CASE STUDY 11

Apara and Sampad had completed their articleship training from a reputed CA Firm in Chennai. Both were good in studies and after qualifying they decided to become partners in profession and partners in life. Sampad was proficient in interpretation of laws and direct tax, while Apara was good in indirect tax, audit and financial reporting. They started their Firm at Kochi in the name of Apara Sampad & Co., Chartered Accountants.

Currently, they have a well-established practice spread across various spheres including FEMA, Corporate law, international taxation, valuation, etc. Apara and Sampad had in the past done few engagements for Greenly Ltd. Ramnik, the Vice President (Finance) of Greenly Ltd. invited Apara and Sampad for a meeting along with Finance team, internal auditors and tax consultants of the company. As Greenly Ltd was a coveted client for the Firm, Apara and Sampad attended the meeting. During the meeting, Ramnik discussed the following points:

I. Greenly Ltd is one of the leading laundry in Delhi. For cleaning of suits, it charges ₹ 625 per suit set. The price has been derived by the laundry asunder:

a.	Cleaning Materials	₹ 37
b	Labour	₹ 180 (3 hours@ ₹ 60/-)
c.	Variable overheads	₹ 80

d. Fixed Overheads ₹ 60 (3 hours @ ₹ 20 per hour) plus mark up 75% on total cost

The Company is known for timely delivery and quality service and hence, it charges premium for its services. The labour charges have been derived by dividing the total salary paid by the total number of hours available. Variable overheads depend on the number of suits cleaned while fixed overhead rate is derived at by dividing the total cost of all related expenses by the number of labour hours available. Fixed Overhead generally includes office rent and administrative salary. A conference is being held in Delhi on account of T20 and a hotel is also required to provide premium laundry services for which the Company has been approached for its lowest quotes. There is possibility of 150 suits being given for laundry on priority basis. The Company has sufficient material of cleaning in stock even for this additional special order. It is believed that 55% of the additional work can be done in normal working hours and for rest of the work, overtime

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by some of the employees will be required. Overtime hours are paid at one and one half of the normal hourly rate.

II. Greenly Ltd is having 3 years average profit of ₹ 10 Crores and during the financial year 2023-24 and it is required to spend on account of Corporate Social Responsibility (CSR). It has incurred this expenditure through an NGO named Green Foundation.

III. The Company purchased a land in city outskirts on 1st August 2018 for a consideration of ₹ 1.25 Crores to construct a factory, for which the Stamp duty valuation on that date was ₹ 1.75 Crores. Later, management decided to sell that land to fund the business diversification objectives. On 1st August 2023, the land on city outskirts was sold for ₹ 5.00 Crores. The stamp duty valuation was ₹ 5.40 Crores. Cost inflation index for FY 2018-19 and FY 2023-24 is 280 and 348, respectively.

IV. ABC LLP, the Statutory auditors of Greenly Ltd resigned due to personal reasons and Apara Sampad & Co. was proposed to be appointed as the subsequent auditor of the Company by the Board of Directors. This was a great opportunity for both Apara and Sampad, as they were trying to get some business from Greenly Ltd.

V. After the meeting was completed, Ramnik met Sampad and had a casual discussion with him. He told that his daughter, Sweety, was pursuing post-graduation from Standford University, USA for which he had remitted USD 50,000 i.e., ₹ 40 Lakhs for her maintenance abroad under Liberalised Remittance Scheme. Thankfully, he did not have to do any other remittance during the year.

VI. While Sampad was busy in a discussion with Ramnik, CA. Mani, the internal auditor of Greenly Ltd and a close friend of Apara approached her for a quick chat. Mani informed Apara that his practice was going good and he was appointed as statutory auditor of a listed entity. Lately, he has been busy finalising the audit letter communicating the key points of audit to those charged with Governance and audit committee.

I. Multiple Choice Questions

1. From remittance of ₹ 40 Lakhs by Ramnik, the authorised dealer is:

   (a) Not required to make any collection of tax at source.

   (b) Required to make collection of tax at source of ₹ 1.65 Lakhs.

   (c) Required to make collection of tax at source of ₹ 2 Lakhs.

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(d) Required to make collection of tax at source of ₹ 0.165 Lakhs.

2. The capital gain arising on sale of land at city outskirts by the Company would be

(a) ₹ 2.80 Crores

(b) ₹ 2.825 Crores

(c) ₹ 1.75 Crores

(d) ₹ 2.40 Crores

3. While drafting audit letter communicating the key points of audit to those charged with Governance and audit committee, Mani was thinking if he needs to generate a Unique Document Identification Number (UDIN):

(a) Yes, separate UDINs are to be generated for the Statutory audit report and Letter to those charged with governance.

(b) No, UDIN is required only for all Certificates, all Audit Reports and all other Audit, Assurance and Attestation functions and not for any letters etc. making communications.

(c) Yes, one single UDIN can be generated for all documents of one client. UDINs are required to be generated client wise instead of document wise.

(d) No, one single UDIN can be generated for the whole year for one engagement which may include various communications by auditor to management and those charged with Governance.

4. Which of following statement is likely to be correct regarding compliances to be made by Greenly Limited?

(a) It is required to file CSR-1 as an independent form on MCA portal.

(b) It is required to file CSR-2 as an independent form on MCA portal.

(c) It is required to file CSR-1 as an addendum to AOC-4 on MCA portal.

(d) It is required to file CSR-2 as an addendum to AOC-4 on MCA portal.

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5 During the conclusion of the audit, Apara was thinking if she is required to report the fact of the resignation by the previous auditor?

