



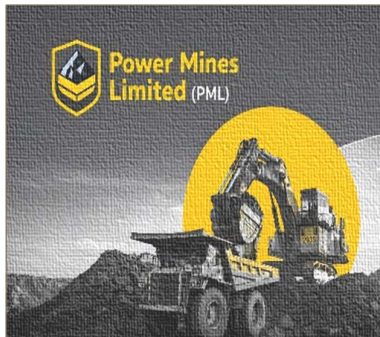
## PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

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### QUESTIONS

#### Case Study 1



Power Mines Limited (PML) and Deep Minerals Limited (DML) are companies engaged in the extraction of coal and other minerals from coal fields owned and operated independently by them. Each entity has its own ownership structure, management team, and operational processes, and undertakes mining activities such as exploration, extraction, processing, and sale of coal and minerals at its respective

sites. Both companies independently bear the operational, environmental, and regulatory risks associated with their mining operations. While they operate within the same industry and are subject to similar statutory and environmental regulations, there is no operational or financial interdependence between PML and DML in respect of their standalone mining activities.

In April 2025, PML and DML jointly acquired an underground coal mine named "Sigma", located in Korba, Chhattisgarh, in the ownership ratio of 55:45. Under this joint arrangement, both companies agreed to share services and related costs, and all key decisions relating to the Sigma coal mine require the unanimous consent of both parties. No separate legal entity was incorporated for this arrangement. Coal extraction at the Sigma mine is carried out using large-scale machinery capable of extracting up to 95% of the available coal reserves, with the remaining coal being irrecoverable and left in the mine until

decommissioning. As per applicable laws, the mine is required to be decommissioned at the end of its useful life. The Sigma coal mine is expected to contribute at least 25% of PML's projected revenue and is therefore considered strategically important for the company's long-term growth.

In July 2025, PML hired a few tipper lorries from M/s Heavy Movers for transporting coal and minerals from the mining pit head at the Sigma mine to the railway siding for a duration of three months. The vehicles were provided along with drivers; however, the fuel cost was to be borne by PML. When the bill was raised, M/s Heavy Movers treated the



transaction as an exempt supply, contending that it fell within the exemption entry relating to transportation of goods by road except by a Goods Transport Agency (GTA) under the relevant exemption notification. However, Mr. Shambu Singh, the accountant at PML, disagreed with this position. He was of the view that the arrangement constituted a taxable supply under the GST law and was not covered under the exemption claimed by the supplier. In order to ensure full legal compliance and avoid future disputes, he insisted that PML obtain a revised invoice from M/s Heavy Movers charging applicable GST.

Apart from the Sigma mine, PML also operates the Koyla coal mine in Chirmiri, Chhattisgarh, which it holds on lease from the State Government. The existing mining license for the Koyla mine is valid until November 2025, after which PML is required to obtain renewal approval to continue operations. At present, the Koyla coal mine contributes approximately 55% of PML's current revenue and is one of the company's key profit-generating mine. However, the license renewal process has been delayed, creating significant uncertainty regarding the continuity of operations. Mr. Ramdhar Paswan, the Chief Executive Officer of PML, is concerned that the prolonged delay in securing the license renewal is causing financial strain and adversely affecting the company's reputation. Further details are provided in **Annexure 1**.

Amid these developments, the senior management of DML reached out to Mr. Paswan to gain a clearer understanding of the situation. While DML expressed concern regarding the issues surrounding the Koyla mine, it indicated that it was not unduly worried about the joint arrangement for the Sigma mine, given the dual-party oversight mechanism in place and the continuous compliance and due process followed at the Sigma site. However, DML sought assurance that the issues relating to the Koyla mine would not escalate or result in reputational damage that could adversely impact its association with PML. DML's management also indicated that, in the event of any adverse reputational spillover, it might reconsider and even rescind the joint arrangement for the Sigma mine.

In the meantime, CA. Prakash Sarma of Sarma & Sarma Associates, the statutory auditor of PML for the financial year 2024-25, instructed his audit team to conduct a detailed examination of PML's financial records and internal control systems in light of the ongoing litigation relating to the Koyla coal mine. As part of this examination, the audit team carried out an extensive review of wage records, particularly in view of the labour unrest at the mine site. This review led to the identification of certain illegal practices, including the employment of children below the age of 14 years at the mine. These findings were formally communicated by CA. Prakash Sarma to PML's Legal and Compliance Officer, Ms. Nupur Taleti. For details refer **Annexure 2**. However, Ms. Taleti responded that the examination of labour law compliance fell outside the scope of a financial audit, a stance that was also adopted by Mr. Paswan and other members of senior management, without providing an adequate explanation to the auditor.

As rumors surrounding the High Court's impending judgment in the Koyla mine case spread in the market, investor sentiment became highly uncertain. While some market experts expected a favourable outcome for PML, others anticipated an adverse ruling. Given the significant contribution of the Koyla mine to PML's revenue, these uncertainties resulted in high volatility in the company's share price.

In order to protect his investment, Mr. Govind Kanti, an investor of PML, decided to hedge his exposure by purchasing both Call and Put Options for 100 shares of PML. Accordingly, on August 1, 2025, he purchased a three-month Call Option with a strike price of ₹ 84 at a premium of ₹ 4 per share, and a three-month Put Option with a strike price of ₹ 80 at a premium of ₹ 2 per share.

Ahead of the High Court's decision, investor concerns intensified, and on Friday, October 31, 2025, PML's share price fell sharply to ₹ 70, reflecting market expectations of an unfavorable ruling. Subsequently, on November 3, 2025, the High Court passed an adverse order against PML, holding the company responsible for extensive environmental damage arising from illegal mining activities.

Following this order, the State Government declined to renew the license to operate the Koyla coal mine, resulting in a significant loss of revenue for the company. Due to the resulting reputational damage, DML withdrew from the joint arrangement for the Sigma coal mine with effect from April 2026, leading to the suspension of operations at the Sigma site as well.

These developments pushed PML to the brink of bankruptcy, as both mine sites that had been major contributors to its revenue ceased operations. From August 2026, the company's operations were permanently discontinued. Consequently, the secured creditors of PML filed a winding-up petition before the High Court, and in December 2026, the High Court passed a winding-up order against the company. The workers of PML opposed the winding-up petition and also filed an appeal against the winding-up order, expressing uncertainty as to whether their appeal would be considered during the winding-up proceedings.

## Annexure 1



## City Times

**License on Hold: How Legal and Labour Unrest Threaten PML's Koyla Mine**

*Raipur, 15<sup>th</sup> May 2025* – The Chhattisgarh State Government has put on hold the renewal of the mining licence for Power Mines Limited (PML) in respect of the “Koyla” coal mine. The existing licence remains valid until November 2025, after which PML will require fresh approval to continue operations at the mine. Environmental activists have alleged that PML has

been illegally carrying out mining activities beyond the area allotted by the State Government. It is further alleged that these activities have, over the years, caused irreversible environmental damage to the surrounding hills and forest areas.

