

CA FINAL IBS JAN 2026

IBS ADDITIONAL CASE STUDIES

USE WITH SEP 2025 VERSION BOOK

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AIR 17 CA Final
AIR 18 CA Inter

**ONLY INCLUDES CASE STUDIES
RELEASED AFTER SEP 2025 EXAMS**

CASE STUDY 220

DSL is a listed Indian technology company that develops, sells, repairs, and supports computers and related products and services. DSL is owned by its parent company, DSL Technologies.

DSL designs, develops, manufactures, markets, sells, and supports information technology infrastructure such as laptops, desktops, mobiles, workstations, storage devices, software, cloud solutions, and notebooks. The company is known for how it manages its supply chain and electronic commerce. This includes DSL selling directly to customers and delivering PCs that the customer wants. DSL was a pure hardware vendor until 2019 when it acquired Power Storage Systems. DSL then entered the market for IT services. The company has expanded storage and networking systems. In 2021, it began expanding from offering computers only to delivering a range of technology for enterprise customers. DSL serves corporate businesses, government, educational institutions, law enforcement agencies, healthcare organizations, and small and medium-sized businesses. Mainly Company is catering to domestic markets only with little exports of FOB Value INR 25 lakhs and 35 lakhs done during the financial years 2023 and 2024 respectively.

Management's innovative business strategies transformed the company into a significant player in the Indian economy. The latest invention company did was to introduce cold wallets (hardware) to be used by crypto currency users. For manufacturing these wallets, machinery was imported from Japan by arranging funds through ECB's issued. A hardware wallet is a physical device that aims to store cryptocurrencies offline securely. Users of crypto currency can lose cryptocurrency tokens due to theft, computer failure, loss of access keys, and more. Cold storage (or offline wallets) is one of the safest methods for holding crypto, as these wallets are not accessible via the internet, but hot wallets are still convenient for some users. Same way hot storage wallets has also been developed by company's product development team which has been approved by concerned regulatory authority.

While selling the first production batch of cold and hot wallets, DSL charged GST @ 12% as per advice of the inhouse legal department and reported the same in condensed interim financial statements (six months) for the period ended 30.09.2024. The said financial statements were pending for approval and in the meantime, DSL received a notice from GST department that GST rate applicable for such wallets is 18% and not 12%. Though DSL management had made a view to contest the demand but in the meantime, government issued a clarification to tax such wallets @ GST 18%. The said decision was taken by government to bring clarity on wallets, taxability under GST and clear the increasing disputes on those kinds of items. Management however refused to adjust the interim financial statements for creating the provision of difference of GST liability or adding information in notes to accounts on account of government notification.

DSL further received notice from GST department for GST audit of the company for two years (2021-22 to 2022-23). A detailed notice was received from the department requiring the company to provide GST returns, invoices, stock register, financial statements and ledgers to verify the compliances relating to correct claim of input tax credit and payment of GST on sales at the applicable rates. Company engaged CA. Avinash for handling the audit. After going through documents submitted by the company and conducting necessary verification, following issues were raised by GST Superintendent at the time of finalization of audit in June 2025:

- (i) While scrutinizing the creditor's ledgers it was pointed out by the concerned GST officer that company had not made payment to one of the suppliers within 180 days from the date of invoice. Taxable value of invoice dated 25.10.2021 was ₹ 78,00,000 on which GST @ 18% was charged (CGST: 9% and SGST: 9%) and payment was made on 20.08.2022. It was found that company had availed and utilized GST input of ₹ 14,04,000 in GST 3B filed on 20.11.2021. GSTR-3B for August 2022 was filed on 18.09.2022.
- (ii) Company had claimed GST input of ₹ 6,72,000 and ₹ 7,50,000 on purchase of food and beverages used in a canteen in the factory premises during 2021-22 and 2022-23 respectively and expenditure on purchase of food and beverages was debited under the head Staff welfare expenses A/C.
- (iii) Company had debited a sum of ₹ 36,00,000 in Staff Welfare Account on account of payment to a travel company to provide home travel facility to its employees when they were on leave. Travel Company charged IGST of ₹ 6,48,000 on the bills raised during the year 2022-23 and company availed and utilized the IGST as mentioned above in GSTR 3B.
- (iv) Company had availed and utilized ITC of ₹ 12,96,000 on four buses (each with seating capacity of 30 persons) purchased in 2021-22 for transportation of its employees from their residence to office and back. ITC of ₹

96,000 availed and utilised in 2022-23 on general insurance and repair & maintenance of cars used by employees for official purposes.

- (v) ITC of ₹ 1,26,000 availed and utilized on outdoor catering services for a marketing event organized for its current and prospective customers during 2022-23.

Superintendent intimated the company to deposit required interest on delay in payment within 180 days as pointed out at point (i) and reverse the input tax credit claimed being blocked credit as pointed out at point (ii) to (v) and deposit the amount along with interest.

Group CFO, CA. G, has recently taken up meeting of production department head (in relation to new products manufacturing) for ensuring that there is no gap between the orders taken and production done. Total Cost estimate given by the production department also includes waste disposal cost of ₹2.00 Crores. CA. G analysed the list of expenses and came to know that size of floatable solids (generated and disposed, during production process) is 4 mm as against prescribed norms of 3 mm. He instructed the production head to bring the same within the norms prescribed under relevant environmental regulations and ask him to submit the report within three months about the same as this can lead to huge environmental penalties. No further investigation was done and the meeting closed. After six months, company received the notice from the government department about the same issue of floatable solids and was having no response to submit. When enquired, management came to know that CFO was aware of this fact but failed to disclose the same to the management.

DSL is upgrading one of the chips required to be used as input in new laptops being produced at its factory. The said chip has to be imported from Germany where its sole distributor is located. It was decided to import the required quantity of Chips under Advance Authorization scheme and accordingly DSL applied for advance authorization for importing chips having FOB Value being ₹ 95 Lakhs. Company expected to receive the licence by 01.08.2024. To meet the export obligation arising out of advance authorization, DSL plans to supply the laptops (with existing technology chip) to Noida Technology SEZ for being used by them. Production of new laptops started and company wants to make sure that there should be continuous flow of production and with zero waiting time (means the product should not wait on next production step) zero defects, avoiding unnecessary transportation cost, zero inventory etc.

During the current financial year, company decided to use a Logo "\$Z" which was launched by Mr. B when he was carrying on the same business in proprietorship form. Company has entered into an agreement with Mr. B (currently director of DSL) to use the same on the following terms and conditions:

- Mr. B grants DSL a non-exclusive, non-transferable license to use
- DSL agrees to pay Mr. B an annual license fee of ₹ 25,00,000
- The license fee is subject to revision upon mutual agreement after three years

Payment for first year was made in advance. The said transaction was not entered in the register maintained for recording contracts or arrangements in which directors are interested. Internal auditor observed the same and discussed it with the concerned persons in charge for dealing with audit queries in DSL. Statutory Auditor was also present there and listened to the entire conversation. He noted down the point and decided to incorporate the same while preparing CARO.

ABC & Associates have been appointed as statutory and tax auditors for the F.Y 2024-2025. Till last financial year, DEF & Associates were carrying out both the audits. The new audit firm assigned statutory and tax audit to two different teams.

Statutory audit team headed by CA. Shankar attended physical counting of inventory on 30th and 31st March, 2025. During the course of statutory audit, certain deficiencies in the internal control system relating to inventory were noticed by CA. Shankar as regards the inventory value as on 1st April, 2024. Audit team is in dilemma as regards the weak internal control system in place in the inventory physical verification observed by it.

Tax Audit team also raised some issues for the year ending 31st March 2025. The following points emerge from the audit:

- (a) The company received ₹80 lakhs as an Inter-Corporate Deposit (ICD) on 10th April 2024 from a group company, through account payee cheque.

- (b) A provision of ₹ 18 lakhs was made for product warranties (for which law suit is pending as on 31.03.2025) and the same had been debited to Profit & Loss account.
- (c) Company claimed deduction of ₹ 60,000 in FY 2023-24 towards transport charges (on accrual basis) but paid ₹60,000 in cash in FY 2024-25 on a single day.
- (d) Company owns an industrial plot (held as investment). It entered into a negotiation with XYZ Ltd. for sale of the plot. XYZ Ltd. paid ₹ 20 lakhs as advance. The said amount is outstanding in books as an advance since last three years and has become time barred in the current financial year.

As ECB was raised successfully, one of the directors, Mr. John, who is also a director of BNC Limited (a company under corporate insolvency resolution process), suggested the ECB route to that company also for meeting the funds requirement.

Multiple Choice Questions

1. What, in your opinion, is the liability of CA. G in relation to non-compliance of environmental regulations notice received by the company from government department?
 - (A) CA. G cannot be held liable for environmental issues as the same is the responsibility of production head and production head should have informed the management about floatable solids size issue. Also, CA. G is not a member in practice.
 - (B) As CFO is a Chartered Accountant, he has the responsibility for investigating the same and informing the same to those charged with governance about the investigation results and keeping the documentation of the same.
 - (C) CA. G has the responsibility of informing the same to those charged with governance and keeping the documentation of the same.
 - (D) CA. G cannot be held liable for environmental issues as he is not a member in practice and has no responsibility for intimating non-compliance with these types of regulations. Being an employee, on moral grounds, he should have informed those charged with governance.
2. What is your opinion on the payment of ₹ 25,00,000 made to Mr. B?
 - (A) The said payment is neither required to be entered in register maintained nor require reporting by statutory auditor under CARO.
 - (B) The said payment is required to be entered in register maintained and requires reporting by statutory auditor under CARO.
 - (C) The said payment is required to be entered in register maintained but do not require reporting by statutory auditor under CARO.
 - (D) The said payment is not required to be entered in register maintained but require reporting by statutory auditor under CARO.
3. Whether DSL will be able to import chips without payment of duty and fulfill the export obligations arising on account of advance authorisation by selling the goods to Noida Technology SEZ?
 - (A) No, advance authorisation cannot be issued to the company as DSL has not made exports for continuous period of three years.
 - (B) Yes, DSL is eligible for advance authorisation up to ₹ 90 Lakhs but supply of goods to Noida Technology SEZ cannot be considered for fulfillment of export obligation.
 - (C) Yes, DSL will be able to get authorisation for entire ₹ 95 Lakhs goods under advance authorisation and supply of goods to Noida Technology SEZ can be considered for fulfillment of export obligation.
 - (D) Yes, DSL will be able to get authorisation for entire ₹ 95 Lakhs goods under advance authorisation but supply of goods to Noida Technology SEZ cannot be considered for fulfilment of export obligation.

4. Do you agree with the stand of management for not amending the interim financial statements (Prepared in accordance with Ind AS) on account of change in GST output?
- (A) Yes, as these interim financial statements are in condensed form, so such type of events occurring after the reporting date need not be adjusted.
 - (B) Yes, adjustments of such type of events need not be made and disclosure can be made in notes to accounts for the information of the users of financial statements.
 - (C) No, these are adjusting events and interim financial statements need to be adjusted even if they are in condensed form.
 - (D) No, these are events which need to be either incorporated in the financial statements or disclosed in notes to accounts. Management has to see the gravity and amounts involved and amend/disclose accordingly in condensed interim financial statements. Had there been full set of financial statements, this event should have been adjusted in the same.
5. Which of the issues raised by tax auditor requires reporting in form 3CD?
- (A) Issues (a), (b) and (d)
 - (B) Issues (b), (c) and (d)
 - (C) Issues (a), (c) and (d)
 - (D) Issues (a), (b) and (c)

(5 x 2 = 10 Marks)

Descriptive Questions

6. State the additional audit procedures to be conducted by CA. Shankar to obtain evidence in respect of opening balance of inventory as on 1st April, 2024. In case, he does not get audit evidence in this regard, what should he do? If the evidence suggests material misstatement in opening inventory, what would be the course of action available to him? In case, it is claimed as a change in accounting policy by the company, what would be the appropriate course of action available with CA. Shankar? **(5 Marks)**
7. What are your views on suggestion of Mr. John to BNC Limited? Whether the same is permissible? Support your answer with legal background. **(5 Marks)**
8. Explain how CA. Avinash will respond to the issues raised by the GST Superintendent, considering relevant provisions of the GST law. Also, determine the amount of Input Tax Credit (ITC) to be reversed and the interest payable due to non-reversal of ITC on account of non-payment to the supplier within 180 days and GST Form to be used to pay the demand? **(5 Marks)**

ANSWER

1. **(B)** As CFO is a Chartered Accountant, he has the responsibility for investigating the same and informing the same to those charged with governance about the investigation results and keeping the documentation of the same.

OR

- (C)** CA G has the responsibility of informing the same to those charged with governance and keeping the documentation of the same.
2. **(A)** The said payment is neither required to be entered in register maintained nor require reporting by statutory auditor under CARO.

OR

- (B)** The said payment is required to be entered in register maintained and requires reporting by statutory auditor under CARO.
3. **(D)** Yes, DSL will be able to get authorisation for entire ₹95 Lakhs goods under advance authorisation but supply of goods to Noida Technology SEZ cannot be considered for fulfilment of export obligation.
4. **(C)** No, these are adjusting events and interim financial statements need to be adjusted even if they are in condensed form.
5. **(D)** Issues (a), (b) and (c)

6. SA 510, "Initial Audit Engagements - Opening Balances", states that in conducting an initial audit engagement, one of the objectives of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether opening balances contain misstatements that materially affect the current period's financial statements. The auditor has to evaluate whether audit procedures performed in the current period provide evidence relevant to the opening balances or specific audit procedures are required to be performed to obtain evidence regarding the opening balances.

In the case of inventories, however, the current period's audit procedures on the closing inventory balance provide little audit evidence regarding inventory on hand at the beginning of the period. Therefore, additional audit procedures may be necessary, and one or more of the following may provide sufficient appropriate audit evidence:

- Observing a current physical inventory count and reconciling it to the opening inventory quantities.
- Performing audit procedures on the valuation of the opening inventory items.
- Performing audit procedures on gross profit and cut-off.

In case, if CA Shankar is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.

Further, in case if CA Shankar concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705.

Furthermore, in case If CA Shankar concludes that the accounting policies are not consistently applied in relation to opening balances in accordance with the applicable financial reporting framework; or a change in accounting policies is not properly accounted for or not adequately presented or disclosed in accordance with the applicable financial reporting framework, CA Shankar shall express a qualified opinion or an adverse opinion as appropriate in accordance with SA 705. Alternatively, it may be noted that if DSL has resorted to change in accounting policy, then it must have been consistently applied in relation to all the applicable figures of opening balances and the changes have to be properly accounted for. In which case, CA Shankar can mention the same in his audit report and need not issue a qualified opinion or adverse opinion, if the changes are proved as warranted and justified by the management and the fact of change is brought out in the financial statements of the entity.

7. ECB by entities under restructuring/ ECB facility for refinancing stressed assets:

1. An entity which is under a restructuring scheme/ corporate insolvency resolution process can raise ECB only if specifically permitted under the resolution plan.
2. Eligible corporate borrowers who have availed Rupee loans domestically for capital expenditure in manufacturing and infrastructure sector and which have been classified as SMA-2 or NPA can avail ECB for repayment of these loans under any one time settlement with lenders. Lender banks are also permitted to sell, through assignment, such loans to eligible ECB lenders, provided, the resultant external commercial borrowing complies with all-in-cost, minimum average maturity period and other relevant norms of the ECB framework. Foreign branches/ overseas subsidiaries of Indian banks are not eligible to lend for the above purposes. The applicable MAMP will have to be strictly complied with under all circumstances.
3. Eligible borrowers under the ECB framework, who are participating in the Corporate Insolvency Resolution Process under Insolvency and Bankruptcy Code, 2016 as resolution applicants, can raise ECB from all recognised lenders, except foreign branches/subsidiaries of Indian banks, for repayment of Rupee term loans of the target company. Such ECB will be considered under the approval route.

In the instant case, BNC Limited has to follow the above procedure for the ECB route for meeting the funds requirement.

Alternative

Mr. John's suggestion to BNC Limited to use ECB as a funding route is not permissible. This is because BNC Limited is currently undergoing a Corporate Insolvency Resolution Process (CIRP).

Legal Background

According to the Insolvency and Bankruptcy Code, 2016 (IBC), once a company enters the CIRP, the powers of its Board of Directors are suspended and are exercised by the Interim Resolution Professional (IRP) or Resolution Professional (RP). During the CIRP, the company is under a moratorium, and the management's role is to assist the RP in managing the company's affairs, which primarily involves maintaining the company as a going concern until a resolution plan is approved.

The company, as a corporate debtor, cannot enter into any new transactions that are not in the ordinary course of business without the explicit approval of the Committee of Creditors (CoC). Suggesting and arranging an External Commercial Borrowing (ECB) is not an action in the ordinary course of business and requires approval. Furthermore, Section 29A of the IBC restricts certain persons from submitting a resolution plan. While Mr. John's suggestion might be seen as an attempt to save the company, his authority as a director of BNC Limited is suspended, and he cannot take such decisions. Therefore, his suggestion is in violation of the legal framework of the IBC.

8.

S No.	Particulars	Amount of reversal (₹)
(i)	If a registered person, who has availed of ITC on any inward supply fails to pay to the supplier thereof, the amount towards the value of such supply along with the tax payable thereon, within 180 days from the date of issue of invoice by supplier, shall pay or reverse an amount equal to the ITC availed in respect of such supply along with interest payable thereon under section 50, while furnishing the return in Form GSTR-3B for the tax period immediately following the period of 180 days from the date of the issue of the invoice.	
	Date of issue of invoice-25.10.2021 Period of 180 days expire on 23 rd April 2022 ⁽¹⁾	
	Amount of input tax credit to be reversed in respect of (i) (₹ 78,00,000 × 18%)	14,04,000

	The amount of ₹ 14,04,000 to be reversed in the Form GSTR-3B ⁽²⁾ .	
	Interest payable due to non-reversal of ITC from the date of utilisation of credit till the date of reversal. $\text{₹}14,04,000 \times 18\% \times 181/365$ (Date of availment of ITC, i.e. 20.11.2021 till 20.05.2022) = ₹ 1,25,321 (rounded off) This answer is based on the view that input tax credit availed by DSL has been reversed after the expiry of 180 days from the date of invoice since company had not made payment of value and tax to the Supplier within the prescribed period of 180 days. Henceforth, the interest payable due to non reversal of ITC on account of non payment to the supplier within 180 days shall be calculated for the period starting from the date of utilisation of such input tax credit (20.11.2021) till the date of reversal of such credit (i.e. 20.05.2022⁽³⁾ being the due date of filing of return for the month of April, 2022 as the period of 180 days expires on 23.04 .2022). Alternatively, it is also possible that input tax credit availed by DSL has NOT been reversed after the expiry of 180 days from the date of invoice and it came to the notice of the company only upon Superintendent's intimation. In that case, the interest payable due to non reversal of ITC on account of non payment to the supplier within 180 days shall be calculated for the period starting from the date of utilisation of such input tax credit (20.11.2021) till the date of filing of GSTR-3B for August, 2022 (i.e. 18.09.2022 being the actual date of filing of return for the month of August, 2022). Total interest in that case would be- $\text{₹}14,04,000 \times 18\% \times 302/365$ (Date of availment of ITC, i.e. 20.11.2021 till 18.09.2022) = ₹ 2,09,100 (rounded off)	
(ii)	The input tax credit in respect of food and beverages used in a canteen amounting to is blocked as the same is not obligatory for an employer to provide the same to its employees under any law. Thus, ITC in respect of the same need to be reversed and interest as applicable will be paid.	14,22,000 [₹ 6,72,000 + ₹ 7,50,000]
(iii)	ITC in respect of travel benefits extended to employees on vacation such as leave is blocked under GST law as the same is not obligatory for an employer to provide the same to its employees under any law. Thus, ITC in respect of the same need to be reversed and interest as applicable will be paid.	6,48,000
(iv)	ITC of ₹12,96,000 in respect of buses is allowed as seating capacity is 30 persons. ITC is not allowed on services of general insurance and repair and maintenance relating to cars, ITC on which is not allowed. Thus, same needs to be reversed.	96,000
(v)	ITC outdoor catering services is blocked as the same is not obligatory for an employer to provide the same to its employees under any law.	1,26,000
	Total amount of input tax credit to be reversed	36,96,000

¹[6 days of October + 30 days of November + 31 days of December + 31 days of January + 28 days of February + 31 days of March + 23 days of April]

²Since no demand has been raised from DSL, company will deposit the GST on account of reversal of ITC and payment of interest in Form GSTR-3B only.

³It has been presumed that return for the month of April, 2022 has been filed on 20.05.2022.

GST Form to be used to pay demand:

Company will deposit the GST on account of reversal of ITC and payment of interest in Form GSTR-3B.

Case Study- 221

Kevin Group is one of India's oldest and most influential multinational conglomerates. Founded in 1950 by Ronnie Kevin, the company has expanded across industries and geographies, becoming a globally recognized brand. Kevin Group has built a legacy of innovation, ethical business practices, and global expansion.

Kevin Agro Limited (KAL), a part of Kevin Group and a listed entity (in top 1000 listed companies) and based in Mumbai, offers a comprehensive range of products designed to enhance efficiency and quality in agriculture. Their offerings include grain moisture meters, mobile grain cleaners, grain analyzers, and grain graders, which are essential for seed and grain testing, processing, and cleaning. These products serve various clients, including grain procurement organizations, seed companies, warehouses, and milling industries such as rice, dal, and flour mills. KAL boasts a modern manufacturing setup equipped with CAD facilities, CNC machines, and precision machine shops. Their in-house R&D department, approved by the Government of India, focuses on continuous product design and process improvements. This dedication to innovation ensures that KAL remains at the forefront of technological advancements in their fields. Consolidated Financial statements are prepared at the end of financial year complying with legal guidelines (incorporating all subsidiaries) and placed before shareholders for approval.

Capital structure of KAL includes Corporate Bonds issued two years back.

Maturity period was five years. As on date, external credit rating of the securities issued by KAL has improved, making company eligible for issuing new bonds with lower interest rate which will result in cost savings in the form of reduced costs, optimizing the debt structure and enhancing the financial flexibility for the company. Accordingly, CFO suggested feasibility analysis and engage financial advisors to explore refunding options.

The most recent invention of KAL has been the development of AI-Powered Robotic Arms. These machines use cameras and sensors to identify ripe fruits and pluck them gently without damaging them. The three important functions of new invention are:

- Harvesting & Picking AI arms pick fruits and vegetables based on ripeness.
- Weeding & Planting - Automate seeding and removing weeds.
- Sorting & Grading Classify produce based on size, shape, and quality.

The new invention will replace the processes which were earlier done by labour supplied by labour contractors in the agriculture field thus reducing the inefficiency and also the overall cost to the Companies (having their own farm fields and engaged in manufacturing) will reduce. The brain of Robotic Arms consists of various made up of electronic control systems and uses various items like Micro-controllers, Embedded Processors, Motor Drivers & Controllers etc. Besides this Motion Planning software (developed in house) will be used for intelligent automation. Stainless Steel required for body parts will be purchased from Steels Kevin Limited (SKL), one of the wholly owned subsidiaries and whose accounts are consolidated with KAL, engaged in manufacturing and export of stainless steel. The total purchase done from SKL was ₹62 Crores. SKL entered in sale transactions with KAL without getting the approval from any authority (shareholders or Board of directors) and at a price less than market price. However, KAL placed the said transaction before the shareholders at the general meeting and ordinary resolution was also passed by Members.

For meeting functional requirements, Real-time inverse kinematics (IK) calculations for precise movement are needed. These will be provided by Novelty Inc. based in USA. The manufacturing of Robotic Arms is wholly dependent on technology provided by Novelty Inc. During the year, KAL exported its product named "UNO" to TVIDIA based in

USA. Novelty Inc. is holding company of TVIDIA and exercises significant control over the TVIDIAs management for decision making. Assessing Officer applied transfer pricing provisions under Sections 9292F on supply of UNO and issued demand notice considering price of uncontrolled transaction relating to financial year immediately preceding the current year. Later on during the assessment proceedings, AO used the price of uncontrolled transaction during the year of transaction. Management has asked the accounts department to prepare a detailed presentation indicating the calculation of Arm's Length Price in relation to transactions with TVIDIA, GM Accounts knows that there are various methods to calculate the arm length price but has got no idea about which is the most appropriate method and how he should select it.

KAL also has stock market investment portfolio. Management decided to diversify its investment portfolio to leverage stock investments for better financial returns and liquidity. After evaluating several stockbrokers based on service quality, brokerage fees, technological support, and advisory services, KAL Ltd. chose ABC Securities Ltd., a reputed brokerage firm (based in Bangalore) known for its AI driven research-based approach and customer service. As expected, portfolio generated good returns and KAL paid brokerage of ₹ 10 Lakh + GST @ 18% i.e. ₹ 1,80,000. Broker raised invoice charging CGST and SGST treating Bangalore as place of supply. KAL made the payment and took ITC for ₹ 1,80,000.

Audit committee of KAL has been facing pressure from investors and stakeholders to enhance its sustainability performance. The company had previously followed Business Responsibility Reporting (BRR) but found it insufficient in addressing the increasing demand for detailed ESG disclosures.

Last Year's BRSR failed to disclose the efforts of the company towards community investments, partnerships, local employment, and social impact initiatives. The following disclosures were made:

- D1 Company collaborates with international artisans to provide training and access to international markets.
- D2 Supports government efforts in vaccination drives and disease prevention programs.
- D3 Participation in renewable energy policy discussions.
- D4 Adoption of electric vehicles for logistics and employee transport.

