

## PAPER 6F: MULTIDISCIPLINARY CASE STUDY

### Case Study – 2

CURE Pharma Pvt. Ltd is fast growing Indian Pharmaceutical Company engaged in developing, manufacturing and marketing of broad range of pharmaceutical products globally. Company's Core strength lies in developing and manufacturing differentiated pharmaceutical products in-house, which it commercializes through its marketing infrastructure spread across geographies and relationships with multi-national pharma companies. Benchmarked to international standards, Cure's facilities are approved by international regulatory agencies such as US FDA, UK MHRA, Japan's MHLW, TGA Australia, WHO, and the MCC South Africa.

It has become one of the world's largest manufacturers of Tuberculosis (TB) drugs. Today, it has significant market share in the cardiovascular, diabetology, asthma, paediatrics, CNS, anti-infectives and NSAIDs therapy segments.

Chairman is of the view that people are the most essential part of any organisation as they provide the inspiration, creativity, vision and motivation that keep an organisation alive. He said that the workplace is where people spend most of their time in a day and a happy employee would be a catalyst translating the organisation's growth. Company debited to the statement of profit and loss Bonus to employees Rs. 2,00,000 provided. However, payment was made on the occasion of Diwali festival on 18<sup>th</sup> October, 2018.

Company has always been quick to adapt to market changes as reflected in the tremendous track record. In the past ten years alone, Company has seen increase in revenues. This growth has been an outcome of meticulous planning, differentiated strategies, complex products and disciplined execution across markets. The bedrock of a pharma enterprise is Innovation.

Moving forward, Company will consolidate on generics portfolio while focusing on complex generics and specialty products. Company expects to rise to this challenge with appropriate acquisitions, calibrated investments in R&D, supported by the right skill sets. This would enable it to enhance the quality of its business and transcend from the existing paradigm towards new horizons.

In addition, the company has gained a special consideration amongst pediatric specialists, primary care physicians and the OB/GYN women's health community with a dedicated field force to promote its branded product portfolio. Backed by strong commercial capabilities in the US market for both branded and generic products, Company is uniquely positioned to execute its growth strategy built on niche products, world-class research, manufacturing and supply chain capabilities, protected by strong Intellectual Property rights.

Company is consciously investing in adopting green chemistry and enzymatic technologies with a dual purpose of improving efficiencies and protecting the environment. Fermentation technology based products have been its special expertise and it is on track to introduce newer products in this field.

Company's investments in Research and Development (R&D) have helped it gain a leadership position in differentiated product introductions and become a formidable player in the generics space. It forms the base for further successes as it emerges gradually as a specialty pharmaceutical player. These investments are calibrated for risks and appropriate returns and encompass not merely the developed markets like US, Europe and Japan but also the emerging markets. Contribution of Rs. 1,50,000 to Banaras Hindu University which is approved and notified under Section 35(1)(ii). This amount has been debited to statement of profit and loss.

With a solid team of scientists and technologists employed at its state-of-the art facilities in India and abroad, it is well on track to emerge as an innovation led transnational pharmaceutical powerhouse providing affordable healthcare solutions with uncompromising quality. Its research scientists have a proven track record of delivering high quality technology intensive products, Active Pharmaceutical Ingredients (APIs), Formulations and newer dispensation forms. Company has incurred revenue expenditure of Rs. 10 Lakhs towards scientific research in the month of September and this amount has been debited to profit and loss account.

There was a healthcare exhibition in London in the month of October, 2017 and where all the directors of the company had gone to attend this particular exhibition. Since all the directors were present in London, they decided to hold the Board meeting in London itself.

Company believes it carries a deep social responsibility. Its products touch and heal human lives. There is a premium in making products of the highest quality. This quality needs to be derived from a consistently high operating benchmark.

Company aims to transform rural India by creating sustainable and replicable programs around economic, social and infrastructure development targeted at uplifting the poorest of the poor residing in remote villages of India. Company has made a donation of Rs. 1,00,000 to Swachh Bharat Kosh. This payment is debited to statement of profit and loss.