Over the past month, the State High Court has been actively hearing the matter pursuant to a Public Interest Litigation (PIL) filed against the company. At the same time, the workers’ union has protested against unsafe working conditions at the mine site. The mine shafts are old and reportedly prone to collapse, posing a serious risk of trapping workers underground. The workers’ union is influential and has threatened strong action unless immediate remedial safety measures are implemented by the company.

As news of the litigation and the workers’ agitation spread, public anger escalated, resulting in day-long rallies across the town, which forced schools and businesses to remain closed. The issue has attracted widespread attention, particularly because nearly 30% of the town’s local population is employed by the company. Consequently, the matter is being closely monitored by the public, environmental groups, and the government.

According to a government source closely associated with the matter, the State Government is considering granting a fresh mining licence to one of PML’s close competitors, instead of renewing the licence in favour of PML.

## Annexure 2

**Prakash Sarma/ Partner / Sarma & Sarma Associates**

**From:** "Prakash Sarma" <psarma@ssa.com>  
**Sent:** 25<sup>th</sup> May 2025 10:00  
**To:** "Nupur Taleti" <ntaleti@pml.com>  
**Cc:** "Ramdhar Paswan" <rpaswan@pml.com>  
**Subject:** Critical Compliance Issue Identified During Audit Review

**Attachments:**

Dear Nupur,

We have examined the wage records of your company across all mining sites. In view of the ongoing legal proceedings relating to the Koyla coal mine, we carried out an extensive review of labour records at that site. During this review, it came to our attention that the company is employing children below the age of 14 years in its mining operations.

Upon inquiry with the site supervisor, Mr. Keshav Kumar, we were informed that these children are not deployed in underground mine shafts and are engaged only as casual labour for manual work above ground. Notwithstanding this explanation, our verification indicates that approximately 23% of the total workforce at the Koyla mine site comprises children under the age of 14 years. Similar violations have also been identified at other mining sites, particularly those where the company is the sole operator.

These practices constitute clear violations of applicable labour laws, under which the employment of child labour is a punishable offence. In our capacity as the Legal and Compliance function of PML, we consider it necessary to bring this matter to your immediate attention. You are requested to respond to this notification at the earliest, providing your explanation for the employment of child labour and addressing the potential legal and regulatory consequences that such violations may have on the company's business operations.

Regards,

*P Sarma*

**CA. Prakash Sarma**

**Multiple Choice Questions**

- 1.1 With reference to the issue regarding delay in renewing license for the Koyla coal mine, how should PML engage with DML?
- (a) Ignore them as they are not involved in the Koyla mine operations.
  - (b) Engage them with minimum effort as they are not involved in the Koyla mine operations
  - (c) Proactively engage with them to ensure they remain satisfied as they are potentially influential for PML
  - (d) Direct all legal notices to DML as they are in a joint arrangement for coal mines
- 1.2 How should PML engage with the worker's union regarding the issues at the Koyla coal mine site?
- (a) PML should manage the issue closely by engaging with the union leaders and involving them in any remedial measures.
  - (b) PML should engage with the worker's union only through their legal counsel as they are only marginal players in the business.
  - (c) PML should keep provide worker's union with safety assurance reports periodically that will keep them satisfied about the company's safety norms.
  - (d) PML should keep the worker's union informed about the high court decision as they are the affected party in the Public Interest Litigation that has been filed.
- 1.3 With reference to the issue regarding delay in renewing license for the Koyla coal mine, how would you classify equipment suppliers for the Koyla mine?
- (a) Influential players with high power low interest
  - (b) Marginal players with low power low interest
  - (c) Affected players with low power high interest
  - (d) Key players with high power high interest

- 1.4 Which of the following is true regarding CA. Prakash Sarma's audit issue about child labor employed in the Koyla mine site?
- (a) Nupur Taleti and the other members of the senior management are correct that this issue falls beyond the scope of CA. Prakash Sarma's financial audit.
  - (b) CA. Prakash Sarma can ignore this non-compliance as it relates to laws and regulations that do not have direct effect on the determination of material amounts and disclosures in the financial statements.
  - (c) CA. Prakash Sarma should undertake specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on financial statements. If he concludes that such non-compliance has a material effect on the financial statements and the same has not been adequately reflected in the financial statements by the company, he should express an adverse or qualified opinion on the financial statements.
  - (d) CA. Prakash Sarma should withdraw from the audit engagement altogether since the senior management is unwilling to provide appropriate information to explain this issue.
- 1.5 Determine Mr. Kanti's ending position at the end of 3 months on October 31, 2025.
- (a) Loss of ₹ 600
  - (b) Gain of ₹ 600
  - (c) Loss of ₹ 400
  - (d) Gain of ₹ 400
- 1.6 **Assertion (A):** The joint acquisition of the Sigma coal mine by PML (55%) and DML (45%), structured as a shared-control arrangement without creating a separate legal entity, represents a corporate-level growth initiative within the existing coal industry rather than merely a market penetration strategy.

**Reason (R):** The joint arrangement strengthens PML's position by potentially reducing competitive rivalry in the coal industry through improved economies of scale and cost efficiencies.

**Options**

- (a) Both A and R are true, and R is the correct explanation of A.
- (b) Both A and R are true, but R is not the correct explanation of A.
- (c) A is true, but R is false.
- (d) A is false, but R is true.

**Descriptive Questions**

- 1.7 (i) DISCUSS whether the joint arrangement between Power Mines Limited and Deep Minerals Limited is a joint operation or joint venture.
- (ii) DISCUSS the accounting for the unextracted coal and minerals as per Ind AS 16 and Ind AS 37 with respect to aforesaid "Sigma" coal mine.
- 1.8 EXAMINE under the provisions of the Companies Act, 2013 whether the appeal filed by the workers would succeed and their dues/interest will be protected in priority?
- 1.9 EXAMINE the correctness of Mr. Shambu Singh's assessment while recording the expense for rental for tipper lorries hired from M/S Heavy Movers.

**Case Study 2**

Crystal Clear Containers Limited (3CL) was incorporated in 1968 with a clear vision to manufacture high-quality consumer glassware that combines durability, safety, and refined design. Head-quartered in Bharuch, Gujarat, the company operates a fully integrated manufacturing facility equipped with modern technology to ensure superior product standards.

Over nearly five decades, 3CL has built a strong and trusted brand in the Indian market, particularly known for its technologically advanced, heat-resistant, and crack-proof glassware. Its consistent focus on innovation, quality control, and

customer satisfaction has enabled it to maintain a competitive edge in the industry.

In 1996, reflecting its sustained growth and commitment to corporate governance and transparency, 3CL was listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The listing marked a significant milestone in its corporate journey, strengthening its credibility and enhancing access to capital markets to support expansion, modernization, and long-term strategic growth.

