

**Mock Test Paper - Series II: April 2026**

**Date of Paper: 13<sup>th</sup> April 2026**

**Time of Paper: 2 P.M. – 6 P.M.**

**FINAL COURSE: GROUP – II**

**PAPER – 6: INTEGRATED BUSINESS SOLUTIONS**

*Attempt any **four** out of **five** case study based questions.*

***Each Case Study carries 25 Marks.***

**Time Allowed – 4 Hours**

**Maximum Marks – 100**

### **CASE STUDY - 1**

#### **United Fertilizers Limited**

Headquartered in Baruch, Gujarat, United Fertilizers Limited (UFL) started out as a small fertilizer trading company in 1965 that has now grown into a well established producer of fertilizers in the country. The company operates three urea plants at its manufacturing complex at Baruch, with a capacity of 3.4 million metric ton per annum (MTPA).

The primary business vertical of the company is the fertilizer unit. Fertilizers require ammonium nitrate, which is formed by combining ammonia and nitric acid. Recent supply chain disruptions due to geo-political tensions and price fluctuations in the price of raw materials highlighted the need for UFL's management to develop risk mitigation strategies. As part of this strategy, in April 2024, UFL acquired Baruch Chemicals Private Limited (BCPL), which specializes in manufacturing ammonium nitrate. BCPL is located in close vicinity to UFL's manufacturing complex at Baruch.

#### **Background of BCPL**

On acquisition, UFL operated BCPL as a wholly owned subsidiary, as a separate entity from itself. Refer to Annexure 1, for the change in shareholding pattern at BCPL.

The company had remained profitable until FY 2021-22. However, the COVID pandemic along with disruptions to supply chain due to geo-political events led to the company incurring losses in the year FY 2022-23. For Income Tax purpose, the business loss that was carried forward loss as per the return filed for AY 2023-24 was ₹ 5 crores while unabsorbed depreciation was ₹ 1 crore. This has been duly accepted by the income tax authorities.

### **Issue raised by Assessing Officer for BCPL's return filed for AY 2024-25**

BCPL filed the income tax return for AY 2024-25 within the due date. This year, under the management of Ramesh and Hitesh, the company had made a profit of ₹ 10 crores (before adjusting for the brought forward loss of ₹ 5 crores and unabsorbed depreciation of ₹ 1 crore from AY 2023-24). BCPL had set-off losses brought forward and unabsorbed depreciation from AY 2023-24 against the profit earned during AY 2024-25.

For AY 2024-25, the Assessing Officer disallowed BCPL from setting off brought forward losses of ₹ 5 crores and unabsorbed depreciation of ₹ 1 crore from AY 2023-24.

### **UFL's acquisition of Baruch Chemical Private Limited (BCPL) in April 2024.**

Ramesh Shah, after obtaining 50% stake of Mahesh Shah in BCPL, has successfully turned the company profitable again. However, he wanted to concentrate only on the technical operations of the company. Hitesh Shah, who originally held the rest 50% shareholding, was unable to keep up the entire management of the company with him.

The management of UFL saw the opportunity to unlock value in the supply chain through backward integration by acquiring 100% stake in BCPL. Hence, when UFL made an offer to acquire the company, Ramesh and Hitesh found it a good opportunity to reduce their business interests in BCPL. Therefore, on April 1, 2024 UFL acquired 100% stake in BCPL.

### **Operations of BCPL, wholly owned subsidiary of UFL from financial year 2024-25 onwards.**

#### **Internal transfer pricing policy and performance assessment of Ramesh Shah, unit head.**

Post acquisition, the entire production of ammonium nitrate at BCPL is being transferred to UFL for manufacture of fertilizers. Since the management of UFL found a valuable resource in Ramesh Shah to handle the technical aspects of running chemical operations of manufacturing ammonium nitrate, they decided to retain him as an employee, heading the BCPL unit.

The annual production capacity at BCPL is 240,000 tons per annum of ammonium nitrate. Production details are as below:

<b>Financial Year</b>	<b>2024-25</b>	<b>2025-26 onwards</b>
Capacity of the plant	2,40,000 tons	2,40,000 tons
Actual Capacity utilized	2,00,000 tons	2,40,000 tons
External demand for ammonium nitrate	NIL	50,000 tons
Variable cost of production of 1 ton of ammonium nitrate	₹ 30,000	₹ 30,000
Fixed cost of production of 1 ton of ammonium nitrate	₹ 80,000	₹ 100,000

During a senior management meeting in April 2024, it was decided that BCPL would charge its total cost of production per ton to UFL along with a 15% mark up on total cost. This was acceptable to the Income Tax authorities as well. As shown above, the total cost of production for the year FY 2024-25 was ₹ 110,000 per ton while FY 2025-26 onwards it was ₹ 130,000 per ton. Accordingly, the internal transfer price charged by BCPL to UFL would be ₹ 126,500 per ton for FY 2024–25, and ₹ 149,500 per ton from FY 2025–26 onwards, reflecting a net increase of ₹ 23,000 per ton over the previous year.

Since BCPL unit is a captive manufacturing unit, the performance measurement of Ramesh Shah, the unit head is based on technical and non-financial parameters rather than financial parameters like the profit generated by the unit. This suited Ramesh Shah fine until he realized that the rest of the management at UFL were able to make a better case for their annual increment and bonus based on financial parameters like the profit generated by their respective units. Hence, Ramesh Shah felt stifled by the current transfer pricing policy that allowed his unit to reflect only the 15% mark-up as BCPL's profit.

#### **Customer base for ammonium nitrate manufactured by BCPL**

Pre-acquisition, under the management of Mahesh, Hitesh and Ramesh Shah, the customers for ammonium nitrate produced by BCPL comprised of mining and infrastructure companies. Ammonium nitrate was used to make commercial grade explosives that were required within these industries. Similarly, there were pharmaceutical and chemical companies that needed this compound to manufacture their products.

Post acquisition, BCPL was being operated as a fully captive unit, its entire production transferred to UFL. Hence, the erstwhile customers of BCPL found alternate suppliers to provide ammonium nitrate. However, given quality considerations many still wanted BCPL as their preferred supplier of ammonium nitrate. In due course of time from FY 2025-26 onwards, Ramesh Shah started receiving inquiries from erstwhile customers to resume supply of ammonium nitrate.

#### **Relook at the internal transfer pricing policy and Ramesh Shah's performance assessment.**

During the quarterly senior management meeting in July 2025. The meeting was attended by Mr. Prakash Seth, CEO of UFL, Mr. Mohan Lal, director of operations at UFL and Ramesh Shah among others. Ramesh brought up this issue:

Ramesh Shah: "We have received numerous enquiries for the supply of ammonium nitrate from our erstwhile customers. This external demand indicates that my unit BCPL has the potential to generate value to UFL's overall business.

I understand, that the main objective for acquisition of BCPL had been to operate as a captive unit that supports UFL's fertilizer production. While we continue this strategy, I request the

management to have a relook at the internal transfer pricing policy. Instead of merely charging 15% mark-up on total cost, my unit should be allowed to charge UFL the market rate for ammonium nitrate. The average quote price from external inquires is approximately ₹ 180,000 per ton of ammonium nitrate. Therefore, I propose that BCPL charge UFL the market rate of ₹ 180,000 per ton, which will reflect the true value of my unit's business. By being a profit center like all other units, my performance evaluation can also be done on important financial parameters."

Mr. Mohan Lal countered this proposal "No doubt, BCPL is an important part of our company as it guarantees regular and uninterrupted supply of critical raw material. However, we are already bearing an increased transfer price charge of ₹ 23,000 per ton compared with FY 2024-25. In the interest of goal congruence for the company, I did not protest this increase. However, just like BCPL there are other suppliers who are ready to supply a similar grade ammonium nitrate at ₹ 170,000 per ton. By accepting a rate higher than the market rate, the profitability of my unit and consequently my performance assessment will be impacted".

After a little deliberation, Mr. Prakash Seth observes "I agree with Mr. Ramesh Shah, the ammonium nitrate manufacturing unit has the potential to increase the revenue and profits for our business. Hence, his proposal to charge the external market rate is justified. At the same time, I do concur with Mr. Mohan Lal that a price above ₹ 170,000 per ton of ammonium nitrate, which is the external market procurement rate for the same grade of ammonium nitrate is unjustified. We need to rethink our strategy as regards the ammonium nitrate production plant."