KAL invested in a CPL franchise by acquiring a controlling stake (70%) in GSB Warriors, an existing team in the Cricket Premier League (CPL). The deal is valued at ₹ 2,500 crores, which includes:

- ₹1,500 crores for the franchise rights (intangible asset)
- ₹500 crores for existing player contracts
- ₹500 crores as working capital and other assets

Key Investment Considerations

1. Strategic Rationale for Investment

- ✓ High revenue potential from broadcasting rights, sponsorships, ticket
- ✓ sales, and merchandise
- ✓ CPL's rapid commercial growth and global audience
- ✓ Brand-building and cross-promotion with KAL's other businesses

2. Investment Structure

- ✓ KAL acquires 60% equity stake in GSB Warriors
- ✓ The remaining 40% stays with the previous owners
- ✓ The deal is structured through a mix of cash and equity financing.
- ✓ GSB warriors has also leased a stadium and training facility

Multiple Choice Questions

1. Whether SKL correctly entered in sale transaction with KAL if total turnover of SKL during the year is ₹ 610 Crores?
 - (A) No, the transaction should have been approved by the company by passing a special resolution as it is exceeding limit of 10% of the turnover.
 - (B) No, the transaction should have been approved by the company by passing an ordinary resolution as it is exceeding limit of 10% of the turnover.
 - (C) No, the transaction should have been entered after obtaining consent of the Board of Directors given by a resolution at a meeting.
 - (D) No, the transaction does not require any approval as the same is between holding company and the wholly owned subsidiary and also the consolidated accounts are being prepared.
2. Comment on applicability of provisions under Sections 92-92F and the action of Assessing Officer.
 - (A) Novelty Inc. and KAL will be deemed associated enterprises and consequently TVIDIA will also be covered under transfer pricing provisions. However, action of. AO at the time of assessment is not valid as per the provisions.
 - (B) Novelty Inc. and KAL will be deemed associated enterprises but not KAL and TVIDIA and thus not covered under transfer pricing provisions. Action of AO is not valid.
 - (C) Novelty Inc. and KAL will be deemed associated enterprises and consequently TVIDIA will also be covered under transfer pricing provisions. Action of AO at the time of assessment is valid as per the provisions.
 - (D) Neither Novelty Inc. and KAL will be deemed associated enterprises nor KAL and TVIDIA and thus not covered under transfer pricing provisions. Action of AO is not valid.
3. How will you categorize the use of AI Powered Robotic Arms from the view point of their customers?
 - (A) Transformation
 - (B) Disruptive Innovation
 - (C) Automation
 - (D) Advanced Manufacturing
4. Which of the BRSR disclosure made by the company violated Principle of promoting inclusive growth and equitable development promotion?
 - (A) D1
 - (B) D2
 - (C) D3
 - (D) D4

5. Whether Invoice raised by ABC Securities Ltd. is proper and whether KAL is eligible to take ITC?
- (A) Place of supply is Mumbai and thus invoice incorrectly raised. KAL is eligible to take ITC.
 - (B) Place of supply is Bangalore and thus invoice correctly raised. KAL is not eligible to take ITC.
 - (C) Place of supply is Mumbai and thus invoice incorrectly raised. KAL is not eligible to take ITC.
 - (D) Place of supply is Bangalore and thus invoice correctly raised. KAL is eligible to take ITC.

(5 x 2 = 10 Marks)

Descriptive Questions

6. In your opinion, what does the term most appropriate (used by GM Accounts) means? Also guide him by quoting some factors that he can consider while selecting/determining the most appropriate method?
(5 Marks)
7. If you are financial advisor, advice under what circumstances suggestion of CFO is feasible? Which method will you use to decide about the suggestion of CFO? Whether any extra interest cost is also involved in such exercise?
(5 Marks)
8. Can you highlight how a CPL franchise investment is structured, accounted for under Ind AS, and impacts financial statements?
(5 Marks)

ANSWER

1. (C) No, the transaction should have been entered after obtaining consent of the Board of Directors given by a resolution at a meeting
2. (C) Novelty Inc. and KAL will be deemed associated enterprises and consequently TVIDIA will also be covered under transfer pricing provisions. Action of AO at the time of assessment is valid as per the provisions.
3. (C) Automation
4. (A) D1
- 5 (C) Place of supply is Mumbai and thus invoice incorrectly raised. KAL is not eligible to take ITC.
6. Rule 10 C deals with the determination of most appropriate method. Under this Rule, the method which is best suited to the facts and circumstances and which provides the most reliable measure of an arm's length price in relation to the international transaction will be considered to be the most appropriate method.

For the purpose of selecting the most appropriate method, the following factors should be taken into account.

- (i) The nature and class of the international transaction;
 - (ii) The class, or classes of associated enterprises entering into the transaction and the functions performed by them taking into account assets employed or to be employed and risks assumed by such enterprises;
 - (iii) The availability, coverage and reliability of data necessary for application of the method;
 - (iv) The degree of comparability existing between the international transaction and the uncontrolled transaction and between the enterprises entering into such transactions;
 - (v) The extent to which reliable and accurate adjustments can be made to account for difference, if any, between the international transaction and the comparable uncontrolled transaction or between the enterprises entering into such transactions;
 - (vi) The nature, extent and reliability of assumptions required to be made in application of a method.
7. Under the following circumstances suggestion of CFO is feasible:
- Bonds should have been issued with call features as it gives them the right or choice to redeem bonds before their due date of maturity especially when market conditions are favourable to them.
 - However, Call feature is not free of cost because companies are supposed to repay higher amount than the face value of bonds which is called 'Call Premium'.
 - New bonds to be issued at lower interest rate.

The Net Present Value (NPV) method is used to evaluate such types of Bond Refunding decisions. If the Present Value of Cash Inflows (in form of net cash saving) exceeds the Present Value of cash outflow (call premium, interest during transition period etc.) then existing bonds can be refunded and new bonds carrying lower coupon interest rate can be issued resulting in overall saving of cash outflows.

To ensure the smooth functioning of the organisation, new bonds are generally issued before refunding old bonds.

Yes, this process involves extra interest cost as new bonds are generally issued before refunding old bonds. This often results in interest payments on both categories of bonds during the overlapping period.

8. Under Ind AS, KAL will consolidate GSB Warriors in its financial statements. Franchise rights will appear as a major intangible asset (non-amortised but tested for impairment since definite term of the franchise rights has not been given in the question), while player contracts will be amortised. Stadium lease will bring in ROU assets and lease liabilities. Profit & Loss will reflect new revenue streams but also amortisation, depreciation, finance cost, and potential impairment charges. NCI will also appear in consolidated equity and P&L.

Accounting under Ind AS

Since KAL acquired 70% controlling stake in GSB Warriors, this is a business combination under Ind AS 103 'Business Combinations'.

Total consideration paid is ₹ 2,500 crores (cash + equity financing).

Identifiable Assets & Liabilities (Fair Value)

1. Franchise Right (Intangible Asset) of ₹1,500 crores is assumed as having indefinite life; hence, not amortised but tested annually for impairment under Ind AS 38.
2. Player Contracts (Intangible Asset) of ₹ 500 crores has a finite life (over contract term), hence, are amortised annually over the contract term.
3. Working Capital & Other Assets of ₹ 500 crores is recognised at fair value.
4. Leased Stadium & Training Facility is recognised as Right-of-Use Asset (ROU) with corresponding Lease Liability under Ind AS 116. Annual depreciation on ROU and finance cost on lease liability will be charged/recognised in P/L.

If purchase consideration is more than fair value of net assets acquired, KAL will recognise Goodwill otherwise Bargain Purchase Gain would be recognised.

Since KAL acquired 70% (controlling stake), the remaining 30% is NCI. NCI measured at fair value or proportionate share of net assets (policy choice under Ind AS 103).

Impact on Financial Statements

- i. In Consolidated Balance Sheet: Intangible assets (Franchise rights + Player contracts), ROU assets (leased stadium/training facility) and Goodwill, if any, will be shown as non-current item in the Balance Sheet. Working capital will appear as current item in the balance sheet.

Under Equity, any purchase consideration paid to GSB warriors forms part of Equity share capital while NCI of 30% will be recognised under Equity. Other Equity will include consolidated Profit and Loss. Lease Liability will be recognised as non-current item.

- ii. In the Consolidated Statement of Profit and Loss: Revenue streams from CPL franchise (broadcasting, sponsorships, ticket sales, merchandise) will be recognised. Amortisation of player contracts, Depreciation of ROU asset, finance cost on lease liability and any Impairment loss on franchise right and goodwill will appear as expenses item in the Statement of Profit and Loss.

Note: Alternative presentation is also possible.

Case Study- 222

Established in 2010 and headquartered in Vadodara, Gujarat, ABC Fashions Ltd. (AFL), has built a strong reputation as a leading manufacturer, wholesaler, and exporter of high-quality shirts and T-shirts for men, women, and children. AFL operates three textile plants in remote areas of Vadodara, contributing to local community development. Through continuous process improvements and workforce training to minimize rework, the company has successfully enhanced quality and reduced costs.

Cotton and viscose, essential materials for manufacturing shirts and T-shirts, were cost-effective for AFL due to their local availability. However, the production of these materials has significant environmental and social impacts. Cotton cultivation requires a substantial amount of water. Additionally, conventional cotton farming relies heavily on pesticides and fertilizers, which adversely affect the health of farmers and nearby communities. Viscose, a semi-synthetic fiber derived from wood pulp, is converted into fabric through the intensive use of chemicals and water. In response to these concerns, AFL has begun incorporating organic cotton into its production process. Organic cotton significantly reduces the need for chemical pesticides and fertilizers but its cultivation tends to require more water than conventional cotton, posing an additional environmental concern.

AFL is deeply committed to sustainable water usage across its processing operations. In collaboration with local municipalities, the company has launched an innovative water management project that includes a 50 million litres per day (MLD) sewage treatment plant. This facility collects, transports, and treats public sewage, enabling AFL to recycle approximately 6 billion litres of water annually for use in its operations.

To further enhance water availability, especially in the Vadodara region, AFL has developed multiple rainwater harvesting ponds. AFL's commitment to environmental responsibility extends beyond water. The company uses highquality materials that ensure longer-lasting textiles. This approach reduces the frequency of purchases and improves the overall clothing experience for consumers. In line with its environmental goals, AFL diverted 75% of its textile waste from landfills through comprehensive reuse and recycling programs.

As part of its broader sustainability strategy, AFL has:

- Planted 1,00,000 trees during the financial year 2024-25
- Installed solar panels across its facilities, reducing energy consumption by 25%
- Conducted a comprehensive carbon audit and committed to achieving net zero emissions by 2030

In the past two years, AFL has entered the poly clothing segment, successfully capturing a 5% market share. In addition to its environmental initiatives, AFL supports community development. The company has organized training programs for approximately 9,000 farmers, providing on-field assistance, productivity enhancement strategies, and access to government schemes. Nearly 60% of the workforce employed across AFL's three plants is drawn from local communities. A significant portion of the labour force resides in residential areas adjacent to the factory sites. By addressing the livelihood needs of its employees such as food, clothing, education, and healthcare - AFL has contributed to the economic development of these towns, creating alternative sources of income and supporting community welfare. The Human Resources (HR) department regularly conducts training programs aimed at enhancing employee skills and productivity. The company ensures compliance with local labour laws and provides fair wages to all workers.

Mr. Sridhar, management accountant, has been assigned the task by CEO to work out the factors responsible for increase in operating income by ₹ 710 lakhs in 2024-25. For analysing increase in operating income, he spread analysis into three main areas i.e. Growth Component, Price Recovery Component and Productivity Component and worked out the following:

	Revenue & Cost effect of Growth Component in 2024-25 (₹in lakhs)	Revenue & Cost effect of Price Recovery Component in 2024-25 (₹in lakhs)	Cost Effect of Productivity Component in 2024-25 (₹in lakhs)
Revenue	6,800(F)	360(F)	--
Cost	6,500(A)	110(A)	160(F)
Net effect on Operating Income	300(F)	250(F)	160(F)

'AFL' sold ₹ 44 lakh and ₹ 48 lakh pieces of shirts & T-shirts during the year 2023-24 and 2024-25 respectively. The market for shirts and T-shirts grew by 4% during 2024-25 and all other increase in AFL's sales were the result of its own strategic actions. AFL's export turnover in 2024-25 reached USD 7 million, marking an increase from the preceding three financial years, during which it was USD 2 million, USD 3 Million and USD 4 Million respectively. Based on its export performance, the Directorate General of Foreign Trade (DGFT) granted AFL a Status Holder Certificate, thereby conferring various privileges and benefits to the company under the Foreign Trade Policy.

During the year 2024-25, a sitting fee of ₹ 2.4 lakhs was paid to Mr. Raman (independent director). Mr. Purva, the CEO, resides in a luxurious property owned by AFL. This property was acquired 10 years ago, and an annual depreciation of ₹1 lakh is provided for in the company's Profit & Loss account. The market rental value of a similar property is ₹ 12 lakhs per annum. Mr. Harish, a director of the company, is also a partner at the legal firm HKN & Associates, which specializes in GST and income tax matters. During the year, AFL paid ₹ 6 lakhs to HKN & Associates for

legal services related to GST matters. These services were rendered by Mr. Gaurav, a senior partner at the firm, and Mr. Harish neither supervised nor had any influence over the services provided to the company.

On 1st April 2024, the company entered into a lease agreement with PQR Inc. for the acquisition of machinery on lease for a period of five years. The lease arrangement stipulates annual lease payments of USD 18,000, payable at the end of each year. At the commencement date of the lease, the exchange rate was USD 1 = ₹83. The average exchange rate during the financial year 2024-25 was ₹84, and the closing rate as on 31st March 2025 was ₹ 86. The applicable incremental borrowing rate for a USD-denominated borrowing on the lease commencement date was 8% per annum. For entering this agreement services of Gordon Inc. of the USA were availed. The commission payable was 6% to be remitted by AFL to the Gordon Inc. in USA. At the same time some old machinery was also disposed. Statutory auditor while going through the machinery sale transaction also requested for review of the internal financial controls over such transaction.

The matter was discussed with accounts department and accounting department head, Mr. Shashi, submitted the following:

- (a) Accounting policy Item of PPE is derecognized on disposal or when no future economic benefits are expected from its use.
- (b) Presentation in financial statements - The gain or loss on disposal is recognized in profit and loss.
- (c) Internal Financial Controls implemented - The disposed PPE item and its gain on derecognition is verified by inspection, confirmation, vouching etc.
- (d) Relevant calculation to be made - Difference between net disposal proceeds and carrying amount will depict the gain or loss on derecognition.

'AFL' has export receivables amounting to £2,50,000 as on 31.03.2025, which are due to be received from a U.K.-based customer in three months. The Finance Manager is concerned about potential adverse movements in the exchange rate due to recent volatility in the foreign exchange market. As of March 31, 2025, the spot exchange rate stands at 1£ = ₹115.00/₹115.40, and the 3-month forward rate is 1£ = ₹116.70/₹117.00. Interest rates in India are 6% p.a. for deposits and 8% p.a. for borrowings, whereas in the United Kingdom, the deposit rate is 2% p.a. and the borrowing rate is 4% per annum. To hedge against currency risk, the company is also evaluating the use of currency options. A 3-month call option with an exercise price of ₹ 116 per pound is available at a premium of ₹ 1.40 per pound, and a put option at the same exercise price costs ₹ 1.60 per pound. The manager has forecasted possible spot exchange rates for the end of the 3-month period with the following probabilities: ₹ 114 with a probability of 0.20, ₹ 116 with a probability of 0.50, and ₹118 with a probability of 0.30.

Multiple Choice Questions

1. What is the effect of product differentiation and industry market size factor on operating income of 'AFL'?
 - (A) Operating income in 2024-25 increase by ₹ 168 lakh due to increase in market size and ₹ 382 lakh due to product differentiation.
 - (B) Operating income in 2024-25 increase by ₹ 132 lakh due to increase in market size and ₹418 lakh due to product differentiation.
 - (C) Operating income in 2024-25 increase by ₹ 110 lakh due to increase in market size and ₹440 lakh due to product differentiation.
 - (D) Operating income in 2024-25 increase by ₹ 300 lakh due to increase in market size and ₹ 250 lakh due to product differentiation.
2. Which of the following statements regarding disclosure requirements under Ind AS-24 are incorrect?
 - (i) Payment of ₹2.4 lakhs as sitting fees to Mr. Raman need not to be disclosed separately as he is not considered key management personnel (KMP).
 - (ii) The annual depreciation of ₹ 1 lakh on the property used by Mr. Purva need not to be disclosed in notes to accounts, as no cash out flow is involved.
 - (iii) AFL need not disclose the estimated market rental value of the property (₹ 12 lakh per annum) in the notes to the financial statements.
 - (iv) ₹6 lakh paid to HKN & Associates for GST-related legal services is a not a related party transaction and need not be disclosed regardless of role of Mr. Harish in supervising the services.

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

3. Which of the submissions made by Mr. Shashi are correct?

- (A) Submission (a), (b) and (c)
- (B) Submission (b), (c) and (d)
- (C) Submission (a), (c) and (d)
- (D) Submission (a), (b) and (d)

4. Which of the following statement is most appropriate as regards compliance with the legal provisions of FEMA, 1999 for remittance of commission payable by AFL to Gordon Inc. of the USA?

- (A) Prior permission of RBI is required for the remittance of entire commission of USD 54,000.
- (B) Prior permission of RBI is not required for the remittance of entire commission of USD 54,000 as the nature of transaction is Current Account transaction and payment is being made in the course of ordinary course of foreign trade.
- (C) Prior permission of RBI is not required for remittance upto USD 25,000 but for the balance commission of USD 29,000 prior permission of RBI is required.
- (D) Prior permission of RBI is not required remittance up to USD 45,000 but for the balance commission of USD 9,000 prior permission is required.

5. Which of the following statements are correct as per the Foreign Trade Policy in relation to 'AFL'?

- (i) Company is permitted to establish export warehouses in India to facilitate the storage and handling of goods intended for export.
- (ii) Company is eligible to self-certify their manufactured goods as originating from India with a view to qualify for preferential treatment under specified agreements.
- (iii) Company is eligible to be partner in providing mentoring and training in international trade to specified number of trainees each year based on status they achieve.
- (iv) Company is eligible for fixation of input output norms on priority i.e. within 60 days by norms committee.

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

(5 × 2 = 10 Marks)

Descriptive Questions

6. As a management accountant of the company, list some areas for preparing a report evaluating company's performance using Triple Bottom Line (TBL) Framework. **(4 Marks)**
7. Finance manager is considering various hedging strategies including forward contracts, money market hedging, options, or remaining unhedged, to determine the most appropriate course of action to mitigate exchange rate risk. Suggest the best choice for the Finance manager. (Make calculations to nearest rupees)
(6 Marks)
8. What is the correct accounting treatment under relevant Ind AS for 'AFL' in relation to a lease arrangement for machinery taken on lease, including initial recognition, subsequent measurement, and presentation and disclosure in the financial statements for the year ending 31 March 2025? Explain with relevant figures.

(5 Marks)

Year	1	2	3	4	5
PV@8%	0.926	0.857	0.794	0.735	0.681

ANSWER

1. (B) Operating income in 2024-25 increase by ₹132 lakh due to increase in market size and ₹418 lakh due to product differentiation.
2. (C) Statement (i) and (ii)
OR
(D) Statement (i), (ii) and (iv)
3. (D) Submission (a), (b) and (d)
4. No Correct Option
5. (B) (i), (iii), (iv)
6. Areas for Preparing Triple Bottom Report

1. Economic Performance

- **Strong market presence:** AFL has established itself as a leading manufacturer, wholesaler, and exporter of shirts and T-shirts for men, women, and children.
- **Operational efficiency:** Through continuous process improvements and workforce training, the company has minimized rework, reduced costs, and enhanced product quality.
- **Diversification:** By entering the poly clothing segment, AFL has successfully captured a 5% market share in just two years, showing adaptability to market trends.
- **Sustainable practices as a competitive edge:** Use of durable, high-quality materials ensures longer product life, strengthening customer loyalty and brand reputation.
- **Increase in operating revenue:** AFL recorded an increase in operating income by ₹ 710 lakhs.
- **Increase in export turnover:** AFL's export turnover in 2024-25 reached USD 7 million, marking an increase from the three financial years.

Overall: AFL demonstrates healthy financial growth, cost efficiency, and market adaptability, while aligning profitability with sustainability.

2. Environmental Performance

- **Water stewardship:**
 - Installed a 50 MLD sewage treatment plant, recycling 6 billion litres of water annually for internal use.
 - Developed rainwater harvesting ponds, enhancing water availability in a water-scarce region.
- **Materials management:**
 - Transitioning towards organic cotton (less pesticide use, but water-intensive - AFL must balance trade-offs).
 - Uses high-quality, durable fabrics to reduce consumption cycles.
- **Waste management:** 75% of textile waste diverted from landfills via reuse and recycling programs.
- **Energy and climate commitments:**
 - Installed solar panels, cutting energy use by 25%.
 - Conducted carbon audit and pledged net zero by 2030.
- **Afforestation:** Planted 100,000 trees in FY 2024-25.

Overall: AFL shows strong environmental responsibility, with innovative water reuse, renewable energy adoption, and climate commitments. The main challenge lies in addressing water intensity of organic cotton.

3. Social Performance

- **Community development:**

- Trained 9,000 farmers, offering on-field assistance, productivity support, and access to government schemes.
- 60% of workforce drawn from local communities, strengthening rural livelihoods.
- Employee welfare programs cover food, clothing, education, and healthcare, supporting holistic development.

- **Labour standards:** Ensures compliance with labour laws, provides fair wages, and conducts regular HR training for skill enhancement.

- **Social equity:** Residential facilities for workers near plants improve quality of life and reduce migration stress.

Overall: AFL demonstrates strong social responsibility, improving livelihoods, skill development, and local community welfare.

Conclusion: Evaluated through the Triple Bottom Line framework:

- **Economic Bottom Line:** AFL maintains competitiveness, efficiency, and growth while innovating into new product.
- **Environmental Bottom Line:** The company is a leader in sustainable water management, waste reduction, renewable energy, and climate commitments - though organic cotton's water use remains a concern.
- **Social Bottom Line:** AFL creates inclusive growth through farmer support, local employment, fair labour practices, and community welfare programs.

Final Assessment: AFL reflects a balanced and sustainable business model, aligning profitability with environmental stewardship and community wellbeing. It can further strengthen its TBL performance by addressing the water intensity of organic cotton and scaling sustainable raw material sourcing.

7. (a) Forward contract: Dollar needed in 3-months = £2,50,000 × ₹116.70 = ₹ 2,91,75,000/-

(b) Money market hedge: Borrow £, convert to ₹, invest ₹, repay £ loan in 3-months

Amount in £ to be borrowed = £2,50,000/1.01 = £2,47,525

With Spot Rate of ₹ 115/£ the converted amount shall be = ₹ 2,84,65,375

Add: Interest on the same amount @ 6% p.a. ₹ 4,26,981

Amount available after the period of 3-months ₹ 2,88,92,356

(c) option:

Expected Spot rate in 3months (1)	Prem./ unit (2)	Exercise Option (3)	Net per £ (4)	Total price for £2,50,000 xi in ₹ £2,50,000 × (Col 4) (5)	Prob. pi (6)	pi xi ₹ (7) (5 × 6)
114	1.60	Yes	114.40*	2,86,00,000	0.20	57,20,000
116	1.60	No	114.40*	2,86,00,000	0.50	1,43,00,000
118	1.60	No	116.40	2,91,00,000	0.30	87,30,000
						2,87,50,000

Less: Interest on Premium @ 8% for 3-months	8,000
	2,87,42,000

* (₹116 – ₹1.60)

(d) No hedge option:

Expected Future spot rate (1)	Receivable in £ xi (2)	Receivable in ₹ (3) (1) × (2)	Prob. pi (4)	pi xi ₹ (5) (3 × 4)
114	2,50,000	2,85,00,000	0.20	57,00,000
116	2,50,000	2,90,00,000	0.50	1,45,00,000
118	2,50,000	2,95,00,000	0.30	88,50,000
				2,90,50,000

The most appropriate action to mitigate the exchange rate risk shall be to take Forward Cover.

8. On initial measurement, AFL will measure the lease liability and ROU asset as under:

Year	Lease Payments (USD)	Present Value factor @ 8%	Present Value of Lease Payment	Conversion rate (spot rate)	₹ value
1	18,000	0.926	16,668	83	13,83,444
2	18,000	0.857	15,426	83	12,80,358
3	18,000	0.794	14,292	83	11,86,236
4	18,000	0.735	13,230	83	10,98,090
5	18,000	0.681	12,258	83	10,17,414
Total			71,874		59,65,542
*Add: Commission @ 6%					4,48,200
Total ROU					64,13,742

*Commission Payable Workings

Total lease payments = USD 18,000 × 5 years = USD 90,000

Commission payable = USD 90,000 × 6% = USD 5,400

Commission in INR at the commencement date's exchange rate:

USD 5,400 × 83 = INR 4,48,200

As per Ind AS 21 The Effects of Changes in Foreign Exchange Rates, monetary assets and liabilities are restated at each reporting date at the closing rate and the difference due to foreign exchange movement is recognised in profit and loss whereas non-monetary assets and liabilities carried measured in terms of historical cost in foreign currency are not restated.

Accordingly, the ROU asset in the given case being a non-monetary asset measured in terms of historical cost in foreign currency will not be restated but the lease liability being a monetary liability will be restated at each reporting date with the resultant difference being taken to profit and loss.

At the end of Year 1, the lease liability will be measured in terms of USD as under:

Lease Liability:

Year	Initial Value (USD) (a)	Lease Payment (b)	Interest @ 8% (c) = (a × 8%)	Closing Value (USD) (d = a + c – b)
1	71,874	18,000	5,750	59,624

Interest at the rate of 8% will be accounted for in profit and loss at average rate of ₹ 84 (i.e., USD 5,750 × 84) = ₹ 4,83,000.