The company manufactures a diverse portfolio of products including baking dishes, tea and coffee mugs, teapots, storage containers, heat-resistant cookware, and specialty serving glassware. Its products are widely appreciated for their superior strength, resistance to thermal shock, ergonomic designs, and safety features that enhance ease of handling. 3CL caters to both retail customers and institutional buyers such as hotels, restaurants, cafes, and organized retail chains. Continuous investment in advanced manufacturing processes, quality assurance systems, and product innovation has enabled the company to maintain its leadership position in the premium segment of the consumer glassware industry.

The consumer glassware industry is highly competitive and largely characterized by price sensitivity, the presence of numerous domestic and international players, and limited differentiation in basic product categories. In such a market structure, sellers often act as price takers, with market forces largely determining pricing levels. Despite these constraints, 3CL strives to differentiate itself through product quality, design innovation, brand positioning, operational efficiency, and supply chain optimization. The company focuses on cost management, technological upgradation, and customer-centric product development to sustain profitability and shareholder value.

The company's vision is to be a globally trusted leader in innovative and safe glassware solutions, delivering superior value to customers, shareholders, and society. Its mission is to manufacture high-quality, durable, and aesthetically designed glassware products using advanced technology and sustainable

practices, while ensuring customer satisfaction, operational excellence, and long-term value creation for all stakeholders.

3CL follows an annual budgeting process in September for the forthcoming financial year. The Budget Committee, chaired by the CEO, Mr. Pritam Kapoor, consists of Mr. Nagraj Naidu (Head – Production), Mrs. Anita Sharma (Head – Marketing), and Ms. Neha Shah (Head – Finance). On 5th September 2024, the Committee convened to deliberate on key aspects including projected sales volumes, cost structures, operational capacity utilization, and the sustainability of profit margins for the upcoming year.

Regarding one of its core product lines: baking glassware, 3CL operates in a highly competitive market where firms, including 3CL, are largely price takers. The prevailing average selling price was ₹ 500 per unit, with annual sales of approximately 80,000 units. The parameters per unit cost were as follows: each unit requires three hours of production time; direct material cost amounts to ₹ 150; direct labour cost amounts to ₹ 90; and variable overheads amount to ₹ 60. In addition, the annual fixed overheads attributable to this product line amounted to ₹20,00,000. These cost and pricing assumptions formed the basis for preparing the annual budget for F.Y. 2025–26. Detailed deliberations and viewpoints expressed by the Budget Committee during their 5<sup>th</sup> September 2024 meeting are provided in Annexure 1.

During the budgeting discussions, emphasis was placed on improving operational efficiency to protect margins in the face of price rigidity. To incentivize productivity improvements, employees in the production department were offered an enhanced labour rate along with a group bonus, payable upon achieving a targeted reduction in production time. The targeted reduction was successfully achieved during F.Y. 2025–26. Consequently, on 31<sup>st</sup> March 2026, a provision was created for the group bonus, since the obligation had crystallized upon achievement of the performance target. The company accordingly claimed a deduction for the bonus while computing its taxable income for F.Y. 2025–26.

However, the management chose to defer the actual payment of the bonus for six months to ensure that the reduced production time was sustainable and not

merely temporary. Upon confirmation that the improvement was permanent, the group bonus of ₹ 1,00,000 was paid in December 2026. During the assessment proceedings for A.Y. 2026–27, the Assessing Officer disallowed the deduction claimed for the bonus. Ms. Neha Shah, Head – Finance, contested the disallowance on the grounds that the liability had accrued in F.Y. 2025–26, since the performance condition had been fulfilled within that year.

Simultaneously, while undertaking the budgeting exercise, the management also revisited its long-term strategic roadmap. It observed that the domestic consumer glassware segment continued to face intense competition and sustained pressure on margins. Recognizing the structural maturity of this market, the Board, at its meeting held on 30th September 2024, resolved to adopt a two-pronged growth strategy. First, the Company decided to diversify into the manufacture of scientific equipment in order to strengthen and rebalance its product portfolio. Second, commencing from F.Y. 2025-26, it resolved to expand into international markets to widen its revenue base and mitigate risks arising from domestic competitive pressures.

The proposed product range includes laboratory glassware such as beakers, burettes, cones, condensers, distilling apparatus, flasks, funnels, slides, and various other specialized items. Although the manufacturing processes for consumer glassware and scientific equipment are not identical, 3CL's existing capabilities are expected to provide strategic support and reduce operational challenges in establishing this line of business. With increasing economic development and a growing emphasis on indigenous research and manufacturing, 3CL expects this market to witness sustained growth in the coming decades.

Following this strategic direction and after undertaking comprehensive market research and due diligence, the management decided to acquire Scientific Tools Limited (STL), a relatively new yet profitable company engaged in the bulk manufacturing of scientific equipment. STL's manufacturing unit is located approximately 8 kilometres from 3CL's facility in Bharuch, offering significant logistical and operational synergies.

Although STL had established operational infrastructure and a viable business model, it lacked the financial strength and scale necessary to pursue substantial expansion. Through this acquisition, 3CL would obtain immediate access to a fully functional manufacturing setup, thereby saving considerable time and capital expenditure that would otherwise be required to establish a new facility from scratch.

On 8<sup>th</sup> November 2024, 3CL made an offer to acquire STL at ₹85 per share. STL had 50 lakh issued and outstanding shares. During negotiations, however, STL's shareholders demanded a minimum consideration of ₹90 per share. The market price of STL's shares as of 6<sup>th</sup> November 2024 was ₹80 per share. The projected cash accruals of STL for the next three years were:

- 2025-26: ₹ 15 crores
- 2026-27: ₹ 18 crores
- 2027-28: ₹ 20 crores

3CL's weighted average cost of capital (WACC) is 10%. Miss Neha Shah, Head of Finance, was assigned the responsibility of valuing STL based on prevailing market expectations using appropriate valuation techniques and recommending an offer price that would be acceptable to both parties.

The acquisition was successfully completed in December 2024. Post-acquisition, 3CL refined its strategic positioning in the scientific equipment segment. Instead of continuing with bulk manufacturing alone, the company decided to focus on customized production tailored to the specific requirements of large laboratories, research institutions, and pharmaceutical companies. Given the specialized and specification-driven nature of such products, the management expected to command higher margins and strengthen its competitive positioning in this niche segment.

Subsequently, 3CL began receiving orders from multiple clients for customized equipment. One such order was placed by Lifesciences Research Private Limited (LRPL), Trivandrum, for the manufacture and supply of 150 highly specialized scientific apparatus. Since the equipment was intended for scientific

experimentation, the customer provided detailed technical drawings and specifications.

The order was finalized on 3<sup>rd</sup> January 2025. Immediately thereafter, production activities were commenced in accordance with the agreed technical specifications. As per the terms of the agreement, the entire order was required to be completed and delivered within a period of 12 months from the date of commencement.

