

Mock Test Paper - Series II: March 2026

Date of Paper: 13th April, 2026

Time of Paper: 2 P.M. – 6 P.M.

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

SUGGESTED ANSWERS

ANSWERS TO THE CASE STUDY 1

Answers to the Multiple Choice Questions

- 1.1 (B) **Non-financial measures are independent of business performance and do not impact the bottom line of the company in any way.**

Reason: Non-financial measures are tied to business performance and can indirectly impact the bottom line of the company. For example, high employee attrition rate will impact the hiring cost and the HR recruiting budget. Stock-outs can impact revenue, although indirectly, in the form of lost sales opportunities.

- 1.2 (A) **(i) and (ii)**

Reason: The correct answer is statement (i) and (ii).

Statement (iii) making BCFL a profit centre does not necessarily promote goal congruence. The manager of each unit (Ramesh Shah, Mohan Lal and others) will want to maximize profits of their individual units in order to earn better compensation. In the pursuit of better profits, each unit may take decisions that may not always be in the best interest of the overall objective of the company.

Statement (iv) a profit center makes Ramesh Shah accountable for both revenue and costs. It is not a means to help UFL manage its profitability to optimize taxes.

- 1.3 (B) **₹ 3,73,65,000 as loan; ₹ 1,26,35,000 as deferred grant**

Reason: The loan is initially recognised at its fair value of ₹ 3,73,65,000 (refer working note). BCPL will recognise ₹ 1,26,35,000 (i.e. ₹ 5,00,00,000 – ₹ 3,73,65,000) as the government grant.

Working Note:

Loan amount to be initially recognised:

Particulars	₹	Discounting factor @ 12%	Present value taking 12% as the discount rate (₹)
Interest @ 5% for Year 1 on loan amount of ₹ 5 crore	25,00,000	0.893	22,32,500
Interest @ 5% for Year 2 on loan amount of ₹ 5 crore	25,00,000	0.798	19,95,000
Interest @ 5% for Year 3 on loan amount of ₹ 5 crore	25,00,000	0.712	17,80,000
Interest @ 5% for Year 4 on loan amount of ₹ 5 crore	25,00,000	0.636	15,90,000
Interest @ 5% for Year 5 on loan amount of ₹ 5 crore	25,00,000	0.567	14,17,500
Loan	5,00,00,000	0.567	2,83,50,000
Present value of loan at the beginning of Year 1			3,73,65,000

- 1.4 (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.**

Reason: Since the employees who have received such shares are acting in the capacity of shareholders and not as employees, this transaction will not be covered under Ind AS 102. Further, entity issuing its own shares to a charity without any consideration will be covered under Ind AS 102. This is a share-based payment arrangement, covered under Ind AS 102 (not a share-based payment transaction).

- 1.5 (C) **A Key Performance Indicator**

Reason: Collection of 95% of accounts receivable within 60 days of sale is a measurable target set by the organization. Hence it is a KPI. Other options would be more general in their definition rather than being a specific measurable target to achieve. A Mission seeks to explain why does the company exist. A Vision describes what the company would like to achieve and generally states an ambitious future. A Critical Success Factor would be those areas or processes that are vital for the attainment of strategic objective. Key Performance Indicators are measurable targets set within such areas critical to success and signals the performance of the company in such areas.

Answers to the Descriptive Questions

- 1.6 (a) UFL acquired BCPL to mitigate the risk of disruptions to the supply chain rather than profit making. Hence, it has adopted an internal transfer pricing policy of charging its entire cost of production plus 15% mark up to UFL based on the ammonium nitrate supplied. For the years 2024-25 and 2025-26, Ramesh Shah's performance is assessed based on other technical and non-financial measures and not on the financial performance of this unit. Therefore, for these years, Ramesh Shah is not being held accountable for the cost of production of the ammonium nitrate supplied to the internal units. He does not have any incentive to identify any opportunities for cost efficiencies. In the long run, this would lead to cost inefficiencies that would reduce the company's overall profit margins. It has already been pointed out by Mohan Lal that UFL has absorbed an increase of ₹ 23,000 per ton within these two years. This was due to increase in fixed cost of ₹ 20,000 in FY 2025-26 plus 15% mark up on it. While UFL accepted this increase in the interest of goal congruence, in the sense that all the internal units must work towards the overall goal of the company and not just towards their individual unit's objectives. At the same time, Ramesh Shah must be held accountable for managing the cost of production at BCPL in a cost effective manner that will boost the overall profit margins of the company.
- (b) The plant has been working at full capacity during the year 2026-27. Out of the total capacity of 400,000 tons per annum, 240,000 tons are being supplied to UFL and the balance is being sold externally.