### **Repositioning BCPL to unlock business value**

Taking cognizance of the opportunity to earn extra revenue and profits, Mr. Prakash Seth and other members of the company's board of directors, decide to increase the capacity of the ammonium nitrate manufacturing plant. The capacity will now be increased to 400,000 tons per annum, that is an increase of 160,000 tons per annum from the current capacity. Out of the total capacity, UFL will get a committed supply of 240,000 tons per annum, as originally planned at the time of acquisition. The balance 160,000 tons per annum can be used to meet external demand. If UFL requires additional supply beyond the committed supply, BCPL is required to first cater to the internal captive demand before catering to the external market.

From the year 2026-27, the unit will operate like a profit center just like the rest of the units within UFL. This put in effect a strategic move of converting the ammonium nitrate manufacturing unit from being a non-competitive captive raw material supplier to a unit that has to compete with external sellers in order to generate both profit from both internal and external sales. Mr. Ramesh Shah is also agreeable to this since it gives the ammonium nitrate manufacturing unit an opportunity to contribute more towards the company's value chain.

For the year 2026-27, the variable expenses are expected to remain at the same level as previous years at ₹ 30,000 per ton. As regards fixed costs, increase in the capacity would result in increase the fixed cost by ₹ 70,000 for every additional 1 ton produced.

During many rounds of prolonged negotiations, Mohan Lal is trying to convince Ramesh Shah that ₹ 155,000 per ton of ammonium nitrate would be appropriate. External sales will be priced at ₹ 180,000 per ton. This includes additional delivery cost (variable) of ₹ 18,000 per ton of ammonium nitrate to external customers. The price also includes ₹ 2,000 per ton advertising expenses (variable). The rest of the cost structure remains the same for both internal and external supplies.

### **Govt Loan at concessional rate**

Under the New Ammonium Nitrate Policy launched by the Ministry of Chemicals and Fertilizers, the Government of India has extended financial assistance to support domestic production and technological advancement in the sector. This policy aims to reduce import dependence, improve productivity, and ensure sustainable supply of ammonium nitrate, which is a critical input for fertilizers, explosives, and other chemical industries.

As part of the financial support extended under this policy, the government provides concessional loans to eligible manufacturers for the development, modernization, and expansion of ammonium nitrate production facilities. These loans are intended to facilitate capital investments in plant and machinery, adoption of energy-efficient and high-yield technologies, and overall capacity enhancement.

As part of this initiative, BCPL received from the government a loan of 5 crore @ 5% payable after 5 years in a bullet payment. Interest is payable annually at the end of each financial year. The prevailing market rate of interest is 12%. This financial assistance has enabled BCPL to invest in critical infrastructure and machinery necessary to improve operational efficiency, reduce wastage, and increase the yield of ammonium nitrate production, thereby aligning with the national goal of strengthening the chemical manufacturing sector.

### **Purchase of machinery by BCPL from Mechanix GmbH**

With a strategic vision to enhance production efficiency and incorporate advanced technology at BCPL, a decision was made to import state of the art machinery from Germany.

The machines were purchased from Mechanix GmbH for a total purchase value of USD 500,000 (that is approximately ₹4.25 crores in terms of Indian currency). Since BCPL had previously purchased many machines from Mechanix GmbH, it got a credit period of 3 months to settle the transaction. The machines were shipped on November 1, 2024 from Germany. BCPL enters into a contract with Complete Logistics, a licensed customs broker with its office in Surat (Gujarat) to meet all the legal formalities in getting the said machines cleared from the customs station at the Hazira Port. Apart from this BCPL authorizes Complete Logistics to incur on its

behalf the expenses in relation to clearance of the imported machines from the customs station and bringing the same to the manufacturing complex at Baruch, Gujarat. BCPL will reimburse Complete Logistics the expenses on actual basis in addition to agency charges. Please refer to Annexure 2 for the details of expenses made by Complete Logistics on behalf of BCPL, as shared via email by Mr. Sparsh Saddh (Manager Finance, Complete Logistics) to Mr. Sanjay Kumar (Accounts Head at BCPL).

On receiving the machines on November 30, 2024, the machines were found not to be as per the specifications as requested by BCPL. This resulted in a dispute between BCPL and Mechanix GmbH. The dispute remained unresolved as of March 31, 2025. An amount of USD 100,000 is yet to be paid. Mechanix GmbH has issued a notice whereby it has started charging an interest on the unpaid amount @ 18% p.a. effective February 1, 2025 (the end of the 3 month credit period starting date of shipment November 1, 2024).

CA Umakant Patel has been appointed as the statutory auditor of both UFL and BCPL for five years from FY 2024-25 onwards. On completion of the audit for consolidated results of United Fertilizer Limited, he issued the Audit Report following the Guidance Note on The Companies (Auditor's Report) Order, 2020 (CARO). He has examined and performed audit procedures on the disputed claims, short term liabilities of UFL, including the corporate guarantee and unsecured loans to its subsidiaries and step subsidiaries.

United Fertilizers Limited supplies its products to a wide network of dealers and retailers across the country. As, UFL is leading manufacturer and distributor of agricultural fertilizers, Given the seasonal nature of demand and the credit-based sales model, managing cash flow is critical to the company's operations. To maintain healthy liquidity and minimize credit risk, In Mar 2025, Management has set an internal target of collecting 95% of accounts receivable within 60 days from the date of sale. This benchmark aligns with the company's working capital requirements and industry standards. This performance benchmark is actively monitored by the finance department through a structured receivables management system that includes weekly aging reports, customer-specific credit limits, and a disciplined follow-up mechanism involving reminder emails, calls, and field visits. To incentivize timely payments, the company offers early payment discounts and enforces strict credit terms.

The management committee of UFL has issued right shares to all its shareholders which include employees of the company. Furthermore, UFL issues its own shares to a charity without any consideration to an NGO which is working for promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward group.

### Imported of tools

UFL imported special tools from a German Company in the month of February 2025. The finance manager of company needs to borrow 5,00,000 euros for 90 days to settle the payments. Policy of the company is not to take any currency risk. The following rates are quoted: ₹/€ spot: 90/90.35 and 90 days swap: 20/25. € Interest rates: 4.00/4.25; Banker suggests another alternative of US dollar loan. Enquiries reveal that interest rate is 5% and \$/€ rate is 1.0220/1.0240 and 90 days swap points of 15/10.

### Annexure 1

#### Background at a glance

BCPL was originally founded by Mahesh Shah and his son Hitesh Shah in 1978. Over time, they could not keep up with the rapidly changing landscape of the chemical industry. They were not very well versed with modern business environment and as well as the latest production technology. Ramesh Shah joined the company in 2018 after his graduation as a chemical engineer. Ramesh brought in changes that helped the company remain profitable until FY 2021-22.

The shareholding pattern of BCPL is as below:

Shareholder name	Upto FY 2022-23	FY 2023-24	FY 2024-25 onwards
Mahesh Shah	50%	NIL	NIL
Hitesh Shah	50%	50%	NIL
Ramesh Shah	NIL	50%	NIL
United Fertilizer Limited (UFL)	NIL	NIL	100%

Due to advancing age, Mahesh Shah wanted to reduce his business commitments. Therefore, during FY 2023-24, Mahesh Shah sold his 50% shareholding to Ramesh Shah, an unrelated person to Mahesh Shah. Later in FY 2024-25, UFL acquired 100% of the stake in BCPL from Hitesh Shah and Ramesh Shah.

### Multiple choice question

- 1.1 For the years FY 2024-25 and 2025-26, the performance assessment of Ramesh Shah, head of BCPL was based on other technical, non-financial parameters and not on profit generated by the unit. Which of the following is not true about non-financial parameters that are used as performance measures:
- (A) Non-financial involves calculations and numerical measurements of identified technical parameters for ammonium nitrate production at BCPL.
  - (B) Non-financial measures are independent of business performance and do not impact the bottom line of the company in any way.