Particulars	Dr. (₹)	Cr. (₹)
Interest Expense Dr. To Lease liability	4,83,000	4,83,000

Lease payment would be accounted for at the reporting date exchange rate, i.e. ₹ 86 (i.e., USD 18,000 × 86) at the end of year 1

Particulars	Dr. (₹)	Cr. (₹)
Lease liability Dr. To Cash	15,48,000	15,48,000

As per the guidance above under Ind AS 21, the lease liability will be restated using the reporting date exchange rate i.e., ₹ 86 at the end of Year 1. Accordingly, the lease liability will be measured at ₹ 51,27,664 (59,624 × ₹86) with the corresponding impact due to exchange rate movement of ₹ 2,27,122 (51,27,664 – (59,624 + 4,83,000 – 15,48,000)) taken to profit and loss.

At the end of year 1, the ROU asset will be measured as under:

Year	Opening Balance (₹)	Depreciation (₹)	Closing Balance (₹)
1	64,13,742	12,82,748	51,30,994

Case Study- 223

Motor Bikes Limited (MBL) based at Mumbai is an unlisted public company and carrying out operations since year 2001. The total paid up share capital of the company and annual turnover for last three years is as follows:

Particulars/Year	2022	2023	2024
Share Capital (Paid up)	80	90	95
Reserves and Surplus	55	65	65
Turnover	225	250	350

(All amounts in Crores)

MBL has a robust accounting system supported by ERP package. Since the company has a unique operation and distribution system, it maintained a software team for accounting and ERP. The accounting software was updated frequently to comply with all the legal requirements. The company was previously engaged in manufacture and sale of two-wheeler motor cycles only. Since the market for two-wheeler petrol vehicle is not vibrant, the Board of Directors decided to diversify into manufacture of solar powered motor vehicles. It specialised in unique indigenous technology being the outcome of huge outlay in R&D. The solar powered vehicle segment has the power to change the landscape of a country. Given the dependence on OPEC, the uncertainty in political scenario prevalent therein, the prices of petroleum products keep on spiralling over a period of time. The electric vehicle with add on feature of solar energy could make India self-reliant in addition to presenting a pollution-free environment. The solar powered vehicle manufacture and its wide spread use could provide abundant scope to strengthen the economy which is already having V shape recovery post-Covid-19 pandemic. The company is presently focused on manufacture of 2 wheeled solar powered motor vehicles with new bike named as "Powerhouse". There are only 3 other companies engaged in similar kind of product and that too not having superior technology and market visibility. The technology used by Motor Bikes Limited is unique that it is superior to that of all the existing companies.

The spare parts of Motor Bikes Limited would be available only with its distributors which are patented and hence it would not be possible others to replicate such model in the open market. Promotional expenditure for Motor Bikes Limited would not be huge since the company already has market presence and logistics. The launch of 'Powerhouse' and other solar powered motor vehicles is of course a giant leap in the annals of two-wheeler vehicle manufacture in India and it is going to revolutionize the two-wheeler market. The marketing department and costing department had a joint meeting where it was decided that the mark-up must be 50% of the direct cost of production as Powerhouse have the potential of being a market leader.

Motor Bikes Limited's Board of directors though had prescribed number of directors but it did not appoint any women director till 31.03.2024. Also, the policy of the company is that a person proposed to be appointed as director should not be a director in more than 12 companies. The said policy is as per the special resolution passed by the members of a company. Legal department of the company advised to have at least one women director on the board of the company and accordingly it was proposed to appoint Ms. Nadar as a director. Ms. Nadar is already a director in fifteen other companies with nine being public companies. One of the directors also suggested the name of Ms. Priya who is already a director in eleven other companies with ten being public companies. The following issues/statements have been presented before appointment of women director:

- (i) Ms. Nadar can be appointed.
- (ii) It is mandatory for MBL to appoint women director as per turnover criteria.
- (iii) It is mandatory for MBL to appoint women director as per average shareholder funds criteria.

(iv) Ms. Priya cannot be appointed as a director.

Motor Bikes Limited wanted to commence yet another manufacturing unit in rural area in Baddi, Himachal Pradesh. It incurred ₹ 200 lakhs towards civil construction expenses and 300 lakhs towards acquisition and installation of plant & machinery. The civil construction expenses include ₹ 20 lakhs towards materials purchased for constructing the foundation bed for erecting plant and machinery. One conveyance/vehicle to be used for transferring material within the factory premises was also purchased for ₹ 18 lakhs. Further, company availed the outdoor catering services (Billed amount ₹ 10 lakhs) for inaugural ceremony of new Baddi unit in which the products were displayed for prospective customers. The CGST and SGST are 9% each for civil construction, plant and machinery, conveyance and outdoor catering services.

Motor Bikes Limited in order to augment its production capacity decided to acquire all the shares of TPS Limited for cash. The date of shareholder agreement was 1st December, 2024. The appointed date as per shareholder agreement was 1st January, 2025. The date of obtaining control over Board representation was 1st February, 2025. The date of payment of consideration was 28th February, 2025. The date of transfer of shares in favour of Motor Bikes Limited was 15th March, 2025. It was entitled to all the profits from 1st day of February, 2025. The purchase price was based on TPS Limited's net asset position as on 1st December, 2024. The acquisition agreement further stated that an additional 2 million of cash would be paid to TPS's former shareholders if TPS succeeds in achieving certain specified performance targets. MBL determines the fair value of such consideration to be ₹ 1.5 million at the acquisition date.

Motor Bikes Limited appointed Data Solutions LLP to provide the data base of users of electric motor vehicle with other characteristic features such as age, region, occupation, economic background and other data to plan and position its product vis a vis the marketing strategies. There are about 20 such players presently existing in such manufacture of electric vehicles but only 3 are engaged in solar powered motor vehicles. The investment to set up a similar unit viz. manufacture solar powered motor vehicles would entail investment of ₹ 100 crores on research and development before considering the cost of regular operations such as raw material procurement, manufacture, design, staffing, marketing and branding. The Board of Directors of Motor Bikes Limited wants to analyse their strategy to launch solar powered motor vehicle as per Porter's Five Forces Model.

Motor Bikes Limited exported traditional motor cycles to Nigeria on regular basis. On 31st March, 2025 it has export exposure of ₹ 300 lakhs Naira (currency of Nigeria). The currency Naira is not directly quoted against Indian Rupee. The forex consultant recommended taking a forward cover which would be helpful to Motor Bikes Limited.

The current spot rates are:

INR/USD = ₹84

Naira/USD = 1400

It is estimated that the Nigerian Naira would depreciate to 1600 level and INR to depreciate against USD to ₹ 85.

Forward rates for March 2025 are:

INR/USD = ₹ 86

Naira/USD = 1550

Auditor of MBL while carrying out audit for the F.Y. 2024-2025

(I) has made extensive use of Computer-Assisted Audit Techniques (CAATs) for conducting both compliance tests and substantive audit procedures and submitted his audit report for the year 2024-25. A fraud involving unrecorded liabilities and assets, along with fabricated vendor contracts, was later uncovered through whistleblower reports, despite the absence of any red flags being identified by the Computer Assisted Audit

Techniques (CAATs) used during the audit. In Detailed discussion, the following things were discussed about use of Computer-Assisted Audit Techniques (CAATs):

- (i) The fraud went undetected because CAATs cannot identify transactions that are intentionally excluded from the accounting system or supported by falsified physical documentation.
 - (ii) CAATs failed because they cannot perform recalculations or analytical procedures involving ratios and trends making them ineffective for substantive testing.
 - (iii) CAATs are ineffective for both compliance and substantive testing when strong internal controls exist and the audit relies solely on automated procedures.
 - (iv) CAATs are capable of detecting collusion if enough system anomalies are analysed using advanced algorithms, so this fraud indicates auditor negligence.
- (II) Identified the following expenses incurred by company which involves applicability of TDS:
- (i) paid dividend to shareholders ₹ 500 lakhs (which includes dividend to non-resident shareholders ₹ 200 lakhs);
 - (ii) paid ₹ 60 lakhs to Roger Borg (non-resident) tennis player who attended the function for launch of one of its model on 1st January, 2025;
 - (iii) gave one solar powered motor vehicle manufactured by it to a cine actor as influencer for the purpose of promoting the product. It will be used by him and retained by him subsequently free of cost (cost being ₹ 2 lakhs);
 - (iv) paid fee for technical services to Marina GmbH of Germany ₹ 110 lakhs (for which DTAA prescribes the withholding tax at 15%); and
 - (v) conducted sales promotion meeting in Thailand for 200 distributors @ ₹ 4 lakhs being the expenditure for each distributor for 2 days meeting plus 2 days sight-seeing expenses (expenditures equally spread for 4 days).

Multiple Choice Questions

1. Which of the issues are correct in relation to appointment of women director (Ms. Nadar/ Priya)?
- (A) Statement (i) and statement (iii)
 - (B) Statement (i), statement (iii) and statement (iv)
 - (C) Statement (i), statement (ii) and statement (iv)
 - (D) Statement (ii) and statement (iv)
2. Which of the statements referred about CAATs incorrectly explains why the fraud was not detected through the use of Computer-Assisted Audit Techniques (CAATs)?
- (A) (i), (ii), (iii)
 - (B) (i), (ii), (iv)
 - (C) (i), (iii), (iv)
 - (D) (ii), (iii), (iv)

3. In your opinion, Motor Bikes Limited has followed which type of pricing policy for Powerhouse?
- (A) Skimming pricing
 - (B) Premium pricing
 - (C) Penetration pricing
 - (D) Revolutionary pricing
4. What is the date of acquisition as per relevant Ind AS for Motor Bikes Limited in respect of its acquisition of TPS Limited and how should the future consideration based on performance be classified?
- (A) 28th February, 2025, Equity
 - (B) 1st December, 2024, Financial Liability
 - (C) 15th March, 2025, Equity
 - (D) 1st February, 2025, Financial Liability
5. How much total amount of input tax credit under GST (CGST + SGST) can be claimed by Motor Bikes Limited in respect of goods and services purchased/availed in Baddi unit?
- (A) ₹ 98.64 lakhs
 - (B) ₹ 86.40 lakhs
 - (C) ₹ 60.84 lakhs
 - (D) ₹ 62.64 lakhs
- (5 x 2 = 10 Marks)**

Descriptive Questions

6. Briefly state with reason the amount of tax deductible at source for the expenses incurred by Motor Bikes Limited.
- (5 Marks)**
7. Calculate the expected loss, if the hedging is not done by Motor Bikes Limited. How would the position change, if Motor Bikes Limited takes a forward cover? If the spot rates on 31st March, 2025 are INR/USD = ₹86.5; Naira/USD=1600, will you say that taking forward cover is justified?
- (5 Marks)**
8. Write a summary of the issues to be tackled by Motor Bikes Limited as per Porter's Five Forces Model. Note: Your answer must be with reference to the facts of the case study and not a mere abstract reference of the Model.
- (5 Marks)**

ANSWER

1. (D) Statement (ii) and statement (iv)
2. (D) (ii), (iii), (iv)
3. (B) Premium pricing
4. (D) 1st February, 2025, Financial Liability
5. (C) ₹ 60.84 lakhs
6. (i) Motor Bikes Ltd. is required to deduct tax at source under section 194 @ 10% on ₹ 300 lakhs, being dividend paid to resident shareholders assuming dividend paid to each shareholder exceeds ₹ 5,000 and at rates in force i.e., @20% on ₹ 200 lakhs, being dividend paid to nonresident shareholders. The rate of tax for non-residents would be increased by HEC @ 4%.

Accordingly, Motor Bikes Ltd. has to deduct tax of ₹ 71.60 lakhs [₹ 30 lakhs (10% of ₹ 300 lakhs) + ₹ 41.60 lakhs (20.8% of ₹ 200 lakhs)].

(ii) Motor Bikes Ltd. is required to deduct tax at source under section 194E @ 20% on ₹ 60 lakhs, being amount paid to Roger Borg, a non-resident assuming he is not a citizen of India for attending the launch of one of its model assuming the same is in the nature of advertisement. The rate of tax would be increased by surcharge @ 10% and HEC @ 4%.

Accordingly, Motor Bikes Ltd. has to deduct tax of ₹ 13.728 lakhs [₹ 22.88% of ₹ 60 lakhs].

Alternative

The above solution is worked out considering that the amount paid to Roger Borg, a tennis player for attending launch of a model is in the nature of advertisement. However, it is also possible to consider that amount paid to Roger Borg, a tennis player for attending launch of a model is not in the nature of advertisement. Accordingly, Motor Bikes Ltd. is required to deduct tax at source @30% plus surcharge@10% plus HEC @4% under section 195 and not under section 194E on ₹ 60 lakhs, being amount paid to Roger Borg, a nonresident for attending the launch of one of its model assuming he is not a citizen of India and payment is not for advertisement.

Accordingly, Motor Bikes Ltd. has to deduct tax of ₹ 20.592 lakhs [₹ 34.32% of ₹ 60 lakhs].

- (iii) Since Motor Bikes Ltd. has given one solar powered motor vehicle manufactured by it to an influencer for promoting the product and the product is retained by him, it would be in the nature of benefit/ perquisite and tax is required to be deducted by Motor Bikes Ltd. under section 194R @ 10% on ₹ 2 lakhs, being the value exceeding ₹ 20,000.

Accordingly, Motor Bikes Ltd. has to, before releasing the solar powered motor vehicle, ensure that tax of ₹ 20,000 has been paid in respect of the benefit or perquisite.
- (iv) Motor Bikes Ltd. is required to deduct tax at lower of withholding tax rate provided in the DTAA i.e., 15% or at rates in force i.e., 35% on payment for fee for technical service to Marina GmbH of Germany assuming it is not pursuance of an agreement approved by the Central Government. Since withholding tax rate provided in the DTAA of 15% is lower, Motor Bikes Ltd. is required to deduct tax of ₹ 16.50 lakhs (₹ 110 lakhs x 15%). In case DTAA rate is applied, surcharge and HEC would not be added to the DTAA rate.
- (v) 2 days sight-seeing expenses of ₹ 4 crores (200 distributor × ₹ 2 lakhs) during the sales promotion meeting in Thailand for 200 distributors would be considered as benefit or perquisite even if it is incidental to the meeting.

On such ₹ 4 crores, Motor Bikes Ltd. tax is required to deduct tax at source under section 194R @ 10% since the value of benefit of each distributor exceeds ₹20,000. Tax to be deducted at source would be ₹ 40 lakhs, assuming the amount of tax deducted at source is collected from the distributors.

However, if the amount of TDS is borne by Motor Bikes Ltd., the amount of TDS would be ₹ 44.44 lakhs i.e., 10% on ₹ 4.4444 crores. (₹ 4 crores/ 90 × 100).

7. Since the direct quote for Naira and ₹ is not available it will be calculated by cross exchange rate as follows:

$$₹ / \$ \times \$ / \text{Naira} = ₹ / \text{Naira}$$

$$84.00/1400 = 0.0600$$

Spot rate on date of export 1 Naira = ₹0.0600

Expected Rate of Naira for March 2025 = ₹0.0531 (₹ 85/Naira 1600)

Forward Rate of Naira for March 2025 = ₹0.0555 (₹ 86/Naira 1550)

- (i) Calculation of expected loss without hedging

Value of export at the time of export (₹ 0.0600 × Naira 3,00,00,000)	₹ 18,00,000
Estimated payment to be received on March 2025 (₹ 0.0531 × Naira 3,00,00,000)	₹15,93,000
Loss	₹2,07,000

Hedging of loss under Forward Cover

Value of export at the time of export (₹0.0600 × Naira 3,00,00,000)	₹ 18,00,000
Payment to be received under Forward Cover (₹ 0.0555 × Naira 3,00,00,000)	₹ 16,65,000
Loss	₹ 1,35,000

By taking forward cover loss is reduced to ₹ 1,35,000.

- (ii) Actual Rate of Naira on March 2025 = ₹0.0541 (₹ 86.50/Naira 1600)

Value of export at the time of export (₹ 0.0600 × Naira 3,00,00,000)	₹ 18,00,000
Estimated payment to be received on March 2025 (₹ 0.0541 × Naira 3,00,00,000)	₹ 16,23,000
Loss	₹ 1,77,000

The decision to take forward cover is still justified.

Note :- This question can also be solved by rounding the Rupee-Naira exchange rate to three, four, or five decimal places.

8. Motor Bikes Limited's strategy to diversify into solar-powered two-wheelers through its unique indigenous technology can be evaluated using Porter's Five Forces Model.

The threat of new entrants is low because manufacturing solar-powered vehicles demands significant upfront R&D investments (₹100 crores), advanced technology, and regulatory approvals, which create high entry barriers. However, the existing 20 electric vehicle players indicate that entry in adjacent markets is feasible, making continuous innovation essential.

The threat of substitutes is moderate, as conventional two-wheelers (petrol/diesel) and electric bikes without solar add-ons still exist, though rising fuel costs and environmental concerns strengthen customer preference for solar-powered vehicles.

The competitive rivalry is currently limited, with only three players in the solar-powered vehicle space and none with superior technology, providing MBL an opportunity to position itself as a market leader. Nevertheless, rivalry could intensify as global auto manufacturers enter the Indian EV segment.

The bargaining power of suppliers for MBL is relatively low, since the company manufactures patented spare parts in-house, ensuring that raw material vendors have limited influence. The uniqueness of MBL's technology and captive production reduces dependence on external suppliers for critical inputs. However, reliance on high-quality solar panels and advanced batteries—often sourced from global markets—creates potential vulnerability if supply chains fluctuate or prices surge.

On the other hand, the bargaining power of buyers (including distributors and end consumers) is moderate. Customers are attracted by eco-friendly, cost-efficient mobility solutions, but their price sensitivity could increase if competitors launch cheaper alternatives, while distributors remain bound to MBL's exclusive channel, limiting their negotiating leverage.

From these forces, key issues emerge:

Possible entry of global competitors with deep pockets, dependency on specialized solar/battery inputs, and customer resistance if prices remain too high despite premium positioning.

Solutions may include:

- (i) leveraging patents and continuous R&D to stay technologically ahead,
- (ii) securing long-term contracts or backward integration for critical inputs like solar panels and batteries,
- (iii) engaging in customer awareness campaigns highlighting long-term cost savings and sustainability, and
- (iv) adopting a selective premium pricing strategy initially but gradually introducing cost-effective variants to broaden market penetration. By aligning its unique technological advantage with strategic control over supply chains and customer engagement, MBL can sustain its competitive edge in the evolving solar-powered two-wheeler market.

NOTE :- This solution is based on most appropriate interpretation; however, alternative views may also be possible.

Case Study- 224

Time Jewellers Ltd. (TJL), Chandigarh, was started by Ms. Seema Bahl in the year 2018. TJL is engaged in the manufacture and sale of gold and diamond jewellery. Company has chain of retail stores in Chandigarh, Mumbai, Delhi, Cochin, Jaipur and Kolkata. The company runs jewellery business in the trade name 'TJ Jewellers'. After analysing the growth prospects and carrying out various due diligence exercises, TJL diversified into hospitality industry by name 'TJ residency' in various tier 2 cities of India. The uniqueness of its jewellery business was the reliability and buy-back arrangement with substantial concession for waste due to erosion being limited to 50% in respect of the jewellery purchased from it previously. In the hospitality industry it created a niche for itself by competitive pricing and customer friendly service. The company simply acquired or took on long term lease the existing boarding and lodging units subject to meeting the minimum requirements like 100 rooms and 3-star facilities. The company has identified that tourism and hotel industry is bound to have galloping growth since the fruits of economic growth could be found in people resorting to travel with comfortable stay and leisure. The trend of companies engaged in jewellery or computer software diversifying into hospitality industry is already prevalent and the action of Time Jewellers Ltd. is not first of its kind. However, the manner in which it is scripting its journey with success is the testimony of its past business practices and organisational philosophy.

The following are the details submitted by Time Jewellers Ltd. for the year ended 31st March, 2025 and want to know book profit under section 115JB for the assessment year 2025-26:

Particulars	₹ in lakhs
Profit as per Statement of Profit and Loss	1425.00
Items debited to Statement of Profit and Loss:	
Bank term loan interest (actually paid upto the due date of return under section 139(1) ₹ 150 lakhs)	180.00
Provision for income-tax	105.00
Amounts paid and payable to MSME (Amount outstanding as on 31.03.2025 ₹ 200 lakhs. Paid the entire amount only in June, 2025)	500.00
Depreciation (includes ₹ 150 lakhs on account of revaluation of assets)	360.00
Provision for gratuity (based on actuarial valuation)	200.00
Arrear of wages paid to employees relating to F.Y.2022-23 on settlement of dispute with trade union	150.00
Items credited to Statement of Profit and Loss:	
Long-term capital gain on sale of commercial apartments referred later. (Stamp duty valuation ₹ 900 lakhs).	720.00
Agricultural income	20.00
Additional information: Depreciation allowable as per Income-Tax Rules, 1962	280.00

As strategic move, Time Jewellers Ltd. in its business had announced Gold Card scheme to customers for the recreation park owned by it. In the first year each customer has to pay ₹ 12,000 and the option to renew is given to the customers for ₹10,000 and ₹8,000 for the 2nd year and 3rd year respectively. There were 500 members who accepted the scheme upon its launch. The company estimates the attrition rate @ 40% each year.

Demand for some specific diamond jewellery (from newly wedded couples) was increasing and that diamond and other accessories can only be procured from Paris. Time Jewellers Ltd. imported that specific diamonds in September, 2024. The bill of entry was presented on 20th September, 2024 and the goods were cleared from port for warehousing.

The order permitting the deposit of goods in warehouse was issued for 4 months on 27th September, 2024. The assessable value on 20th September 2024 was USD 5,00,000. The goods were accordingly deposited in the warehouse on the same day but were not cleared before 27th March, 2025. A notice was issued under section 72 of the Customs Act, 1962 demanding duty and interest. The goods were finally cleared on 30th March, 2025.

Particulars	20 th September	10 th December	30 th March
Rate of exchange per USD (as notified by CBIC)	₹81	₹82	₹85
Basic Customs Duty	15%	10%	12%

In addition, the precision with which such specific jewellery is made requires a machine “Pluto”. The said machine is manufactured in India by one company only, Glow Engineers Limited. The cost of the machinery is around ₹ 3.5 Crores and additional working capital will also be required due to this new addition in product range. The funds will be arranged by selling its residential apartment (earlier used by officers of the company to stay when they come for meetings) in Mumbai. For balance amount, it has been decided to approach the existing bankers of the company both for the machinery term loan and additional working capital credit facilities.

Bankers requested for projected cash flow and profitability statements examined and signed by the Chartered accountants. Management of TJL prepared the required information clearly disclosing the basis of forecast and underlying assumptions. XYZ LLP, a firm of Chartered Accountants based in Mumbai is entrusted with the assignment of examining the same. Partner, CA Ravi, examining the projected cash flow and profitability statements has raised the following concerns for discussion amongst the team members.

- (i) There is no mandatory requirement to state UDIN in such type of reports.
- (ii) There is no requirement to give any type of opinion on projected cash flow and profitability statements examined.
- (iii) Accuracy of projections is not at all vouched for in an assurance report provided for the given assignment.
- (iv) Intended use of projection has to be disclosed along with caution to the users regarding inappropriateness of projections for other purposes.

Though the entire manufacturing process is inhouse but one of the processes “process FGH” is being done by outside job workers. One of the board members suggested to look for acquisition of some company which is specialized in carrying out process FGH. All the board members agreed to the suggestion and entrusted the job of identifying such company to Boston LLP, Delhi (a consultancy company) to identify a company for acquisition with reasonably moderate scale of operation and market presence. Boston LLP identified 5 such companies mainly driven by ultra-modern technology and the Committee constituted by the Board of Directors of TJL finally decided to acquire VMS Ltd., by means of merger. The technical feasibility including synergy has been analyzed by a team of competent people and it was approved both by the Committee and the Board. However, they want to know the position from investor’s perspective. The following are the details of earnings of both the companies in this regard:

Name	After-tax earnings (₹)	No. of equity shares	Market price per share (₹)
TJL	30 crores	60 lakhs	75
VMS Ltd.	6 crores	30 lakhs	50

Time Jewellers Ltd. Also manufactures a specific stone to be used in jewellery manufacture. It has a good market presence though the product was launched only 3 years ago. The budgeted and actual data for the financial year 2024-25 are as follows:

Particulars	Budget	Actual	Variation
Sales/production (units)	20,00,000	17,25,000	(2,75,000)
Sales (in lakhs)	210.00	189.75	(20.25)
Less: Variable cost (in lakhs)	126.00	120.75	5.25
Less: Fixed cost (in lakhs)	50.00	52.00	(2.00)
Profit (in lakhs)	34.00	17.00	(17.00)

The budget data given above is based on the assumption that the total market size would be ₹ 40 lakh units but it turned out to be ₹ 37.50 lakh units.

Time Jewellers Ltd. Decided to invite a corporate strategist, Mr. Mandeep Vohra, to take the company to its next level and team of Mr. Mandeep Vohra laid down certain bench-marks as the objectives to be achieved in reality. He gave prominence to areas of business development such as (i) contributing to revenue and earnings; (ii) customer satisfaction, acquisition and loyalty; (iii) satisfying customer requirements and maintain net earnings; (iv) thought leadership to take quick decisions; and (v) improving employee capabilities, information system capabilities and organizational procedures.

