

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

SUGGESTED ANSWERS / HINTS

Case Study 5

A. Multiple Choice Questions

Answer 1

(d)

Answer 2

(ii)

Answer 3

(c)

Answer 4

(c)

Answer 5

(a)

Answer 6

(a)

Answer 7

(d)

Answer 8

(d)

Answer 9

(a)

Answer 10

(c)

Answer 11

(a) (i) Risk Control Table for Purchase to Pay process:

Area	Risk	Control	Preventive / Detective	Manual / Automated / Entity Level
Vendor Creation	Unauthorized vendor creation	On receipt of the requirements from the vendor, the procurement team verifies the same to ensure validity of documents shared.	Preventive	Manual
Vendor Creation	Unauthorized vendor creation	Once the data requirements are fulfilled, the draft agreement is prepared by legal department and	Detective	Manual

		the proposal is shared for senior management approval.		
PR & PO creation	Unauthorized PRs	The PR is raised in IJK tool which has in – built workflow for PR processing. The PR is sent to supervisor of the requestor for business approval.	Preventive	Automated
Goods receipt	Under / over receiving	On delivery of the requested item, requester performs receipt by collecting the items and informing procurement team over email that requested items have been received.	Preventive	Manual
Goods receipt	Under / over receiving	Designated personnel verify the delivery challan against invoice and unload the goods.	Preventive	Manual
Payment	Over / under payment	Finance checks the PO raised in WSM and matches the same with invoice received. On satisfactory verification of quantity and price, the invoice is approved and payment is released.	Preventive	Manual

(ii) **Risk Control Table for Order to Cash process:**

Area	Risk	Control	Preventive / Detective	Manual / Automated / Entity Level
Customer Creation	Unauthorized customer creation	Directors and above designated personnel send requests to Receivables team. Receivables team obtains the required government proofs and tax registrations from the prospective customer. These documents are vetted by the Receivables team and they provide their approval.	Preventive	Manual
Customer Creation	Unauthorized customer creation	The agreement is then sent for BOD review and upon approval, shared with the customer for their signatures and approval. Once approved and signed, the customer is added to the list of customers in WSM application.	Detective	Manual

Customer Invoicing Services –	Inaccurate revenue recognition	The amount is based on the billable hours charged which is recorded in the timesheet and appears as work in progress (WIP) amount. Timesheets are recorded in the WSM ERP. There is an approval workflow built into WSM ERP for reviewing and approving timesheets.	Preventive	Automated
Customer Invoicing – Manufacturing	Sales returns due to bad quality	Quality checks are performed and invoice is generated at factory / warehouse from WSM ERP.	Detective	Manual
Customer Invoicing	Inaccurate revenue recognition	Invoice once generated in the WSM system cannot be changed.	Preventive	Automated
Accounts Receivable	Bad debts	The Receivables team uses the WSM application to extract the Debtors Ageing Report.	Detective	Automated

(b) Changes required in process and controls due to GST:

Area	Process Change	New Control
Vendor Creation	<p>a. Check for the status of proposed vendor and highlight in case of composition and un-registered vendors. In these cases, PQR Ltd. will not receive input tax credit of the tax paid. Hence these will need to be highlighted and discussed with tax / legal team before accepting.</p> <p>b. Obtain and record the 'rating' of the prospective vendor. In case of 'blacklisted vendors' discuss the same with management and decide (Section 149 of the CGST Act, 2017).</p>	Procurement team should maintain a checklist highlighting the items to be reviewed for vendor creation and should record sign off and completion of check list items against every new vendor request.
PR & PO	<p>a. In the given case PO is raised separately by the Procurement team i.e., the data from the PR does not flow into the PO. Hence PQR Ltd. may consider incorporating controls in the WSM application around creation of PO to ensure that PO cannot be raised without HSN.</p>	PO cannot be raised without HSN.
Goods receipt - In case of non-factory items & factory items	<p>a. Currently, the receiving is outside the system and the receipt confirmation is only an email from the requestor. PQR Ltd. may consider incorporating the receiving functionality into WSM application so that matching with the PO and invoice can be performed.</p>	WSM application performs matching of PO-GRN-Invoice.