- (C) The nature of non-financial measure of BCPL may be different from that used to assess other units within UFL.
  - (D) Non-financial measures can be used to provide feedback to Ramesh Shah on how to manage the operations of the BCPL to correspond to the aims and objectives of UFL. They help to capture the strength and weakness the business.
- 1.2 The strategic decision taken by the management of UFL to convert BCPL from being merely a captive unit to a unit that functions as a profit center by catering to external customers has far reaching impact. Which of the following are potential outcomes of this strategic move:
- (i) BCPL becomes profit accountable, which is a key metric for performance evaluation. This increases the scope for UFL's overall profitability.
  - (ii) Motivates employees like Ramesh Shah to make BCPL competitive with respect to the external market. With appropriate performance evaluation and reward management systems in place this will improve employee performance and satisfaction.
  - (iii) Assessment of BCPL based on its profitability promotes goal congruence and enables other units to synchronize their operations to achieve UFL's overall strategic goals.
  - (iv) By functioning as a profit centre, the unit can help UFL manage its profitability to help optimize taxes.

**Options:**

- (A) (i) and (ii)
  - (B) (i), (ii) and (iii)
  - (C) (ii), (iii) and (iv)
  - (D) (iii) and (iv)
- 1.3 What will be the approximate amount of deferred grant and loan amount to be initially recognised in the books as per Ind AS, w.r.t. loan received by BPCL from the government under the New Ammonium Nitrate Policy based on the discounting factor upto three decimals?
- (A) ₹ 5,00,00,000 as loan; ₹ Nil as deferred grant
  - (B) ₹ 3,73,65,000 as loan; ₹ 1,26,35,000 as deferred grant
  - (C) ₹ 5,00,00,000 as loan; ₹ 1,26,35,000 as deferred grant

- (D) ₹ 3,73,65,000 as loan; ₹ Nil as deferred grant
- 1.4 State in the context of Ind AS 102, Which of the following statements is true w.r.t. Stock options received by employees and the issuance of shares to a charity?
- (A) Ind AS 102 does not apply to the issuance of shares to a charity without consideration, as it is not a share based payment transaction.
- (B) The issuance of shares to a charity without consideration is covered under Ind AS 102 as a share-based payment arrangement, while Stock Options received by employees in the capacity as shareholders are not covered under Ind AS 102.
- (C) Stock Options are covered under Ind AS 102 regardless of whether employees receive shares in their capacity as shareholders, and the issuance of shares to a charity without consideration is not covered under Ind AS 102.
- (D) Stock Options are covered under Ind AS 102 only if employees receive shares as part of their employment benefits, regardless they are shareholders.
- 1.5 UFL's target of collecting its accounts receivable within 60 days of sale is an example of which of the following?
- (A) A Mission
- (B) A Critical Success Factor
- (C) A Key Performance Indicator
- (D) A Vision **(5 × 2 = 10 Marks)**

**Descriptive Question**

- 1.6 (a) With respect to performance assessment of Ramesh Shah for the years 2024-25 and 2025-26, ANALYZE the potential problems of using the total cost of production per ton of ammonium nitrate as the transfer price for supply to UFL.
- (b) Post the decision to become a profit centre from the year 2026-27, SUGGEST an appropriate price range that can be explored in order to promote goal congruence between the unit heads at BCPL and UFL.
- (c) When there is extra demand from UFL beyond the agreed supply of 240,000 tons per annum, there is a diversion of supply of ammonium nitrate from external sales to transfer to UFL. This results in loss of contribution to BCPL. Using your suggestion in (b) above, DETERMINE whether the internal transfer price of ₹ 155,000 per ton of ammonium nitrate supplied as suggested by Mohan Lal will appropriately compensate this loss of contribution.

- (d) For the year 2026-27, CALCULATE the estimated net profit per annum of the BCPL, when it operates at full capacity, supplying 240,000 tons at ₹ 165,000 per ton to UFL and 160,000 tons at ₹ 180,000 per ton to external customers respectively. **(8 Marks)**

- 1.7 Advice which of the two currencies should be attractive for UFL to borrow. (Assume 1 year = 360 days) **(7 Marks)**

### **CASE STUDY - 2**

Suraj Exports Limited (SEL), a multi-unit manufacturer registered across multiple states, presents a high-stake study involving interconnected professional standards, corporate restructuring, and governance compliance. The Company decided to avail the services of CA. Grewal who is an expert, which the company seems can fulfil its need. CA. Grewal, the practitioner, must manage dual non-assurance engagements a Compilation Engagement and a concurrent Agreed-Upon Procedures engagement for the company. The conflict arises because the Agreed-Upon Procedures (AUP)'s factual findings regarding current asset ownership directly indicate a material misstatement in the compiled financial information, necessitating a decision on mandatory withdrawal under SRS when management refuses to correct the figures. On the regulatory front SEL implemented a corporate demerger of one of its manufacturing units into Beta Manufacturing Limited, which demands the correct statutory apportionment and transfer of the unutilized GST Input Tax Credit (TTC) held in its electronic credit ledger. Leveraging its significant net worth and turnover, SEL's Board is scheduled to approve multiple related party transactions (RPTs), including a services agreement and property acquisition. This requires an assessment of the required level of approval viz. board vs. shareholders' resolution, considering the aggregate transaction values, and correctly determining the valid quorum in the presence of interested directors.

Suraj Exports Limited (SEL) engaged CA. Grewal for two distinct but interconnected related services engagements. The first was a Compilation Engagement, accepted after agreeing on engagement terms, to prepare draft quarterly financial statements for the Quarter ended 31<sup>st</sup> December 2025, exclusively for SEL's internal management reporting. The second engagement arose when SEL's primary lender subsequently required CA. Grewal to perform Agreed-Upon Procedures on SEL's current assets. The Agreed-Upon Procedures scope was narrowly defined, focusing solely on validating the existence and ownership documentation for a large consignment of specialized finished goods valued at ₹ 80 crores, utilizing procedures like inspection and obtaining confirmations. CA. Grewal ensured the Agreed-Upon Procedures report was appropriately restricted to the parties who agreed to the procedures, as required by standard.

During the compilation process, CA. Grewal was applying accounting expertise to present the information. However, the subsequent agreed upon procedures revealed, through factual

findings, that SEL could not produce sufficient supporting documentation to confirm ownership of ₹ 15 crores of these goods, suggesting the compiled financial information was materially misstated regarding asset valuation. Although CA. Grewal proposed appropriate amendments as mandated, SEL's management insisted upon him to proceed with issuing the compilation report based on the original, flawed trial balance figures. Management asserted that since a compilation is a non-assurance engagement, the scope of the relevant standard did not require the practitioner to verify the accuracy or completeness of the information provided, and they subsequently declined to acknowledge responsibility for the final version of the compiled financial information that included the necessary adjustments. This conflict had put CA. Grewal in a mandated withdrawal position, despite the original purpose of the compilation being internal.

Suraj Exports Limited is registered in both the states of Maharashtra and Gujarat with the same permanent account number and operates a multi-unit manufacturing business. The company decided to demerge one of its manufacturing unit located in Pune, Maharashtra, into a new, separately registered entity, Beta Manufacturing Limited. The restructuring plan was implemented on 1<sup>st</sup> October 2024, and explicitly provided for the transfer of all associated GST liabilities from Suraj Exports Limited (SEL) to Beta Manufacturing Limited.

Financial Details of Maharashtra Units as on 30<sup>th</sup> September 2024 is as under:

Particulars	Value/Balance
Total value of assets held by Suraj Exports Limited. (SEL) (Maharashtra)	800 Lakhs
Value of assets transferred to Beta Manufacturing Limited (Maharashtra)	200 Lakhs
Unutilized ITC Balance in Electronic Credit Ledger of Suraj Exports Limited (SEL) (Maharashtra)	CGST: ₹ 15 Lakh, SGST: ₹ 15 Lakhs, IGST: ₹ 30 Lakhs

Disposal of Assets by Suraj Exports Limited (SEL) (Post-Demerger):

On 10<sup>th</sup> December 2024, Suraj Exports Limited (SEL) sold a specialized packaging machine (Machine X) which it had retained for its remaining business operations (not part of the demerged unit).

- Machine X was originally purchased on 25<sup>th</sup> January 2023.
- Original ITC availed on Machine X: ₹ 2,70,000 (IGST Value @ 18% rate).
- Transaction value of sale (exclusive of GST): ₹ 8,00,000.