Therefore, the minimum transfer price that BCPL will demand = Marginal cost per unit + Opportunity cost per unit = ₹ 30,000 per ton + ₹ 130,000 per ton = ₹ 160,000 per ton of ammonium nitrate supplied to UFL.

Opportunity cost per unit in this case will be the contribution lost that BCPL could have earned from external sales.

The contribution from external sales is calculated as below:

Contribution table	External sales
Selling price per ton	1,80,000
Less: Variable costs	
Variable manufacturing cost per ton	30,000
Variable costs on external sales	20,000
Total Variable costs per ton	50,000
Contribution per ton	1,30,000

Alternate method:

The minimum transfer price can be the price an external customer would pay less any cost savings as a result of transferring internally.

External market price is ₹ 180,000 per ton of ammonium nitrate. Cost savings on account of internal transfer would be additional variable delivery cost of ₹ 18,000 per ton ammonium nitrate to external customers. The price also includes ₹ 2,000 per ton as variable advertising expenses. Market price net of any avoidable expenditure due to internal transfer is ₹ 160,000 per ton of ammonium nitrate.

The maximum price that UFL will be ready to pay will be the external procurement price at which it can procure from third party suppliers, which is ₹ 170,000 per ton of ammonium nitrate.

Hence, for the year 2026-27, the suggested price range that can be explored in order to promote goal congruence between Ramesh Shah (head BCPL) and Mohan Lal (director of operations UFL) would be a minimum of ₹ 160,000 per ton to ₹ 170,000 per ton of ammonium nitrate supplied.

- (c) When ammonium nitrate is diverted from external sales to captive consumption, BCPL will have to be compensated for the lost contribution. Mohan Lal is trying to convince Ramesh Shah of BCPL to accept an internal transfer price of ₹ 155,000 per ton of ammonium nitrate supplied. However, the suggested price range as per answer (b) above is ₹ 160,000 per ton to ₹ 170,000 per ton of ammonium nitrate supplied. The minimum transfer price that BCPL should charge to recover any lost contribution would be ₹160,000 per ton. Therefore, BCPL will incur loss of contribution if Ramesh Shah accepts Mohan Lal's offer of ₹ 155,000 per ton as the internal transfer price.
- (d) The estimated profit per annum for FY 2026-27 of BCPL after capacity expansion, working 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.

Sr. No.	Particulars	Details	Total ₹	Total ₹ (crores)
1	Internal sales	(240,000 tons * ₹ 165,000 per ton)	39,600,000,000	3,960
2	External Sales	(160,000 tons * ₹ 180,000 per ton)	28,800,000,000	2,880
3 = 1 + 2	Total sales		68,400,000,000	6,840

4	Variable expenses	(400,000 tons * ₹ 30,000 per ton)	12,000,000,000	1,200
5	Extra variable expenses on external sales Additional delivery expenses ₹18,000 per ton and advertising expenses ₹ 2,000 per ton)	(160,000 tons * ₹ 20,000 per ton)	3,200,000,000	320
6	Fixed cost after capacity expansion	(240,000 tons * ₹ 100,000 per ton) + (160,000 tons * ₹ 70,000 per ton)	35,200,000,000	3,520
7 = 4 + 5+ 6	Total cost		50,400,000,000	5,040
8 = 3 - 7	Net Profit per annum (estimated)		18,000,000,000	1,800

The estimated net profit of BCPL for FY 2026-27 is ₹ 1,800 crores.

1.7 Borrowing Money in €

Particulars	Amount in €
Borrowing Amount	5,00,000.00
Add: Interest @ 4.25% × 90/360 × € 500000	5,312.50
Amt. Repayable in € (A)	5,05,312.50
Applicable Rate	₹/€
Spot Rate	90.35
Add: Swap Points	0.25
Applicable Rate (B)	90.60
Amount Repayable in ₹ (A) X (B)	4,57,81,312.50

Note: In case amount repayable in € is rounded off then above repayable amount in ₹ shall be ₹ 4,57,81,267 or ₹ 4,57,81,358.