TJL planning to go public has provided the following financial details for the last three full financial years (all figures are on a restated and consolidated basis):

- Net Tangible Assets: ₹ 3.25 crores, ₹ 3.10 crores, and ₹ 3.50 crores respectively. Of this, 60% is held in monetary assets. However, the company has made firm commitments to utilize 70% of the monetary assets for a new expansion project.
- Operating Profits: ₹18 crore, ₹16 crore, and ₹17 crore respectively.
- Net Worth: ₹ 1.5 crore in each of the three years.
- The company changed its name 10 months ago, and 52% of its revenue in the last year came from the new line of business reflected in the new name.

Multiple Choice Questions

1. Which of the statements made by CA Ravi are incorrect?
 - (A) Statement (i), (iii) and (iv)
 - (B) Statement (i), (ii) and (iv)
 - (C) Statement (i) and (ii)
 - (D) Statement (i) and (iv)
2. If the merger between TJL and VMS Ltd. Is carried out by means of exchange of shares and the exchange ratio is set according to current market prices, what would be the earnings per share of TJL post-merger?
 - (A) ₹72
 - (B) ₹ 65
 - (C) ₹ 45
 - (D) ₹40

3. Which of the objectives set by Mandeep Vohra forms part of the Balanced Scorecard Model?
- (A) (i), (ii) and (iii)
(B) (i), (ii), (iii) and (v)
(C) (i), (iv) and (v)
(D) (i), (ii) and (v)
4. Is TJL eligible to make an Initial Public Offer under SEBI (ICDR) Regulations?
- (A) Yes, because all key financial thresholds are met, and excess monetary assets are committed to business use.
(B) No, because more than 50% of the net tangible assets are held in monetary assets.
(C) No, because the operating profit condition is not satisfied in all three years.
(D) No, because the company changed its name within a year and less than 60% of its revenue came from the new business activity.
5. How much of the income and contract liability should be recognized by Time Jewellers Ltd. Under Gold Card Scheme as per applicable Ind AS?
- (A) ₹60,00,000, ₹ Nil
(B) ₹53,26,530, ₹6,73,470
(C) ₹ 52,36,350, ₹ 7,63,650
(D) ₹ 54,13,045, ₹ 5,86,955

(5 x 2 = 10 Marks)

Descriptive Questions

6. Prepare a statement showing a reconciliation of budget profit to actual profit through marginal costing approach for the financial year 2024-25 for Time Jewellers Ltd. In respect of its stone manufacturing unit with as much as detail as possible.
- (5 Marks)**
7. Compute the amount of duty and interest payable by Time Jewellers Ltd. As regards removal of imported goods. Ignore agriculture and infrastructure development cess. Integrated tax leviable under section 3(7) of the Customs Tariff Act is exempt.
- (5 Marks)**
8. Compute the book profit under section 115JB of the Income-tax Act, 1961 for Time Jewellers Ltd. For the assessment year 2025-26.
- (5 Marks)**

ANSWER

1. (C) Statement (i) and (ii)
2. (C) ₹ 45
3. (B) (i), (ii), (iii) and (v)
4. (A) Yes, because all key financial thresholds are met, and excess monetary assets are committed to business use.
5. (B) ₹ 53,26,530, ₹ 6,73,470
6. **Statement of Reconciliation – Budgeted Vs Actual Profit**

Particulars	₹
Budgeted Profit	34,00,000
Less: Sales Volume Contribution – Planning Variance (Adverse)	5,25,000
Less: Sales Volume Contribution – Operational Variance (Adverse)	6,30,000
Add: Sales Price Variance (Favourable)	8,62,500
Less: Variable Cost Variance (Adverse)	12,07,500
Less: Fixed Cost Variance (Adverse)	2,00,000
Actual Profit	17,00,000

Workings

Basic Workings

Budgeted Market Share (in %)	=	20,00,000/40,00,000
	=	50%
Actual Market Share (in %)	=	17,25,000/37,50,000
	=	46%
Budgeted Contribution	=	₹ 210,00,000 – ₹ 126,00,000
	=	₹ 84,00,000
Average Budgeted Contribution (per unit) =		₹ 84,00,000/ ₹ 20,00,000
	=	₹4.20
Standard Sales Price per unit	=	₹ 210,00,000/ 20,00,000
	=	₹10.50
Actual Sales Price per unit	=	₹ 189,75,000/ 17,25,000
	=	₹11.00
Standard Variable Cost per unit	=	₹ 126,00,000/ 20,00,000
	=	₹ 6.3
Actual Variable Cost per unit	=	₹ 120,75,000/ 17,25,000
	=	₹ 7

Calculation of Variances

Sales Variances

$$\begin{aligned}\text{Volume Contribution Planning}^* &= \text{Budgeted Market Share \%} \times (\text{Actual Industry Sales Quantity in units} - \text{Budgeted Industry Sales Quantity in units}) \times (\text{Average Budgeted Contribution per unit}) \\ &= 50\% \times (37,50,000 \text{ units} - 40,00,000 \text{ units}) \times ₹4.20 \\ &= ₹5,25,000 \text{ (A)} \\ &\quad (*) \text{ Market Size Variance}\end{aligned}$$

$$\begin{aligned}\text{Volume Contribution Operational}^{**} &= (\text{Actual Market Share \%} - \text{Budgeted Market Share \%}) \times (\text{Actual Industry Sales Quantity in units}) \times (\text{Average Budgeted Contribution per unit}) \\ &= (46\% - 50\%) \times 37,50,000 \text{ units} \times ₹4.20 \\ &= ₹6,30,000 \text{ (A)} \\ &\quad (**) \text{ Market Share Variance}\end{aligned}$$

$$\begin{aligned}\text{Price} &= \text{Actual Sales} - \text{Standard Sales} \\ &= \text{Actual Sales Quantity} \times (\text{Actual Price} - \text{Standard Price}) \\ &= 17,25,000 \text{ units} \times (₹11.00 - ₹10.50) \\ &= ₹8,62,500 \text{ (F)}\end{aligned}$$

Variable Cost Variances

$$\begin{aligned}\text{Cost} &= \text{Standard Cost for Production} - \text{Actual Cost} \\ &= \text{Actual Production} \times (\text{Standard Cost per unit} - \text{Actual Cost per unit}) \\ &= 17,25,000 \text{ units} \times (₹6.3 - ₹7.0) \\ &= ₹12,07,500 \text{ (A)}\end{aligned}$$

Fixed Cost Variances

$$\begin{aligned}\text{Expenditure} &= \text{Budgeted Fixed Cost} - \text{Actual Fixed Cost} \\ &= ₹50,00,000 - ₹52,00,000 \\ &= ₹2,00,000 \text{ (A)}\end{aligned}$$

7. Computation of duty and interest payable by Time Jewellers Ltd.

Particulars	Amount (USD)
Assessable value	5,00,000
	Amount (₹)
Value in Indian currency (USD 5,00,000 × ₹ 81) [Assessable value has to be calculated with reference to the rate of exchange prevalent on the date on which the into bond bill of entry is presented for warehousing.]	4,05,00,000
Customs duty @ 10% ⁴ [Goods which are not removed within the permissible period are deemed to be improperly removed in terms of section 72 of the Customs Act, 1962 on the day they should have been removed. The applicable rate of duty in such a case is the rate of duty prevalent on the last date on which the goods should have been removed.]	40,50,000
Add: Social welfare surcharge @ 10% on ₹ 40,50,000	4,05,000
Total customs duty payable	44,55,000
Period of 90 days commencing from the date of order made under 60 expires on [If goods remain in a warehouse beyond a period of 90 days from the date on which the order permitting deposit of goods in warehouse under section 60 is made, interest is payable @ 15% p.a., on the amount of duty payable at the time of clearance of the goods, for the period from the expiry of the said 90 days till the date of payment of duty on the warehoused goods.]	26 th December
No. of days for which interest shall be payable [5 days of December +31 days of January +28 days of February + 30 days of March]	94 days
Interest payable = ₹44,55,000 × 15% × 94/365 (rounded off)	1,72,097

Note :- It has been considered that the rate of Basic Customs Duty provided as on 10th December continued to remain the same on 26th December.

⁴The rate of Basic Customs Duty as given on 10th December has been assumed to be of the date 26th December, i.e. the date prevalent on the last date on which the goods should have been removed.

8. Computation of book profit under section 115JB for Time Jewellers Ltd. for A.Y. 2025-26

Particulars	Amount (₹) In lakhs	Amount (₹) In lakhs
Profit as per Statement of Profit and Loss		1,425
Add: Net profit to be increased by the following amounts as per Explanation 1 to section 115JB		
Bank term loan interest [Only specific items mentioned under Explanation 1 to section 115JB can be adjusted while computing book profit. Since bank term loan interest unpaid upto due date of return of income is not a specified item, no adjustment is required.]	Nil	
Provision for income-tax	105	
Amount paid or payable to MSME [Only specific items mentioned under Explanation 1 to section 115JB can be adjusted while computing book profit. delayed payment to MSME is not a specified item, no adjustment is required.]	Nil	
Depreciation	360	
Provision for gratuity based on actuarial valuation [Provision for gratuity based on actuarial valuation is an ascertain liability ⁵ . Hence, the same should not be added back.]	Nil	
Arrears of wages paid to employees relating to F.Y. 2022-23 [Only specific items mentioned under Explanation 1 to section 115JB can be adjusted while computing book profit. Since arrears of wages paid on settlement of dispute is not a specified item, no adjustment is required.]	Nil	465
		1,890
Less: Net profit to be decreased by the following amounts as per Explanation 1 to section 115JB		
Depreciation debited to statement of profit and loss excluding depreciation on account of revaluation of assets (₹ 360 lakhs – ₹ 150 lakhs)	210	
Long term capital gain on sale of commercial apartment [Only specific items mentioned under Explanation 1 to section 115JB can be adjusted while computing book profit. Since long-term capital gain is not a specified item, no adjustment is required.]	Nil	
Agricultural income [Exempt Income by virtue of section 10(1)]	20	230
Depreciation allowable as per Income-tax rules ₹280 lakhs not to be considered for the purpose of book profit under section 115JB.	Nil	
Book Profit under section 115JB		1,660

Great Joy Pharmaceutical Limited (GJPL)

Great Joy Pharmaceutical Limited (GJPL) is a listed company headquartered in Mumbai, Maharashtra. Established in 1985, it is a specialty generic pharmaceutical company, with a wide product portfolio that has both branded and generic medicines. These medicines cover cardiology, gastroenterology, diabetology, oncology, ophthalmology, dermatology, nephrology, respiratory diseases, and over-the-counter medicines among others.

It is one of the largest pharmaceutical companies in India and is also considered a large pharmaceutical company globally. It has manufacturing facilities both within India and across the globe. For FY 2024-25, it reported revenue close to \$7 Billion US Dollars, employing almost 50,000 people across the globe. They have market presence within India and in major markets abroad like United States, Canada, Australia, Japan and few other European countries.

The branded medicines are a portfolio of patent protected medicines, which has been nurtured by GJPL over many years by investing heavily in research and development. The aim of this evolving business is to improve medical outcomes for patients by either meeting unmet demands or by enhancing patient convenience through differentiated dosage forms. Due to better availability of skilled talent for research and development, this portfolio has been built primarily from its research and development centers located within United States, Europe and India.

Generic medicines are those drugs that contain the same chemical composition as the originally patented (branded medicines). They work in the same way and provide the same clinical benefits as a branded drug. However, companies other than the original patent holder do not have the right to manufacture the drug until the patent expires. As stated above, the patent provides the original innovator with the first mover advantage and their reward in the form of this monopoly helps them recoup their investment made in researching and developing this medicine. However, once the patent expires, other players in the industry can use the technical know-how to manufacture medicines that provide the same efficacy and clinical outcomes these "off-patented" medicines are generic medicines. Unlike branded medicines, there are generally many companies that produce generic medicines and hence the competition is much higher.

Few examples of GJPL's product portfolio are given below:

- i. Viva Light is a multivitamin tablet that is an over-the-counter generic medicine used for vitamin deficiencies. There are other companies that produce similar tablets that have the same efficacy and clinical treatment.
- ii. Surgicure is a branded oncology product that is used in cancer treatment. Usage of this medicine has made remarkable improvements to clinical treatment of end user patients. GJPL is the original patent holder of this drug, the term of which has not yet expired thereby giving the company complete monopoly over the product production and sales.
- iii. Soothing Touch is a generic medicine that is used to treat burn victims. This is an improvement of the original branded medicine Coldsalve, whose patent was until recently held by GJPL's competitor. Although similar to Coldsalve in its clinical efficacy, some improvements were made to the chemical composition during the development of Soothing Touch. This helped end user patients to benefit from faster recovery time as compared to Coldsalve.

Within the last two decades, India has developed as a major hub within the pharmaceutical industry, it is now known as the "Pharmacy of the World" as it supplies medicines across the world. As mentioned earlier, GJPL has a large market presence in United States, Canada, Australia, Japan and few other European countries. Some of the products are exported from India, while some medicines are manufactured from facilities owned by GJPL in these countries.

There are certain other countries like Mexico, Brazil and Argentina, where GJPL does not have much presence. Therefore, it hires the services of sales agents in markets in order to sell the products that it exports from India to these countries. For their services, GJPL, Mumbai pays commission for their services.

Over these years the availability of skilled talent within India for specialized roles in pharmaceutical research has improved. Therefore, GJPL has been increasing its investment in its research and development center within India, which is located at Mumbai. In addition to spending on in-house research, the company provides grants to various Indian universities, government institutions and recognized companies to conduct certain research and development activities on its behalf. These grants are utilized for various scientific programs. For tax purposes, these are notified under relevant sections by approved income tax authorities.

Mr. Jay Pradhan has recently joined as an intern in the accounting team at the company headquarters. He has been assigned to the team that manages direct and indirect taxes operations of GJPL. Refer to Annexure 1 for certain clarifications he needs from Ms. Hiral Mehta, his immediate senior and the manager of the team, regarding certain income tax issues.

Actions within GJPL that threaten public safety

CA. Shirish Madan, Director-Finance of Great Joy Pharmaceutical Limited (GJPL), in September 2025, came across certain suspicious payments made by Mr. Aakash Jain, Director-Research and Development. Upon further investigation, it was revealed that these payments were bribes made to a group of scientists and lab technicians to suppress adverse findings discovered during the clinical trials of Metapace, a neurological drug under development. According to the scientists, these adverse results indicated potential negative impacts on patient health, and they had recommended halting further development of the drug. However, GJPL had already invested approximately ₹150 crores in this project.

Under pressure to deliver path-breaking medicines and secure a significant share in the global branded drug market, Mr. Aakash Jain, between January and June 2023, allegedly paid bribes and inducements to suppress reporting of the adverse results.

As a result of this suppression, the drug received regulatory approval, and a patent was registered in the name of GJPL in September 2024. GJPL has since commenced commercial production of Metapace from December 2024.

Licensing agreement between GJPL and YLL

The Indian pharmaceutical industry has been steadily growing in the last decade. GJPL has been expanding its manufacturing operations within India in order to take advantage of newer opportunities. In order to deliver better results, it has divided its portfolio into core-products and non-core products. All core products will be manufactured in-house, while some of the non-core products can be manufactured by third party manufacturers by licensing out the patent.

In FY 2024-25, GJPL's research and development team at Mumbai developed Healbeat, a new drug for patients with cardiac problems. It is a revolutionary drug that can bring substantial benefits for patients. The drug is now a registered patent in India under the Patents Act, 1970. The total cost of developing the drug was ₹ 100 crore. Out of this ₹ 80 crore was incurred in India, with the balance being incurred overseas.

GJPL considers cardiology related medical production was part of its "noncore" product portfolio. In order to concentrate on its core product portfolio, GJPL decided to license out its patent to Your Life Limited (YLL), another Indian pharmaceutical company for a period of 3 years. As per the agreement entered into in Jun 2025, GJPL will receive royalty income based on the sale of Healbeat. The royalty will approximately be 60% of the sale revenue generated under the agreement. This way it can recoup the cost of research and development that it incurred to discover and patent the medicine. YLL will have complete control of production, marketing and sales, including the pricing of the drug. YLL has been given the right to sell Healbeat only within India. Market for Healbeat was steady until reports started emerging of untoward incidents relating to quality of the medicine that resulted in deaths of end user patients. Please refer to Annexure 2 for further details.

Acquisition of Blueprint Pharmaceutical Limited (BPL)

GJPL acquired BPL, a rival pharmaceutical company for ₹230 crores on June 1, 2025. BPL is based in Kolkata, West Bengal, Its product portfolio is similar to that of GJPL. The plant was acquired in order to expand its operations in West Bengal and the eastern part of India, where it has limited presence. At the time of acquisition, BPL is the defendant in a court case whereby certain customers of BPL have alleged usage of one of their drugs, Clear Air which caused irreversible harm to the lungs. BPL is being sued for damages of ₹ 30 crores.

BPL has indemnified GJPL for the losses, if any on account of the court case to the tune of ₹25 crores. The fair value of the liability is ₹22 crores.

Annexure 1

Jay Pradhan / Management Trainee, GJPL

From: "Jay Pradhan" jaypradhan@gjpl.com;

Sent: 3rd May 2026 19:00

To: "Hiral Mehta" hiralm@gjpl.com;

Cc:

Subject: Clarification on Tax Treatment of Certain Expenses

Date: 3rd May, 2025

Dear Ms. Mehta,

While reviewing the working files and records relating to direct and indirect taxes, I have come across certain items that require clarification. These include research and development payments made during F.Y. 2024-25, as well as two tax matters of F.Y. 2023-24 where the Assessing Officer has raised demands. I would be grateful for your guidance on their tax implications.

- (i) Research and Development Expenditure - During F.Y. 2024-25, GJPL incurred various expenses towards research and development within India. A contribution of ₹5 crores was paid to the notified and approved Indian Institute of Science, Bangalore, which is a public university renowned for its scientific research activities. Another contribution of ₹ 4 crores was made to IIT, Delhi for an approved scientific research program. In addition, a grant of ₹ 2 crores was given to Healthy India Limited, a company registered in India with its principal objective being scientific research and development, duly approved by the prescribed authority. Further, the company incurred expenditure on its in-house scientific research and development facility approved by the prescribed authority, comprising revenue expenditure of ₹ 8 crores and capital expenditure of ₹ 25 crores, of which ₹ 10 crores relate to the cost of acquisition of land. As discussed earlier, GJPL is governed by the normal provisions of the Income-tax Act and has not opted for the concessional regime under sections 115BAA or 115BAB.
- (ii) Commission to Overseas Agents (F.Y. 2023-24)- In F.Y. 2023-24, GJPL paid commission to several agents abroad for facilitating sales of its products in markets such as Mexico, Brazil, and Argentina. These agents are non-residents, have no income accruing or arising in India, and hence are not liable to tax in India. Accordingly, no tax was deducted at source on such payments, nor was any application made under section 195(2) for nil deduction. On assessment, however, the Assessing Officer has taken the view that tax should have been deducted at source and has therefore proposed to disallow the commission expenditure of ₹ 25 crores. I seek your advice on whether this position is legally sustainable.
- (iii) Freebies to Medical Practitioners (F.Y. 2023-24)- During the same year, GJPL incurred an expenditure of ₹ 5 crores towards providing freebies to medical practitioners within India. The Assessing Officer has disallowed this expense as not being deductible for tax purposes. Please advise whether this position is correct.

Jay Pradhan

Annexure 2: Substandard drug tragically claims the lives of 25 patients

Mumbai, 15th October 2025 - Your Life Limited (YLL) is a pharmaceutical company that manufactures and sells the blockbuster drug Healbeat, a cardiovascular drug that has successfully transformed the lives of many patients. The original patent holder for Healbeat is Great Joy Pharmaceutical Limited (GJPL). As per the licensing agreement between the companies, YLL has exclusive rights to manufacture and market the drug. In return GJPL earns substantial royalty on sales.

Recently, the regulatory authorities have received various complaints about the quality of Healbeat medicine that is manufactured by YLL. On further investigation it was found that the certain Active Pharma Ingredient (API), which is the main chemical compound for the medicine, is of substandard quality. The API has been procured from an external supplier by YLL. Unfortunately, the use of substandard APIs in its production of Healbeat has resulted in certain tragic loss of lives in recent months. YLL now faces certain litigation and penalties filed against it with the regulatory authorities.

Multiple Choice Questions

1. Which of the following statements would be true regarding the competitive advantage of branded and generic products of GJPL's product portfolio:
- (A) GJPL should follow cost leadership strategy for generic medicines and product differentiation strategy for branded medicines.
 - (B) GJPL should follow cost leadership strategy for branded medicines and product differentiation strategy for generic medicines.
 - (C) GJPL should follow cost leadership strategy for both generic products and branded medicines.
 - (D) GJPL should follow product differentiation strategy for both generic products and branded medicines.

2. Which of the following classification from GJPL's product portfolio is correct?

Sr. No.	Name of product	Sr. No.	Type of product
I	Viva Light	(i)	Revolutionary product
II	Surgicure	(ii)	Me Too product
III	Soothing Touch	(iii)	Evolutionary product

- (A) I-(ii), II-(iii), III-(i)
 - (B) I-(ii), II-(i), III-(iii)
 - (C) I-(iii), II-(ii), III-(i)
 - (D) I-(i), II-(ii), III-(iii)
3. With reference to the royalties earned from sales of Healbeat, which of the following statements would be true regarding its taxation as per the Income Tax Act?
- (A) GJPL would not be eligible for any concessional tax rate under the Income Tax Act for the royalties which it earns from licensing out the patent for Healbeat because there is no such provision available in the Act.
 - (B) GJPL would not be eligible for any concessional tax rate under the Income Tax Act for the royalties which it earns from licensing out the patent for Healbeat because some portion of the expense in developing the patent was not incurred in India.
 - (C) GJPL can avail concessional tax on the royalties earned from licensing out the patent for Healbeat because GJPL has incurred more than 75% of the expenditure for research and development in India and it is registered under the Patents Act, 1970.
 - (D) GJPL can avail concessional tax on royalties earned from licensing out the patent because under the agreement Healbeat is sold only within India.
4. With reference to the suppression of adverse results during the clinical trials of Metapace that can harm public safety, what are the actions that CA. Shirish Madan should take:
- (A) Discuss the matter with the management or those charged with governance at GJPL. If further action is needed, using his professional judgment, disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of this imminent breach that can cause public harm.
 - (B) Production has already begun, CA. Shirish Madan is under no obligation to reveal and discuss this matter with anyone within or outside the company.

- (C) CA. Shirish Madan can ignore this breach since these payments have not been authorized by him and are related to the research and development department of the company, therefore they are not under his purview.
- (D) CA. Shirish Madan should consider resigning from his position as the bribes and inducements have a financial impact. As a Director of Finance he is also responsible for this fraud although he did not expressly authorize these payments.

5. The acquisition of BPL by GJPL is an example of:

- (A) Backward integration
- (B) Forward integration
- (C) Horizontal integration
- (D) Supply chain integration

6. How should GJPL account for the contingent liability and indemnification asset be recognized in its books for FY 2025-26?

- (A) GJPL should measure the identifiable liability of entity BPL at ₹ 22 crores and a corresponding asset of ₹ 25 crores.
- (B) GJPL should measure the identifiable liability of entity BPL at ₹ 22 crores and a corresponding asset of ₹ 22 crores.
- (C) GJPL should not measure the liability until the settlement of the case and accordingly not account for any corresponding asset either.
- (D) GJPL should not measure the liability until the settlement of the case and measure the corresponding asset of ₹ 25 crores since BPL has committed to indemnify for loss to this extent.

Descriptive Questions

7. With reference to the information provided in the Annexure, advise Hiral Mehta on how she should guide Jay Pradhan in relation to the following issues under the provisions of the Income-tax Act:

- i. Treatment of various research and development expenses incurred during F.Y. 2024-25.
- ii. Whether to accept the Assessing Officer's position disallowing the commission expenditure of ₹ 25 crores incurred in F.Y. 2023-24.
- iii. Whether to accept the Assessing Officer's position disallowing the expenditure of ₹ 5 crores incurred in F.Y. 2023-24 on providing freebies to medical practitioners.

8. Discuss why GJPL should attempt to address the issue of untoward clinical outcomes of Healbeat in patients, the patent of which it has licensed out to YLL.

Suggest some of the actions that the company can take to address this issue.

ANSWER

1. (A) GJPL should follow cost leadership strategy for generic medicines and product differentiation strategy for branded medicines.
Reason: Generic medicines are manufactured after the restriction of the original patent expires. Since the know-how can now be used without restriction, the number of competitors will be more. Therefore, GJPL will not have much scope to determine the price of the medicine. Consequently, product profitability will be driven by the costs. Therefore, GJPL has to follow a cost leadership strategy in case of generic drugs.
Branded medicines offer unique treatment solutions to the end user, due to which they are protected by patents. The grant of patent is an acknowledgment of this unique feature, due to which GJPL should follow a product differentiation strategy for branded medicines. Since branded medicines are protected by patents, GJPL can enjoy monopoly with respect to the medicine. This gives them the ability to price the medicine at a higher premium price, subject to any regulatory restrictions. Therefore, branded medicines can contribute to profitability of the company using the product differentiation strategy.
2. (B) I-(ii), II-(i), III-(iii)
Reason: Viva Light is a Me-too product as it is a generic medicine that is also produced by other companies. There are similar products in the market, therefore it is a market follower, a Me-Too product.
Surgicare is a branded product over which GJPL has the patent which has not yet expired. This innovative medicine has provided remarkable improvement in the clinical treatment of end user patients, due to which GJPL has the coveted right of holding its patent. The drug is a market leader and therefore a Revolutionary product.
Soothing Touch is an upgraded, improved version of the originally branded medicine Coolsalve. Therefore, it is an evolutionary product.
3. (C) GJPL can avail concessional tax on the royalties earned from licensing out the patent for Healbeat because GJPL has incurred more than 75% of the expenditure for research and development in India and it is registered under the Patents Act, 1970.
Reason: Under section 115 BBF, where the total income of the original patent holder includes any income by way of royalty in respect of a patent developed and registered in India, then such royalty shall be taxed at the rate of 10% (plus applicable surcharge and cess). For this purpose, developed in India means at 75% of the expenditure should be incurred in India for the invention in respect of which patent has been granted under the Patents Act, 1970.
GJPL incurred ₹ 100 crores in developing Healbeat out of which ₹ 80 crore has been incurred in India. The patent for this invention has been registered in India under the Patents Act, 1970. Therefore, GJPL will be eligible for a concessional tax of 10% (plus surcharge and cess) on the royalty earned from sale of Healbeat.
4. (A) Discuss the matter with the management or those charged with governance at GJPL. If further action is needed, using his professional judgment, disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of this imminent breach that can cause public harm.
Reason: NOCLAR, under Code of Ethics is applicable to professional accountants in service as well and CA. Shirish Madan will be covered under this as he is a senior professional accountant in service as he is employed as Director of Finance, GJPL, a listed company. The ill-effects of consumption of Metapace can cause public harm, therefore CA. Shirish Madan is expected to take appropriate actions under the Code of Ethics that governs CA. The Code requires him to obtain an understanding of the matter, address it by discussing it with the management and those charged with governance. After taking appropriate guidance, if he determines further action is required, he can also disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of this imminent breach that can cause public harm. He should document all of these actions that may be needed in case there are future legal clarifications on account of this breach.