Production progressed as planned, and approximately 50% of the ordered units were delivered by September 2025. However, in November 2025, LRPL requested a postponement of further deliveries citing liquidity constraints. The company further requested 3CL to suspend delivery of completed goods and discontinue production of the remaining items. In view of the deteriorating financial position of LRPL and continued non-payment of dues, 3CL initiated legal proceedings. A petition for winding up of LRPL was filed in late March 2026.

As on 31<sup>st</sup> March 2026, the exposure of 3CL relating to LRPL stood as follows:

- Scientific apparatus (Work-in-Progress): ₹ 1 crore
- Scientific apparatus (Finished Goods): ₹ 2 crores
- Trade Receivables from LRPL: ₹3 crores

As part of its long-term strategic initiative, during F.Y. 2025–26, 3CL also entered into an agreement with Gulf Glassware Inc. (GGI), a UAE-based company, for the supply of consumer glassware products. Under the agreement, 3CL is required to deliver the goods to Consumer Retail Limited (CRL), a company located in Karnataka, thereby integrating its domestic and international supply chain operations. GGI remits 40,000 UAE Dirham to 3CL in full settlement of this order.

CA. Nitin Joshi, the Internal Auditor, has joined 3CL to review internal controls across various departments. As a new joiner, he intends to focus on evaluating the internal check system within the company and has recorded certain observations, which are provided in **Annexure 2**.

## Annexure 1

Excerpt of the budget meeting deliberations on 5<sup>th</sup> September 2024

Neha

*"The Finance team has prepared a draft budget on a product-wise basis to provide better visibility into the profitability of each product line. Since the selling price is market-driven and we operate in a price-taking environment, there is limited flexibility on pricing decisions. Further, the average cost structure has remained largely stable over the past year. Accordingly, the draft budget has been prepared using the current average selling price per unit and the prevailing average cost per unit. As a reference point, I had circulated the detailed workings for the baking glassware segment earlier."*



Pritam

*"I have reviewed the projections and I am concerned that the estimated profit remains broadly in line with last year's performance. While I agree that we have minimal control over the selling price, we should explore strategies to enhance profitability. One option is to increase sales volumes. Anita, I would like Marketing to intensify its efforts to expand market reach and improve turnover. At the same time, we must also think beyond the current year's budget and align our actions with our long-term growth objectives."*



Anita

*"Certainly. To achieve higher sales volumes for baking glassware, we would require an incremental marketing allocation of ₹1,00,000 for the coming year. With targeted promotional campaigns and stronger channel engagement, we estimate that sales volume can increase by approximately 10% over the current annual sales level of 80,000 units. Strengthening brand visibility now will also help us sustain demand over the long term."*



Pritam

*"That appears reasonable. However, increasing volume alone may not be sufficient if margins remain under pressure. We must ensure that growth translates into improved profitability. Can we simultaneously explore cost optimization initiatives?"*



Neha

*"With respect to the cost structure, fixed costs are largely committed in the short term and offer limited flexibility. Therefore, the scope for cost reduction primarily lies in variable components such as direct materials, direct labour, and variable overheads. Any efficiency gains achieved now will improve our contribution margins and enhance our long-term cost competitiveness."*

**Nagraj**

*"From a production standpoint, the design specifications cannot be altered without affecting quality and brand positioning; therefore, direct material costs are unlikely to change. However, we can reduce production time per unit through value analysis and process improvement initiatives aimed at eliminating non-value-adding activities. This would improve labour productivity and reduce variable overhead cost per unit. To ensure employee participation and sustained performance improvement, we propose introducing a performance-linked incentive scheme. For the baking glassware line, this would involve an annual group bonus of ₹ 1,00,000 and an additional ₹ 10 per hour increase in the labour rate."*

**Pritam**

*"That seems like a balanced approach. Alongside cost efficiency and market expansion, we should also consider strategic options for long-term growth. Given the competitive nature of the consumer glassware market, it may be prudent to explore related diversification opportunities where we can leverage our existing expertise in glass manufacturing. For instance, expanding into specialized or industrial glass products—such as laboratory glassware, heat-resistant technical components, or premium customized solutions—could open new revenue streams with potentially higher margins. Entering adjacent markets would allow us to reduce dependency on a single product category and strengthen our overall risk profile."*

**Neha**

*"That is a valid point. A related diversification strategy would enable us to capitalize on our technical know-how, trained workforce, and established supply chain, while spreading business risk across multiple segments. From a financial perspective, such expansion would need to be supported by careful capital budgeting, projected cash flow analysis, and risk assessment to ensure that it enhances shareholder value over the long term."*

**Pritam**

*"Agreed. For the immediate term, let us focus on improving profitability in the baking glassware segment by targeting a minimum 10% increase over current levels. Simultaneously, we will initiate a strategic evaluation of diversification opportunities to ensure sustainable long-term growth."*

**Neha**

*"I will proceed to analyse the financial impact of the proposed sales expansion and cost optimization measures using contribution and target costing principles. Additionally, I will prepare a preliminary financial framework to assess potential diversification strategies in alignment with our long-term growth objectives."*

## Annexure 2

## Nitin Joshi's observation about the internal check system at 3CL

## CA. Nitin Joshi/ Internal Auditor / Crystal Clear Containers Limited

**From:** "Nitin Joshi" <njoshi@3cl.com>  
**Sent:** 13<sup>th</sup> Feb 2026 10:00  
**To:** "Pritam Kapoor" <pkapoor@3cl.com>  
**Cc:**  
**Subject:** Observations regarding internal check system at 3CL  
**Attachments:**

Dear Pritam,

I have been reviewing the internal check systems at 3CL with the objective of understanding the overall bookkeeping framework and the allocation of duties among staff members. An effective internal check system is one in which no single individual is responsible for executing and recording all aspects of a transaction. Proper segregation of duties and multiple levels of verification help in early detection of frauds and errors, thereby strengthening the integrity and reliability of the company's financial and operational processes. Since transactions are subjected to independent scrutiny and cross-verification, the risk of manipulation or oversight is significantly reduced.

During my review, I have noted the following observations regarding the existing internal check system at 3CL:

1. The Head of Procurement, Mr. Amit Rathod, exercises complete control over the purchasing function, including placing purchase orders, receiving goods, and approving payments to suppliers. There is no independent review or supervisory oversight of his actions by another responsible official, resulting in a lack of segregation of duties within the procurement cycle.
2. Employees of the company have been performing the same roles for more than five years without any job rotation. In particular, the Finance Manager, Miss Neha Shah, has continued in the same position since joining the company, without any periodic rotation or reassignment of responsibilities.
3. The Store Manager, Mr. Vikas Gupta, who is responsible for physical custody of inventory, also maintains the inventory records. This concentration of custodial and recording functions in the same individual weakens the internal check mechanism and increases the risk of misstatement or misappropriation going undetected.