Borrowing Money in \$

Particulars	Amount in \$
Equivalent Amount in (€ 5,00,000 × \$ 1.0240)	5,12,000.00

Add: Interest @ 5% × 90/360 × \$ 5,12,000	6,400.00
Repayable in \$ (a)	5,18,400.00
Rate Applicable	\$/€
Spot Rate	1.0220
Less: Swap Points	0.0015
	1.0205
Equivalent Rate of €/ \$ (1/1.0205)	0.9799
Equivalent Rate of ₹/\$ (90.60 × 0.9799) or (90.60/1.0205) (b)	88.78
Equivalent amount of repayment in ₹ (\$ 518400 × 88.78) (a) × (b)	460,23,552

Note: If rounded off the equivalent rate upto 3 decimal points then above amount shall be approx. ₹ 4,60,23,034 and if rounded off upto 4 decimal points then amount shall be approx. ₹ 4,60,22,982.

Decision: Since the cash outflow is least in case of borrowing in Euro, the amount should be borrowed in €.

ANSWERS TO THE CASE STUDY 2

Answers to the Multiple Choice Questions

- 2.1 (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.**

("Related Services", Advanced Auditing, Assurance & Professional Ethics)

- 2.2 (C) **Independence is not a requirement for a Compilation Engagement (SRS 4410), nor is it a requirement for an Agreed-Upon Procedures Engagement (SRS 4400); however, if not independent for the AUP engagement, a statement to that effect should be made in the report of factual findings.**

("Related Services", Advanced Auditing, Assurance & Professional Ethics)

- 2.3 (A) **₹ 15,00,000**

Reason: In the case of a demerger, the unutilized ITC is apportioned in the ratio of the value of assets of the new units. This ratio must be applied at the State level to the total unutilized ITC (sum of CGST, SGST, IGST).

1. Total unutilized ITC (Maharashtra) = 15 L (CGST) + 15 L (SGST) + 30 L (IGST) = ₹ 60 Lakh.
2. Asset transfer ratio (Maharashtra) = (Assets Transferred / Total Assets) = 200 Lakh / 800 Lakh = 25%.
3. Transferred ITC = ₹ 60 Lakh × 25% = ₹ 15 Lakh (₹15,00,000).

2.4 (A) Since the annualized value is less than 10% of the turnover, only Board approval is required.

Reason: The limit for Leasing of property of any kind requires approval by an Ordinary Resolution only if the value amounts to ten per cent or more of the turnover of the company. SEL's turnover is ₹ 500 Crore, setting the threshold at ₹ 50 Crore. Since the transaction value of ₹ 40 Crore is below 50 Crore, the transaction requires only the consent of the Board of Directors. Source: Rule 15(3) and Section 188(1).

2.5 (A) 1/3 or two non-interested directors, whichever is higher, present physically and through video conferencing or other audio visual means.

Reason: Section 174 of the Companies Act, 2013- The quorum for a Board Meeting shall be one third of its total strength or two directors, whichever is higher. A director participating through video conferencing shall also be counted for the purpose of determining the quorum.

Answers to the Descriptive Questions

2.6 Non-Assurance Nature of SRS 4400: An engagement under SRS 4400 is strictly a non-assurance engagement.

The objective is highly limited: CA. Grewal is engaged solely to carry out procedures of an audit nature (like inspection and confirmations) and report only on factual findings based on those procedures agreed upon by SEL and its bank. Because CA. Grewal only provides factual findings and performs no comprehensive verification, no assurance is provided in the report. Users are responsible for assessing the procedures and the findings for themselves and drawing their own conclusions from the work performed.

Reason for Restricted Distribution: The report of factual findings is usually restricted to those parties that have agreed to the procedures to be performed (SEL and its bank). This limitation must be included in the report. This restriction is essential because other parties, unaware of the reasons for the procedures, may misinterpret the results. An unintended user might mistakenly perceive the report as providing a comprehensive audit opinion or review conclusion regarding the financial information, when in fact, the scope

was limited only to the existence and documentation of the specified ₹80 crore consignment.