5. (C) Horizontal integration.

Reason: Similar to GJPL, BPL is another pharmaceutical company producing similar medicines. The company wants to expand its operations in West Bengal and the markets in east India. This will increase its market share and potential for revenue generation. This makes GJPL's acquisition of BPL (Horizontal integration).

6. (B) GJPL should measure the identifiable liability of entity BPL at ₹ 22 crores and a corresponding asset of ₹ 22 crores.

Reason: As per Ind AS 103, the acquirer shall recognize on the date of acquisition a contingent liability assumed in a business combination if it is a present obligation arising from past events and its fair value can be measured reliably. In this case, the contingent liability is arising out of pre - acquisition events. The fair value of this liability can be measured at ₹ 22 crores, which is within the indemnification limit of ₹ 25 crores that BPL is willing to cover on behalf of GJPL. Therefore, acquirer GJPL should recognize the liability and the corresponding indemnification asset in books for FY 25-26, while accounting for this business combination at ₹22 crores only.

Answers to Descriptive Questions

7. (i) Computation of deduction available under section 35 for A.Y. 2025-26

Particulars	₹	Section	% of deduction	Amount of deduction (₹)
Payment for scientific research to notified approved institutes/ company				
- Indian Institute of Science, Bangalore	5 crores	35 (1) (ii)	100.00%	5 crores
- IIT Delhi	4 crores	35 (2AA)	100.00%	4 crores
- Healthy India Limited	2 crores	35(1) (iia)	100.00%	2 crores
Expenditure incurred on in-house research and development facility				
- Revenue Expenditure	8 crores	35 (2AB)	100.00%	8 crores
- Capital Expenditure (excluding the cost of land)	15 crores	35 (2AB)	100.00%	15 crores
Total deduction available under section 35				34 crores

- (ii) GLPL utilizes the services of many agents abroad, who arrange to sell the company's products from India in select markets like Mexico, Brazil and Argentina. For such services it had paid commission of ₹ 25 crores during F.Y. 2023-24 and claimed this as a business expense. Since it had not deducted TDS on such payments, the Assessing Officer is of the opinion that the commission of ₹ 25 crores paid during F.Y. 2023-24 should not be allowed as a business expenditure. GJPL has also not made any application u/s 195(2) for making deduction of tax at source at Nil rate.

To assess this validity of this stance, reference can be made to the Delhi High Court case law CIT vs Maruti Suzuki India Limited (2018) 407 ITR 165 (Del). In the said case, it was held that the non-resident agent who operated outside India did not have any income arising in India. Accordingly, the commission earned by a non-resident agent who was in the business of selling Indian goods abroad, did not accrue or arise in India, and hence, no tax was deductible on such commission payment to a non-resident agent. Since the assessee has made payment to a non-resident agent and such income is not chargeable to tax in India, section 40(a)(i) could not be invoked to disallow deduction of such payment for non-deduction of tax at source while computing business income of the assessee.

On similar grounds, it can be concluded that the Assessing Officer is not justified in invoking section 40(a)(i) to disallow deduction of ₹ 25 crores paid as commission to non-resident agents selling products in various markets outside India on behalf of GJPL. Therefore, Hiral should advise that the ground for this disallowance is not justified.

- (iii) During F.Y. 2023-24, GJPL had provided freebies to medical practitioners practicing within India. This was amounted to ₹5 crores. On assessment the income tax officer has disallowed this expenditure as a business expense.

To assess the validity of this stance, reference can be made to the Supreme Court case in Apex Laboratories Pvt. Ltd. Vs DCIT (2022) 442 ITR 1. In this case it was held that the incentives (or freebies) given by the pharmaceutical company, to the doctors, had a direct result of exposing the recipients to the odium of sanctions, leading to a ban on their practice of medicine. These sanctions are mandated by law, as they are embodied in the code of conduct and ethics, which are normative and have legally binding effects. The conceded participation of the assessee - pharmaceutical company i.e. the provider or donor, was plainly prohibited, as far as their receipt by medical practitioners was concerned. That medical practitioners were forbidden from accepting such gifts or freebies was no less a prohibition on the part of their giver or donor i.e. the pharmaceutical company.

Explanation 3 inserted in section 37(1) is in consonance with the above Supreme Court judgment. Thus, pharmaceutical companies' gifting of freebies to doctors is clearly "prohibited by law" and not allowed to be claimed as a deduction under section 37(1). Doing so would undermine public policy.

From this it can be concluded the position of the income tax officer is correct. The expenditure of ₹ 5 crores incurred on freebies to doctors can be considered as expenses prohibited by the law and not allowed as a deductible expenditure on the hands of the GJPL under section 37(1) of the Income Tax Act. Therefore, Hiral should advise that the ground for this disallowance is justified.

8. (i) GJPL is the original patent holder of Healbeat. However, since it has chosen to focus on its core product portfolio, the company licensed out the patent to YLL for the manufacture, marketing, and sale of Healbeat. GJPL does not exercise any control over YLL's activities and only earns substantial royalty income from the sales of Healbeat.

Although GJPL does not bear direct responsibility for the tragic loss of lives of patients caused by YLL's substandard production practices, modern organizations are expected to uphold a broader moral duty of care toward stakeholders, including those not directly connected to the company. In this case, GJPL owes a duty of care to the end-user patients consuming Healbeat, the patent of which it owns.

Due to inadequate quality control measures, YLL produced substandard medicines, resulting in patient deaths. End users have a right to safe and effective medicines for the treatment of their ailments. Since these fatalities are directly linked to the consumption of a drug patented by GJPL, the company should make efforts to address the issue. From a corporate perspective, such incidents can severely damage the company's brand image and reputation.

(ii) Some of the actions that GJPL can take are:

- (a) GJPL can develop a comprehensive Code of Conduct outlining acceptable business standards. These standards should clearly specify the criteria that licensed manufacturers must follow, particularly in the selection of raw material suppliers, to ensure the quality of inputs. GJPL should mandate that manufacturers like YLL implement this Code of Conduct along with other compliance measures, and also require them to submit to periodic inspections by GJPL to verify adherence to these standards.
- (b) GJPL should establish an independent audit team to periodically review the operations of contract manufacturers such as YLL. These audits should be conducted both at the pre-sourcing stage (before entering into any agreement) and at regular follow-up stages. GJPL should engage only with manufacturers willing to comply with its Code of Conduct, and contract manufacturing agreements should incorporate provisions for penalties or termination of contracts in the event of serious violations.
- (c) As a leading player in the pharmaceutical industry, GJPL should work to build transparency and agility within its supply chain. This would involve having complete visibility over suppliers of critical raw materials such as APIs, potential alternative manufacturers for producing the patented drug, and the distribution channels used for its sale. Greater transparency fosters accountability across the supply chain. Moreover, in cases of repeated violations of the Code of Conduct, GJPL should retain the flexibility to shift production to alternate manufacturers who can ensure safety and efficacy. This approach will not only safeguard the continued production of important patented medicines-crucial for recovering the heavy investments made in research and development-but will also reinforce GJPL's commitment to ethical practices, thereby helping it maintain its reputation as a responsible corporate citizen.

Niramaya Pharma Limited

Niramaya Pharma Limited (with the motto "Serve Santu Niramaya" i.e., may all be free from illness), a registered supplier of bulk drugs, is headquartered in Mumbai, Maharashtra. The company manufactures bulk drugs and supplies them to both domestic and international markets. It qualifies as a medium-sized entity under the MSME legislation. Bulk drugs are supplied within Mumbai and to overseas markets directly from the company's warehouse located in Navi Mumbai. For supplies to other states in India, Niramaya Pharma Limited has appointed consignment agents in each such state. However, supplies to Aurangabad (Maharashtra) and Goa are made directly from the Navi Mumbai warehouse. The consignments meant for consignment agents are also dispatched from the Navi Mumbai warehouse.

The pharmaceutical industry in India is marked by a vast and diverse range of products, characterized by both extensive product lines and depth, along with numerous drugs under development. Niramaya Pharma Limited reflects this industry trend, maintaining a substantial portfolio in which the majority of products are still in development. The probability of success for new drugs is relatively low, as many fail to progress through clinical trials or are found economically unviable for launch. However, the potential returns from a successful new drug are significant, often making just a few marketable products sufficient to ensure strong profitability. At present, Niramaya has 132 drugs at various stages of development, including testing and clinical trials, before decisions are made regarding their market introduction. Only 15 products have been launched, of which four key products contribute substantially to the company's revenue, as detailed below -

Giapride, a medication developed to improve gastrointestinal function, has been available in the market for the past two months. Despite the presence of alternative treatments, Giapride is witnessing growth in both market size and relative market share. Its competitive pricing compared to existing alternatives further strengthens its position in the market.

Lifedipine, a drug used in the treatment of heart disease, has been available in the market for two years and has achieved considerable success during this period. However, its sales have now stabilized, and no significant increase is expected in the coming years.

Combi-Relief, an analgesic introduced over a decade ago, has established itself as a leading medication in its category. In a few months, its patent is set to expire, allowing other companies to produce generic versions. It is expected that Combi-Relief will continue to be sold for approximately twelve months after patent expiration before being phased out of the market.

Immunol is a specialized medication used in hospital settings for the treatment of severe infections. It is not available for use outside hospitals through doctors or pharmacists. Introduced only three months ago, Immunol has not yet achieved significant sales.

Additionally, Niramaya Pharma Limited provides drug development services to drug manufacturers across India, including testing of new drugs in its laboratory located in Mumbai. For testing of one of its products Niramaya Pharma Limited on 1st April 2025 acquired a new machine under the following lease agreement -

- 5 Annual payments of ₹2,00,000 will be due, commencing 1st April 2025.
- The interest rate implicit in the lease is 8%.
- The present value of the lease payments is ₹8,62,400.

Medicines sold by Niramaya Pharma Limited attract Goods and Services Tax (GST) at prescribed rates depending on their category. Bulk drugs are taxed at the rate of 2.5% CGST and 2.5% SGST, or 5% IGST in case of inter-state supply. On the other hand, drug development services are liable to GST at the rate of 9% CGST and 9% SGST, or 18% IGST for inter-state transactions. In January 2026, Niramaya Pharma Limited undertook multiple transactions. The company received an advance of ₹4,22,500 for drug development services to be provided to Jonson Biotech Ltd., a drug manufacturer based in Mumbai; the services were rendered in February 2026 and the invoice was issued on 28th February 2026. An advance of ₹7,20,000 was also received for the supply of bulk drugs to ANZ Pharmaceuticals, a wholesale dealer located in Aurangabad, Maharashtra, with the invoice issued at the time of delivery in April 2026. During the month, bulk drugs worth ₹ 42,00,000 were supplied to wholesale dealers in Mumbai, while bulk drugs valued at ₹ 4,20,00,000 were exported under bond to Fizer Alberta Inc., Canada, with consideration received in

convertible foreign exchange. In addition, drug development services amounting to ₹ 14,20,000 were provided to Bi-Con Life Ltd., a drug manufacturer in Mumbai.

Further, bulk drug consignments were sent to ZYD Pharma Pvt. Ltd., the company's agent in Haryana, and Arvind Medicos, its agent in Uttar Pradesh, who supplied them to medical stores in their respective states for ₹ 41,00,000 and ₹ 14,00,000. Moreover, bulk drugs were supplied to Niramaya Healthcare Pvt. Ltd., a wholesale dealer in Aurangabad, Maharashtra, for a consideration of ₹14,00,000. Since Niramaya Pharma Limited holds 62.5% ownership in Niramaya Healthcare Pvt. Ltd., and the latter is not eligible for full Input Tax Credit (ITC), the transaction value is determined based on the open market value of ₹ 24,00,000.

Niramaya Pharma Limited has a board composed of seasoned professionals who are well-known figures in the pharmaceutical industry. Even its functional executives hold prominent positions in their respective fields; for instance, the CFO is a former President of the All India Chambers of Commerce and Industry (AICCI). The Board is also balanced in terms of gender representation. To further enhance independence and transparency, Niramaya has appointed both Non Executive and Independent Directors. Recently, Mr. Atul Gupta was appointed as the Independent Director of Niramaya Pharma Limited. He noted that the company is currently facing challenges related to the Inverted Duty Structure.

The directors of Niramaya Pharma Limited convene Board meetings approximately once a month to review the product portfolio and evaluate potential investment opportunities. To deliberate on the three investment proposals listed below, a Board meeting was scheduled on May 8, 2025, at 3:00 p.m. at the company's Registered Office in Nariman Point, Mumbai. However, no business could be conducted due to the absence of a quorum, resulting in the adjournment of the meeting. Considering the constraints on borrowing capacity, the three investment options are mutually exclusive. The options are as follows:

Option 1 - The Board of Directors may choose to invest in an enhanced version of Combi-Relief, termed Combi-Instant-Relief, which offers superior performance compared to the standard formulation. This strategic initiative will allow Niramaya Pharma Limited to file a new patent for Combi-Instant-Relief, thereby sustaining the sales levels achieved by Combi-Relief for an additional ten years. Combi-Instant-Relief has successfully completed all clinical trials and is ready for immediate market launch.

Option 2 - The directors may allocate resources to a major marketing campaign for Immunol, targeting specialist hospital staff. While this investment is expected to significantly boost Immunol's sales, Niramaya is aware that its competitor, Go-Well, is actively promoting a rival product with similar efficacy, which may affect the campaign's impact.

Option 3 - The Board may invest in the final phase of clinical trials for Sanjeevini, a groundbreaking injection used in cancer treatment. Sanjeevini demonstrates significantly higher success rates compared to existing therapies and is part of the innovative field of immunotherapy (Refer Annexure). Niramaya's specialists overseeing its development anticipate completing the trials within six months. They recommend pricing Sanjeevini as low as possible to maximize societal benefits, in line with the company's motto "Sarve Santu Niramaya". Nonetheless, the marketing team believes that, due to its efficacy and innovative status, substantial profits can also be generated. Cancer remains a critical health challenge in India (Refer Annexure).

Niramaya Pharma Limited is an IT-enthusiastic organization, consistently staying at the forefront of technological adoption. While the company previously relied on an external ERP solution, it has now implemented an in-house developed ERP system to ensure greater data privacy and control. This ERP comprises multiple integrated modules, including Vendor Management, Store, Accounts, Control, HRM, CRM, SCM, and BCP, all developed by Niramaya's experienced IT team. Access to each module requires a mandatory User-ID and Password, with the User-ID corresponding to the employee's ID, ensuring secure and controlled access to sensitive data. This robust IT framework directly supports the investment options under consideration by the Board. For Combi-Instant-Relief (Option 1), the ERP can manage production, inventory, and sales tracking efficiently for the newly patented product. In the case of Immunol (Option 2), the system can support targeted marketing campaigns and monitor hospital sales performance in real time. For Sanjeevini (Option 3), the ERP enables detailed tracking of clinical trial data, research documentation, and regulatory compliance, while safeguarding sensitive information critical for the success of this innovative therapy.

To fund the selected options out of three mentioned above; Niramaya Pharma Limited will issues ₹ 10 crore 5% loan notes on 1st April 2026, Incurring issue cost of 3%. These loan notes will be redeemable at premium, that would result in the effective rate of interest is 8% per annum. Niramaya is also considering option to borrow from US market because it has aspiration to go global in term of presence (by incorporating/ registering a subsidiary there and to open drug stores there); apart from an obvious reason that it is cheaper to borrow fund from US than borrowing in Indian Market.

Niramaya with valid FCRA registration receives ₹3 crore from a U.S.-based foundation to conduct free health awareness camps in rural India. Later, it transfers part of the funds to an unregistered NGO partner for community programs in violation of provision of FCRA and specifically the term and conditions of the certificate.

Annexure

Niramaya Pharma Raises Awareness on Early Cancer Detection and Immunotherapy

Mumbai, February 5, 2025 - In a proactive initiative on World Cancer Day, Niramaya Pharma Limited conducted an awareness drive emphasizing the importance of early cancer detection and innovative treatment options, including immunotherapy.

Between 2012 and 2022, India's population grew by 11.2%, while cancer incidence rose sharply by 36%, increasing from 1.01 million cases in 2012 to 1.38 million in 2022. Experts note that in India, one in nine individuals is likely to develop cancer in their lifetime, with lung and breast cancers being the most prevalent among males and females, respectively. Niramaya's campaign highlighted the critical need for early diagnosis and informed the public about modern treatment approaches, particularly immunotherapy. This cutting-edge treatment harnesses the patient's own immune system to identify and attack cancer cells, employing methods such as checkpoint inhibitors, vaccines, and CAR T-cell therapy. The awareness drive received widespread appreciation from the medical community, reinforcing Niramaya Pharma's commitment to societal health and its motto, "Serve Santu Niramaya" i.e., may all be free from illness.

Multiple Choice Question

1. What will be recorded in Niramaya's Financial Statements at 31st March 2027 in respect of the lease liability (Round off to nearest ₹ 10)?

Option	Finance Cost	Non-Current Liability	Current Liability
A	41,230	3,56,620	2,00,000
B	52,990	5,15,390	2,00,000
C	53,120	5,17,120	2,00,000
D	58,510	4,37,090	2,00,000

2. Mr. Atul Gupta was recently appointed as Independent Director of Niramaya Pharma Limited. He is likely to be part of Audit Committee. Choose the appropriate option from the list below concerning Mr. Atul Gupta's declaration of his independence in accordance with the relevant sections of the Companies Act, 2013, following his appointment as an Independent Director.
- (A) Mr. Atul Gupta is required to give declaration as to his independence on the first day of attending his office.
- (B) Mr. Atul Gupta must provide a declaration of his independence during the initial Board Meeting in which he serves as an independent director.
- (C) Mr. Atul Gupta is required to give declaration as to his independence within 30 days of his appointment as director.
- (D) Mr. Atul Gupta is required to give declaration as to his independence at the first meeting of Audit Committee in which he participates as independent Director.

3. With reference to use of loan notes - a financial instrument to raise fund, what will be the finance cost to be shown in the statement of profit or loss for the year ended 31st March 2028?
- (A) 82,40,000
 - (B) 77,60,000
 - (C) 79,80,800
 - (D) 80,00,000
4. In regard to financial statements generated by accounting module of ERP solution which is being used at Niramaya; the login is allowed only after punching User-ID and Password. The use of login credential ensures data integrity. What type of control it is?
- (A) Test Control
 - (B) Detective Control
 - (C) Preventive Control
 - (D) Application Control
5. From the case scenario, it is evident that Niramaya called a Board Meeting on 8th May, 2025, at 3:00 p.m. at its Registered Office at Nariman Point, Mumbai. Due to the lack of quorum, no business could be conducted, and the meeting was adjourned. Please select the appropriate date, time, and location for the rescheduled meeting, assuming there are no conflicting stipulations in the Articles of Association of Niramaya, given that May 15, 2025, has been designated as a public holiday.
- (A) The adjourned Board Meeting needs to be held on any day till 15th May, 2025, at 3:00 p.m. at the Registered Office of Niramaya at Nariman Point, Mumbai.
 - (B) The adjourned Board Meeting needs to be held on 14th May, 2025, at 3:00 p.m. at the Registered Office of Niramaya at Nariman Point, Mumbai.
 - (C) The adjourned Board Meeting needs to be held on 15th May, 2025, at 3:00 p.m. at the Registered Office of Niramaya at Nariman Point, Mumbai.
 - (D) The adjourned Board Meeting needs to be held on 16th May, 2025, at 3:00 p.m. at the Registered Office of Niramaya at Nariman Point, Mumbai
6. Since violation of the terms and conditions of the certificate issued under FCRA is a valid ground for cancellation of certificate, hence certificate of registration of Niramaya under FCRA is cancelled. Advice Niramaya, regarding furnishing afresh application for grant of registration under FCRA, which of the following option is correct;
- (A) Niramaya Pharma Limited will be allowed to register under FCRA at least after 5 years from date of default which caused cancellation of certificate
 - (B) Niramaya Pharma Limited will be allowed to register under FCRA at least after 3 years from date of default which caused cancellation of certificate
 - (C) Niramaya Pharma Limited will be allowed to register under FCRA at least after 5 years from date of cancellation of certificate
 - (D) Niramaya Pharma Limited will be allowed to register under FCRA at least after 3 years from date of cancellation of certificate

Descriptive Questions

7. APPLY the product life cycle model to product portfolio of Niramaya Pharma Limited and ANALYSE the balance therein; with detailing on current prominent 4 products.
8. EVALUATE the each of the three investment options that board of Niramaya Pharma Limited is considering along with potential impact thereof on the product portfolio of Niramaya Pharma Limited (without considering financing options).
9. DETERMINE the GST liability of Niramaya Pharma Limited for the month of January, 2026.

ANSWER**1. (A)**

Finance Cost	Non-Current Liability	Current Liability
41,230	3,56,620	2,00,000

Reason: Initial value of lease liability is the present value of lease payments ₹ 8,62,400.

Year	Balance b/f	Payment	Subtotal	Interest @ 8%	Balance c/f
2025-26	8,62,400	(2,00,000)	6,62,400	52,992	7,15,392
2026-27	7,15,392	(2,00,000)	5,15,392	41,231	5,56,623
2027-28	5,56,623	(2,00,000)	3,56,623		

The non-current liability at end of 2026-27 is the figure to be paid beyond 2027-28 i.e. ₹ 3,56,623 which is round off to ₹ 3,56,620.

The current liability is the total liability of ₹ 5,56,623 less the non-current liability of ₹ 3,56,623 which is ₹ 2,00,000.

The finance cost is the figure in the interest column for 2026-27 ₹ 41,231 which is round off to ₹ 41,230.

2. (B) Mr. Atul Gupta must provide a declaration of his independence during the initial Board Meeting in which he serves as an independent director.

Reason: Explanation - Section 149(7) of the Companies Act, 2013

Every independent director is required to declare at the initial Board meeting in which they participate, and subsequently at the first Board meeting of each financial year, or whenever there is a change in circumstances that may influence their status as an independent director, that they fulfil the independence criteria outlined in sub-section (6).

3. (C) ₹79,80,800

Reason: The loan notes should initially be recorded at their net proceeds, being the ₹10 crores raised less the 3% issue costs, giving ₹ 9.7 crores. This should then be held at amortised cost, taking the effective rate of interest to the statement of profit or loss. The annual payment will be the coupon rate, which will be $5\% \times ₹10 \text{ crores} = 50 \text{ lacs a year}$.

Applying this to an amortised cost table gives ₹ 79,80,800 as shown below.

Year	Balance b/f	Interest@8%	Coupon Payment	Balance c/f
2026-27	9,70,00,000	77,60,000	50,00,000	9,97,60,000
2027-28	9,97,60,000	79,80,800		

4. (C) Preventive control.

Reason: Explanation - Test control is not an standard audit term, instead it is test of control, which means any auditing procedure used to evaluate a company's internal controls. The aim of tests of control in auditing is to determine whether these internal controls are sufficient to detect or prevent risks of material misstatements.

Preventive controls help prevent things from going awry in the first place, hence preventive controls are designed to prevent issues or losses from occurring whereas detective controls are the second line of defence.

Application Control is the IT relevant term it restricts which applications users are allowed to run and the code that runs in the system core.

5. (D) The adjourned Board Meeting needs to be held on 16th May, 2025, at 3:00 p.m. at the Registered Office of Niramaya at Nariman Point, Mumbai.

Reason: According to Section 174(4) of the Companies Act 2013, if a Board meeting cannot be convened due to a lack of quorum, the meeting will automatically be adjourned to the same day and time in the following week, unless the company's articles specify otherwise. If that day falls on a national holiday, the meeting will be postponed to the next business day that is not a national holiday, at the same time and location.

6. (D) Niramaya Pharma Limited will be allowed to register under FCRA at least after 3 years from date of cancellation of certificate.