(a) Yes. As per Companies (Auditors Report) Order, 2020 Apara Sampad & Co. should report the resignation of ABC LLP and state if the Firm has taken into consideration the issues or objections raised by ABC LLP.

(b) No. Since the resignation of ABC LLP is due to personal reasons, the same need not be reported in the Auditors Report.

(c) Yes. As per provisions of Section 143(3) of the Companies Act, 2013,the fact of previous auditor's resignation should be reported.

(d) Yes. The fact of previous auditors resignation should be reported asper Companies (Audit and Auditors) Rules, 2014.

II. Descriptive Questions

6. Apara wants to draw the attention of the readers of the financial statements by way of an Emphasis of Matter (EOM) paragraph in the Audit Report issued by them indicating the fact of their appointment due to resignation of the existing auditor. Explain the circumstances in which an auditor may consider to include an Emphasis of Matter (EOM) paragraph in their audit report. Is approach of Apara proper?

7. Sampad discussed with Apara and thought that it would be handy and easy to explain the clients the details of Liberalised Remittance Scheme (LRS), if they have standard document. Draft a note covering various aspects of LRS.

8. Ramnik requests you to:

(i) Compute the incremental cost of Greenly Ltd. which may be taken as a base for quoting the minimum price per suit.

(ii) Indicate the aspects to be considered for making lowest quote.

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ANSWERS TO THE CASE STUDY 11

I. Answers to the Multiple Choice Questions

1. (b) Second proviso to section 206C(1G).of the Income-tax Act, requires collection of tax at source @ 5% of the amounts in excess of = 7 Lakhs in a financial year. Hence, 5% of 40 Lakhs -7 Lakhs = 1.65 Lakhs.

2. (b) Working will be as under:

Total consideration	₹ 5.00
Indexed cost	₹ 2.175 (Stamp duty value at the time of purchase ₹ 1.75 Crores x 348/280)
Capital Gain	₹2.825 crores
As the variation at the time of sale is less than 110%, the actual consideration will be taken	

3. (b) UDIN is required only for all Certificates, all Audit Reports and all other Audit, Assurance and Attestation functions and not for any letters etc. making communications.

4. (b) CSR-2 form is mandatory for CSR reporting. It is an independent form. CSR-1 relates to registration of entities/NGOs who wish to undertake CSR activities and want to get funding from companies on this account.

5. (a) As per clause (xviii) of para 3 of Companies (Auditor's Report) Order 2020 Apara Sampad & Co. should report the resignation of ABC LLP and state if he has taken into consideration the issues or objections raised by ABC LLP.

II. Answers to the Descriptive Questions

6. **Emphasis of Matter paragraph** is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

Circumstances in which an auditor may consider to include an **Emphasis of Matter (EOM) Paragraph their Audit Report:** SA 706 contains specific requirements for the auditor to include Emphasis of Matter paragraphs in the auditor's report in certain circumstances.

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These circumstances include:

(i) When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.

(ii) To alert users that the financial statements are prepared in accordance with a special purpose framework.

(iii) When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).

(iv) An uncertainty relating to the future outcome of exceptional litigation or regulatory action.

(v) A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.

(vi) Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.

(vii) A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

In view of above, contention or Apara, to draw the attention of the readers of the financial statements by way of an Emphasis of Matter (EOM) paragraph in the Audit Report issued by them indicating the fact of their appointment due to resignation of the existing auditor, **is not correct.**

7. Various aspect of the Liberalized Remittance Scheme (LRS)

The Liberalized Remittance Scheme (LRS) is part of the Foreign Exchange Management Act (FEMA) 1999, which lays down the guidelines for outward remittances from India.

Liberalized Remittance Scheme (LRS)

- It applies to all resident individuals, including minors.
- It allows to freely remit up to USD 250,000 per financial year (April – March).
- It can be for any permissible current or capital account transaction or a combination of both.

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- This is inclusive of foreign exchange facility for the purposes mentioned in Para 1 of Schedule III of Foreign Exchange Management (CAT) Amendment Rules 2015, dated May 26, 2015.
- In case of remitter being a minor, the LRS declaration form must be countersigned by the minor's natural guardian. The Scheme is not available to corporates, partnership firms, HUF, Trusts etc.
- Remittances under the Scheme can be consolidated in respect of family members subject to individual family memberscomplying with its terms and conditions.

Exception: Clubbing is not permitted by other family members for capital account transactions such as opening a bank account/investment/purchase of property, if they are not the co-owners/co-partners of the overseas bank account/investment/property.

8. **(i)** 'Greenly Ltd' can use the incremental cost numbers for pricing the 'rush order'. The minimum price that firm would charge is ₹ 238.50 per suit (=₹35,775/150). This price is well below normal price of ₹ 625.

Particulars	Amount (₹)
Cleaning materials (150 × ₹37)	5,550
Labour (150 × 3 × 45% × ₹60 × 1.5)	18,225
Variable overheads (150 Suits × 80)	12,000
Incremental cost	35,775
Quote per Suit	238.5

(ii) Aspects to be considered for quoting lowest price

Firms face situations where they are confronted with the opportunity of offering for a one time special offer. In this situation, only the incremental cost of the undertaking the order should be taken into consideration. Quote should be made at prices that exceeds incremental costs.

However, in decision making other conditions are equally important. For instance, if this is a one-time deal wit**h no prospect of repeat business**, then 'Greenly Ltd' might well charge a premium over the normal price. Long-term implications also

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matter. The prospect of "getting a foot in the door" to quote for future business would push the price downward. Therefore, 'Greenly Ltd' can price based on both the short-run benefits from accepting the order and the long-run consequences.

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