Mandatory Assurance Limitation Statement: To ensure users understand the limitations, the SRS 4400 report must include a statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed. Furthermore, CA. Grewal must state that had he performed additional procedures, an audit, or a review, other matters might have come to light that would have been reported. The report must also state that it relates only to the specified elements and does not extend to the entity's financial statements taken as a whole.

2.7 The amount payable on the outward supply of capital goods on which ITC has been taken as governed by Section 18(6) read with Rule 40(2) of the CGST Rules, 2017 is as follows:

The registered person must pay the higher of two amounts:

- (A) ITC taken, reduced by 5% per quarter or part thereof, OR
- (B) Tax on the transaction value.

I. Calculation of Amount A (Reduced ITC): This amount represents the original ITC reduced by five percentage points for every quarter or part thereof from the date of the issue of the Invoice.

Particulars	Calculations	Value (₹)
Original ITC taken [IGST@18%]	Given	2,70,000
Date of invoice/ Purchase	January 25, 2023	
Date of Supply/ Sale	December 10, 2024	
Period of Use (in Quarters)	Jan 25 2023 to Dec 10 2024 = 8 quarters (Any part of 8 a quarter is treated as a full quarter),	Quarters
Reduction amount (8 quarters × 5%)	8 × 5% × ₹ 2,70,000	1,08,000
Amount A (ITC Remaining)	2,70,000 -1,08,000	1,62,000

II. Calculation of Amount B (Tax on Transaction Value): This amount is the GST calculated on the transaction value determined under Section 15.

Particulars	Calculation	Value (₹)
Transaction Value of Machine X	Given	8,00,000
Applicable Tax Rate (IGST)	18%	

Amount B (Tax Payable)	8,00,000 × 18%	1,44,000
------------------------	----------------	----------

- III. Conclusion and Final Liability: Suraj Exports Ltd. (SEL) is required to pay the amount that is the higher of Amount A (₹1,62,000) or Amount B (₹ 1,44,000).

Final Amount Payable on Machine X: ₹ 1,62,000.

This final amount must be added to the output tax liability of the registered person for the corresponding GST period.

- 2.8 The question can be answered referring to Section 188(1) read with Rule 15(3) of the Companies (Meetings of board and its Powers) Rules, 2014 and First Proviso to Section 188(1) and Second Proviso to Section 188(1) of the Companies Act, 2013.

(a) Required Level of Approval

Transaction A (Property Acquisition-₹ 12 Crore): The transaction involves buying property of any kind. The threshold requiring prior shareholder approval (Ordinary Resolution) is triggered if the transaction value amounts to 10% or more of net worth of the company. SEL's Net Worth is ₹ 100 Crore. The statutory limit is 10% of ₹ 100 Crore, which equals ₹10 Crore. Since the transaction value of ₹12 Crore exceeds the ₹10 Crore limit, SEL must obtain prior approval of the company by passing an ordinary resolution in a General Meeting.

Transaction B (Services Agreement - ₹ 45 Crore): The transaction Involves availing or rendering of any services. The threshold requiring prior shareholder approval is triggered if the transaction value amounts to 10% or more of the turnover of the company. SEL's Turnover is 500 Crore. The statutory limit is 10% of ₹ 500 Crore, which equals ₹ 50 Crore. Since the transaction value of ₹ 45 Crore does not exceed ₹ 50 Crore limit, the transaction can be entered into by obtaining the consent of the Board of Directors given by a resolution at a meeting of the Board.

(b) Participation Restrictions (Board and General Meeting):

Board Meeting Restrictions: For discussions on resolutions related to related party transactions.

In case any director is interested in any contract or arrangement with a related party (i.e., D1, D2, and D3 for their respective related party transactions), he shall not be present at the meeting during discussions on the resolution relating to such contract or arrangement.

General Meeting Voting Restriction (Second Proviso to Section 188(1)): Since Transaction A requires an Ordinary Resolution:

A member of the company who is a related party shall not vote on the resolution meant for approving any contract or arrangement which may be entered into by the company. Assuming D2 is a shareholder, D2 must abstain from voting on the resolution approving the property acquisition.