The following are some of the key figures taken from the latest audited financial statements of Suraj Exports Limited (SEL):

<u>Financial Metric</u>	<u>Amount</u>
Paid-up Share Capital (PSC)	₹ 50 Crores
Free Reserves (FR)	₹ 50 Crores
Net Worth (NW) (PSC + FR)	₹ 100 Crores
Turnover (TO)	₹ 500 Crores

The Board of Directors of the Company consists of five Directors (D1 to D5). The Board is scheduled to meet to approve three proposed transactions for the current financial year:

1. Transaction A (Property Acquisition): SEL proposes to buy property from SUS Limited for ₹ 12 Crores. D2 holds 3% of the total voting power in SUS Limited.
2. Transaction B (Services Agreement): SEL proposes to appoint MOH Private Limited as its IT services agent for ₹ 45 Crores. D1 is a director in MOH Private Limited, and D3's relative is a member there. The transaction is not considered to be in the ordinary course of business or on an arm's length basis.
3. Transaction C (Supply of Goods): SEL, already purchased general office consumables (goods) aggregating ₹ 4,90,000 from MOH Private Limited in the current financial year.  
Suraj Exports Limited (SEL) is also proposing to enter into a 5-year lease agreement with its associate Moonshine Limited (related party) valued at ₹ 40 crores over the entire lease duration.

### **Multiple Choice Questions**

**[Provide the most likely correct option to the following questions]**

- 2.1. When SEL's management insists on using the original, un-amended figures despite the contrary factual findings which indicates the compiled information is materially misstated, which course of action is mandated for CA. Grewal?
  - (A) CA. Grewal should issue the compilation report as requested but add a disclaimer that he did not verify the accuracy of the current asset figures based on the agreed upon procedures findings.
  - (B) CA. Grewal must include a detailed narrative of the factual findings within the compilation report to inform the internal users of the discrepancy.

- (C) CA. Grewal must propose appropriate amendments to management, and if management declines, he shall withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing.
  - (D) CA. Grewal may continue the engagement, provided he obtains a written acknowledgment from management accepting full responsibility for the financial information, as verification is not required in a compilation engagement.
- 2.2. Regarding the ethical requirements applicable to CA. Grewal, which statement accurately reflects the general rule for independence across both engagements?
- (A) Independence is mandatory for the compilation engagement but is only required for the agreed-upon procedures engagement, if a third party involved is a bank.
  - (B) Independence is a requirement for both compilation engagement and agreed upon procedures engagement, because both standards govern services performed by a professional accountant.
  - (C) Independence is not a requirement for a compilation engagement, nor is it a requirement for an agreed-upon procedures (AUP) engagement, however, if not independent for the AUP engagement, a statement to that effect should be made in the report of factual findings.
  - (D) Independence is not required for either engagement, provided CA. Grewal complies with other ethical principles like integrity and objectivity.
- 2.3. What is the total amount of unutilized ITC (in Rupees) that Suraj Exports Limited (SEL) is allowed to transfer to Beta Manufacturing Limited for the Maharashtra unit, based on the statutory requirement for apportionment in a demerger taking the state and the date of demerger into account?
- (A) ₹ 15,00,000
  - (B) ₹ 11,25,000
  - (C) ₹ 45,00,000
  - (D) ₹ 40,00,000
- 2.4. What compliance is required for the proposed lease transaction with Moonshine Limited by SEL under the Companies Act, 2013?
- (A) Since the annualized value is less than 10% of the turnover, only board approval is required.

- (B) The transaction value must be aggregated over the five years and since ₹ 40 crores is less than 10% of the Net-worth, no special resolution is required.
  - (C) The Board must obtain prior approval by passing an Ordinary Resolution in the General Meeting because the leasing limit must be computed based on the total value of the contract.
  - (D) The Board must obtain prior approval by passing an Ordinary Resolution in the General Meeting because the lease value of ₹ 40 Crores exceeds 10% of the Net Worth (₹ 10 Crores).
- 2.5. For the discussion and approval of Transaction A (Property Acquisition), D1, D2, and D3 attend the meeting physically, and D4 attends via video conferencing (who is interested in Transaction B only), what would constitute the minimum quorum necessary for the valid approval of Transaction A in terms of the applicable provisions of the Companies Act, 2013
- (A) 1/3 or two non-interested directors, whichever is higher, present physically and through video conferencing or other audio visual means.
  - (B) Three directors physically present
  - (C) 1/3 or two non-interested directors whichever is higher physically present at the meeting
  - (D) All directors other than non-interested directors must be present physically

**(5 x 2 = 10 Marks)**

### **Descriptive Questions**

- 2.6. Elaborate on the non-assurance nature of an Agreed-Upon Procedures (AUP) engagement under Standard on related services. In this context, explain precisely why the report issued to SEL and its bank must be restricted in distribution, and detail the necessary statement CA. Grewal must include in the report to ensure users understand the lack of assurance. **(6 Marks)**
- 2.7. Machine X was sold by Suraj Exports Limited (SEL) on 10th December 2024. Provide a detailed working and explanation of the GST liability incurred by Suraj Exports Limited (SEL) on the disposal of Machine X. **(4 Marks)**
- 2.8. Based on the proposed Transaction A (Property Acquisition) and Transaction B (Services Agreement), analyze the compliance procedures required under the Companies Act, 2013. Specifically, determine:

- (a) What is the required level of approval (Board Resolution or Ordinary Resolution) for each transaction? Justify your answer using the financial metrics provided and the statutory limits.
- (b) For the necessary approvals, detail the specific restrictions on the participation or voting rights of the interested directors (D1, D2, and D3) at the board level and, if shareholders resolution is required, at the General Meeting level. **(5 Marks)**

### **CASE STUDY – 3**

NZ Retail Limited, a Mumbai based retail start up, was founded by Swami Nathan in 2019 and has rapidly grown into one of India's profitable retail organization. Today, it operates over 3000 stores across varied formats and across more than 2000 towns in India. The company's core philosophy centres on "inclusion, growth, and building sustainable societal value." It focuses on empowering everyone small vendors, kiranas, manufacturers, consumers by offering choice, value and a quality shopping experience. Company covers a wide range of categories through its Omni-channel model: Grocery & Supermarkets, Consumer Electronics & Connectivity, Fashion & Lifestyle, Wholesale & B2B.

NZ Retail Limited represents a vast, diversified and an Omni-channel retail powerhouse in India, blending scale, reach innovation across grocery, electronics, fashion, beauty, pharma, B2B and quick commerce. It aims not just to meet consumer needs but also to revolutionize the retail ecosystem uplifting small businesses and modernizing kiranas while continuing robust expansion and digital transformation. Company continues to innovate across formats and channels - relying on partnerships, new commerce for fashion, quick-commerce scalability, and digital platforms to fuel growth and prepare for an upcoming IPO.

In early 2024, NZ Retail pitched to several venture capitalists, highlighting:

- A projected market size of \$ 5 billion in AI-driven fashion retail in India by 2028.
- A capital-efficient business model with low inventory risk (drop-shipping and vendor-managed inventory)
- Early-stage profitability at the unit level

After several negotiations, Alpha Ventures, a prominent VC firm focusing on consumer-tech startups, agreed to provide funding of ₹ 60 crore for 20% equity stake as per following details:

Seed Stage Funding - ₹ 10 Crore

Mezzanine Financing - ₹ 25 Crore

Growing Working Capital Needs - ₹ 15 Crore

Before proceeding with the proposed investment, the venture capitalists requested a copy of the latest audited financial statements of the company. They emphasized that the audit report would provide critical insights into the company's financial health, compliance with statutory requirements and internal control systems. The investors wanted to assess the reliability of reported revenues, the accuracy of inventory valuation and the adequacy of disclosures, particularly in the light of the company's rapid expansion and multi-location retail operations. The audited financials were seen as a basic document for their due diligence, helping them evaluate financial risks and validate the company's growth projections before committing to funding.

NZ Retail finalized its financial statements for the year ending 31<sup>st</sup> March 2025. The statutory auditor will be auditing the restated financial statements for the 2 earlier financial years i.e. 2023-24 and 2022-23 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). Auditors requested for management representation for all the three financial years. On 25<sup>th</sup> April 2025, the Board approved the financial statements for the F.Y. 2024-2025. The following events happened:

- On 6<sup>th</sup> April 2025, a debtor who owed ₹ 10 lakh as of 31<sup>st</sup> March 2025 was declared insolvent.
- Company declared dividend on 10<sup>th</sup> April 2025 for the year ending 31<sup>st</sup> March 2025.
- Company suffered a massive fire on 9<sup>th</sup> April 2025 which destroyed one of its main godowns,
- Company signed an agreement on 27<sup>th</sup> March 2025 to sell one of its divisions. Regulatory approvals were pending. On 8<sup>th</sup> April 2025, before financial statements were approved, all approvals were received and the deal was completed on 14<sup>th</sup> April, 2025.