Regards,

*N. Joshi*

CA. Nitin Joshi

**Multiple Choice Question**

2.1 Analyzing the company's approach to cost reduction, which of the following can be the potential risks of such a course of action?

- (a) Focus on speed over quality potentially impacting the quality of the product negatively
- (b) Decrease in labour efficiency while making the product
- (c) Decrease in variable overhead efficiency while making the product
- (d) Increase in cost of production

2.2 3CL operates in two distinct business segments: (i) consumer glassware, characterized by standardized products and intense price competition, and (ii) customized scientific equipment, manufactured against client-specific technical specifications for research laboratories and pharmaceutical companies.

Given the structural differences in industry forces, pricing power, and value creation mechanisms across these segments, which of the following competitive strategy combinations would be most strategically coherent for 3CL?

- (a) Pursue an integrated cost leadership strategy across both divisions to exploit economies of scale and shared operational efficiencies.
- (b) Adopt a uniform differentiation strategy across both divisions by leveraging brand reputation and product quality to command premium pricing.
- (c) Implement cost leadership in the consumer glassware division while pursuing a focused differentiation strategy in the scientific equipment division.
- (d) Adopt a price sensitive strategy across both divisions by redefining industry boundaries and creating uncontested market space.

2.3 Determine whether the transaction with Gulf Glassware Inc. will qualify as export of goods under GST?

- (a) Yes, it is export of goods as the sale agreement is between 3CL and Gulf Glassware Inc.

- (b) Yes, it is export of goods as the transaction can be considered as deemed exports
- (c) Yes, it is export of goods as settlement for the transaction has been made by GGI in UAE Dirhams
- (d) No, it is not export of goods as the goods have been delivered to Consumer Retail Limited under the instructions of GGI.

2.4 For each of the observations mentioned in Annexure 2, match which principle of internal check system is violated.

Sr. No.	Observation regarding	Sr. No.	Principle violated
I	Functions of Amit Rathod	A	Staff duties should be rotated periodically
II	Functions of Neha Shah	B	Those with physical custody of assets should not have access to accounting records
III	Functions of Vikas Gupta	C	No single person should control any important aspect of business operations

**Options**

- (a) I-A, II-B, III-C
  - (b) I-C, II-A, III-B
  - (c) I-B, II-A, III-C
  - (d) I-C, II-B, III-A
- 2.5 The annual group bonus payable to the production team is deductible for income tax purpose only if which of the following conditions are satisfied:
- (i) The payment is made by 3CL to the employees on or before the end of the assessment year i.e., 31<sup>st</sup> March 2027
  - (ii) The payment is made by 3CL to the employees on or before the due date for furnishing the return of income under section 139(1)
  - (iii) The amount is not in the nature of profit or dividend distribution
  - (iv) The payment is actually made to the employees

**Options**

- (a) (i) and (iv)
- (b) (i) (iii) and (iv)
- (c) (ii) (iii) and (iv)
- (d) (ii) and (iv)

2.6 **Assertion (A):** 3CL is acquiring STL in order build business sustainability by pivoting from customer glassware that has reached maturity in its product life cycle to scientific equipment that is in its growth phase of life cycle.

**Reason (R):** Such horizontal integration will improve profitability and reduce industry rivalry for 3CL's existing business.

- (a) Both Assertion and Reason are true, and Reason is the correct explanation for the Assertion.
- (b) Both Assertion and Reason are true, but Reason is not the correct explanation for the Assertion.
- (c) Assertion is true, but Reason is false
- (d) Assertion is false, but Reason is true

**Descriptive Questions**

- 2.7 (1) Calculate the current profit of baked glassware product and the target profit to be achieved in F.Y. 2025-26.
- (2) Calculate the target production time per unit and the time to be reduced per unit.
- 2.8 Advise 3CL about the provision to be made for the receivable from Lifesciences Research Private Limited (LRPL) and the inventory held by 3CL in respect of this order in the financial statements of 2025-26.
- 2.9 Determine whether the valuation as demanded by shares holders of STL is justified. If not, based on the information given, what should the price range be that Neha should arrive at the valuation is based on prevailing market expectations.

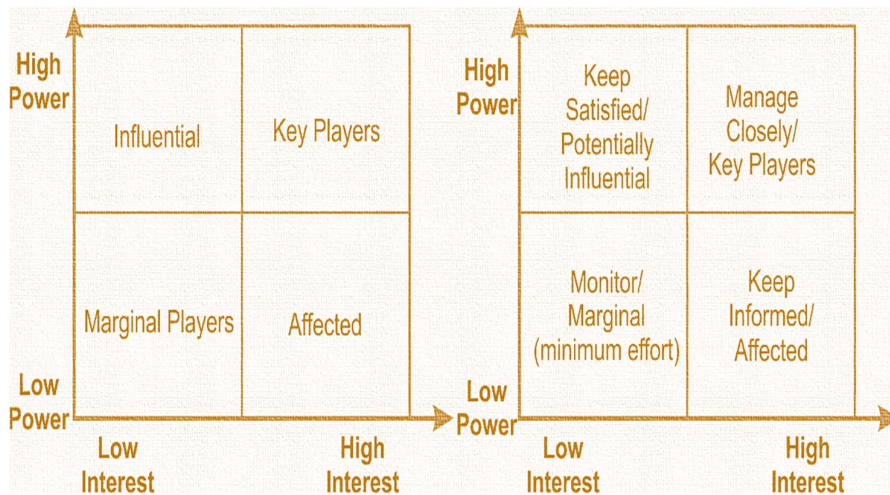
**Note:** Present Value Factors should be used up to three decimal places, and the final calculations should be rounded off to two decimal places.



**SUGGESTED ANSWERS**

**Answers to Multiple Choice Questions**

**1.1 The correct answer is (c):** Proactively engage with them to ensure they remain satisfied as they are potentially influential for PML.



**Mendelow's Matrix and Response to each class of stakeholders**

**Reason:** DML is a potentially influential party that needs to be kept satisfied so that they are assured of the progress of the case and do not become Key Players with respect to the Koyla mine. It is given in the case study that the senior management of DML is not unduly worried about the issue regarding the Koyla mine because with respect to their joint arrangement for the Sigma mine sufficient compliance and due process through dual party oversight has been undertaken. Hence, they have "Low interest" with respect to the renewal of PML's license for the Koyla mine. At the same time, the senior management of DML has the power to rescind their arrangement with PML for the Sigma coal mine if there is any significant damage to reputation on account of the Koyla mine case.

Therefore, they have high power to affect PML's business operations even though they are not directly involved with the Koyla mine operations. This makes them a potentially influential party having "Low Interest but High Power". PML should engaged with them in a manner to keep them satisfied about the proceedings with respect to the Koyla coal mine case and not let the situation aggravate further. Interest can be "coal mine specific" but power can be "systemic" to the operations of PML.