Company maintained its upward growth momentum amidst very challenging and dynamic global economic conditions in the year gone by. The Company ended the fiscal on a high note registering significant growth across its key markets.

CURE Pharma Pvt. Ltd called its AGM ON 25-08-2017 and at the meeting, the quorum was complete. The proceedings of the meeting started and agenda items were taken up. After completing few agenda items, the Chairman, Mr. S, adjourned the meeting on his own without even seeking the consensus of the members who were present at the meeting. Mr. S suggested to schedule this adjourned meeting at a later date which would be decided by the Board of Directors.

CURE Pharma Pvt. Ltd. provides taxable as well as exempted medicines. Turnover of CURE Pharma Pvt. Ltd. during the month of December, 2017 is as under:

<b>Particulars</b>	<b>Rs.</b>
Value of exempted supply of medicines	60,00,000
Value of taxable supply of medicines	1,28,00,000
Value of Zero rated taxable supply of medicines	32,00,000
Supply made for personal use	20,00,000
<b>Total</b>	<b>2,40,00,000</b>

**Details of Input tax for the month of December, 2017 are as under:**

<b>Particulars</b>	<b>CGST (Rs)</b>	<b>SGST (Rs.)</b>	<b>IGST (Rs.)</b>
Total Input tax available	4,32,000	4,32,000	2,16,000
The above Input tax on input includes the following:			

(i) Input tax on input exclusively used for supplying exempted medicines	72,000	72,000	28,800
(ii) Input tax on input of medicines exclusively used for supplying taxable medicines (including Zero rated supplies)	2,16,000	2,16,000	14,400
(iii) Input tax availed on inputs which are not eligible for credit u/s. 17(5)	72,000	72,000	25,200
(iv) Input tax on input exclusively used for supplying medicines for personal use.	43,200	43,200	21,600

The Company recorded consolidated sales of Rs. 30 Crores in FY 2018, a growth of 24% over FY 2017

Net profit increased by 13% to Rs. 90 Lakhs as compared to 80 Lakhs in FY 2016

Keeping the long term vision and cost competitiveness in mind, the Company continues to invest in creating new manufacturing facilities as well as augmenting existing manufacturing facilities globally to aid efficiencies as well as build capacities to meet the future demand. It also remains committed to investing in technology, automation and safe-guarding intellectual property. The Company invested Rs. 20 lakhs on for capital investment during FY 2017-18

Mr. W is working as Chief Accountant in CURE Pharma Private Limited. The Board of Directors of the company propose to charge him with the duty of ensuring compliance with the provisions of the Companies Act, 2013 so that books of account can be properly maintained and Balance Sheet and Profit and Loss Account can be prepared as per the provisions of law

Statement of Profit & Loss of CURE Pharma Pvt Ltd., a resident company shows net profit of Rs. 90,00,000 for the financial year ended on 31<sup>st</sup> March, 2018 after debit/credit of the following items.

**A. Credited to the statement of Profit and Loss:**

- a. Rent received from vacant land Rs.1,20,000.
- b. Rent received (gross) from a commercial property owned by the company- Rs. 2,50,000 (Tax deducted by tenant @ 10%).
- c. Interest received on income tax refund Rs. 1,00,000

d. Profit on sale of unused land Rs. 10,00,000

**B. Other Items Debited to the Statement Profit and Loss:**

a. Depreciation charged to the Statement of Profit and Loss Rs. 12,00,000

b. Contribution to Political party amounting to Rs.2,00,000 paid in cash.

c. Payment made to transporter Rs. 1,00,000 by account payee cheque, but no tax has been deducted at source. (Transporter is having PAN and furnished declaration that he is covered under Section 44AE and is not having more than 10 goods carriages at any time during the previous year).

d. Provision made for income tax Rs. 3,00,000.

e. Loss of Rs. 2,50,000 incurred by way of trading in futures and options (derivatives) in shares in a recognized stock exchange.