The following adjustments/disclosures were made in the Financial Statements for the year ended 31-03-2025:

- (i) Adjusted the financial statements for impairment of receivables.
- (ii) Recognised dividend as a liability in the financial statements as at 31 March, 2025.
- (iii) No accounting adjustment was made for fire but disclosed the occurrence of fire.
- (iv) Recognized the sale of assets of the division, but did not de-recognised the liability of the division.

As the statutory audit of the company was underway, the Tax Audit under Section 44AB of the Income-tax Act, 1961 was also initiated concurrently. Since many financial assertions and records overlapped, the audit teams coordinated closely to ensure consistency between the statutory and tax audit reports.

To improve operational efficiency, reduce human error and streamline inventory movement, the company has decided to invest in Advanced Material Handling Systems (AMHS) and RFID-based inventory scanning machines at its central distribution centers and large-format stores. The management team evaluated several proposals and finally selected an Indian manufacturer offering a comprehensive warehouse automation solution, covering Conveyor Belt systems, Barcode & RFID scanning equipment, Automated sorting and packing stations, Integration with existing ERP (SAP Retail). The new machine will reduce turnaround time in order processing and dispatch, enable real-time stock updates across retail locations and lay technological groundwork for future expansion and warehousing automation. Machinery was purchased for ₹ 5 Crore with additional details as per following:

- Installation charges incurred at buyer's site: ₹ 20,00,00 paid by the supplier
- Freight and Insurance paid by the supplier on sale of such goods ₹ 1,00,000 charged to the buyer.
- Discount of ₹ 2,00,000 shown on invoice and agreed upon at time of supply.
- An interest of ₹ 92,000 was later collected due to delayed payment.
- Subsidy from a non-Government body directly linked to price: ₹ 25,00,000.

During a quarterly performance review, the management of the retail company observed a concerning trend: while certain high-volume products, specifically Product A and Product B, were generating strong sales figures and occupying significant shelf space, they were not contributing proportionately to the company's overall profit margins. Despite appearing successful on the surface, a deeper analysis hinted at potential hidden costs such as high supply chain expenses, frequent markdowns, and increased handling efforts that were eroding profitability. Recognizing the limitations of relying solely on sales volume, the management resolved to conduct a detailed profitability analysis to uncover the true cost-to-serve each product. Their objective was to make more informed decisions around product assortment, pricing strategies and supply chain efficiency and to distinguish between genuinely profitable products and those that merely functioned as "space fillers" on the shelves. This strategic shift aimed to realign the company's focus toward optimizing the product mix for maximum contribution to the bottom line.

Company traditionally uses gross margin analysis by deducting the bought-in cost of goods from the selling price to assess product profitability. However, venture capitalists question the effectiveness of this measure, as it fails to consider the significant indirect costs incurred at the organizational level. Now Company wants to move to a more accurate cost allocation approach to support strategic pricing, space utilization and product portfolio decisions.

### Multiple Choice Questions

[Provide the most likely correct option to the following questions]

- 3.1 Identify the correct statement(s) from the following in relation to venture capital funding?
- (A) ₹ 25 Crore is third stage funding, ₹ 15 Crore is second stage funding and risk perception for 10 Crore is extreme.
  - (B) ₹ 25 Crore is second stage funding, ₹ 15 Crore is Third stage funding and risk perception for 10 Crore is extreme.
  - (C) ₹ 25 Crore is second stage funding, ₹ 15 Crore is Third stage funding and risk perception for 10 Crore is very high.
  - (D) ₹ 25 Crore is fourth stage funding, ₹ 15 Crore is Third stage funding and risk perception for 10 Crore is very high.
- 3.2 What is the taxable value of machinery under GST at the time of supply?
- (A) ₹ 5,19,92,000
  - (B) ₹ 5,69,92,000
  - (C) ₹ 5,43,92,000
  - (D) ₹ 5,44,00,000
- 3.3 In Your opinion which of the following statements is true in relation to actions proposed to be taken by the management to achieve the targets set?
- (i) Management should use Direct Product Profitability as it analyse the profitability of each product separately.
  - (ii) Management should use Product Based Cost Management measures like space used for transportation and storage of goods, refrigeration time, etc.
  - (iii) Product batch cost will not be analyzed as a part of indirect costs while using direct product profitability.
  - (iv) As a part of technique adopted, activity analysis, which necessarily deals with eliminating non-value-added activities and thus reducing the total number of activities to be performed will also be used.
- (A) Statement (i), (iii) and (iv)
  - (B) Only statement (i)
  - (C) Statement (i) and (ii)

(D) Statement (i), (ii) and (iii)

3.4 Identify which of the adjustments/disclosures as stated in the case study are not as per the prescribed treatment in the financial statements for the year ended 31-03-2025.

(A) (i) and (ii)

(B) (ii) and (iii)

(C) (ii) and (iv)

(D) (iii) and (iv)

3.5 Assertion (a): The company's investment in AMHS and RFID-based scanning systems represents *Automation* in warehouse operations.

Reason (r): Automation enables machines and systems to perform tasks with minimal human intervention, improving turnaround time, accuracy, and operational efficiency.

**Options**

(A) Both Assertion (a) and Reason (r) are true, and Reason (r) is the correct explanation of Assertion (a).

(B) Both Assertion (a) and Reason (r) are true, but Reason (r) is **not** the correct explanation of Assertion (a).

(C) Assertion (a) is true, but Reason (r) is false.

(D) Assertion (a) is false, but Reason (r) is true. **(5 x 2 = 10 Marks)**

**Descriptive Questions**

3.6 (a) Explain why gross margin is an inadequate tool for decision making in retail organizations like NZ Retail Limited. **(2 Marks)**

(b) Venture capitalists want to have comprehensive and structured understanding of what is actually driving changes in a firm's operating income over time - beyond just top-line growth or bottom-line margin. Which method should they opt?

**(2 Marks)**

3.7 The Management of the Company provided Management Representation Letter covering the period of financial year 2024-25 only, as they were not in position to provide for the financial year 2022-23 and 2023-24 because they were not in place during that period.

How would auditors deal with the above situation as per relevant Standards on Auditing?

**(8 Marks)**

- 3.8 List three circumstances when GST input credit is not available for capital goods like machinery purchase in this case. **(3 Marks)**

#### **CASE STUDY - 4**

Star Infra Developers Limited (SIDL) is a listed real estate development company headquartered in Mumbai. Incorporated in 2000, the company specializes in the development of residential townships, commercial complexes, and mixed-use realty projects across major Indian cities such as Pune, Hyderabad, and Bengaluru.

Over the years, SIDL has built a reputation for delivering high-end residential spaces catering to upper-middle-income groups. The company follows a project-based accounting system and recognizes revenue as per Ind AS, based on the percentage of completion method.

For the financial year 2024-25, SIDL launched a major project named "Star Heights", comprising three residential towers and a retail plaza. The company has also diversified into commercial leasing through its subsidiary, SIDL Estates Private Limited, which owns and leases premium office spaces in Hyderabad's IT corridor.

To finance expansion, SIDL plans to make a further public offer (FPO) of ₹ 1,200 crores, comprising partly paid equity shares. The post-issue capital is projected at ₹ 6,000 crores. The company's promoters currently hold Special Rights (SR) equity shares, which will continue post-issue.

The promoters propose to bring in ₹ 120 crores as their contribution which will meet the requirement of minimum subscriptions by the promoters, out of which ₹ 100 crores will be deposited in an escrow account one day prior to the issue opening and the remaining ₹ 20 crores will be brought in within two months after the first call is made to the public. The issue price determined under regulations is ₹ 500 per share. The promoters are also willing to contribute beyond the minimum requirement, if allowed.

Over the past few years, the company has successfully completed several large-scale projects, resulting in strong cash inflows from customer advances and project completions. As of 31 March 2025, SIDL's financial position reflects a healthy cash surplus arising from project receipts and delayed deployment of funds into new ventures. The management has identified that around ₹ 50 crores of funds will remain idle for the next 9-12 months due to regulatory and planning approvals pending for its upcoming project in Pune.