- 1.2 The correct answer is (a):** PML should manage the issue closely by engaging with the union leaders and involving them in any remedial measures.

**Reason:** PML provides employment to 30% of the town's population. The worker's union are protesting against the unsafe working conditions in the mine shafts, making them players with high interest. Further they are threatening PML with drastic action if remedial safety measures are not immediately implemented. This makes them players with high power as such measures can disrupt operations at the mine site. Therefore, worker's union are key players, who need to be managed closely. PML should therefore engage with their representatives directly and involve them while taking remedial measures.

- 1.3 The correct answer is (b):** Marginal players with low power low interest.

**Reason:** They do not have the power to influence the outcome of the court's decision or that of the worker union's threats. There are many coal mining companies operating in this area. Therefore, they are not dependent only on PML for their business. Even if the license is granted to any of PML's rival company instead, they have the opportunity to provide their equipment to the new operator instead. Therefore, suppliers of such equipment have low interest in this issue. Therefore, they are marginal players with low power and low interest.

- 1.4 The correct answer is (c):** CA. Prakash Sarma should undertake specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on financial statements. If he concludes that such non-compliance has a material effect on the financial statements and the same has not been adequately reflected in the

financial statements by the company, he should express an adverse or qualified opinion on the financial statements.

**Reason:** As per SA 250 "Considerations of Laws and Regulations in an Audit of Financial Statements", the auditor is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatements, whether caused by fraud or error. Therefore, the audit has to take into account the applicable legal and regulatory framework. For laws and regulations that do not have direct effect on the determination of the amounts and disclosures in the financial statements, but the compliance may be fundamental to the operating aspects of the business, the auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on financial statements.

In the given case, CA. Prakash Sarma has questioned the management about 23% of the workforce at the Koyla coal mine site to be comprised of child labor. The senior management's explanation that this is outside the scope of his financial audit is unacceptable. Therefore, the auditor should ensure whether any penal provisions will be there for such non-compliance of such law and also whether the same has been disclosed by the company. If he concludes that such non-compliance has a material effect on the financial statements and the same has not been adequately reflected in the financial statements by the company, he should express an adverse or qualified opinion on the financial statements.

**1.5 The correct answer is (d):** Gain of ₹ 400

**Reason:** Cost of Call Option = ₹ 4 premium × 100 shares = ₹ 400

Cost of Put Option = ₹ 2 premium × 100 shares = ₹ 200

Total cost of hedging through Call and Put options = ₹ 400 + ₹ 200 = ₹ 600.

At the end of the 3 month period, the stock price falls to ₹ 70 per share. Since the market price is less than the strike price, Mr. Kanti will not exercise the Call Option.

Since the market price ₹ 70 per share is below the strike price of ₹ 80 per share for the put option, the option is "In the Money". This is a ₹ 10 gain per share on the Put Option, that is ₹ 1,000 for 100 shares.

Therefore, Mr. Kanti's ending position = gain on the Put Option less Cost of Hedging (Total Premium) = ₹ 1,000 - ₹ 600 = ₹ 400 gain.

**1.6 The correct answer is (b):** Both A and R are true, but R is not the correct explanation of A.

**Reason:** Both the Assertion and the Reason are true; however, the Reason is not the correct explanation of the Assertion.

**The Assertion** concerns the strategic classification of the Sigma joint acquisition.

It evaluates whether the move should be treated merely as market penetration or as a broader corporate-level growth initiative.

This classification depends on the nature of expansion, whether it is tactical (such as increasing sales through pricing or promotion) or structural (such as expanding productive assets and long-term capacity within the same industry).

Since the Sigma arrangement involves a joint acquisition of mining reserves with shared control and long-term capital commitment, it represents structural growth within the existing industry and therefore goes beyond simple market penetration.

**The Reason**, on the other hand, focuses on the competitive consequences of the joint arrangement under Porter's Five Forces.

It explains that improved economies of scale and cost efficiencies may reduce competitive rivalry in the coal industry. While this is a valid outcome of the acquisition, it does not determine how the strategy is classified. The classification is based on product- market dimensions and the nature of growth, not on its impact on industry rivalry.

Even if the joint venture did not significantly reduce competitive rivalry, it would still qualify as a structural corporate-level growth move rather than mere market penetration. Therefore, although both statements are true, the Reason does not logically explain the Assertion.

**Answers to Descriptive Questions****1.7 (i) Determination of Joint Arrangement**

As per Ind AS 111 "Joint Arrangement", a joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The structure and form of the arrangement determines the nature of the relationship.

**Joint Operation:** Joint arrangement which is not structured through a separate vehicle is a joint operation. In such a case, the contractual agreement establishes the parties' rights and obligations.

**Joint Venture:** A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint operator accounts for the assets, liabilities, revenues and expenses relating to its involvement in a joint operation in accordance with the relevant Ind AS.

The arrangement between Power Mines Limited (PML) and Deep Minerals Limited (DML) is a joint operation as no separate vehicle is formed and the companies have agreed to share services and costs with decisions relating Sigma coal mine requiring unanimous agreement of both parties.

Both companies should recognize their share of the asset as Property, Plant and Equipment.

**(ii) Accounting for unextracted coal and minerals**

As per para 16 of Ind AS 16 "Plant, Property and Equipment", the cost of an item of property, plant and equipment comprises the initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located.

Further, para 45 of Ind AS 37 "Provisions, Contingent Liabilities and Contingent Assets", provides that where the effect of time value of money is material, the amount of provision shall be the present value of the expenditures expected to be required to settle the obligation.

Thus, costs incurred by an entity in respect of obligations for dismantling, removing and restoring the site on which an item of property, plant and equipment is situated are recognized and measured in accordance with Ind AS 16 and Ind AS 37.

Each of the entities in the joint arrangement should recognize their respective share of the cost of decommissioning of the underground storage facility.

However, as per para 29 of Ind AS 37 where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is to be treated as contingent liability.

Accordingly, each of the entities in the joint arrangement should disclose the share of the cost of decommissioning of the underground facility, to be borne by the other joint arrangement entity, as a contingent liability.

As per Ind AS 16 Property, Plant and Equipment are tangible items that:

- (a) are held for use for production or supply of goods or services for rental to others, or for administrative purposes and
- (b) are expected to be used more than one period.

Thus, both entities should classify and account for their share of irrecoverable coal and minerals as property, plant and equipment, as the irrecoverable coal and minerals is necessary for the storage facility to perform its function. Therefore, the irrecoverable coal and minerals being part of the storage facility, should be capitalized as a component of the storage facility asset and should be depreciated to its residual value over the life of the storage facility.

- 1.8** According to Section 279 of the Companies Act, 2013, when a winding up order has been passed or a provisional liquidator has been appointed, no suit or other legal proceeding shall be commenced, or if pending at the date of the winding up order, shall be proceeded with, by or against the company, except with the leave of the Tribunal and subject to such terms as the Tribunal may impose.