Purchase invoices and Payment	<ul style="list-style-type: none"> a. IGST and customs duty is charged on imports. Same to be checked by Finance during review of invoices. b. Bill of Supply should be asked from vendors in case of non-taxable purchases (Section 31(3)(c) of the CGST Act, 2017). c. Invoices to be checked for tax payable under reverse charge d. Invoices of unregistered suppliers to be identified as in this case, PQR Ltd. will have to issue a tax invoice in terms of section 31(3)(f) of the CGST Act, 2017. e. While making payment of invoices liable to be taxed under reverse charge, payment voucher will have to be issued at the time of making payment to the vendor. 	Manual review of invoices
Reconciliation	<ul style="list-style-type: none"> a. Second proviso to Section 16(2)(d) of the CGST Act, 2017: In case of non-payment to supplier for 6 months, the input tax credit will be added to the tax liability. Hence, check required on outstanding vendor payments. 	Prepare and review Creditor Ageing Report to identify dues approaching 6 months.
Customer Creation	Obtain and record the 'rating' of the prospective customer. In case of 'blacklisted customers' discuss the same with management and decide (Section 149 of the CGST Act, 2017).	Finance team should maintain a checklist highlighting the items to be reviewed for customer creation and should record sign off and completion of check list items against every new customer request.
Customer Invoicing	<ul style="list-style-type: none"> a. Revisit customer agreements to review the bill to & ship to clauses. These will decide the place of supply and in turn determine the nature of tax namely, CGST+SGST or IGST to be applied on a transaction. b. In case of continuous supply of services and continuous supply of goods, time limits for issuing invoices need to be reviewed in terms of section 31(4) and section 31(5) of the CGST Act, 2017. c. The invoices issued should be in accordance with the time limits and other provisions prescribed under section 31 of the CGST Act, 2017 read with rule 46 of the CGST Rules, 2017. 	NA

Answer 12

Application Name	Audit relevancy	Reason
QWERTY	Yes	Time sheets contain working hours charged by employees based on which customer billing is performed. Hence this application is required to be included.
ASDF	Yes	Used for book keeping and financial reporting, hence has direct impact on the audit and has to be included.
PQRT	Yes	Since PQR Ltd. is also having manufacturing, it need to keep cost records.
CRT	No	No impact on financial data and hence not in scope. It is used for operational purposes.
VMS	Depends	Audit team should further check whether any financially relevant data is stored or generated by VMS.
SWIPE	No	Swipe data does not have financial impact. It is used for operational purposes.

Answer 13

A - Statement of Profit and Loss:

Particulars	Amount (Rs. In crores)	Amount (Rs. In crores)
Revenue		1000
Production Expenses	550	
Depreciation	100	
Interest	<u>50</u>	<u>(700)</u>
Profit before tax		300
Current tax (Working Note: 1)		(112.48)
Deferred Tax Asset created on account of difference in depreciation (Working Note: 2)		<u>8.65</u>
Profit after tax		196.17
Other Comprehensive Income:		
Items that will not be re-classified:		
Actuarial Gain		30
Income tax relating to items that will not be re-classified (Working Note: 3)		<u>(10.38)</u>
Total Comprehensive income		<u>215.79</u>

Working Note 1 (a): Computation of Total Income as per the normal provisions of the Income-tax Act, 1961:

Particulars	Amount (Rs. In crores)	Amount (Rs. In crores)
Profit Before Tax		300
Add:		
Depreciation as per books of account	100	

Expense related to patent u/s 115BBF	<u>50</u>	<u>150</u>
		450
Less:		
Depreciation as per Income-tax Rules, 1962	75	
Income chargeable u/s 115BBF	<u>75</u>	<u>(150)</u>
Total income [excluding income chargeable to tax u/s 115BBF]		<u>300</u>

Computation of Tax liability as per the normal provisions of the Income-tax Act, 1961:

Particulars	Rs. in crores
Tax payable	
On Income chargeable to tax u/s 115BBF 10% of Rs. 75 crores	7.50
On other income of Rs.300 crores @ 30%	<u>90.00</u>
	97.50
Add: Surcharge@12%	<u>11.70</u>
	109.20
Add: Education cess and SHEC@3%	<u>3.28</u>
Total tax liability	<u>112.48</u>

Working Note: 1 (b): MAT calculation:

Particulars	Amount (Rs. In crores)	Amount (Rs. In crores)
Net profit as per the statement of profit and loss		300
Add: Depreciation as per books of account	100	
Expense related to patent u/s 115BBF	50	
Actuarial Gains	<u>30</u>	<u>180</u>
		480
Less: Depreciation as per books of account	100	
Income chargeable u/s 115BBF	75	<u>(175)</u>
Book Profit		305

Computation of Minimum Alternate Tax (MAT) liability:

Particulars	Rs. in crores
Tax payable	
On Income chargeable to tax u/s 115BBF (10% of Rs. 75 crores)	7.50
On book profit of Rs.305 crores @ 18.5%	<u>56.43</u>
	63.93
Add: Surcharge@12%	<u>7.67</u>
	71.60
Add: Education cess and SHEC@3%	<u>2.15</u>
MAT liability	<u>73.74</u>

Since the tax liability under the normal provisions of the Income-tax Act, 1961 is higher than the MAT liability, the total tax liability would be Rs.112.48 crores. Advance tax of Rs.50 crores has to be deducted to arrive at the net tax liability of Rs.72.48 crores.

Working Note 2:

$$\text{DTA} = \text{Rs. } 100 \text{ crore} - \text{Rs. } 75 \text{ crore} = \text{Rs. } 25 \text{ crore} \times 34.61\% = \text{Rs. } 8.65 \text{ crore}$$

Working Note 3:

$$\text{Rs. } 30 \text{ crore} \times 34.61\% = \text{Rs. } 10.38 \text{ crore}$$