To optimize returns on these temporary idle funds, the Board of Directors of SIDL, on the recommendation of its Treasury Committee, has decided to invest in bonds and is evaluating two government bonds to include in its investment portfolio. Bond with the lowest interest rate risk will be selected.

Bond X: 5-year maturity, 6% annual coupon, YTM-8%

Bond Y: 10-year maturity, 6% annual coupon, YTM-8%

The investment in-charge also considers Bond Z, which has a 10-year maturity, but a 9% annual coupon and the same YTM of 8%.

SIDL also avails various outsourced services, which are used entirely in India for business purposes including:

Architectural and design consultancy from Germany-billed at EUR 8,000

Digital Advertising from Google Ireland-billed 15,00,000 in INR.

Cloud-based project management software subscription from a U.S. vendor for three quarters) from AWS Singapore - USD 10,000 per quarter. Payment is made in foreign currency. This excludes free cloud credits from AWS Singapore worth ₹ 50,000.

Online Training for employees (SaaS based) from a US vendor subscription fees USD 5,000 (annual). Exchange rate notified by RBI at the time of supply:

USD 1 = ₹ 84

EUR 1 = ₹ 92

SIDL was assessed to tax for AY 2025-26 as Best Judgment Assessment as it failed to comply with multiple notices issued. The Assessing Officer (AO) determined a total income of ₹ 50 crores after making various additions for unverified purchases and disallowance of expenses.

Aggrieved, the company filed an appeal before the Commissioner (Appeals) [CIT(A)]. During the appeal hearing, the CIT(A) observed that some of the disallowances were unjustified as relevant evidence had been subsequently produced by the assessee. However, he also noticed that the AO had missed adding certain unexplained credits appearing in the bank account which were not considered during assessment.

The assessee requested the CIT(A) to remit the matter back to the AO since the original order was passed as best judgement and important evidence had not been examined. The CIT(A) was considering either -

- Setting aside the assessment for fresh assessment by the AO.
- Enhancing the assessment himself by adding the unexplained credits, or
- Passing any other suitable order as he deemed fit.

To take advantage of market opportunities, the company entered into several contracts during the financial year 2025-26.

The following transactions were undertaken:

- (1) The company purchased 1,000 shares of company A on 1 February 2026 from NSE and sold the same on 2nd February 2026 making a gain of ₹ 10,000 on NSE.
- (2) Entered into an index futures contract on a recognized stock exchange to hedge risk of fall in market value of its investment portfolio
- (3) Entered into a wheat futures contract to earn profit with a wheat merchant squared off before delivery.
- (4) Entered into a forward contract to sell steel scraps (generated from construction waste) which was not part of its regular business, settled without delivery.

During the audit for FY 2024-25, the auditors observed the following:

SIDL purchased specialized machinery on 1<sup>st</sup> April 2024 at a cost of ₹ 1.20 crores. The machinery is used in a highly competitive activity where rapid technological advancement takes place. At the time of acquisition, the company estimated the useful life of the asset to be 10 years with a residual value of ₹ 5 lakhs.

A new advanced technology was introduced in the industry which may render the machinery partially obsolete earlier than expected. The company's operations require continuous use of the machinery for three shifts a day, leading to faster wear and tear.

The company's production department is highly skilled in maintaining machinery, resulting in fewer breakdowns compared to industry averages. Legal restrictions and environmental regulations are expected to require replacement of the machinery in 8 years from the date of purchase. The company has signed a contract with a customer for 7 years, after which demand for the product is uncertain.

The company has been facing increasing pressure from regulators and environmental activists to adopt sustainable production methods. In response, SIDL has initiated several environmental protection measures.

The following are the major costs incurred during the year:

- Installation of air filtration equipment to reduce dust emissions.
- Fines and penalties paid for exceeding local noise pollution norms.
- Salaries of the in-house environmental management team responsible for monitoring compliance and reporting.
- Purchase of eco-friendly packaging material for finished goods.
- Payments made to an external waste disposal agency for treating paint related chemical effluents.
- Training provided to employees on energy conservation practices.

- Cost of cleaning up soil contamination caused by past operations.
- Donations made to a local environmental NGO to support a citywide tree plantation drive.

CA. Meera is the engagement partner in charge of the statutory audit of SIDE. She has been associated with the company for the last 8 years and has developed a cordial working relationship with its senior management.

SIDL requests CA. Meera to represent the company before the Ministry of New & Renewable Energy to lobby for a proposed subsidy policy favourable to the company's projects, and assist in preparing advocacy material and presentations to influence public opinion on the new policy.

Further, SIDI offers to reimburse all expenses and pay an additional professional fee for this service.

CA. Meera believes her deep understanding of the company's operations will help in effectively promoting SIDL's viewpoint.

### Multiple Choice Questions

**[Provide the most likely correct option to the following questions]**

4.1. From the following statements choose the correct options given in light of the Code of Ethics:

- (i) CA. Meera faces an advocacy threat, as she is promoting the client's position to influence public policy in its favor.
- (ii) A familiarity threat also arises because of her long association with the client, which may make her too sympathetic to the client's interests.
- (iii) A self-interest threat arises from the prospect of additional professional fees for lobbying services.
- (iv) Since lobbying is a non-audit service, she can continue both services if the management gives written consent.
- (v) The combined effect of these threats makes it unacceptable for her to continue as auditor unless the lobbying engagement is declined.

### Options:

- (A) (i) and (ii) are correct
- (B) (i), (ii) and (iii) are correct
- (C) (i), (ii), (iii) and (v) are correct
- (D) (ii) and (iii) are correct

- 4.2. Identify the correct statements in relation to investments in bonds Statements:
- (i) Bond Y will have a higher duration than Bond X due to its longer maturity.
  - (ii) Bond Z will have a lower duration than Bond Y because of its higher coupon rate.
  - (iii) Duration increases with higher coupon rates and decreases with shorter maturities.
  - (iv) Bonds with higher duration are more sensitive to interest rate changes.
- Options:**
- (A) (i), (ii) and (iv) only
  - (B) (i) and (iii) only
  - (C) (ii) and (iv) only
  - (D) (ii), (iii) and (iv) only
- 4.3. Which of the contracts entered by SIDL. to take advantage of market opportunities as given in the case study would be considered speculative transactions under the Income Tax Act, 1961?
- (A) (1) and (3)
  - (B) (2) and (3)
  - (C) (3) and (4)
  - (D) Only (3)
- 4.4. Based on the provisions of SEBI Regulations, identify the correct statement from the following options.
- (A) The promoters' minimum contribution requirement is ₹ 240 crores (20% of ₹ 1,200 crores), and the current contribution plan of ₹ 120 crores satisfies the regulation.
  - (B) Since the issue involves partly paid shares and minimum promoters' contribution exceeds ₹ 100 crores, bringing ₹ 100 crores before opening and the rest on a pro-rata basis is permitted.
  - (C) The promoters' SR equity shares cannot be included while computing the minimum promoters contribution
  - (D) If the promoters wish to contribute more than 20%, the excess contribution shall be allotted at the lower of issue price or price determined under Regulation 164.

- 4.5. Identify the incorrect statement from the following and choose the correct option.
- i. Taxable value (in INR) of Cloud Hosting service per year is ₹ 25,20,000
  - ii. Total GST liability (IGST @18%) on all foreign services (in INR) will be ₹ 9,31,680.
  - iii. GST on services imported will be payable on reverse charge basis and ITC is restricted only to the domestic supplies.
  - iv. Free cloud credits will also be treated as import of services

**Options:**

- (A) (i), (ii) and (iii)
- (B) (iii) and (iv)
- (C) (i) and (iv)
- (D) (ii) and (iv)

**(5 x 2 = 10 Marks)**

**Descriptive Questions**

- 4.6. (a) Identify and explain the factors affecting the determination of useful life of the machinery as per Ind AS in view of the facts given in the case study.
- (b) If SIDL decides to revise its original estimate of useful life, state the accounting treatment of such a revision in useful life under Ind AS. **(6 Marks)**
- 4.7. In light of the powers of the Commissioner of Income-tax (Appeals) [CIT(A)], discuss the following:
- (i) Whether the CIT(A) can set aside the best judgement assessment made and refer it back to the AO for fresh assessment?
  - (ii) Whether the CIT(A) can enhance the assessment by including the unexplained credits not considered by the AO? If yes, what procedural requirement must be fulfilled before making such an enhancement?
  - (iii) If instead, the appeal was against a penalty order, what powers would the CIT(A) have under the appellate provisions? **(5 Marks)**
- 4.8. (a) Based on the information given in case study, identify and give reasoning which of the environmental costs incurred by SIDI. represent internal environmental costs and external environmental costs.
- (b) Suggest one managerial action that could help SIDL reduce its external environmental costs in future. **(4 Marks)**

## **CASE STUDY - 5**

### **Lemon Ltd.**

Back in 2010, Mr. Raj Mehta launched his lighting venture by offering a diverse mix of technologies-LCD lighting fixtures, CFL and ICL lamps, and basic LED bulbs. In those early years, Lemon catered to customers seeking traditional LCD, compact fluorescent (CFL), or induction ceramic (ICL) options alongside the emerging promise of LED. Foreseeing the superior energy efficiency and lower environmental impact of LEDs, Mr. Raj transitioned Lemon's entire product line to LED technology even before the Government of India's UJALA scheme was launched in 2015.