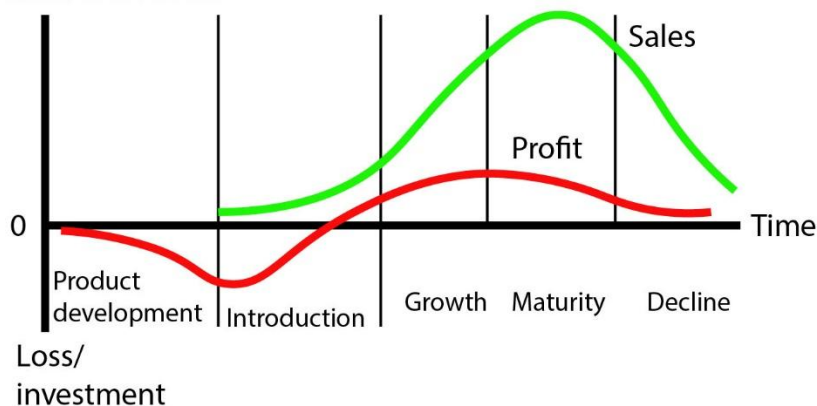
Reason: As per section 14(3) of the Foreign Contribution (Regulation) Act, 2010, Any person whose certificate has been cancelled under this section shall not be eligible for registration or grant of prior permission for a period of three years from the date of cancellation of such certificate.

Answer to the Descriptive Questions

7. The product life cycle model classifies products into four main phases Introduction, Growth, Maturity, and Decline. It is important here to note that above mentioned phases are based upon the marketing of the product. In reality, there is one additional phase which takes place prior to the introduction of the product to market i.e. product development phase (in which R&D related to product take place).

Typically, the product life model is used to evaluate the overall balance of firm's product portfolio in terms of growth (new products replacing those at the end of their life cycle), risk (having some stable low-risk products to offset other high-risk ones), cash flow (positive cash flows from some products can assist fund those that are currently cash negative), and resource requirements.

Sales and Profits



The model can be applied to Niramaya as follows:

The product development phase of the product life cycle includes the 132 medications that are in different phases of development, either being tested or going through clinical trials. Despite being a major financial burden on the entity, they are a necessary component of the portfolio since they replace older medications that have reached the end of their useful lives, ensuring the company's continued profitability.

Giapride and Immunol are presently in the advanced stages of the Introduction phase, as they have not yet witnessed substantial growth in sales revenue. At this stage, the products are still working toward achieving breakeven sales revenue, which implies that they will continue to consume the company's financial resources until the breakeven point is attained. This reflects the typical scenario of the introduction phase, where significant investments are required in product promotion, awareness, and distribution, while revenues remain insufficient to cover costs.

Lifedipine, a drug used in the treatment of heart disease, has been on the market for the past two years and has achieved considerable success. However, its sales have now stabilized and are not expected to grow further, indicating that the product has reached the maturity stage of its life cycle. Consequently, it is expected to generate steady net cash inflows that can be utilized to support other products in the portfolio that are currently operating at a loss (i.e., cash negative), rather than reinvesting in expanding Lifedipine's market presence. Nevertheless, while Lifedipine will continue to contribute cash, it is not expected to play a role in driving the company's future growth.

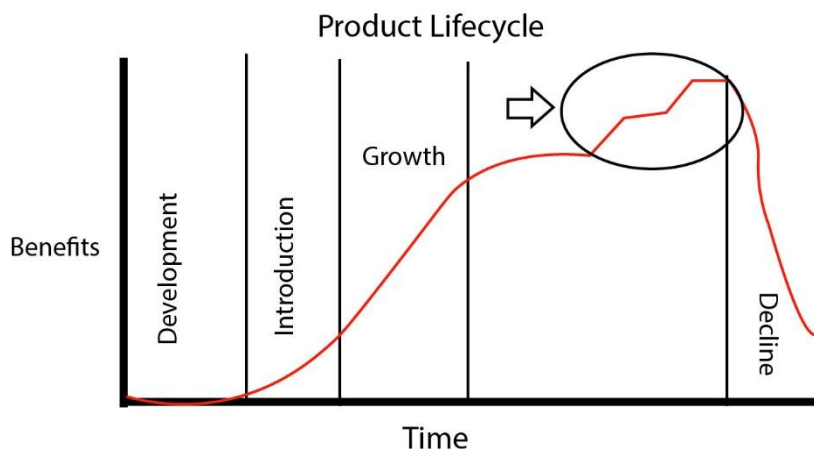
Combi-relief is nearing the end of its maturity phase and is expected to enter the decline phase within the next 12 months, coinciding with the expiry of its patent protection and the subsequent entry of generic alternatives into the market. At present, the product continues to generate positive cash flows, which can be leveraged to finance new product development. However, beyond the upcoming year, Combi-relief is unlikely to contribute meaningfully either to cash generation or to the company's future growth.

Overall, the portfolio demonstrates a satisfactory balance between future growth potential and cash flow generation. It is crucial that Giapride and Immunol achieve break-even, particularly cash break-even, in the coming years to contribute meaningfully to Niramaya's sales growth. Additionally, the successful transition of the remaining 132 medications, which are currently in various stages of development, from the development phase to market launch will be key to sustaining the company's long-term growth trajectory.

8. The three options will affect the portfolio as follows:

Option 1 - Combi-instant-relief

The Combi-instant-relief has successfully concluded its clinical trials and is prepared for market introduction. This development will effectively prolong the patent protection for Combi-relief by an additional 10 years, thereby averting its transition into the decline phase and extending the maturity phase.



This measure is intended to maintain a balanced portfolio with respect to cash flow, as the Combi-instant-relief will produce revenue to support other products within the portfolio. Additionally, it will mitigate (if not entirely; then reduce) portfolio risk since the sales revenue from Combi-instant-relief is expected to be more reliable than the projected returns from other products that are presently under initial phase.

Option 2 – Immunol

Allocating resources to a marketing campaign for Immunol has the potential to transition it into the growth phase, thereby enhancing the immediate growth prospects of the portfolio. However, the presence of a close substitute in the market increases the risks associated with Immunol, which could result in lower-than-expected growth and delay its breakeven point, as additional investments may be required to position Immunol competitively. In the short term, Immunol may place greater demands on the portfolio's cash flow rather than contributing to it.

Option 3 – Sanjeevini

If Sanjeevini successfully conclude the final clinical trials, it will swiftly transition from the development and launch phases into the growth stage. Anticipated demand is likely to drive significant growth, thereby enhancing the overall growth balance of the portfolio. Nevertheless, there is no assurance of Sanjeevini's success, making this the most precarious option available.

The effect on the total cash flow of the portfolio will be influenced, to a degree, by the established price and the resulting sales volumes. If Sanjeevini proves to be a revolutionary product, it is possible to achieve both a premium price (though intent is to keep the prices low due to social significance of product) and substantial sales volume; however, there exists a risk that certain resource-constrained nations may manufacture generic versions of the medication prior to the expiration of the patent or global patent can be obtained.

Recommendation

Overall, investing in Combi-Instant-Relief appears to be the most secure strategy for sustaining cash flow within the portfolio, while Sanjeevini offers the greatest potential for growth and long-term profitability. However, the intent is not to generate substantial profits through premium pricing, as this aligns with the social mission of "Sarve Santu Niramaya." Ultimately, the final decision will depend on the directors' risk tolerance and strategic priorities.

9. Total GST Liability for January 2026

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Advance received for drug development services (to be provided to Jonson Biotech Ltd., Mumbai)	38,025	38,025	Nil
Supply of bulk drugs to wholesale dealers in Mumbai	1,05,000	1,05,000	Nil
Bulk drugs supplied to Fizer Alberta Inc., Canada (Export of goods)	Nil	Nil	Nil
Supply of drug development services to BiCon Life Ltd., Mumbai	1,27,800	1,27,800	Nil
Supply of bulk drugs to consignment agents ZYD Pharma Pvt. Ltd. (Haryana) & Anvind Medicos (Uttar Pradesh)	Nil	Nil	2,47,500
Supply of bulk drugs to Niramaya Healthcare Pvt. Ltd. (Aurangabad, Maharashtra) (Related Party Transaction - Open Market Value ₹24,00,000 applied)	60,000	60,000	Nil
Total GST Liability for January 2026	3,30,825	3,30,825	2,47,500

Notes

1. Being an intra-State supply of services, supply of drug development services to Jonson Biotech Ltd. of Mumbai is subject to CGST and SGST @ 9% each.

Further, in terms of section 13(2) of the CGST Act, the time of supply of services is the earlier of the date of invoice or date of receipt of payment, if the invoice is issued within 30 days of the supply of service.

2. In the given case, invoice is issued within 30 days of the supply of service. Therefore, time of supply of services will be date of receipt of advance and hence, GST is payable on the advance received in January.

Being an intra-State supply of goods, supply of bulk drugs to ANZ Pharmaceuticals of Aurangabad, Maharashtra is subject to IGST @ 5%.

Further, in terms of section 12(2) of the CGST Act, the time of supply of goods is the earlier of the date of issue of invoice/last date on which the invoice is required to be issued or date of receipt of payment.

However, Notification No. 66/2017 CT dated 15.11.2017 specifies that time of supply of goods for the purpose of payment of tax is the date of issue of invoice/last date of issue of invoice.

Thus, GST is not payable at the time of receipt of advance against supply of goods. The time of supply of the advance received for bulk drugs to be supplied to ANZ Pharmaceuticals is the time of issue of invoice, which is in April. Thus, said advance will be taxed in April and not in January.

3. Being an intra-State supply of goods, supply of bulk drugs to wholesale dealers of drugs in Mumbai is subject to CGST and SGST @ 2.5 % each.
4. Section 2(5) of the IGST Act defines export of goods as taking goods out of India to a place outside India.

In view of the said definition, supply of the bulk drugs to Fizer Alberta Inc. of Canada under bond is export of goods.

Export of goods is a zero-rated supply [Section 16(1) of the IGST Act]. A zero-rated supply under bond is made without payment of integrated tax [Section 16(3)(a) of IGST Act].

5. Being an intra-State supply of services, supply of drug development services to Bi-Con Life Ltd. of Mumbai is subject to CGST and SGST @ 9% each.
6. Value of supply of goods made through an agent is determined as per rule 29 of the CGST Rules. Accordingly, the value of supply of goods between the principal and his agent is the open market value of the goods being supplied, or at the option of the supplier, is 90% of the price charged for the supply of goods of like kind and quality by the recipient to his unrelated customer, where the goods are intended for further supply by the said recipient.

In the given case, since open market value is not available, value of bulk drugs supplied to consignment agents - ZYD Pharma Pvt. Ltd. and Arvind Medicos - will be ₹ 49,50,000 [90% of (₹ 41,00,000 + ₹ 14,00,000)].

Further, being an inter-State supply of goods, supply of bulk drugs to the consignment agents is subject to IGST @ 5%.

7. If any person directly or indirectly controls another person, such persons are deemed as related persons. [Clause (a)(v) of explanation to section 15 of the CGST Act].

In the given case, since Niramaya Pharma Ltd. owns 62.5% shares of Niramaya Healthcare Pvt. Ltd., both are related persons.

Value of supply of goods between related persons (other than through an agent) is determined as per rule 28 of the CGST Rules.

Accordingly, the value of supply of goods between related persons is the open market value of such goods and not the invoice value.

Furthermore, since Niramaya Health care Pvt. Ltd is not eligible for full input tax credit, value declared in the invoice cannot be deemed to be the open market value of the goods. Thus, open market value of the bulk drugs supplied to Niramaya Healthcare Pvt. Ltd., i.e. ₹24,00,000 is the value of supply of such goods.

Further, being an intra-State supply of goods, supply of bulk drugs to Niramaya Healthcare Pvt. Ltd., is subject to CGST and SGST @ 2.5 % each.

Project Mangala Vilas

Naresh Mehta and Hiral Gangwani are civil engineers who established a partnership firm (not LLP) New Home Constructions (NHC). Based in Vadodara, Gujarat, their first project "Mangala Vilas" is a gated community that exclusively houses senior citizens. The project location is on the outskirts of Vadodara, almost 18 kilometers from the city. It will be housed in 2 buildings with 30 flats in total. Each will be a 2 -bedroom flat, with amenities to suit the needs of senior citizens, like anti-slip flooring, emergency alarms connected to security, clinic and ambulance facility, wide staircase, lighting etc. The construction and utilities are being offered keeping in mind those challenges that senior citizens generally encounter with advancing age. This is a unique project in Vadodara as there is no other housing development for senior citizens in the city. The project is advertised as "Enjoy your sunset years in the lap of nature!"

Pre-launch bookings opened in January 2023. Each unit is priced at ₹ 30 lakh, with 10% special discounts being given to the pre-launch customers. Being their very first project, without having prior track record as well as due to the unique nature of the project itself, customer response has not been very enthusiastic during the pre-launch sales. People were not willing to trust a start up in the real estate sector.

Cost management in pre-launch phase of Project Mangala Vilas

Being their first venture, the partners have sought the help of financial advisor, Vikrant Soni its since inception. Vikrant Soni is a certified management accountant, who runs his own consultancy V S Advisory Services (VSAS). Given the tepid response from the customers, the partners are worried about the profitability of their venture. Refer to Annexure 1, for his email advising Naresh and Hiral on cost management during this phase.

Following Vikrant's advice Naresh was keen to immediately make requisite changes to the blueprint. Hiral was hesitant to make immediate changes and wants to wait until the construction phase begins. It is when construction is underway that majority of the costs are going to be actually incurred. Therefore, she wishes to wait for actual construction to begin before making any changes to the current blueprint. On January 28th, 2023, they approach Vikrant once more to resolve their difference on when to make changes to the project's blueprint. After finalizing all the details, regulatory approvals were received, and construction began in April 2023.

Cost management in under-construction phase of Project Mangala Vilas

From April 2023 onward, construction of project "Mangala Vilas" started in full swing. Bookings for the project slowly gained traction, few flats were sold by end of FY 2023-24. In the next few months, due to word of mouth and aggressive advertising, many more flats sold over a period of time were in FY 2024-25 and FY 2025-26. Construction was completed in March 2025.

In order to maintain the costs, the partners on the advice of Vikrant Soni, have started maintaining detailed cost records. Each month NHC compared the actual costs incurred with the budgets. At the beginning of each year, the partners have drawn up detailed budgets, especially for materials, labour and overhead costs. On comparing actual vs budgets, where there has been an adverse variance, costs are regulated in order to meet the budget. For example, where the partners find that during the month the actual costs of materials like cement, bricks etc. have been more than budgeted, they change the quantity / quality of the material used in order to remain within the budget. Similarly, cheaper labour was used, when possible, in order to manage the costs. Hence, the budget standards that NHC sets for the year were rigorously maintained and actual costs were regulated by managing the process with cheaper alternatives when necessary. At times, the quality of the work was slightly compromised in order to remain within budgetary constraints.

As part of the regulations, NHC had to periodically get certifications from appropriate authorities for conformance to quality standards. Despite this, after taking possession of the flat, there were few customer complaints about non-conformance to quality. In some genuine cases, NHC had to do some rework in order to match the quality standard it had committed to deliver.

Income of partnership firm from the financial years 2023-24 to 2025-26

NHC hired tax advisors Chand Associates, to file its income tax returns. Since FY 2023-24, NHC has opted to declare its income according to presumptive taxation provisions contained in the Income Tax Act. Refer to Annexure 2 for details about the turnover and income offered for taxation from FY 2023-24 to FY 2025-26.

Expansion plans to launch Project Happy Years

By the year FY 2026-27, the market is now more aware of the concept of senior citizen communities. Demand for such houses has been picking up in the last one year. During the course of FY 2026-27, most of the flats of Project Mangala Vilas were getting sold out. Therefore, NHC now plans to launch Project Happy Years in another area of Vadodara. The project would be for 80 flats to be constructed at an estimated cost of ₹ 40 crores.

NHC started construction of Project Happy Years and incurred some expenses towards it during FY 2026-27. These were incurred from borrowings that NHC had taken for the firm as a general (refer to Annexure 3 for further details). As part of this project, NHC has placed an order for the New Crane [LTM 0150-5.2E] with W Wagen, a German firm. The delivery of Crane is expected after three months. W Wagen has quoted rate of € 42,500. It is anticipated that the exchange rate will appreciate by 4% over the three months period and in order to protect the euro payments after three months, Finance manager of the NHC has decided to hedge the risk involved in foreign currency transaction. He is looking forward to two options to hedge the transaction risk i.e. either Forward cover or Money market cover. The relevant spot and forward rates are:

	Spot	3 month's Forward
₹ /€	90.15/90.50	92.20/92.60

The borrowing rates in India and Germany are 8% and 5.5% respectively and deposit rates are 6.5% and 4% respectively.

Agreement with Sunrise Apartments, Vadodara regarding Project Happy Years

While constructing the apartments at Project Happy Years in Vadodara, NHC received a request from Sunrise Builders, who were also constructing a separate housing project next to NHC's construction. NHC had the approval from Vadodara municipality to build 10 floors of apartments. However, if 10 floors were to be constructed, many of the apartments within the housing project Sunrise Apartments would not get proper lighting into their flats. Sunrise Apartments are luxury houses, for which the natural surroundings and aesthetics need to be maintained in order to attract buyers. So, after some discussion, both builders NHC and Sunrise Builders reached an agreement that NHC would build only 8 floor apartments instead of 10. For this Sunrise Builders would compensate NHC by paying them ₹ 2 crores for refraining them from building up to 10 floors. NHC agreed to the request. As per the agreement, NHC received the compensation of ₹ 40 lakh in December 2026 from Sunrise Builders.

Due to the special features added to the flats and living spaces within the community, both Project Mangala Vilas and Project Happy Years aim to specifically enhance the quality of living of senior citizens. Many of these features cannot be found in housing communities that are built for people of every age group. This makes the business model of NHC unique.

Annexure 1

January 25th, 2023 email

Vikrant Soni/ Certified Management Accountant, VSAS

From: "Vikrant Soni"; vikrants@vsas.com

Sent: 25th January, 2023

To: "Naresh Mehta"nareshm@nhc.com; "Hiral Gangwani"hiralg@nhc.com

Cc:

Subject: Cost management for Project Mangala Vilas

Date: 25th January, 2023

Naresh and Hiral,

Let me summarize the details of our telephone conversation that we had yesterday.

You have prepared the blueprint design for your flats based on which the construction will begin. Almost 80% of your construction costs get committed at this stage. Until date, no flats have been booked since the start of your pre-launch sales. This being your first venture, customers are wary of making any booking since you do not have any prior track record. You do expect low demand for the flats until construction begins, by which time all regulatory approvals would have been obtained. You plan to start your construction in April 2023.

You would like to earn a profit of ₹ 2.4 lakhs per flat (8% of the gross sale value per flat). Due to the uniqueness of the concept of senior citizens living, which is yet to find acceptance within society, you will be unable to charge higher than ₹ 30 lakh per flat. Gaining traction for sales will take some time. At the same time, you are facing margin pressure due to rise in material and labor costs on account of inflation.

I suggest that you re-look at the blueprint design for the flat before you even approach for regulatory approvals. Based on your expertise, find out which features can be modified or completely eliminated in order to reduce costs. Keeping in mind the needs of your target customers, being senior citizens, certain features like anti-slip flooring, emergency alarms, clinic and ambulance facilities, wide staircase, lighting etc. may be essential features. At the same time, there may be other features such as size of balconies, closets, designer features on walls etc. which can be compromised or eliminated altogether. The key is to identify non-essential or wasteful features that can be modified or eliminated without adversely affecting the flat's utility and customers' expectations. This will help you reduce costs, maintain the demand for flats and achieve your profit targets.

Hope this gives a broad approach you can take to achieve your expected profits. Please do revert for clarification.

With regards,

Vikrant

Annexure 2

Turnover and income offered for taxation from FY 2023-24 to FY 2025-26

Below are details of the turnover of the firm and the amounts collected for the financial years 2023-24 to 2025-26.

Particulars	FY 2023-24	FY 2024-25	FY 2025-26
Total turnover (₹)	98,00,000	1,90,00,000	2,00,00,000
Amount received through prescribed electronic modes (on or before due date of filing return)	95,00,000	1,85,00,000	1,95,00,000
Income offered for taxation	₹ 5,94,000	₹ 11,50,000	₹ 10,00,000

From the financial year 2023-24 onwards, NHC has opted to offer income as per presumptive taxation scheme for which it is eligible under the Income Tax Act, 1961.

Annexure 3

Expenses incurred for Project Happy Years and details of general borrowings by NHC

NHC had incurred expense of ₹ 5 crores on July 1st, 2026 and further expense of ₹ 5 crores on 1st December 2026. The details of general borrowings by NHC and interest payment thereon are:

Particulars	Average Balance ₹ crores	Interest ₹ crores
Long term loan @10%	10	1
Working capital loan	5	0.3
Total	15	1.3

I. Multiple Choice Questions

1. Would the compensation of ₹ 40 lakh paid by Sunrise Builders to NHC to refrain them from building upto 10 floors in their Vadodara project be considered as supply of service? Choose the most appropriate answer.
- (a) No, NHC is not supplying anything to Sunrise Builders since there is no sale transaction between them.
 - (b) No, NHC is not supply anything to Sunrise Builders since it is only a mutual agreement between the two builders which is not covered under GST.
 - (c) Yes, NHC is supplying a service to Sunrise Builders since it is refraining to act by constructing only 8 floors instead of 10.
 - (d) Yes, NHC is supplying a service as it is entering into a non-compete agreement with Sunrise Builders since it is building only 8 floors instead of 10 floors.
2. For FY 2026-27, how much would be the approximate borrowing costs that needs to be capitalized towards Project Happy Years?
- (a) 1.4 crores
 - (b) 1 crores
 - (c) 0.65025 crores
 - (d) 0.469625 crores

3. Based on the evolution of NHC's business, match the phase of business to the stages of growth

Sr. No.	Phase of business	Sr. No.	Stage of growth
I	Inception of NHC	A	Product-market FIT
II	Launch of Project Mangala Vilas	B	Problem-solution FIT
III	Launch of Project Happy Years	C	Scale-FIT

- (a) I-B; II-A; III- C
 - (b) I-A; II-B; III-C
 - (c) I-C; II-B; III-A
 - (d) I-A; II-C; III- B
4. While assessing the cost of quality of the work at Project Mangala Vilas, which of the following is true?
- (a) Costs incurred to get periodic certifications from appropriate authorities is preventive costs while rework done by NHC to address the complaints of some of the customers post possession of the flat at Project Mangala Vilas is external failure costs
 - (b) Costs incurred to get periodic certifications from appropriate authorities and rework done by NHC to address the complaints of some of the customers post possession of the flat at Project Mangala Vilas are preventive failure costs
 - (c) Costs incurred to get periodic certifications from appropriate authorities and rework done by NHC to address the complaints of some of the customers post possession of the flat at Project Mangala Vilas are external failure costs
 - (d) Costs incurred to get periodic certifications from appropriate authorities is appraisal costs while rework done by NHC to address the complaints of some of the customers post possession of the flat at Project Mangala Vilas is external failure costs

5. The business model of NHC can be best described as:

- (a) Access over ownership model
- (b) Experience model
- (c) On Demand model
- (d) Hyper market model

(5 × 2 = 10 Marks)

II. Descriptive Questions

6. (a) In January 2023, with the view to advising the partners of NHC to maximize their profitability from Project "Mangala Vilas", whose approach should Vikrant support regarding changes to be made to the project blue-print design? Give reasons (analyse). **(2 Marks)**

(b) Is there a difference in the approach to Vikrant's advice regarding cost management during the pre-launch and under construction phases of the project? If so, please elaborate (analyse). **(2 Marks)**

7. Considering the provisions of presumptive taxation that NHC is entitled to -

(a) Assess whether NHC is offering the minimum income for taxation for the financial years 2023-24, 2024-25 and 2025-26. **(2 Marks)**

(b) For FY 2025-26, are there any additional requirements that NHC has to adhere to in-order to comply with the provisions of the presumptive taxation section? **(2 Marks)**

(c) After filing its return for FY 2025-26, can NHC continue to offer its income as per the presumptive taxation section in the future years? Give reasons. **(2 Marks)**

8. ADVISE the company whether it should adopt forward cover or money market cover? Under what circumstances, money market hedge is advantageous to forward hedge? **(5 Marks)**

ANSWERS

I. Answers to the Multiple Choice Questions

1. **The correct answer is (c)** Yes, NHC is supplying a service to Sunrise Apartments since it is refraining to act by constructing only 8 floors instead of 10.

Reason: "Agreeing to the obligation to refrain from an act or to tolerate an act or a situation, or to do an act" has been specifically declared to be a supply of service in para 5(e) of Schedule II of the CGST Act, 2017 if the same constitutes a "supply" within the meaning of the CGST Act, 2017.

Here NHC is refraining from building 10 floors in order to not affect the lighting and aesthetics of Sunrise Apartments. Since it agreed to refrain from acting on something even though it was authorized to do by the municipality, Sunrise Builders is paying a compensation of ₹40 lakhs to NHC. As explained above, this will be considered as supply of service under GST.

2. **The correct answer is (d)** Total interest to be capitalized towards Project Happy Years would be ₹ 0.469625 crores i.e. ₹ 46,96,250.

Reason: As per Ind AS 23, the capitalization rate is calculated as

Total borrowing costs / weighted average total borrowings = 1.3 crores / 15 crores = 8.67%

For FY 2026-27, Interest would be capitalized as on ₹ 5 crores incurred on July 1, 2026 (9 months) = ₹5 crores × 8.67% × 9/12 = 0.325125 crores on ₹5 crores incurred on December 1, 2026 (4 months) = ₹5 crores × 8.67% × 4/12 = 0.1445 crores

Therefore, total interest to be capitalized towards Project Happy Years would be ₹0.469625 crores.

3. **The correct answer is (a)** I-B; II-A; III- C

Reason: Inception of NHC is the problem-solution FIT stage of growth. The partners Naresh and Hiral have a vision and conceptualized the idea of a senior citizens community living. Their target customers would be senior citizens who are in need of flats that are friendly for the challenges faced by the aged. By including special features like anti-slip flooring, emergency alarms, wider staircase etc. NHC aims to resolve some of the needs of these customers.