ANSWERS TO THE CASE STUDY 3

Answers to the Multiple Choice Questions

3.1 (A) ₹ 25 Crore is Third stage funding, ₹ 15 Crore is second stage funding and risk perception for 10 Crore is extreme.

3.2 (D) ₹ 5,44,00,000

Reason: Computation of taxable value of machinery

Particulars	Amount (₹)
Basic price	5,00,00,000
Add: Installation	20,00,000
Add: Municipal tax	1,00,000
Less: Discount (Known at time of supply & recorded on invoice)	2,00,000
Add: Subsidy from non-Government body linked to price (includible if directly linked to price)	25,00,000
Taxable Value of machinery	5,44,00,000

Note: Interest collected later not included now (will be taxed when received)

3.3 (B) Only statement (i)

3.4 (C) (ii) and (iv)

Reason: Adjust the financial statements for impairment of receivables – Correct

Reason: Insolvency of a debtor provides evidence of conditions existing at the reporting date – hence, an adjusting event.

Disclose the dividend in notes as a non- adjusting event – Incorrect

Reason: Declaration of dividend after the reporting period is a non-adjusting event, requiring disclosure in the notes to accounts only. (Ind AS 4.69)

No accounting adjustment but disclose the event – Correct

Reason: Fire occurred after the reporting period and is not related to conditions existing at the reporting date – a non-adjusting event requiring disclosure. (Ind AS 4.71)

Reclassify the division as held for sale as at 31st March 2025 – Incorrect.

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

Reason:

The company is deploying Advanced Material Handling Systems (AMHS), RFID-based scanning, automated sorting and packing stations, and ERP-integration, all of which replace manual handling with machine-driven warehouse operations. This transformation reflects Automation, as tasks such as order picking, scanning, sorting, and dispatch will now be performed with minimal human involvement.

The Reason correctly explains the Assertion as automation increases operational speed, minimises human error, provides inventory visibility in real time, reduces turnaround time in order processing etc. Therefore, both the Assertion and Reason are true, and the Reason is the correct explanation of the Assertion.

Answers to the Descriptive Questions

3.6 (a) Gross margin is calculated as the difference between the selling price and the bought-in (purchase) cost of goods. While this provides a basic profitability measure, it is inadequate for decision-making in modern retail due to the following reasons:

- **Ignores Indirect Costs:** It excludes overheads, storage, transport, labour for shelf stocking, and inventory financing, which are substantial in a retail setup.
- **Distorts Product Profitability:** Products with high gross margins may still be unprofitable after considering indirect costs like space consumption or handling time.
- **Misguides Strategic Decisions:** Using gross margin as the sole metric may lead to poor product mix choices, under-pricing, or failure to identify cost-draining SKUs.

(b) Strategic Profitability Analysis - Operating Profit of a firm is affected by various components which are responsible for changes in the revenue and costs.

Majorly there are three components –

- (i) **Growth Component** measures the change in the quantity of output sold. The growth component of the change in the operating income measures the increase/ decrease in revenue and in costs due to selling more/ less quantity units from the previous period..
- (ii) **Price Recovery Component** of change in operating income measures the changes in the revenue and costs solely due to changes in prices..
- (iii) **Productivity Component** measures the change in the operating income due to changes in the product mix and/ or yield of inputs as compared with the last year. This component uses current year's prices of input to measure the changes in costs only.

3.7 As per SA 580, "Written Representations", as written representations are **necessary audit evidence**, the auditor's opinion cannot be expressed, and the auditor's report cannot be **dated before the date of the written representations**.

As per **SA 560 "Subsequent Events"**, the auditor is concerned with events occurring up to the date of the auditor's report that may require **adjustment to or disclosure in the financial statements**, the written representations are dated as near as practicable to, but **not after, the date of the auditor's report** on the financial statements.

In some circumstances it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the course of the audit. Where this is the case, it may be necessary to request an updated written representation.

The written representations are for all periods referred to in the auditor's report because management needs to reaffirm that the written representations, it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

Situations may arise where current management were not present during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all the written representations because they were not in place during the period. **This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole.**

Accordingly, the requirement for the auditor to request from them, written representations that cover the whole of the relevant period(s) still applies. Therefore, as per the above requirement of SA 580 auditors should take written representation letter from management of the company for the financial year 2022-23 and 2023-24 also.