### **Overview of the UJALA Scheme and LED Adoption in India**

In May 2015, the Government of India launched the UJALA (Unnat Jyoti by Affordable LEDs for All) scheme, also known as the Domestic Efficient Lighting Programme (DELP), with the objective of promoting energy efficiency in Indian households. This flagship initiative is a collaborative effort involving the Ministry of Power, Energy Efficiency Services Limited (EESL), and state electricity distribution companies (DISCOMs).

Through the UJALA scheme, the government aimed to replace 770 million traditional bulbs and CFLs in households and 35 million streetlights with energy-efficient LEDs. This massive replacement drive was projected to save 85 lakh kWh of electricity annually and reduce CO<sub>2</sub> emissions by 15,000 tonnes. As per the Ministry of Power, by December 2023, 1.3 crore LED smart streetlights had already been installed under the LED Street Lighting National Programme.

Research studies by organizations such as ELCOMA (2013), NITI Aayog (2012), and the Economics Research Group (2011) highlighted that lighting accounted for approximately 18–27% of total residential electricity consumption in India. A 2011 study estimated that Indian households had one billion lighting points, of which 46% used CFLs, 41% used tube lights, 13% used incandescent bulbs, and a mere 0.4% used LEDs. Assuming an average annual usage of 1,580 hours per lighting point, the study concluded that lighting constituted about 27% of residential electricity consumption.

While LEDs consume nearly 75% less energy and last up to 25 times longer than incandescent bulbs, their high initial cost was a significant barrier to widespread adoption. To address this, the government introduced UJALA to make LED lighting more affordable. Under the scheme, the price of LED bulbs distributed via EESL dropped dramatically from ₹ 310 (US\$4.22) in 2013 to ₹ 65 (US\$0.80) in 2016.

In addition to UJALA, the government launched several complementary programmes to accelerate the adoption of energy efficient lighting, including the Demand Side Management (DSM)-based Efficient Lighting Programme and the Bachat Lamp Yojana (BLY). These

initiatives aimed not only to subsidize LED costs but also to raise public awareness about the benefits of LED lighting.

As a result of these efforts, the Indian LED lighting market experienced exponential growth annual sales increased from less than 5 million units in 2014 to approximately 669 million units by 2018, according to the ELCOMA India Report.

### **Lemon Ltd.'s strategic expansion in LED Lighting**

Today, headquartered in Delhi, Lemon Ltd. is renowned for its durable, eco-friendly indoor, outdoor, solar, architectural, and linear LED lighting solutions. To maintain a competitive edge in this fast-moving market, Lemon bases its pricing largely on competitors' rates rather than its own costs or demand projections. Under Mr. Raj's visionary leadership, honed during his studies at Riverdale Country College in New York, Lemon has doubled its revenue, expanded its market share, and solidified its reputation as an innovator in energy-efficient lighting. By investing heavily in research and development and nurturing a team of seasoned professionals alongside young talent, the company continues to set industry benchmarks and drive innovation in LED lighting, expanding its business through new units and strategic acquisitions.

### **EB Acquisition & Asset Transactions**

In the fiscal year 2024-25, Lemon Ltd. acquired EB Systems (a private limited company), marking its first subsidiary acquisition. EB Systems is another company in the LED lighting industry. Its 60% equity shares were recently acquired by Lemon Ltd. during F.Y. 2024-25, due to which the paid-up capital of EB Systems increased from ₹ 8 crore to ₹ 11 crore. This capital infusion not only reflects Lemon's investment in strengthening the subsidiary's growth potential but also supports the company's vision to consolidate its position in the competitive LED lighting market. The acquisition is expected to unlock synergies in R&D, manufacturing efficiency, and distribution networks, benefiting both companies in the long term.

In a strategic move to strengthen its leadership, Lemon Ltd.'s subsidiary EB Systems appointed Mr. Dinesh as its whole-time company secretary and Mr. Mayank as its managing director. Notably, both Mr. Dinesh and Mr. Mayank were already serving in similar positions at Lemon Ltd., the holding company. Mr. Dinesh brings extensive experience in corporate compliance, regulatory affairs, and secretarial practices, which will be instrumental in maintaining robust governance at EB Systems. Meanwhile, Mr. Mayank's proven leadership in steering Lemon's business growth will now be leveraged to drive the subsidiary's performance and integration within the group structure. This dual-role approach reflects Lemon's commitment to fostering a unified leadership framework and maximizing synergies between the parent and subsidiary operations.

On August 25, 2025, EB Systems undertook two significant transactions concerning its fixed assets, specifically its machinery. In the first transaction, the company transferred one of its

machineries to Mr. Mayank, the Managing Director, in exchange for his personal vehicle. This non-monetary exchange was carried out based on mutually agreed values, and the transaction was recorded accordingly in the company's books. In the second transaction, another machinery was sold by EB Systems for a monetary consideration of ₹ 1,30,000. The written-down value (WDV) of the machinery stood at ₹ 1,00,000, resulting in a recorded gain of ₹ 30,000 on the disposal. However, in an interesting turn of events, EB Systems reacquired this same machinery on September 10, 2025 at a cost of ₹ 1,50,000. This reacquisition was made in light of operational requirements and strategic asset utilization planning. All transactions were duly documented and accounted for in accordance with applicable accounting standards and corporate governance practices.

During the financial year 2024–2025, Lemon introduced healthcare benefits for its employees. Under the plan, employees became eligible for specific medical reimbursements and health-related expenses, which the company committed to settling upon actual incurrence or reimbursement claims. Health Care Benefits for Employees outstanding during the year is ₹ 1,50,000. As per tax regulations, the related expenditure is deductible only when the benefits are actually paid. However, in accordance with Ind AS 19, the company is required to recognize a liability in the profit or loss account as employees render their services. The applicable tax rate for the year is 32%.

### **Expansion into Luxury LED Lighting**

After acquiring EB, Lemon Ltd. decided to introduce a new unit dedicated to luxury LED lighting, drawing on insights from a February 2025, The Biz News article that highlights how premium fixtures are becoming focal points in design-led residential and commercial spaces (attached as Annexure I). Recognizing this trend, Lemon aims to leverage EB's technological capabilities and design sensibilities to craft sophisticated, aesthetically appealing lighting products. The new unit will cater to architects, interior designers, and premium property developers who prioritize both visual impact and energy efficiency. By integrating cutting-edge innovation with artistic design, Lemon envisions transforming lighting into an expressive medium that enhances ambience and elevates lifestyle. This initiative is expected to not only strengthen Lemon's brand presence in the high-end segment but also set new benchmarks in sustainable yet stylish lighting. Ultimately, the new unit reflects Lemon's commitment to staying ahead of market trends and shaping the future of lighting design.

### **Sustainability and E-Waste Compliance**

Lemon Ltd. introduced its "EcoSmart" initiative in 2023, redesigning its packaging to use 100% recycled materials and optimizing its supply chain for shorter, consolidated shipping routes. As a result, the company reduced its annual packaging and logistics costs by 25%, saving approximately ₹ 10 lakh.