It is further provided that any application to the Tribunal seeking leave under this section shall be disposed of by the Tribunal within sixty days.

However, the above provision shall not apply to any proceeding pending in appeal before the Supreme Court or a High Court.

According to Section 325/326/327 of the Companies Act, 2013, in the winding up of a company under this Act, the workmen's dues shall be paid in priority to all other debts ranking pari passu with secured creditors.

As per the facts of the case, the High Court has already passed a winding up order of the company. Hence, the workmen can appeal against the winding up order but only with the leave of the Tribunal and subject to such terms as the Tribunal may impose. Further, the dues/ interest of the workmen will be protected in priority as workmen's dues shall be paid in priority to all other debts ranking pari passu with secured creditors.

- 1.9** The issue which arose for consideration here was whether transport of minerals within a mining area within the Sigma mine's mining pit head to railway siding, by vehicles deployed with driver for a period of 3 months would be covered under Entry 18 of *Exemption Notification No. 12/2017 CT(R) dated 28.06.2017* which exempts transport of goods by road (except by a GTA). This is the contention of M/s Heavy Movers.

Usually in such cases vehicles such as tippers, dumpers, loaders, trucks etc., are given on hire to the mining lease operator (PML in this case). Expenses for fuel are generally borne by the recipient of service (PML in this case). The vehicles with drivers are at the disposal of the mining lease operator for transport of minerals within the mine area (mining pit to railway siding, beneficiation plant etc.) as per his requirement during the period of contract.

Such services are nothing but “rental services of transport vehicles with operator”. The person who takes the vehicle on rent (PML in this case) defines how and when the vehicles will be operated, determines schedules, routes and other operational considerations.

The person who gives the vehicles on rent with operator (M/s Heavy Movers) cannot be said to be supplying the service by way of transport of goods.

Accordingly, it is clarified that such renting of trucks and other freight vehicles with driver for a period of time is a service of renting transport vehicles with operator and not service of transportation of goods by road. Consequently, it is not eligible for exemption under Entry 18<sup>1</sup>.

In conclusion, Shambu Singh is correct in this opinion that the service provided by M/S Heavy Movers is taxable, subject to GST. M/s Heavy Movers should therefore revise its invoice before it can be processed by Shambu Singh for PML’s accounting records.

#### Answers to the Multiple Choice Questions

**2.1 The correct answer is (a):** Focus on speed over quality potentially impacting the quality of the product

**Reason:** 3CL’s approach to cost reduction focuses on reducing the production time required per unit. This has a direct impact on labour and variable overhead costs. Since the design cannot be changed there is no focus on direct material. Therefore, the potential for improvement in the quality of the product is minimal. Rather, sole focus on reduction in production time can increase manufacturing defects impacting quality negatively.

**2.2 The correct Answer is (c):** Implement cost leadership in the consumer glassware division while pursuing a focused differentiation strategy in the scientific equipment division.

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<sup>1</sup> Circular No. 177/09/2022 GST dated 03.08.2022

**Reason:** The most appropriate strategy for 3CL is option (c) because the two business segments operate under fundamentally different competitive conditions. The consumer glassware segment functions in a highly competitive and price-sensitive market where products are largely standardized and the company has limited control over selling prices, effectively making it a price taker. In such an environment, profitability can only be sustained through operational efficiency, cost control, and process optimization, thereby necessitating a cost leadership strategy. In contrast, the scientific equipment segment involves customized manufacturing based on client-specific technical specifications for research institutions and pharmaceutical companies. These products are specialized, less price-sensitive, and capable of commanding higher margins due to their technical complexity and tailored nature. Accordingly, this segment is best aligned with a product differentiation strategy, where competitive advantage arises from customization capability, quality, and technical expertise rather than cost minimization.

- 2.3 The correct answer is (d):** No, it is not export of goods as the goods have been delivered to Consumer Retail Limited under the instructions of GGI.

**Reason:** As per the definition of export of goods provided under section 2(5), export of goods means taking goods out of India to a place outside India.

In the given case, 3CL has delivered the goods, albeit under the instruction of GGI, to Consumer Retail Limited (CRL) in Karnataka (i.e. delivery is within India). Therefore, goods have not been taken out of India to a place outside India. Therefore, this transaction cannot be treated as export of goods.

- 2.4 The correct answer is (b):** I-C, II-A, III-B

**Reason:** I – Observation regarding functions of Amit Rathod violates principle of No single person should control any important aspect of business operations.

Amit Rathod has complete control over purchasing, receiving goods, and approving payments to suppliers. His actions are not reviewed by any

other person in the company. This gives him complete control over the entire procurement process without oversight.

II – Observation regarding functions of Neha Shah violates the principle of Staff duties should be rotated periodically.

Staff rotation should happen periodically to prevent any person from performing the same function for too long.

III – Observation regarding functions of Vikas Gupta violates the principle of Those with physical custody of assets should not have access to accounting records.

Vikas manages the inventory records as well as has custody over the inventory. This weakens the safeguard over inventory.

**2.5 The correct answer is (c):** (ii) (iii) and (iv)

**Reason:** Statement (ii) – As per Section 43B, bonus or commission to employees for services rendered have to be paid by the assessee on or before the due date for furnishing the return of income under section 139(1).

Statement (iv) – As per Section 43B the deduction is available only on actual payment basis.

Statement (iii) - As per Section 36(1)(ii) the bonus shall not be payable to the employees as profits or dividends.

**2.6 The correct answer is (c):** Assertion is true, but Reason is false.

**Reason: Assertion is true:** Consumer glassware is yielding shrinking margins in an intensely competitive market, indicating that it has reached the maturity stage of its product life cycle. In contrast, the scientific equipment segment offers significant growth potential, particularly due to increasing economic development and greater emphasis on research and development activities. The presence of growth opportunities and expanding demand suggests that scientific equipment is in the growth phase of its product life cycle. Therefore, the acquisition aligns with a strategic shift toward long-term business sustainability.

**Reason is false:** The acquisition of STL by 3CL cannot be classified as horizontal integration, as the products, although somewhat related, do not belong to the same industry or market segment. Horizontal

integration refers to the acquisition of a competitor operating within the same line of business to increase market share and reduce industry rivalry. While the acquisition may aim to improve profitability—since customized scientific equipment is expected to generate higher margins compared to standardized, bulk-manufactured consumer glassware or standard scientific equipment—it does not reduce industry rivalry in 3CL's existing consumer glassware business. The two product lines operate in distinct markets; hence, rivalry in the existing business remains unaffected.