**Additional information:**

1. Depreciation as per Income tax Act, 1961 Rs. 20,00,000. However, while calculating such depreciation, rate applicable to computers has been adopted for (i) accessories like printers and scanners, and (ii) EPABX. The written down value of these items as on 01.04.2017 is given below:

a. Printers and scanners Rs. 3,00,000

b. EPABX Rs. 5,00,000

2. Additional Depreciation on Plant and machinery purchased for Rs. 20,00,000 on 15<sup>th</sup> October, 2017 has not been considered while calculating depreciation as per Income tax Act, 1961 as above.

3. Provision for audit fee Rs. 1,00,000 was made in the books for the year ended on 31<sup>st</sup> March, 2017 without deducting tax at source.

Such fee was paid to auditors in September, 2017 after deducting tax at source under Section 194J and tax so deducted was deposited on 6<sup>th</sup> October, 2017.

4. The company during the financial year 2014-15 made a provision for an outstanding bill of Rs. 1,00,000 for purchase of raw material. Out of such outstanding amount the company has paid Rs. 50,000 in cash on 15<sup>th</sup> September, 2017.
5. During the year the company has issued 1,00,000 equity shares of face value of Rs. 10 each at premium of Rs. 90 each. The fair market value is Rs. 60 per share at the time of issue of shares.
6. Unused land which was sold during the year for Rs. 50,00,000 was acquired by the company in the financial year 2013-14 for Rs. 40,00,000.

**PART A - Multiple Choice QUESTION (2 Marks each).**

1. Which of the following activities does not amount to supply?
  - (a) An architect in India seeks legal advice from his brother settled in London free of cost with regard to his family dispute.
  - (b) A Resident Welfare Association provides the service of depositing the electricity bills of the residents in lieu of some nominal charges.
  - (c) A dealer of air-conditioners permanently transfers an air conditioner from his stock in trade on which ITC has been taken, for personal use at his residence.
  - (d) An electronic commerce operator in India seeks legal advice for its business from its head office in US free of cost.
2. A taxable person has made following supplies in January, 2018 – Sales within the State – Rs. 2,00,000. Exports out of India– Rs. 60,000. Supplies to SEZ located within the State – Rs. 40,000. He does not intend to clear goods under Letter of Undertaking (LUT) or bond. The input tax credit available to him during January, 2018 – IGST – Nil. CGST – Rs.10,000. SGST – Rs.20,000. There is no opening balance in his electronic cash ledger or electronic credit ledger. Tax rates are – SGST – 9%, CGST – 9%, IGST – 18%. How much amount is payable by him in cash?
  - (a) CGST – 8,000 SGST – Nil
  - (b) CGST – 11,600 SGST – 1,600

- (c) CGST – 8,000, SGST – Nil, IGST – 5,200
  - (d) CGST – 8,000 SGST – Nil, IGST – 16,000
3. Which of the following supplies are exempt from GST?
- (1) Warehousing of jaggery
  - (2) Loading and unloading of green tea packets
  - (3) Warehousing of coffee beans
  - (4) Warehousing of rice
- (a) (1) and (3)
  - (b) (1), (2) and (3)
  - (c) (3) and (4)
  - (d) (1) and (2)
4. Which of the following services are OIDAR [Online Information Database Access and Retrieval] services?
- (1) Online course consisting of pre-recorded videos and downloadable pdfs plus support from a live tutor
  - (2) Pdf document manually emailed by provider
  - (3) Pdf document automatically downloaded from site
  - (4) Pdf document automatically emailed by provider's system
- (a) (1) and (3)
  - (b) (1), (3) and (4)
  - (c) (3) and (4)
  - (d) (2), (3) and (4)

5. A taxable person is engaged in supplying restaurant service in Delhi. In the preceding financial year, it has an aggregate turnover of Rs. 90 lakh from restaurant service and Rs. 10 lakh from supply of farm labour and has earned a bank interest of Rs. 10 lakh. Such person wants to opt for composition scheme. Which of the following statements are true in context of composition scheme?

- (1) Aggregate turnover of the taxable person in the preceding FY is Rs. 90 lakh.
- (2) Aggregate turnover of the taxable person in the preceding FY is Rs. 100 lakh.
- (3) Aggregate turnover of the taxable person in the preceding FY is Rs. 110 lakh.
- (4) Supply of farm labour and supply of service of extending loans/deposits does not make the taxable person ineligible for composition scheme.
- (5) Supply of services other than restaurant service - supply of farm labour and supply of service of extending loans/deposits - by the taxable person makes it ineligible for composition scheme.

