expected to be updated with the notifications, circulars and other legislative amendments made up to 6 months prior to the examination. Accordingly, the relevant notified Sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 31st October, 2018 will be applicable for May, 2019 Examination. 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) Audit provision under GST Laws are applicable for May, 2019 Examination.

Paper 4: Corporate and Economic Laws

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 Economic Laws, as amended by concerned authority, including significant notifications and circulars issued up to 31st October 2018, are applicable for May 2019 examination.

Inclusions / Exclusions from the syllabus			
(1)	(2)	(3)	(4)
S. No. in the syllabus	Chapters/ Topics of the syllabus	Inclusions (Provisions which are included from the corresponding chapter of the syllabus)	Exclusions (Provisions which are excluded from the corresponding chapter of the syllabus)
Part I: Section A- Company Law	Companies Act, 2013 covering chapters 1- 13	<p>The entire content included in the August 2017 edition of the Study Material and the Legislative amendments covered in RTP for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>The Legislative amendments have been webhosted at the BoS Knowledge Portal through RTP.</p>	Except the Relevant rules to the extent covered in the August 2017 edition of the Study Material and RTP for May 2019, all other Rules of the Companies Act, 2013 are excluded.
Part I: Section B- Securities Laws	Chapter 1: The Securities Contract (Regulation)Act, 1956 and the Securities Contract(Regulation) Rules, 1957	<p>The entire content included in the August 2017 edition of the Study Material and the Legislative amendments covered in RTP for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>The following Securities Contract (Regulation)Rules, 1957 to the extent covered in the study material, shall only be relevant for the said examinations :</p> <p>3, 4, 4A, 5, 5A, 6, 7, 8, 12, 13, 14, 15, 16, 17, 17A, 19 & 21.</p>	<p>Following sections of the SCRA, 1956- Sections 4A, 13, 14, 18, 20, 25, 26B, 26D, 26E, 29, 31, 32 are excluded.</p> <p>Except the Securities Contract (Regulation) Rules, 1957 given in the Column (3), all other rules of the Securities Contract (Regulation)Rules, 1957 are excluded.</p>

		<p>The Legislative amendments have been webhosted at the BoS Knowledge Portal through RTP.</p>	
Part I: Section B- Securities Laws	Chapter 2: The Securities Exchange Board of India Act, 1992, SEBI(ICDR) Regulations, 2009 and SEBI (LODR) Regulations, 2015	<p>The entire content included in the August 2017 edition of the Study Material and the Legislative amendments covered in RTP for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>In particular, SEBI (ICDR) Regulations, 2009 and SEBI (LODR) Regulations, 2015 to the extent covered in the study material, shall only be applicable for the examination.</p> <p>The Legislative amendments have been webhosted at the BoS Knowledge Portal through RTP.</p>	<p>Following provisions of the SEBI Act, are excluded –</p> <p>Sections 2(1)(b), 2(1)(c), 2(1)(d), 2(1)(da), 2(1)(f), 2(1)(fa), 2(1)(g), 20, 21, 25, 28 & 33.</p>
Part II: Economic Laws	Chapter 1: The Foreign Exchange Management Act, 1999	<p>The entire content included in the August 2017 edition of the Study Material and the Legislative amendments covered in RTP for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>In specific following FEM(Regulations)/ Rules shall only be applicable to the extent covered in the study material-</p>	<p>Following provisions of the FEMA, 1999 is excluded for the examination-</p> <p>Sections 2(cc) & Section 2(gg), 16(2)-16(6), 17(3), 17(6), 19 to 34, 37(2) – 37(3), 37A, 45, 46, 47 & 48.</p> <p>All other FEM (Regulations)/ Rules are</p>