Launch of Project Mangala Vilas is the product-market FIT stage. By getting regulatory approvals and launching the product, NHC has shown commitment to offer its product for customer validation.

Launch of Project Happy Years is the Scale-FIT stage of business. Project Mangala Vilas got customer validation as during the course of FY 2026-27, most the flats were getting sold out. Therefore, NHC decided to scale up and offer a bigger project Happy Years. This establishes its growth phase, where they are aiming to cater to larger customer base and increase their profitability. It has started showing the potential to grow from a start up business to a potential unicorn.

4. **The correct answer is (d)** Costs incurred to get periodic certifications from appropriate authorities is appraisal costs while rework done by NHC to address the complaints of some of the customers post possession of the flat at Project Mangala Vilas is external failure costs.

Reason: Appraisal costs are incurred to ensure conformance of quality standards is met. These are costs associated with measuring and monitoring activities related to quality. As per the regulations, NHC is getting external certifications about the quality of its work from appropriate authorities. This outside certification is an example of appraisal costs.

External failure costs are incurred to remediate defects discovered by customers. Therefore, the cost of rework incurred to address the complaints of some of the customers post possession of the flat is an example of external failure costs.

5. The correct answer is (b) Experience model.

Reason: NHC is offering a product whose features elevate the value of flat and community living for senior citizen customers. This experience would make it difficult for its customers to transition back to regular housing communities that have been constructed for people of all age groups.

II. Answers to the Descriptive Questions

6. (a) Naresh proposes that the changes to the blue-print design of the flat be made immediately during the pre-launch period. As stated in the case study, almost 80% of the construction costs get committed once the blueprint is finalized. Since designing is the preliminary phase, the impact of cost-reduction will be felt throughout the life of the project. Since regulatory approvals are not yet in place, actual costs are not yet incurred, the ease of making changes is much easier at the pre-launch phase. The costs are only being committed at this stage and can be easily modified to match the target profitability.

Construction of the project will be based on regulatory approvals. Once construction begins, the costs will actually be incurred. Hiral wishes to make changes to the blueprint only when the construction is underway, when the actual costs are being incurred. However, at this stage, any change to the blue-print design will require modification to the approved flat's design and existing operating processes. Therefore, change in design may require regulatory reapproval or change in supplier / process for which other additional costs will need to be incurred. This will add to the cost outflow. Therefore, the ease of making changes during construction is reduced and may adversely impact profitability.

Therefore, Vikrant should support Naresh's proposal to make immediate changes to the blueprint design of the flat during the pre-launch phase itself. This will assist NHC to achieve profitability targets with least hassle.

- (b) During the pre-launch phase, Vikrant had suggested a change in the blueprint design of the flat that will eliminate or modify any unnecessary features of the flat. This is a dynamic process since it involves a complete re-look into the design features that have a long term impact. This will help optimize costs and improve profitability. This needs to be done without any impact on the quality and unique characteristics of the flat. Changes to the blueprint will result in permanent and real reduction in savings that will positively impact profitability. These changes are not based on any budget standards that need to be met. Yet, the cost reductions made at this stage aid in improving the profitability of the project. The focus at this stage is largely on the future costs likely to be incurred to complete the project. The idea is to modify the flat's design in order to achieve permanent cost reduction that will improve the project's profitability.

During the construction phase, Vikrant had suggested cost management by putting in place a budgetary costs management system in place. Actual costs incurred were compared with the benchmark budget standards. Here costs were being controlled rather than being reduced. Where negative deviations were predicted, cheaper substitutes of materials, labour and overhead were adopted in order to remain within the budget. This at times was being done by slightly compromising on the quality of work. Unlike the cost reduction method followed at the pre-launch phase, these control measures were temporary remedial steps taken to achieve budget targets.

Both cost reduction and cost control approach to cost management were required to be followed in order to achieve the target profitability. At the initial stage Vikrant's advise for cost reduction focuses on long term future costs. During the construction stage, Vikrant's advise for cost control shifts the focus on costs as they were actually being incurred. Both approaches were needed to be adopted to have an effective cost management system that should not have a material adverse impact on quality or customer expectations.

7. (a) Analysis of whether NHC has offered the minimum income for taxation for the financial years 2023-24, 2024-25 and 2025-26 in accordance with the section 44AD.

NHC is a partnership firm that does construction business. It's turnover does not exceed ₹ 2 crore in all the three years and hence is eligible for presumptive taxation scheme u/s 44AD of the Income Tax Act, 1961.

Therefore, the minimum income that NHC needs to offer under section 44AD would be: 6% of the turnover received through prescribed electronic modes on or before due date of filing return) plus 8% of the remaining turnover.

Particulars	FY 2023-24	FY 2024-25	FY 2025-26
Total turnover (₹)	98,00,000	1,90,00,000	2,00,00,000
Amount received through prescribed electronic modes (on or before due date of filing return)	95,00,000	1,85,00,000	1,95,00,000
Income offered for taxation	₹ 5,94,000	₹11,50,000	₹10,00,000
% of gross receipts	6% on ₹ 95,00,000 and 8% on ₹ 3,00,000	6% on ₹ 1,85,00,000 and 8% on ₹ 5,00,000	5% on ₹ 2,00,00,000
Offered income as per presumptive taxation u/s 44AD	Yes	Yes	No

As per section 44AD, NHC should have offered ₹ 12,10,000 i.e., 6% on ₹ 1,95,00,000 and 8% on ₹ 5,00,000 as income for taxation for FY 2025-26. However, it is offering only ₹ 10,00,000 for FY 2025-26. Therefore, considering the provisions of section 44 AD, NHC has not offered the minimum income required for FY 2025-26.

- (b) For FY 2025-26, NHC offers only 5% of the total turnover that is ₹ 10,00,000 instead of the minimum of ₹ 12,10,000 as prescribed u/s 44 AD. NHC should therefore maintain books of accounts as per section 44AA and get them audited under section 44AB.
- (c) Since NHC has not offered income in accordance with the provisions of section 44AD(1) for five successive consecutive years (i.e., from AY 2025-26 to AY 2029-30, it will not be eligible to claim the benefit u/s 44AD for next five succeeding assessment years i.e. from AY 2027-28 to AY 2031-32 (relevant to financial years 2026-27 to 2030-31)

8. Amount Payable under Forward Cover ($€42,500 \times ₹92.60$) ₹ 39,35,500

Money Market Hedge

To pay € after 3 months' company shall requires to borrow in ₹ and translate to € and then deposit in €.

For payment of €42,500 in 3 months @ 4.00% interest p.a. the amount required to be deposited now ($€ 42,500/1.01$) = € 42,079.21

With spot rate of 90.50 the ₹ loan needed will be = ₹38,08,168.50

Loan repayable after 3 months @ 8.00% p.a. interest will be ₹ 38,08,168.50 (1.02) = ₹ 38,84,331.87

Net Benefit = ₹39,35,500 – ₹38,84,331.87 = ₹51,168.13

In this case the money market hedge is a cheaper option.

Money market hedge is advantageous to forward cover as under:

- (i) When forward contracts are not available or forward rates are not attractive.
- (ii) As soon as we create money market hedge, we fix the future rate. This eliminates downside risk due to adverse exchange rate movements.
- (iii) It is more flexible if we consider the amount to be covered.

Case Study- 228

Icy Foods Limited (IFL) is a company trading in FMCG goods, with its headquarters in Lucknow, Uttar Pradesh. The company was incorporated on 1st April 2021. The product portfolio comprises of three items (i) packaged frozen foods (ii) ice creams and (iii) chips and crisps. The company purchases these goods from various manufacturers and sells them through their retail stores. In addition to Lucknow, IFL has its presence in Kanpur, Ayodhya, Agra and Mathura. In each of these cities it has a large store from where it distributes its products directly to the customers. In all, the company operates 5 large stores across Uttar Pradesh.

Business Operations

IFL has a centralized warehouse in Lucknow, from where it replenishes stock in the stores as per the requisition raised by each of them. Frozen foods and ice cream need to be refrigerated at all times, whether they are stored in the warehouse, retail stores or during transport. Chips and crisps are stored at room temperature. Therefore, there are two types of vans for transport of goods, normal for chips and crisps and refrigerated for frozen foods and ice creams.

The company has a simple pricing policy. Frozen foods sell for ₹90 per unit, Chips and crisps for ₹50 per unit and ice creams for ₹90 per unit. The purchase cost per unit for frozen foods is ₹80 per unit, chips and crisps is ₹40 per unit and ice creams is ₹80 per unit. IFL's management has been satisfied with this pricing since the overall profits of the company have always met expectations. For FY 2024-25, the company earned an overall profit of ₹45 crores.

Kailash Bhandari is the Chief Executive Officer (CEO) of the company. Although the target profit margin is being achieved, he would like a proper analysis of the profit per unit of the product sold. He requests his finance analyst Devang Mehta to look into it. Devang Mehta collates information based on the company's information systems (Refer to Annexure 1 for the relevant information). However, given the available information, he is puzzled about how to arrive at the profit per unit of the product sold.

Discount vouchers and seasonal promotions

The customer base of IFL includes hotels and restaurants that purchase products in bulk. As part of its summer sales promotion campaign, IFL plans to offer a 10% discount on all sales made over the next 30 days. This discount cannot be clubbed with the special discount vouchers that IFL occasionally provides to customers on bulk purchases. These vouchers are valid for a limited period and allow customers to make future purchases at discounted prices.

On May 1, 2025, Hotel Paradise (Lucknow) placed a bulk order for 100 cartons of frozen foods. The contract value amounted to ₹45,000 (5 units per carton × 100 cartons × ₹ 90 per unit). Under this contract, IFL issued a special discount voucher - Code XWUVB17243 - to Hotel Paradise. Based on past trends, IFL estimates an 80% probability that Hotel Paradise will make an additional single purchase of goods worth ₹37,500 by May 30, 2025. (Refer to Annexure 2 for details of the invoice issued on May 1, 2025.)

Dilip Sarkar, Assistant Manager - Accounts at IFL's Lucknow office, has been asked to examine whether the bulk sale to Hotel Paradise has been recognised appropriately in accordance with the applicable Indian Accounting Standards.

Management of IFL has not undertaken the physical verification of inventories at regular intervals. Inventories constitute 40% of the total assets of the company. Due to nonmaintenance of adequate inventory records at the factory, the audit team of M/s Ford & Rodes could not undertake the physical verification of inventory. As a result, the value of inventory as on 31st March 2025 could not be verified.

Responding to threat from quick-commerce business

In recent years, the quick-commerce sector has significantly reshaped India's retail ecosystem. Customers place orders online through quick-commerce platforms and make upfront payments. Depending on their location, they may also pay delivery fees for doorstep delivery. These companies operate "dark warehouses" across multiple city locations—typically in densely populated urban areas where order volumes remain high throughout the day. Once an order is placed, the warehouse initiates the fulfilment cycle, including order acceptance, picking, packing, and rapid delivery—often within 15 to 20 minutes from the time of order.

Following the COVID-19 pandemic, the accelerated adoption of digital technologies and the growing customer preference for quick delivery have strengthened the shift toward quick commerce and away from traditional in-store shopping. This trend has begun to challenge companies like IFL. Given that its profit margins are under pressure, IFL can offer deep discounts only on large bulk orders, not on frequent small-value orders.

Meanwhile, recent reports have highlighted concerns over the quality of goods delivered through quick-commerce platforms. (Refer to Annexure 3 for details of a recent food safety raid conducted at dark stores operated by Zing Zong Limited.) After reviewing the news report, Kailash Bhandari resolved to enhance the in-store shopping experience for IFL's customers, with the aim of countering the competitive threat posed by quick-commerce companies. He has invited suggestions from employees on how this initiative can be implemented.

Kailash Bhandari recognizes that quick-commerce and e-commerce business models are here to stay. Over the long term, IFL cannot continue as a trading company offering a limited product range. However, until a viable strategic path for business expansion is identified, he believes it is prudent to continue running IFL's existing operations, which still generate reasonable, though gradually declining profit margins.

Political contributions

Kailash Bhandari had intended to donate to a reputed political party on April 10, 2021, to honor the party's 50th anniversary. He believed that such a contribution could help build connections beneficial for the company's business growth. At that time, however, Miss Niraja Rai, the Company Secretary, informed him that political contributions were not permitted for the company.

On October 15, 2025, Kailash Bhandari convened a meeting of the company's senior management. During the discussion, he casually remarked that IFL could benefit by making a donation to the same political party in the coming months, especially since elections were approaching. The party had promised initiatives such as decongesting roads and improving traffic management, thereby enhancing ease of commute for the public. In light of the Business Pulse news report (Annexure 3), Kailash believed that these improvements could increase footfalls at IFL's outlets. Customers would be more inclined to visit stores offering good-quality products and a personalized shopping experience. Therefore, he expressed that making a contribution to the party would be advantageous for the company.

This time, Niraja Rai informed him that such contributions were now permissible for the company. Kailash was annoyed at her, as she had previously stated in April 2021 that similar contributions were not allowed, and he felt she was contradicting her earlier stance. In response, Niraja clarified that both opinions - then and now - were fully in compliance with the Companies Act, 2013.

Hearing this, Kailash turned to Devang Mehta, also a Chartered Accountant, and asked whether there would be any tax implications under the Income Tax Act, 1961 regarding such payments. The plan was for IFL to pay ₹5,00,000 on January 30, 2026, for an advertisement published in a souvenir issued by the political party, through an account payee cheque, to be recorded as advertisement expenses. A second payment of ₹ 1,00,000 was proposed on March 10, 2026, in cash for a similar advertisement, also to be recorded as advertisement expenses.

Devang gave his professional opinion on the tax implications of these payments. Based on his inputs, Kailash Bhandari revised the proposed contributions to ensure that IFL obtained the maximum permissible benefits under the Income Tax Act, 1961.

Annexure 1: Information collated from IFL's information systems

Cost per month

	₹	Total ₹
Warehouse related costs		
Labour and staff costs	7,50,000	34,50,000
Refrigeration costs	22,50,000	
Material handling costs	4,50,000	
Head office related costs		
Salaries and wages of head office staff	9,00,000	25,00,000
Office administration costs	16,00,000	
Cost incurred at retail store location		
Labour related costs	5,00,000	25,00,000
Refrigeration costs	17,50,000	
Other costs	2,50,000	

Average transportation cost of IFL per trip to any retail store

	₹
Normal van	1,20,000
Refrigerated van	1,50,000

Additional Information (average for any retail store)

	Meter cube (m ³)
Total volume of all goods sold per month	5,00,000
Total volume of refrigerated goods sold per month	4,00,000
Carrying volume of each van	1,000

Retail store information

	Frozen food	Chips & crisps	Ice cream
No. of cartons per cubic meter (m ³)	10	30	50
No. of items per carton (units)	5	10	20
Time in warehouse (in months)	1	1.5	0.1
Time in retail stores (in months)	1	2	0.1
Selling price per unit (₹)	90	50	90
Purchase price per unit (₹)	80	40	80

Annexure 2: Invoice details of sale to Hotel Paradise on May 1, 2025

Date: May 1, 2025

Seller:

Icy Foods Limited

234 A, 2nd Floor, Shopping Towers,

Indra Nagar, Lucknow-100100

GSTIN: 12ABCDE3456E7FG

Customer support: 0522-12345678

email: IFL12345678@ifl.co.in

Recipient:

Hotel Paradise

4th Floor, Dreams Shopping Mall,

Gomti Nagar, Lucknow – 100101

GSTIN: 98ZYXWV76543U2TS

Mobile: 1234567890

Order Number: 2025051002

Sr. No.	Item Details	HSN Code	Item Quantity	Unit Price ₹	Discount	Net Price ₹	Tax amount	Total ₹
1	Frozen Foods	030 × 72200	100 cartons	450 per carton	NIL	45,000	2,250	47,250
	Total							47,250

Tax Summary:

HSN Code	CGST Rate	CGST ₹	SGST Rate	SGST ₹	Total Tax ₹
030 × 72200	2.5%	1,125	2.5%	1,125	2,250
Total tax					2,250

Use Voucher Code XWUVB17243 to avail of 40% on all purchases upto ₹45,000 within 30 days from date of sale.

Thank you for shopping with us.

For Icy Foods Limited

Anant Mahant

Authorized Signatory

Note that the invoice is representational, actual invoice format and details could differ to meet tax and other regulatory requirements as applicable.

Annexure 3: Dark truth about "dark warehouses"

Zing Zong's Dark Stores Raided: Food Safety Officials Suspend License Over Unhygienic Conditions

Lucknow, 15th July 2025 - For several months now, customers have repeatedly raised concerns regarding the inferior quality of goods supplied by the popular quick-commerce company, Zing Zong Limited. Complaints include frequent errors in order fulfilment as well as delivery of substandard and even expired products. These issues are especially alarming when they involve consumables such as food items, where compromised quality can have serious health implications.

Acting on these concerns, food safety officials conducted surprise inspections across multiple dark warehouses that function as Zing Zong's order-fulfilment centres throughout the city. The officials were appalled by the unhygienic and unsafe storage conditions observed during the raids. Shockingly, similar poor conditions were found across numerous facilities.

In response, authorities have suspended Zing Zong's business license with immediate effect. The suspension will remain in place until the company implements and complies with the prescribed food-safety standards.

Consumers are cautioned not to be enticed by the deep discounts often offered by such platforms, as these can come at the cost of health and safety. A quick online poll conducted among our readers - many of whom are frequent users of quick-commerce services - revealed an insightful trend. While customers appreciate the unmatched convenience of quick delivery, a significant number expressed a preference for in-store purchases on most days. Physical shopping allows customers to inspect products firsthand and benefit from personalized interaction, which still holds substantial value in today's digital age.

Moreover, many quick-commerce platforms promote bulk buying through heavy discounts, while smaller quantities are often sold at MRP or are unavailable. This pushes customers into buying more than they require, leading to wastage and higher overall costs. In contrast, in-store shopping enables buyers to purchase only what they need, thereby reducing waste and saving money.

However, the city's road and traffic conditions continue to deter many from visiting physical stores, forcing them to rely on quick-commerce and e-commerce services. While views may vary on which mode of shopping poses the greater challenge, one principle remains clear: health must never be compromised for convenience.

I. Multiple Choice Questions

1. Which of the following suggestions by employees help IFL compete with companies like Zing Zong:
 - (i) Ensure the quality and safety standards of its products are sold to the customers.
 - (ii) Extending credit facilities to its regular, loyal and creditworthy customers, particularly the ones that purchase in bulk.
 - (iii) Offer 15 -minute delivery service like that offered by companies like Zing Zong
 - (iv) Increase the product range offered, in terms of variety and size, that is unavailable online
 - (a) (i), (ii) and (iii)
 - (b) (ii) and (iii)
 - (c) (i) and (iv)
 - (d) (i), (ii) and (iv)
2. Which strategy is Kailash Bhandari adopting to compete with quick commerce companies like Zing Zong Limited?
 - (a) Milking as cash cow
 - (b) Restrict presence and shift focus to the core
 - (c) Counter disruption
 - (d) Withdraw
3. Which is the business model followed by Zing Zong Limited?
 - (a) Freemium model
 - (b) Access over ownership model
 - (c) Experience model
 - (d) On-demand model
4. Regarding the compliance of IFL's donation to political parties as per the Company's Act, 2013, which of the following options correctly states the reason for the change in opinion of Miss Niraja Rai, IFL's Company Secretary?
 - (a) IFL shall be eligible to make donations to a political party after one year from date of incorporation.
 - (b) IFL shall be eligible to make donations to a political party after two years from date of incorporation.
 - (c) IFL shall be eligible to make donations to a political party after three years from date of incorporation.
 - (d) IFL shall be eligible to make donations to a political party after five years from date of incorporation.
5. In compliance with the Income Tax Act, 1961, for the FY 2025-26, how much should Devang Mehta state will be the deduction allowed in respect of the political contributions given as an advertisement in the souvenir published by the political party?
 - (a) NIL
 - (b) ₹ 5,00,000
 - (c) ₹ 6,00,000
 - (d) ₹ 3,00,000

(5 × 2 = 10 Marks)
6. Please assist Devang Mehta in calculating the profit per unit of product sold. Advise him on how to interpret the results.
7. Advise Dilip Sarkar on how the transaction with Hotel Paradise should be accounted for as per Ind AS.
8. What type of audit opinion should M/s Ford & Rodes issue? Explain the reason with reference to materiality and pervasiveness.

(5 Marks)

ANSWERS

- 1. The correct answer is (d)** suggestions (i), (ii) and (iv) will help IFL compete with quick commerce companies like Zing Zong.

Reason: Prioritizing quality and safety of its products would win a loyal and growing customer base for IFL. While using quick commerce, customers need to pay upfront for their purchases before order fulfillment. This can be countered by IFL where it can extend credit facilities to its regular, loyal and creditworthy customers. Bulk purchases are generally of a higher value; therefore, customers may appreciate the credit facility offered in order to manage their working capital better. Increasing the product range offered, in terms of variety and size, that is unavailable online provides more choices for the customers. As stated in the news report, many customers suffer loss due to wastage by purchasing in bulk. This can be addressed by offering different product sizes in stores. Also, wider product range will help attract customers.
- 2. The correct answer is (a)** Milking as cash cow

Reason: Kailash Bhandari knows that IFL has to eventually change its business model as quick commerce and e-commerce companies pose a credible threat to its business. However, until a viable business course to expand and grow IFL's business can be conceived, it is better to continue to run IFL's operations that still yield dependable profit margins. IFL is in a vulnerable position, therefore it is currently harvesting the economic benefits of its current business model that continues to yield reasonable, yet declining profit margins. This strategy adopted temporarily to tide the disruption is called milking as cash cow, In the long run, when IFL's business becomes unviable it will have to change its business model or even shut down.
- 3. The correct answer is (d)** On-demand model.

Reason: By monetizing time, this model disrupts by offering customers instance access to products and have it delivered at their doorstep. For this convenience they pay delivery charges. Since access is available to the customer instantly on demand, Zing Zong has an on-demand model.
- 4. The correct answer is (c)** IFL shall be eligible to make donations to a political party after three years from date of incorporation.

Reason: As per section 182 of the Companies Act, 2013 a company which has been existence for less than three financial years is not allowed to contribute to any political party. IFL was incorporated on April 1, 2021 and therefore it completes three financial years of its existence on March 31, 2024.

Mr. Kailash Bhandari intended to make the donation on April 10, 2021, and therefore is not eligible under the Companies Act, 2013, as IFL had not yet completed three years from its date of incorporation.

When Mr. Kailash Bhandari consulted Miss Niraja Rai during FY 2025-26, her opinion correctly changed since IFL has now completed three years from the date of incorporation. Therefore, the donation being made during FY 2025-26 (from April 1, 2025 to March 31, 2026) is permitted as per the Companies Act, 2013.
- 5. The correct answer is (b)** ₹ 5,00,000

Reason: While computing the tax as per Income Tax Act, 1961 for the FY 2025-26, the company can claim an amount of ₹5,00,000 as the deduction allowed in respect of the political contributions given as an advertisement in the souvenir published by the political party.

The amount of ₹5,00,000 to be paid on January 30, 2026 for advertisement in souvenir issued by the political party attracts disallowance under Section 37(2B) of the Income Tax Act, 1961. However, such expenditure falls within the meaning assigned to "contribute" under section 293A of the Companies Act, 1956 (Section 182 of the Companies Act, 2013) and is hence eligible for deduction under section 80 GGB.

There is also no limit on the maximum amount that can be claimed as deduction. At the same time, any contribution to the political party or electoral trust made by way of cash is not allowed under section 80 GGB. Therefore, a similar payment of ₹ 1,00,000 to be made on March 10, 2026, but in this time in cash will not be allowed under section 80 GGB.

Therefore, Devang Mehta should state that only ₹5,00,000 of the total contribution that will be paid through an account payee cheque can be deducted under section 80 GGB from its Gross Total Income for FY 2025-26.

- 6. Interpretation:** It can be seen that although gross profit per unit for each of the products is ₹10 per unit, once the indirect costs are assigned using the DPP method, their per unit profitability changes to reflect the actual return. This is especially true with respect to Frozen foods. Due to the necessity of refrigeration the entire time of storage and transport and on account of being a slow-moving product, the per unit profitability of frozen food is much lower than that of ice-cream. In case of ice creams, although they too need continuous refrigeration like frozen food, they are extremely fast-moving items since they are stored only for 0.1 months each in the warehouse and retail shops. Due to their quick inventory turnover, the storage cost is much lower as compared to frozen foods.

In the case of chips and crisps, while they do not need refrigeration, their slow inventory turnover causes the storage costs to increase. This reduces its profitability marginally. However, unlike frozen foods, the number of items that can be kept per metric cube of space is much higher (300 per m³ as against 50 per m³ for frozen foods). Therefore, the storage cost is spread over more units, thereby reducing the cost per unit.

Therefore, it can be concluded that ice cream is a popular and profitable product line. Chips and crisps are also profitable, however improving the inventory turnover will enhance its profitability further. Frozen foods as a product line is the least profitable. This is on account of the necessity for refrigeration as well as due to lower inventory turnover as compared to ice cream. The management may have to find ways to improve the turnover and optimize the storage space in order to accommodate more items within the same space.

Profitability analysis using the DPP method highlights issues that can easily be ignored under the traditional cost method. While it seemed that each profit could yield the same amount of gross profit per unit, a further assignment of costs using the DPP method shows the problems like slow inventory turnover and requirement to optimize storage space. If it is not possible to optimize the cost further, the selling price can be adjusted in order to recoup costs and achieve the benchmark.