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

6. Stylish Technology Limited engaged in the manufacturing of mobiles and chargers. The company's Board of Directors consist of 8 directors i.e. Mr. Ram (Director), Mr. Shyam (Director), Mr. Mohan (Director), Mr. Vijay (Director), Mr. Naresh (Director), Mr. Ashish (Independent Director), Mr. Neeraj (Independent Director) and Mr. Anil (Small shareholders' director). Calculate the number of directors to retire at Annual General Meeting held on 15<sup>th</sup> September, 2017.

- (a) One
- (b) Two
- (c) Three

- (d) Four
7. DEF Limited engaged in producing and manufacturing cotton. DEF Limited is having one subsidiary XYZ Limited. The company DEF Limited wants to appoint an Independent Director on its Board during the financial year 2018-19. The company has CV of four persons who are interested for appointment as Independent Director in DEF Limited. Advise the company regarding the selection of the independent director amongst the following four persons whom they can appoint:
- (a) Mr. Rajeev who is promoter of XYZ Limited
  - (b) Mr. Smith who had pecuniary relationship with DEF Limited during the F/y 2016-17 and 2017-18.
  - (c) Mr. John whose relative hold the position of Key Managerial personnel in XYZ Limited in the F/Y 2014-2015.
  - (d) Mr. Vishal along with his relatives holds 2.5% of the total voting power of the DEF
8. XYZ Limited is an unlisted company engaged in manufacturing of fabrics. The turnover of the company as on the last date of latest audited financial statements is Rs. 100 Crore. The company is having 7 directors in its Audit Committee. Advise the company by choosing the correct option for the company regarding requirement of appointment of independent director and minimum number of independent directors if required?
- (a) The appointment of independent directors is mandatorily required under XYZ Limited and the minimum number of independent directors is two.
  - (b) The appointment of independent directors is mandatorily required under XYZ Limited and the minimum number of independent directors is three.
  - (c) The appointment of independent directors is mandatorily required under XYZ Limited and the minimum number of independent directors is four.
  - (d) The appointment of independent directors is not mandatorily required under XYZ Limited.

9. The turnover of XYZ Ltd. as on the last date of latest audited financial statements is 150 crore rupees. An Intermittent vacancy of the independent director arises on 15<sup>th</sup> June, 2018 in the company. The immediate Board meeting was held on 14<sup>th</sup> August, 2018. The vacancy of the independent director shall be filled up by-----:
- a. Appointment of independent director is not mandatory.
  - b. 14<sup>th</sup> August, 2018
  - c. 14<sup>th</sup> September, 2018
  - d. 14<sup>th</sup> October, 2018
- 10 State among the following companies, which company shall not annex secretarial audit report with its board report-
- (a) Listed Company
  - (b) Public company having paid up share capital of 20 crore or more
  - (c) Public company having a turnover of 250 crore or more
  - (d) Public company having paid up share capital of 50 crore or more

## **PART B**

11. Compute the Company's income under the head Profits and Gains of Business or Profession. (giving reasons for treatment of each item) Ignore MAT provisions. **(10 Marks)**
12. Compute the total income of CURE Pharma Pvt. Ltd. for the A.Y. 2018-19. Cost inflation Index - FY 2013-14: 220; FY 2017-18: 272. **(5 Marks)**
13. What would be the entitlement of input tax credit of CURE Pharma Pvt. Ltd. for month of December, 2017 under the CGST Rules and also calculate the amount to be added to output tax liability of CURE Pharma Pvt. Ltd. **(7 Marks)**
14. Examine the validity of Chairman's decision to adjourn the meeting. **(3 Marks)**
15. Advise on the Board's decision regarding its meeting held in London. **(2 Marks)**
16. Draft a "Board Resolution" for charging Mr. W, Chief Accountant, with the duty of Compliance with the provisions of Companies Act, 2013 regarding books of accounts and Balance Sheet and Statement of Profit and Loss. **(3 Marks)**