In case the management does not provide written representation as requested, the auditor shall discuss with the management, re-evaluate the integrity of management, and take appropriate actions including the impact on the audit report as per SA 705.

- 3.8** If a taxable person is making **both taxable and exempt supply**, he is entitled to avail full credit of ITC in respect of capital goods exclusively used for taxable supply and **no credit at all can be availed for capital goods exclusively used for exempt supply**.

Where the registered person has **claimed depreciation** on the tax component of the cost of capital goods and plant and machinery under the provisions of the Income-tax Act, 1961, the **input tax credit on the said tax component shall not be allowed**.

BLOCKED CREDIT: ITC of tax paid on capital goods used for supply of taxable goods and/or services is allowed under GST except a small list of items provided u/s 17(5) of the CGST Act, 2017. Thus, ITC on such items is not allowed even though the same may qualify as capital goods and are used in the course or furtherance of business.

The blocked list of credit covers mainly items of personal consumption, use of which results into formation of an immovable property (except plant and machinery), telecommunication towers, pipelines laid outside the factory premises, etc.

ANSWERS TO THE CASE STUDY 4

Answers to the Multiple Choice Questions

- 4.1 (C) (i), (ii), (iii) and (v) are correct**

Reason:

- (A) Advocacy threat exists - representing or promoting a client's position before government authorities or the public is a clear advocacy threat.
- (B) Familiarity threat arises due to a long association (8 years) that may reduce professional skepticism.
- (C) Self-interest threat arises because of the additional fee linked to a non-audit service
- (D) Incorrect - written consent from management does not neutralize or reduce these threats to an acceptable level, independence is still compromised.
- (E) Correct - The combination of advocacy, familiarity, and self-interest threats maker is unacceptable for CA Meera to continue as auditor unless the declines the lobbying engagement.

4.2 (A) (i), (ii) and (iv) only

Reason:

Statement 1: Longer maturity (Bond Y) - higher duration (correct)

Statement 2: Higher coupon (Bond X) - lower duration. (correct)

Statement 3: Duration **decreases** with higher coupons, not increases

Statement 4: Higher duration - greater interest rate sensitivity (risk). (correct)

4.3 (C) (3) and (4)

Reason:

(1) Sale and purchase of shares will be of delivery in nature → not speculative

(2) Exchange-traded index futures → excluded

(3) Wheat futures for profit → speculative.

(4) Forward contract in steel scraps unrelated to main business → speculative

4.4 (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.

Reason: Under Regulation 113(1), the minimum promoters' contribution shall be 20% of the issue size or post-issue capital, whichever is applicable → 20% of ₹ 1,200 crore ₹ 240 crore

However, Regulation 113(4) provides that if the minimum promoters contribution exceeds ₹ 100 crore and the issue is of partly paid shares, the promoters shall bring at least ₹ 100 crore before opening of the issue, and the balance can be brought on a pro-rata basis before public calls.

₹100 crore must be brought in, but the structure itself (2100 crore upfront, rest later) is permissible.

SR equity shares are eligible toward computation (Reg. 113(5)), so statement C is incorrect.

For excess contribution, the price shall be at higher of issue price or price under Regulation 164 [Reg. 113(3)], making statement D incorrect.

4.5 (B) (iii) and (iv)

- (i) Taxable value of cloud hosting service is $\text{USD } 10,000 \times 84 \times 3$
= 25,20,000 (Correct)
- (ii) Cloud 25,20,000 + SaaS 4,20,000 + Consultancy 7,36,000 + Ads 15,00,000
= 51,76,000 $\times 18\%$ = 9,31,680 (Correct).
- (iii) ITC can be fully claimed since services are used for business, hence, the given statement is incorrect
- (iv) Free cloud credits will not be treated as import of services because there is no consideration involved, hence the given statement is incorrect

Hence, (B) - (iii) and (iv) are incorrect.