	<ul style="list-style-type: none"> • Foreign Exchange Management (Current Account Transactions) Rules, 2000 • Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000 • Foreign Exchange Management (Acquisition and Transfer of Immovable Property in India) Regulations, 2000 • Foreign Exchange Management (Acquisition and Transfer of Immovable Property outside India) Regulations, 2015 • Foreign Exchange Management (Export of Goods and Services) Regulations, 2015 • Foreign Exchange Management (Realisation, repatriation and surrender of foreign exchange) Regulations, 2015 • Foreign Exchange Management (Possession and retention of foreign currency) Regulations, 2015 <p>The legislative amendments have been webhosted at the BoS Knowledge Portal through RTP.</p>	entirely excluded.
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Part II: Economic Laws	Chapter 2 : SARFAESI Act, 2002	<p>The entire content included in the August 2017 edition of the Study Material and the Legislative amendments covered in RTP for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>Very limited coverage is required in view of Insolvency and Bankruptcy Code.</p> <p>The Legislative amendments have been webhosted at the BoS Knowledge Portal through RTP.</p>	<p>Following provisions are excluded for the examination:</p> <p>Sections 2(1)(a), (c), (d), (g), (ga), (h), (m), (ma), (n), (na), (p), (q), (r), (s), (t), (v), (w), (x), (y), (za), (zb), (zc), (ze), (zg)- (zj), & 2(2)- Definitions, 6(3), 7(2A)- 7(4), 14(2)-14(3), 25(2)- 25(4), 26(2), 30D(2)- 30(11), 39 to 42.</p>
Part II: Economic Laws	Chapter 3: Prevention of Money Laundering Act, 2002	<p>The entire content included in the August 2017 edition of the Study Material and the Legislative amendments covered in RTP for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>The Legislative amendments have been webhosted at the BoS Knowledge Portal through RTP.</p>	<p>Following Sections are excluded for examination:</p> <p>2(1)(a), (b)(c), (d), (da), (f), (g), (h), (i), (ia), (ib), (j), (ja), (k), (m), (na), (o), (q), (r), (rc), (s), (sa), (sb), (sc), (t), (va), (z), (zb) & 2(2)- Definitions, 6(3)- 6(15), 7, 10, 9, 11, 16 to 24, 35(1), 35(3)- 35(5), 36- 37, 39- 40, 46(2)- (3), 49 to 54, 58A - 58B, 59-60, 61, 67-68, 73, 74 & 75.</p> <p>Rules related to PMLA is excluded in its entirety.</p>

Part II: Economic Laws	Chapter 4: Foreign Contribution Regulation Act, 2010	<p>The entire content included in the August 2017 edition of the Study Material and the Legislative amendments covered in RTP for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>The Legislative amendments have been webhosted at the BoS Knowledge Portal through RTP.</p> <p>Rules related to FCRR, 2011 is relevant for May 2019 to the extent covered in the August 2017 edition of the Study Material.</p>	<p>Following Sections are excluded for examination:</p> <p>Section 2(1)(a), (b), (c), (d), (e), (f), (k), (l), (o), (p), (q), (s), (t), & (u)- Definitions, 21 – 27 44-45, 49 & 54.</p>
Part II: Economic Laws	Chapter 5: The Arbitration and Conciliation Act, 1996	<p>The entire content included in the August 2017 edition of the Study Material and the Legislative amendments covered in RTP for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>The Legislative amendments have been webhosted at the BoS Knowledge Portal through RTP.</p>	-
Part II: Economic Laws	Chapter 6: The Insolvency and Bankruptcy Code, 2016	<p>Content of this chapter of the Study Material is covering an overview of the Insolvency and Bankruptcy Code with the broad coverage (not in entirety) of the provisions upto section 59 of the Code.</p>	

	<p>Rules related to Insolvency and Bankruptcy Code, is relevant for May 2019 to the extent covered in the August 2017 edition of the Study Material.</p> <p>The entire content included in the August 2017 edition of the Study Material and the Legislative amendments covered in RTP for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>The Legislative amendments have been webhosted at the BoS Knowledge Portal through RTP.</p>	
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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) August 2017 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 the RTP applicable for May 2019 examinations alone shall be relevant for the said examinations. The Legislative amendments are 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 August 2017 edition of the Study Material and the Legislative amendments for May 2019 examinations shall be relevant for the said examinations.