Building on the momentum of the EcoSmart initiative, Lemon has also addressed the downstream impacts of its products. Although LED lights consume less energy, they still contain electronic components and materials (such as copper, metals, and certain plastics) that can become hazardous e-waste if not managed properly. Consequently, the Ministry of Environment and Forests required Lemon Ltd. to submit an annual environmental report detailing its collection, recovery, and recycling of end-of-life LED fixtures and packaging. The report must demonstrate Lemon's progress against e-waste recycling targets, specify volumes of recovered electronic components (e.g., drivers, circuit boards, heat sinks), and confirm that all mandatory e-waste handling fees and producer responsibility obligations have been fulfilled.

Lemon Ltd. purchased machinery from Dusham Ltd. for use in its business operations. The list price of the machinery (exclusive of taxes and discount) was ₹ 30,00,000. In addition to this, the company incurred a cost of ₹ 60,000 for corrugated boxes used for packing the equipment, which was not included in the listed price. A discount of 2% was offered on the list price, as mentioned in the invoice. To support the purchase, Lemon Ltd. has received a government grant of ₹ 6,00,000. As a part of its policy, Lemon Ltd. depreciates all its plant and machinery at 20% per annum on straight-line basis and also it does not claim depreciation on GST component included in the price of plant and machinery.

The Statutory audit of the company Lemon Ltd. is being carried out by Sharma & Co. under the supervision of the Engagement Partner CA. Rohit Malhotra. CA. Malhotra understands that as the auditor, he should develop an audit plan that shall include a description of the procedures to be performed as per Standards on Auditing.

Lemon Ltd. has just invented a new 'LED light-G10'. New LED light-G10 has a budgeted total profit of ₹ 75,000 from the first 256 units. The time taken to produce the first unit was 112.50 hours. The labour rate is ₹ 20 per hour. A 90% learning curve is expected to apply indefinitely.

#### ANNEXURE I



#### **The Biz News**

TBNews.com – Redefining luxury lighting - Key trends driving the market forward, *Feb 10, 2025, at 12:16 PM IST*

The lighting industry today finds itself at a compelling crossroads rooted in centuries of traditional craftsmanship while being propelled by rapid technological advancements. This convergence has unlocked exciting opportunities, particularly in the luxury segment, where lighting has evolved far beyond its utilitarian origins to become a powerful element in architectural and interior design.

This transformation reflects broader shifts in how people perceive and interact with the spaces around them. Lighting now plays a pivotal role in shaping experiences, influencing moods, and enhancing the aesthetic and functional appeal of an environment. It is no longer merely about illumination—it is about storytelling through light.

The current market dynamics reveal a unique intersection of art, technology, and sustainability. Customer expectations have significantly evolved; what was once a preference for visual appeal has now matured into a demand for lighting solutions that combine elegant form with intelligent functionality. Luxury lighting fixtures, such as contemporary chandeliers and pendant lights, are no longer just decorative additions—they are sculptural centerpieces that create spatial identities. This shift is especially prominent in the hospitality sector, where luxury hotels allocate a significant portion of their furniture, fixtures, and equipment (FF&E) budgets specifically to decorative lighting.

Understanding the future of luxury lighting requires a grasp of the deeper market forces at play. Rapid urbanization in emerging economies, coupled with growing design awareness and an increased emphasis on experiential spaces, is fueling demand for refined lighting solutions. There is a noticeable trend toward versatile fixtures like architectural sconces and modular lighting systems that can be tailored to suit varying spatial requirements while preserving a consistent design language.

Innovation in this space is increasingly driven by global collaboration. Progressive manufacturers are teaming up with technology firms, design studios, and sustainability experts to create next-generation lighting solutions that are future-ready. These partnerships have led to breakthroughs such as adjustable LED systems and dynamic light sculptures that react to their environments, transforming spaces through subtle shifts in intensity and color temperature.

Market indicators underscore this transformation. The global LED lighting market for indoor applications is projected to reach USD 49.4 billion by 2026, reflecting a healthy compound annual growth rate of 5.6%. Simultaneously, sustainability has emerged not just as a regulatory requirement, but as a driving force behind innovation. Designers and manufacturers are embracing recyclable materials and energy-efficient technologies in linear and recessed lighting systems, proving that environmental responsibility can go hand in hand with design excellence.

Digital transformation is also reshaping the lighting landscape. The integration of digital technologies is revolutionizing product design, manufacturing, and how companies engage with stakeholders throughout the value chain. Today's track lighting systems and ceiling-mounted fixtures often come with smart controls, enabling a new level of customization, efficiency, and user interaction.

Within the premium segment, growth prospects remain strong. Iconic statement pieces such as grand chandeliers and artistic installations continue to dominate, but their value now lies equally in their technological sophistication as in their aesthetic appeal. Several key trends are poised to shape the industry's trajectory in the coming years.

First, the blending of residential and commercial design aesthetics is creating opportunities for innovation, with pendant lights and wall-mounted fixtures now being designed for versatility across

both settings. Second, the rise of smart cities and intelligent buildings is increasing demand for lighting systems that integrate seamlessly with broader urban infrastructure and development goals. This has spurred innovations in architectural lighting that blend artistic excellence with intelligent controls. Third, changing patterns in how people live and work are driving demand for adaptive lighting solutions. Multifunctional fixtures with features like dimmability and tunability are gaining popularity, offering the flexibility to transition from task lighting to ambient moods in both home and workplace environments.

In this fast-evolving context, leadership in the luxury lighting sector will be defined not merely by superior products, but by the ability to anticipate and adapt to market shifts while remaining grounded in core values of craftsmanship, quality, and innovation. The future will favor those who can strike a delicate balance between heritage and forward-thinking design, between local sensitivities and global ambitions.

Ultimately, the luxury lighting industry is on the brink of its next great transformation. This is more than just a commercial opportunity it is a chance to meaningfully influence how people experience the spaces where they live, work, and connect. Those who can lead this evolution will not only illuminate rooms, they will illuminate lives.

### Multiple Choice Questions

- 5.1 Whether there was any statutory requirement for EB Systems to appoint a whole time Company Secretary (CS) and whether Mr. Dinesh was eligible to be appointed as its whole time Company Secretary?
- (A) There is no requirement to appoint a Whole time CS in a Private limited company and Mr. Dinesh was not eligible as he was already holding office as a whole time CS in one other company i.e. Lemon Ltd.
  - (B) Yes, as its paid up capital had exceeded the prescribed limit and also Mr. Dinesh was eligible to be appointed as its whole time CS in EB Systems as it was the subsidiary company of Lemon Ltd.
  - (C) Yes, as its paid up capital had exceeded the prescribed limit. However, Mr. Dinesh was not eligible to be appointed as its whole time CS as he was already holding office as a whole time CS in one other company i.e. Lemon Ltd.
  - (D) No, as its paid up capital had not exceeded the prescribed limit. However, Mr. Dinesh was eligible to be appointed as its whole time CS as it was the subsidiary company of Lemon Ltd.
- 5.2 Defer tax on Health care benefits for employees for the year 2024-2025 would be:-
- (A) Nil
  - (B) DTL ₹ 48,000
  - (C) DTA ₹ 48,000

- (D) Health care benefits for employees will not be taxable.
- 5.3 What shall be the value of the machinery in the hands of Dusham Limited?
- (A) ₹ 30,60,000  
(B) ₹ 25,00,000  
(C) ₹ 35,00,000  
(D) ₹ 30,00,000
- 5.4 What is the cumulative average time (Revised) required per unit for producing 256 parts based on revised labour cost (₹) at zero profit?
- (A) 48.43 hrs.  
(B) 63.80 hrs.  
(C) 63.08 hrs.  
(D) 43.48 hrs.
- 5.5. The pricing method adopted by Lemon Ltd. is–
- (A) Value pricing  
(B) Going rate pricing  
(C) Image pricing  
(D) Psychological Pricing
- (5 × 2 = 10 Marks)**

**Descriptive Questions**

- 5.6 DISCUSS the manner in which EB Systems would have appointed Mr. Dinesh and Mr. Mayank, respectively? **(4 Marks)**
- 5.7 DISCUSS whether there were any restrictions for EB Systems to sell its machinery to Mr. Mayank in exchange of a vehicle and ANALYSE the legal requirements it would have needed to follow if such restrictions existed as per companies Act, 2013. **(4 Marks)**
- 5.8 What shall be considered as the cost of machinery reacquired by EB Systems from Mr. Mayank, for income tax purposes? **(7 Marks)**