Answers to the Descriptive Questions

4.6 (a) As per **Ind AS 16**, useful life of an asset is influenced by a combination of technical, commercial, legal, and operational factors. In the case of XYZ Ltd., the relevant factors are:

1. Expected usage of the asset
The machine is used in three shifts daily, causing accelerated wear and tear.
This reduces the useful life compared to normal industry usage.
2. Expected physical wear and tear
Higher usage increases wear, but effective maintenance by skilled staff may extend the useful life compared to industry averages.
3. Technical or commercial obsolescence
Rapid technological advancements in the industry may shorten the useful life because the asset may become less efficient earlier than 10 years.
4. Legal or similar limits on use of the asset
Environmental regulations restrict usage to 8 years, directly impacting maximum permissible useful life.

Accounting treatment of revision in useful life

1. Change in useful life is a change in accounting estimate (Ind AS 16, Para 61; Ind AS 8, Para 36).

2. Such a change is applied prospectively, i.e., depreciation for future periods should be recalculated based on:

- Revised useful life (say, 8 years from acquisition date),
- Carrying amount of asset as on the date of revision.
- Same residual value (unless revised separately)

3. Past depreciation is not restated

4.7 (i) Under section 251(1), in an appeal against an order of assessment made under section 144, the CIT(A) is empowered to set aside the assessment and refer the case back to the AO for making a fresh assessment.

(ii) The CIT(A) can enhance the assessment by including any income that was not considered by the AO, even if the issue was not raised in the appeal.

However, before doing so, he must provide the assessee a reasonable opportunity of being heard against the proposed enhancement.

(iii) In case the appeal was against a penalty order, CIT(A) may confirm, cancel, enhance, or reduce the penalty.

4.8. (a) Classification of Environmental Costs

S. No.	Particulars	Classification	Reasoning
1	Installation of air filtration equipment to reduce dust emissions	Internal Environmental Cost	This is a preventive cost directly incurred by the company to control pollution within its operations.
2.	Fines and penalties paid for exceeding local noise pollution norms.	Internal Environmental Cost	It arises due to environmental damage affecting the community, it represents the social cost of non-compliance externalized to society but now paid by the firm
3.	Salaries of the in house environmental management team	Internal Environmental Cost	These are internal administrative costs to ensure environmental compliance and monitoring.

4.	Purchase of eco-friendly packaging material	Internal Environmental Cost	The cost relates to internal operational choices to reduce environmental impact of products.
5.	Payments to an external waste disposal agency for treating chemical effluents	Internal Environmental Cost	Though an external agency is involved, its a cost directly borne by the company as part of internal was to management.
6.	Training provided to employees on energy conservation	Internal Environmental Cost	This is an internal preventive cost aimed at building employee awareness and efficiency.
7.	Cost of cleaning up soil contamination caused by past operations	External Environmental Cost	This is a remedial or restoration cost for past environmental damage – an external cost internalized now due to regulations or social pressure.
8.	Donations to a local environmental NGO for tree plantation.	External Environmental Cost	It's a voluntary contribution to offset environmental impact beyond company premises – a from of social responsibility cost.

- (b) **Adopting cleaner production technologies** to minimize waste and omissions, thereby reducing both social and legal external costs.

ANSWERS TO THE CASE STUDY 5

Answers to the Multiple Choice Questions

- 5.1 (B) **Yes, as it's 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.**

Reason: Requirement of Company Secretary in certain other companies - Section 203 read with Rule 8 and Rule 8A of Companies (Appointment and Managerial Personnel) Rules 2014, as amended provides that every Listed company or Public company having paid up share capital INR 10 crore or more or every Private

company having paid up share capital of INR 10 crore or more shall have a Whole time Company Secretary.

As per the provisions of Section 203(3) of the Companies Act, 2013, a whole-time key managerial personnel shall not hold office concurrently in more than one company, except in the case of a subsidiary company.

5.2 (C) DTA ₹ 48,000

Reason: Calculation of temporary differences and deferred tax for Lemon as on 31st March, 2025:-

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Health care benefits for employees	(1,50,000)	0	(1,50,000)	Deductible	48,000

5.3 (D) ₹ 30,00,000.

Reason: Computation of value of taxable supply for Dusham Ltd.