**2.7 (1) Profit of baking glassware in F.Y. 2024-25**

Particulars	Amount (₹)
Selling Price per unit	500
Less:	
Direct Material cost per unit	150
Direct Labour cost per unit	90
Variable Overhead cost per unit	60
Contribution per unit	200
Current Sales Quantity (units)	80,000 units
Total Contribution	1,60,00,000
Less: Fixed Cost	20,00,000
Current Profit	1,40,00,000

Therefore, the profit in F.Y. 2024-25 for baking glassware is ₹ 1.4 crores. Pritam wants 10% in profits in the forthcoming year. Therefore, the target profit from this product line for F.Y. 2025-26 is ₹ 1.54 crores.

**(2) Target production time per unit and the time to be reduced per unit**

The current production time is 3 hours per unit. Even though the selling price cannot be increased, Pritam wants the profits from baked glassware to increase by 10%, that is ₹ 1.54 crores as explained above. Therefore, as suggested by Nagraj, value analysis

is used to eliminate waste and streamline activities so that it can yield cost savings. To work back on what the target production time per unit should be, we need to know what is the target cost to achieve in order to yield a profit of ₹ 1.54 crores in F.Y. 2025-26.

The target sales for next year is 88,000 units, up 10% from the current levels. Current selling price of ₹500 per unit will remain the same. Since no redesign is being made, the direct material cost also remains the same. Therefore, reduction can be achieved only through reduction of direct labour and variable overhead costs. These are driven by production hours required per unit.

Below is the working for the target cost to achieve next year:

Particulars	Amount (₹)
Target sales value (88,000 units × ₹ 500 p.u.)	4,40,00,000
Less: Target profit needed	1,54,00,000
Less: Direct Material cost (88,000 units × ₹ 150 p.u.)	1,32,00,000
Less: Fixed cost	20,00,000
Less: Proposed increase in marketing and advertising	1,00,000
Less: Proposed group bonus	1,00,000
Target Cost (Variable Overhead and Direct Labor) for the new sales target	1,32,00,000

Given the target cost for direct labour and variable overhead, we need to consider the direct labour rate per hour and the variable overhead rate per hour. Currently each unit requires 3 hours of production for which direct labour is ₹ 90 per unit and variable overhead is ₹ 60 per unit.

Therefore, the currently direct labour rate ₹ 30 per hour while variable overhead rate is ₹ 20 per hour.

Revised direct labour rate per hour, increased by ₹ 10 per hour = ₹ 40 per hour while the variable overhead rate remains at ₹ 20 per hour. Therefore, the target cost for direct labour and variable overheads is ₹ 60 per hour.

Target production cost per unit (DL+VOH)

= ₹ 1,32,00,000/88,000 units = ₹ 150 per unit

Target production time required per unit

= Target production cost per unit (DL+VOH)/ target cost for DL and VOH = ₹ 150 per unit / ₹ 60 per hour= 2.50 hours production hours per unit

Therefore, in order to achieve its target cost the company should reduce the production time per unit from 3 hours to 2.50 hours, a 0.50 hour reduction.

- 2.8** In January 2025, 3CL commenced manufacturing specialized scientific apparatus pursuant to a confirmed order received from **Lifesciences Research Private Limited (LRPL)**. The equipment was customized in accordance with specific drawings and technical designs provided by the customer. By September 2025, approximately 50% of the apparatus had been completed and delivered.

However, in November 2025, LRPL requested a postponement of the delivery schedule due to liquidity constraints. The customer further requested 3CL to withhold delivery of finished goods and discontinue production of the remaining units. Subsequently, during F.Y. 2025–26, 3CL filed a petition for winding up of LRPL.

As at 31<sup>st</sup> March 2026, the balances relating to this contract were as follows:

- Trade receivables from LRPL: ₹ 3 crores
- Inventory:
  - Finished goods: ₹ 2 crores
  - Work-in-progress (WIP): ₹ 1 crore

As per Ind AS 2, inventories are assets:

- (a) held for sale in the ordinary course of business;
- (b) in the process of production for such sale; or
- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services

Accordingly, the scientific apparatus (both finished goods and WIP) held by 3CL as on 31<sup>st</sup> March 2026 qualify as inventory.

Ind AS 2 further requires inventories to be measured at the lower of cost and net realisable value (NRV).

Since LRPL has postponed the delivery schedule due to a liquidity crunch, the entire cost incurred on the scientific apparatus intended for supply has been classified as inventory. The scientific apparatus remains in the possession of the company and may potentially be sold in the market. Accordingly, the company should value such inventory in accordance with the principles laid down in Ind AS 2, i.e., at the lower of cost or net realisable value (NRV).

Although the goods were produced as per the customer's specifications, the company should determine the NRV of these goods in the market and value them accordingly. Any decline in the value of such scientific apparatus should be appropriately recognised in the books of account.

In the absence of specific information regarding the NRV of the work-in-progress and finished goods in the question, and assuming that cost is lower than NRV, the company shall value its inventory at ₹ 3 crores (i.e., scientific apparatus – WIP ₹ 1 crore plus scientific apparatus – finished goods ₹ 2 crores) in accordance with Ind AS 2.

Alternatively, if it is assumed that no buyer exists for such highly customized scientific apparatus, the NRV would be Nil. In that case, the entire carrying amount of the finished goods and WIP would need to be written off in the books.

With regard to the trade receivables balance of ₹ 3 crores, since the company has filed a petition for winding up against the customer during F.Y. 2025–26, it is probable that the amount may not be recoverable. Accordingly, a provision for doubtful debts amounting to ₹ 3 crores should be recognised in the books against the debtor's amount.

- 2.9** The shareholders of STL are demanding ₹ 90 per share as part of the acquisition negotiations. Given that STL has 50 lakh shares outstanding, the value that is being asked for by their shareholders = ₹ 90 × 50 lakh shares = ₹ 45 crores.

Neha has been asked to determine the valuation of STL based on prevailing current market expectations. She can arrive at valuations based on market price and discounted cash flows to determine a reasonable price range that can be offered.

**Valuation of STL based on Market Price:**

Market price of STL on November 6, 2024 = ₹ 80 per share.

Number of shares outstanding = 50 lakh shares

Therefore, market value of STL as on November 6, 2024 = 50 lakh shares  
× ₹ 80 per share = ₹ 40 crores

**Valuation of STL based on discounted cash flow:**

Present value of cash flows = ₹15 crores × 0.909 + ₹18 crores × 0.826 +  
₹20 crores × 0.751

= ₹13.64 crores + ₹14.87 crores + ₹15.02 crores = ₹43.53 crores.

Value per share based on discounted cash flow = ₹43.53 crores / 50 lakh  
shares = ₹87.06 per share

Therefore, the price demanded by STL's shareholders of ₹ 90 per share is not justified. Neha can advise the management of 3CL that the negotiations can be done between the price range of prevailing market price ₹ 80 per share and ₹ 87.08 arrived based on future cash flows. These will reflect a valuation based on current market expectations. A price negotiated within this range would be reasonable for 3CL, the acquiring company, as well as for STL's shareholders. 3CL's offer to acquire the shares at ₹85 per share falls within this range.