Particulars	(₹)
List price of equipment (exclusive of taxes and discount)	30,00,000
Add: Corrugated Boxes used for packing the equipment (refer section 15(2)(c) of the CGST Act, 2017)	60,000
Total	30,60,000
Less: Discount @ 2% is offered on the list price of the machine (recorded in the invoice of the machine) (refer section 15(3)(a) of the CGST Act, 2017)	(60,000)
Value of taxable supply	30,00,000

Note: The government grant has been received by Lemon Ltd., so there will be no impact due to grant on value of taxable supply for Dusham Ltd.

5.4. (C) 63.08 hrs.

Reason: Cumulative Average Time for 256 parts = 48.43 hrs. [112.50 × (0.908)]

Total Time for 256 parts = 12,398.08 hrs. [48.43 hrs. × 256 parts]

Total Labour Cost of 256 parts = 2,47,961.60 [12,398.08 hrs. × 20]

Revised Labour Cost for zero profit = 3,22,961.60 [2,47,961.60 + 75,000]

Total Time for 256 parts (Revised) = 16,148.08 hrs. [3,22,961.60/ 20]

Cumulative Average Time for 256 parts (Revised) = 63.08 hrs.

[16,148.08 / 256]

5.5 (B) Going rate pricing

Reason: Going rate pricing is a competition-based pricing method. Going Rate Pricing is a competitive pricing method under which a firm tries to keep its price at the average level charged by the industry. The use of such a practice of pricing is especially useful where it is difficult to measure costs.

Answers to the Descriptive Questions

5.6 As per Section 203(2) of the Companies Act, 2013, every whole-time key managerial personnel of a company shall be appointed by means of a resolution of the Board. The resolution shall contain the terms and conditions of the appointment including the remuneration.

As per Section 203(3), whole time key managerial personnel shall not hold office in more than one company at the same time except in its subsidiary company.

As per third proviso to Section 203(3) of the Companies Act, 2013, if a person is MD or manager in some other company, it is permissible for a company to appoint him as its managing director. The modus operandi is as under:

- (a) The person so appointed or employed as managing director should be managing director or manager of one, and of not more than one, other company.
- (b) Such appointment or employment is made or approved by Board resolution at a meeting of the Board with the consent of all the directors present at the meeting.
- (c) Further, specific notice of such meeting, and of the resolution to be moved thereat has been given to all the directors then in India.

In the given instance, EB Systems would have appointed Mr. Dinesh, as its whole time company secretary and Mr. Mayank, as its Managing director by passing board resolutions that should have contained the terms and conditions of the appointment of them including their remuneration.

5.7. Contents of notice issued for approval of resolution: The notice for approval of the resolution in general meeting issued by the company or holding company shall include the particulars of the arrangement. It shall also include the value of the assets involved in such arrangement duly calculated by a registered valuer.

In the given instance, EB Systems entered into a non-cash transaction with its managing director, Mr. Mayank by selling its machinery in exchange of a vehicle.

For doing so, EB Systems would have taken prior approval for such arrangement vide a resolution in its general meeting and also as Mr. Mayank is a Managing director of its holding company, Lemon Ltd., as well, prior approval would also have been taken by passing a resolution in the general meeting of Lemon Ltd.

Further, the contents of notice of aforesaid meetings would have included the particulars of such arrangement between EB Systems and Mr. Mayank and the value of the assets involved in such arrangement duly calculated by a registered valuer.

5.8. As per Explanation 4 to section 43 of the Income Tax Act, 1961-

where any asset which had once belonged to the assessee and had been used by him for the purposes of his business or profession and thereafter ceased to be his property by reason of transfer or otherwise, is re-acquired by him, the actual cost to the assessee shall be-

(i) the actual cost to him when he first acquired the asset as reduced by the amount of depreciation that would have been allowable to the assessee.

(ii) the actual price for which the asset is re-acquired by him,

whichever is less.

The other machinery of EB Systems was sold for ₹ 1,30,000. The WDV of which was ₹ 1,00,000. However, such other machinery was reacquired by EB Systems on 10th September, 2025, at a cost of ₹ 1,50,000. Accordingly, the WDV of such machinery was ₹ 1,00,000 and reacquisition cost was ₹ 1,50,000.

Thus, ₹ 1,00,000 shall be considered as the cost of machinery reacquired by EB Systems from Mr. Mayank, for income tax purposes.