Workings

Direct Product Profitability (DPP)

Amount (in ₹)

Sr. No.	Particulars	Frozen food	crisps	Ice cream
1	Selling price per unit	90	50	90
2	Less: Purchase price per unit	80	40	80
3	Gross profit (Step 1 – Step 2)	10	10	10
	Less: Direct product costs			
4	Warehouse costs per m ³ (W.N. 1)	8.03	3.60	0.80
5	Retail store costs per m ³ (W.N. 2)	5.88	3.00	0.59
6	Transportation costs per m ³ (W.N. 3)	150	120	150
7	Total DPP costs per m ³ Step 4 + Step 5 + Step 6	163.91	126.60	151.39
8	Items per m ³ (W.N. 4)	50	300	1000
9	Cost per item (Step 7/Step 8)	3.28	0.43	0.16
10	Direct Product Profit (Step 3 – Step 9)	6.72	9.57	9.84

Working note 1: Warehouse related costs

	General costs ₹	Costs related to Refrigerated goods ₹
Labour and staff costs per month	7,50,000	---
Refrigeration costs per month	---	22,50,000
Material handling costs per month	4,50,000	---
Total warehouse related costs per month	12,00,000	22,50,000
Volume of goods sold (in m ³) per month	5,00,000	4,00,000
Costs per m ³	2.40	5.63

Products	Time in warehouse	Costs per m ³	Total cost ₹ per m ³
Frozen food	1	8.03	8.03
Chips & crisps	1.5	2.40	3.6
Ice cream	0.1	8.03	0.803

Working note 2: Retail store related costs

	General costs ₹	Costs related to Refrigerated goods ₹
Labour related costs per month	5,00,000	---
Refrigeration costs per month	---	17,50,000
Other costs per month	2,50,000	---
Total retail store related costs per month	7,50,000	17,50,000
Volume of goods sold (in m ³) per month	5,00,000	4,00,000
Costs per m³	1.50	4.38

Products	Time in retail store	Costs per m ³	Total cost ₹ per m ³
Frozen food	1.00	5.88	5.88
Chips & crisps	2.00	1.50	3.00
Ice cream	0.10	5.88	0.59

Working note 3: Transportation costs

	Normal van	Refrigerated van
Cost per trip	1,20,000	1,50,000
Carrying volume of each van m ³	1,000	1,000
Cost per m³ per trip	120	150

Working note 4: No. of items per m³

Products	Number of cartons Per m ³	Number of items Per carton	Number of items Per m ³
Frozen food	10	5	50
Chips & crisps	30	10	300
Ice cream	50	20	1,000

The gross profit that IFL earns from each of its product is ₹10 per unit. However, this does not account for the huge indirect costs that it incurs warehouse storage costs, head office costs, costs at retail outlets etc. In order to calculate the profit per unit per product, Devang has to breakdown these indirect costs to the per unit level. Currently information is available about the average cost incurred transportation per store, accounting for warehouse, head office and in-store costs. The inventory of these products occupies space. Therefore, information is also given in terms of volume of space occupied by these products on meter cube (m³) basis (space occupied). There is further information about the number of cartons that this space can occupy as well as the number of items of each product that can be held in a carton. Indirect costs are allocated based on measures like space used for transportation and storage of goods, time period of storage of goods and other relevant cost drivers to arrive at the indirect cost attributable per unit. This cost is then used along with the procurement cost to arrive at the profit per unit per product. This method of analysis is known as Direct Product Profitability (DPP) method.

7. Ind AS 115 deals with revenue from contracts with customers. Since all customers will receive a 10% discount on purchases during the next 30 days, the only additional discount that provides Hotel Paradise with a material right is the incremental discount of 30% on additional product purchased. IFL should account for the promise to provide an additional incremental discount as a separate performance obligation in the contract for the sale of frozen foods.

IFL believes that there is 80% likelihood that Hotel Paradise will redeem the voucher and it will purchase ₹37,500 worth of additional products. Consequently, IFL's estimated standalone selling price of the discount voucher would be ₹ 9,000 ($\text{₹ } 37,500 \text{ average purchase price of additional purchase} \times 30\% \text{ incremental discount} \times 80\% \text{ likelihood of exercising that option}$).

The standalone prices of frozen foods, discount voucher and the resulting allocation of the transaction price of ₹45,000 will be as below:

Performance obligation	Standalone price ₹
Frozen foods	45,000
Discount voucher	9,000
Total	54,000

Allocated transaction price between frozen foods and voucher will be as follows:

Performance obligation	Allocation working ₹	Allocation of transaction price ₹
Frozen foods	$(45,000 / 54,000) \times 45,000$	37,500
Discount voucher	$(9,000/54,000) \times 45,000$	7,500
Total		45,000

On May 1, 2025, IFL should allocate ₹ 37,500 towards sale of frozen foods and recognize it as revenue for frozen foods when control transfers. IFL should allocate ₹ 7,500 towards the discount voucher. It should recognize this as revenue when Hotel Paradise redeems it for future purchases or when the voucher expires in 30 days.

8. In the present case, M/s Ford & Rodes is unable to obtain sufficient and appropriate audit evidence with respect to inventory of the company, neither physical verification has been done by the management nor adequate inventory records are maintained by the IFL. The audit team is also unable to undertake the physical inventory count and as such the value of inventory could not be verified. Further, inventory constitutes (40%) of the total assets of IFL, which is significant.

In the above case, the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. Thus, M/s Ford & Rodes should give a Disclaimer of Opinion.

As per Companies Auditors' Report Order 2020 (CARO 2020) dated 25th Feb 2020, the audit report shall include a statement on the following matter:

Whether the physical verification of the inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate. In view of the above the auditor should give a qualification in his report narrating the situation.

Case Study- 229

Aero Tech Limited (ATL) is a listed, cutting-edge drone manufacturing company committed to redefining the future of aerial technology. Established with a vision to empower industries through unmanned aerial solutions, ATL specializes in the design, development, and production of high-performance drones for a diverse range of applications including agriculture, defence, logistics, infrastructure monitoring, disaster management and cinematography.

With a strong emphasis on innovation, reliability, and compliance with global aviation standards drones are built using advanced materials, intelligent flight control systems and proprietary Al-based analytics. ATL's in-house R & D team continuously works on enhancing payload capacity, flight endurance, automation features, and data integration capabilities to serve both commercial and governmental sectors effectively.

ATL not only deliver aerial platforms but also complete drone ecosystems - from customized software solutions and remote pilot training to post-deployment support-enabling clients to achieve operational excellence and transformative growth through UAV technology.

ATL is preparing to launch its new Compact Professional Drone model Aero X. Market research indicates that customers are willing to pay up to ₹1,20,000 for the drone. For businesses aiming to enhance operational efficiency, this small drone is a smart investment that delivers professional-grade performance at an accessible price point. The company aims for a 25% profit margin on the selling price. Initial cost estimates show a production cost of ₹ 95,000 per unit, which is higher than what is needed to meet the profit objective.

ATL is currently in the development stage of the Product Life Cycle and is applying target costing to ensure long-term profitability from the launch phase. The R & D and marketing teams are working cross-functionally to reduce costs by redesigning components and sourcing materials more efficiently. Management anticipates that price competition will intensify once the product enters the growth stage requiring further cost efficiency.

The company has identified the need to establish a new manufacturing facility dedicated to the production of its upcoming line of advanced drones. The existing infrastructure is optimized for current models and volume, but the new product -featuring enhanced payload capabilities. Al-powered navigation, and industry-specific configurations requires specialized equipment, advanced testing environments, and streamlined assembly lines. Setting up a separate facility will not only ensure efficient production but also maintain quality standards, accelerate time-to-market and support scalability in response to growing domestic and international demand.

The company proposes to enter into a lease agreement for a new factory premises with Green Space Pvt. Ltd., in which Mr. Manish, a non-executive director of ATL, holds 20% equity stake. The lease is for a period of 3 years, with an annual rent of ₹ 60 crore, totaling ₹180 crore over the term. ATL's consolidated turnover as per the last audited financials is ₹1,500 crore, and its net worth is ₹ 500 crore. The transaction is not in the ordinary course of business and the terms are not comparable to market rates. The proposal is first tabled in the Audit Committee meeting, where Mr. Manish is also a member. The estimated project cost of the project is ₹ 10 crore.

Instead of relying on traditional bank loans, ATL decides to issue bonds to raise the necessary capital. One of the main reasons was successfully issuing and repaying bonds can help improve an issuer's credit rating, which, in turn, lowers the cost of future borrowings. However, the costs involved in issuing bonds (underwriting fees, legal fees, rating fees, fees for trustee services etc.) is high and company management is trying to find a new technological way so that funds are raised at lower cost. One of the consultants suggested finding out a possibility of issuing bonds using blockchain technology. Initially everybody thought it is a vague idea but later on everybody realised that such issuance of bonds is possible provided legal and regulatory measures are taken care off. During the year, ATL issued unsecured, compulsorily convertible instruments (Debentures) convertible within 8 years amounting to ₹ 10 crore in fixed number of shares to a private equity fund GNH Capital.

The company has recently secured a bulk export order from a European buyer for 500 units of their precision drones (Model: Scout-X). Each drone comprises critical imported components like sensors, brush-less motors, flight controllers, and carbon fibre propeller assemblies, which form a significant portion of the cost of production. To remain price-competitive and improve working capital efficiency, ATL applies for a Duty-Free Import Authorisation (DFIA) under the Foreign Trade Policy for importing the key input components used in the export product and received the same. These inputs attract Basic Customs Duty (BCD) @15% and IGST @ 18% at the time of import. Details:

Description	Quantity (units)	Value per unit (₹)
Main Raw Material	12,000 kg	500
Assemblies' soles	10,000 pairs	150

After manufacturing drones, company exported the same for ₹92.50 Lakh.

Statutory Audit for the P.Y. 2024-25 is under process and the auditor, M/s GSB & Co., Chartered Accountants, has identified several irregularities and deficiencies in financial reporting and internal controls. Key observations included:

- Loans and advances amounting to ₹ 2.5 crore were extended to various entities that had no identifiable business relationship with the company. These transactions lacked formal agreements and supporting documentation.
- Payments were made on behalf of directors towards personal expenses, indicating potential misuse of company funds.
- Goods valued at ₹ 1 crore were recorded as purchased in the books of accounts; however, no physical verification nor supporting documentation were available to substantiate the existence of such inventory.

These findings raise significant concerns regarding the integrity of financial records, potential violations of corporate governance norms, and possible contraventions of the Companies Act, 2013 and applicable accounting standards.

Audit of financial statements was finalised, and final calculation of tax payable is being done. Provisions of Minimum Alternate Tax get attracted and thus calculation of book profits is being done. Further ATL, governed by Ind AS, has provided the following details for the financial year 2024-25:

	(₹ in crore)
Net Profit as per statement of Profit and Loss	200
Deferred Tax Liability debited to Profit and Loss Account due to Ind AS Transition	20
Revaluation surplus credited to Other Comprehensive Income (OCI)	15
Provision for doubtful debts debited to P & L Account	5
Fair value charges in Equity Investments credited to Other Comprehensive Income (OCI)	12

	As per books of accounts	As per Income Tax Act, 1961
Brought Forward Loss	30	25
Unabsorbed Depreciation	40	50

I. Multiple Choice Questions

- Which of the following statements is most accurate regarding the approval and compliance process for a lease agreement for a new factory premises with Green Space Pvt. Ltd?
 - The transaction can be approved by the Audit Committee without further approvals, provided Mr. Manish abstains from voting.
 - Since the transaction is not at arm's length and exceeds 10% of turnover, it requires both Audit Committee and shareholder approval via an ordinary resolution.
 - The transaction requires prior approval of the Audit Committee (excluding interested director), approval of the Board and prior approval of the shareholders via ordinary resolution.
 - The transaction is voidable unless approved only by disinterested shareholders through a special resolution as per SEBI Regulations.

2. Which of the following statements is most appropriate for Aero X?
- (a) The target cost for Aero X is ₹ 85,000 and the company needs to reduce cost by ₹10,000; this aligns with strategies used in the maturity phase of the PLC.
 - (b) ATL is applying target costing correctly during the development phase and must reduce cost by ₹ 5,000 to meet the target cost of ₹ 90,000.
 - (c) ATL should try and increase the selling price to ₹ 1,27,000.
 - (d) Since ATL is in the growth phase, it should focus on penetration pricing rather than cost control via target costing.
3. **Assertion (A):** Setting up a specialized drone manufacturing facility significantly impacts the Systems element of the McKinsey's 7S framework within ATL.
- Reason (R):** Introducing advanced testing environments, automated assembly lines, and compliance protocols leads to drastic changes in ATL's organisational culture and leadership behaviour.
- (a) A is true, but R is false
 - (b) A is false, but R is true
 - (c) Both A and R are true, and R is the correct explanation of A
 - (d) Both A and R are true, but R is not the correct explanation of A
4. Calculate the total duty saved by ATL under the DFIA scheme on imported inputs and confirm if value addition guidelines has been complied with.
- (a) Total duty saved is ₹ 24,75,000. Value addition guidelines complied with.
 - (b) Total duty saved is ₹ 22,05,000. Value addition guidelines not complied with.
 - (c) Total duty saved is ₹ 11,25,000. Value addition guidelines complied with.
 - (d) Total duty saved is ₹ 24,75,000. Value addition guidelines not complied with.
5. Calculate the amount of book profits under Section 115JB of the Income-tax Act, 1961.
- (a) ₹ 195 crore
 - (b) ₹ 203 crore
 - (c) ₹ 215 crore
 - (d) ₹ 185 crore
- (5 × 2 = 10 Marks)**

II. Descriptive Questions

6. How will you classify the instruments issued to GNH Capital and whether any separate disclosure requirements have been prescribed for such issues under Ind AS if they are classified as equity?
- (5 Marks)**
7. How should the statutory auditor, M/s GSB & Co., address the issues identified above in accordance with the provisions of the Companies Act, 2013?
- (6 Marks)**
8. ATL seeks your guidance under the provision of the Income Tax Act, 1961 in relation to:
- (i) Compliance requirements on payment of interest on debentures.
 - (ii) Compliance at the time of receipt of consideration on issue of debentures. **(4 Marks)**

ANSWERS

1. **Correct answer is (c)**, the transaction requires prior approval of the Audit Committee (excluding interested director), approval of the Board, and prior approval of the shareholders via ordinary resolution.

Reason

1. **Related Party:**
Green Space Pvt. Ltd., is a related party under Section 2(76) of the Companies Act, 2013, since Mr. Manish holds 20% equity.
2. **Materiality threshold (As per the SEBI (LODR) Regulations, 2015 under the Regulation 23)**
The aggregate value of 180 crore is 12% of turnover (₹1,500 crore) - exceeds the 10% materiality threshold.
Therefore, shareholder approval is required.
3. **Arm's Length and Ordinary Course**
The transaction is not at arm's length and not in the ordinary course - triggers Board approval under Section 188 of the Companies Act, 2013.
4. **Audit Committee**
Required as per Section 177 of the Companies Act, 2013 and Regulation 23 of the SEBI (LODR) Regulations, 2015
Interested directors (Mr. Manish) must disclose interest and abstain from voting.
5. **Shareholder Approval**
As per Section 188 of the Companies Act, 2013 and SEBI (LODR) Regulations, 2015 ordinary resolution is required for material RPTs.

2. **Correct answer is (b)**, ATL is applying target costing correctly during the development phase and must reduce cost by ₹ 5,000 to meet the target cost of ₹ 90,000.

Reason:

Particulars	Amount (₹)
Selling Price	1,20,000
Less: Desired Profit (25%)	30,000
Target Cost	90,000
Estimated Cost	95,000
Cost Gap (Estimated Cost - Target Cost)	5,000

Target Costing is most effective in the Development stage (before actual production begins), as design decisions have the most impact on cost control.

3. **Correct answer is (a)**, A is true, but R is false.

Reason: Assertion (A) is true. The new facility affects Systems such as production workflows, process controls, quality procedures, testing protocols, and operational routines - making "Systems" the most impacted element.

Reason (R) is false. The changes mentioned (new workflows, advanced machines, testing environments) affect Systems, not organisational culture or leadership style. Style and Shared Values (soft S) may evolve slightly, but they are not the primary impact.

Hence, A is true and R is false.

4. **Correct answer is (c)**, total duty saved is ₹ 11,25,000. Value addition guidelines complied with.

Reason: DFIA = Duty Free Import Authorization

Calculate the total duty saved by ATL under the DFIA scheme on imported inputs.

Particulars	Value (₹)	BCD Rate	BCD Amount (₹)
Main Raw Material	60,00,000	15%	9,00,000
Assemblies	15,00,000	15%	2,25,000
Total BCD Saved	-	-	11,25,000

Under DFIA, ATL does not pay this BCD upfront on imports, improving cash flow.

Value addition should be minimum 20%. Imported Value is Rs 75,00,000 Lakh. 20% is 15 Lakh. Company exported for 92.50 Lakh. Thus, value addition guidelines has been complied with.

5. **Correct answer is (a)**, ₹ 195 crore

Reason:

Particulars	Amount (₹ in crore)
PAT as per P&L (Ind AS)	200
Add: Deferred Tax Liability due to Ind AS transition	20
Add: Provision for doubtful debts (unascertained liability)	5
Less: Brought forward loss OR unabsorbed depreciation (lower)	(30)
Book Profit under MAT (Sec 115JB)	195

II. Answers to the Descriptive Questions

6. Classification of the Instrument

Under Ind AS 32 'Financial Instruments: Presentation', the classification depends on the substance of the contractual terms and not merely the legal form.

A financial instrument is classified as equity if and only if:

- The instrument includes no contractual obligation to deliver cash or another financial asset; and
- If settled in the issuer's own equity instruments, it is for a fixed number of equity shares for a fixed amount of cash (or fixed value of debt extinguished) i.e., the fixed-for-fixed test.

Since, the CCDs are compulsorily convertible i.e., there is no redemption in cash and the conversion is mandatory within 8 years. When there is no obligation to repay cash and the conversion is into a fixed number of shares, the instrument meets the definition of an equity instrument under Ind AS 32.

Disclosure Requirements under Ind AS 107

Even though the CCDs are classified as equity, information relevant to users about their nature and potential dilution effects should be disclosed.

Key disclosures include:

- Nature and extent of risks arising from such instruments.
- Conversion terms, period, and expected impact on share capital.
- Judgments made by management in determining the classification (equity vs liability).

7. Section 143 of the Companies Act, 2013 specifies the duties of an auditor of a company in a quite comprehensive manner. It is noteworthy that the scope of duties of an auditor has generally been extending over all these years.

Duty of Auditor to Inquire on certain matters: It is the duty of auditor to inquire into the following matters-

- (a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;
- (b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
- (c) where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;
- (d) whether loans and advances made by the company have been shown as deposits;
- (e) whether personal expenses have been charged to revenue account;
- (f) where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

Auditor's Duties in the Case of ATL:

- 1. **Inquiry into Loans and Advances:** The auditor must verify whether the loans of ₹ 2.5 crore were made against proper security. Check whether the terms were prejudicial to the interests of the company. In this case, there were no agreements or collateral, suggesting a possible violation.
- 2. **Verification of Personal Expenses:** Payments made to directors for personal travel and luxury items must not be charged to the company's expenses. Auditor must report if personal expenses were wrongly recorded as company expenditures.
- 3. **Valuation of Purchases Without Physical Verification:** Goods shown in purchase records but not physically verified must be inquired into. Auditor must question whether such entries are fictitious or involve misappropriation.

8. (i) **Compliance Requirements**

Interest on securities [Section 193]

Person responsible for deduction of tax at source:

This section casts responsibility on every person responsible for paying to a resident any income by way of interest on securities.

Rate of TDS:

Such person is vested with the responsibility to deduct income-tax from the amount of interest payable.

The rate at which tax is deductible under section 193 is 10% both in the case of domestic companies and resident non-corporate assesseees.

Time of tax deduction at source:

Tax should be deducted at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.

- (ii) As per Rule 114E read with Section 285BA (1), any person who has received a sum of ₹ 10 lakhs or more in a financial year for acquiring bonds or debentures (issued by a company) is required to furnish this information by way of Statement of Financial Transaction (SFT).

Background

You are a Chartered Accountant, possessing hands on rich experience of more than a decade in providing professional advice on a diverse range of businesses. You are a unique individual known for making rational and correct judgements about data and numbers, possess the ability to identify and discover the potential solutions, assess alternatives and finally select/execute best solutions to fix the issue.

Recently, you have joined as a partner in an established firm of Chartered Accountants based out of Chennai. Immediately on assuming your mantle, you were made in-charge of conducting the statutory audit of 'Youth Trends Limited' (YTL), located at Madurai, South India, a Company that operates a vast retail network, providing consumers with a wide range of fashionable apparel options.

The Audit firm's senior Partner, CA. Rajesh Shiv Prasad (fondly referred to as 'RAJ' Sir) has allocated to you to conduct the audit. The senior partner is very close to the family which owns the Company and you strongly believe that this is at least part of the reason why the Company decided to appoint your audit firm.

The CFO of the Company made available to you the Annual Reports of the last five years and the draft summary of management prepared financial statements for the FY 2024-25.

Before the commencement of the audit, you reviewed the Company's audited financial statements and accounts of the previous year. You noticed that the Auditors Report of the previous statutory auditor was qualified due to departure from Ind As 2 on 'Inventories Accounting' wherein the management has not stated the inventories at lower of cost and net realizable value but has stated them solely at cost.

At this juncture, you wished that you had access to the working papers of the previous auditors but you were informed that it was not possible.

All said and done, you made a detailed audit program and deputed your audit team to look meticulously into every material aspect and conduct the audit from the propriety angle. You also instructed that all observations made by the audit team would be reviewed by you with proper assessments to ensure that the financial statements reflect a true and fair view.

Your audit team has summarized the following items which are open and are pending to be dealt within the financial statements for your consideration:

The Company has recognized deferred tax asset on the carried forward business losses. The Management do not for see any further profits in the next couple of years. However, the Management expects confirmed orders after a couple of years.

The amount of Cash and Cash Equivalents as at 01-04-2024 (excluding restricted cash and bank balances) was ₹ 40 lakh. The aggregate amount of Cash Flows during the FY 2024-25 from Operating, Investing and Financial Activities was ₹ 250 lakh. The amount of restricted bank balances as at 01-04-2024 and 31-03-2025 was ₹ 150 lakh and the Company does not believe the same as qualifying for disclosure under Cash and Cash Equivalents.

As at 31-03-2025, the off Balance Sheet exposure in the form of Contingent Liabilities to the extent not paid and not provided for is ₹ 125 lakh.

There was no disclosure of outstanding Letter of Credits (LCs) opened for import of certain assets from Turkey under Contingent Liabilities in the financials prepared by the Company amounting to ₹ 60 lakh.

The Company is liable to pay ₹ 5 lakh under protest against certain tax claims under dispute where the Company believes it has a fair chance of favourable orders and hence not provided in the financial statements nor was it disclosed as Contingent Liabilities. During the discussions, the Company has also mentioned that since they have not provided for the same, this would not be an item in the Companies (Auditor's Report) Order 2020 (CARO, 2020) reporting by the Statutory Auditors as disputed dues.

Sosmitha International Inc. has served a legal notice on the Company claiming ₹ 300 lakh for patent infringement and the Company has challenged the notice through its legal counsel. In this regard, an Independent legal opinion obtained suggests that the possibility of a cash outflow is more likely than not under the existing legal framework / available evidences as provided to the legal counsel.

An amount of ₹ 125 lakh towards accrual of certain liabilities relating to refurbishment of certain spares meant for a specialized operating machine is yet to be made. The spares for refurbishment/receipt of spares were sent in March, 2025. Completion of the refurbishment/ receipt of spares by the Company is expected only in March, 2026.

The amount of expected credit loss for doubtful receivables pending to be accounted as at 31st March, 2025 is ₹ 105 lakh and the Company intend to account it proportionately on a straight line basis over the calendar year 2025 to spread the impact for the same. Further, no 'Expected Credit Loss' (ECL) provision is considered for the 'Retention Receivables' under the contract terms, which, if determined, would be ₹ 75 lakh as at 31st March, 2025.

Other Inputs for Management Decision Making:

YTL submitted a credit proposal to ANZ Bank Limited for sanction of a Term Loan of ₹ 150 crore required for procuring and installing a latest Plant and Machinery for their upcoming project. Based on the application, ANZ Bank Limited approached Ms. 'C', a Chartered Accountant, a friend of yours who is not associated with the Audit firm to investigate the profitability of the business for judging the accuracy of the schedule of repayment furnished by YTL as well as the value of the security in the form of assets of the business already possessed and those which will be created out of the loan.

One of the associate companies of YTL is Nahar Hotels and Resorts Limited, which is engaged in the business of owning, operating and managing hotels during the previous year 2024-25. The tips are paid by the guests by way of charge to the Credit Cards, UPI or Net Banking in the bills. The Company disburses the same to the employees at periodic intervals.

Quick Fix Electronics Limited, a subsidiary of YTL, the manufacturer of electronic components, has taken floating interest rate loan of ₹ 2 crore on 1st April, 2024. The rate of interest at the inception of loan is 9% per annum. Interest is to be paid every year on 31st March. The Central Bank of the Country released the following projections about the interest rates likely to prevail in future:

On 31 st March, 2024	9.25%
On 31 st March, 2025	9.50%
On 31 st March, 2027	9.00%
On 31 st March, 2028	8.25%

I. Multiple Choice Questions

1. The Company has recognized Deferred Tax Asset on the carried forward business losses. Do you think that this treatment is appropriate with reference to the relevant Ind AS ?
 - (A) No, as it is not in compliance with the relevant Ind AS.
 - (B) Yes, as it is not only based on Management Assessment but also in compliance with the relevant Ind AS.
 - (C) Yes, as there are convincing evidences available.
 - (D) It depends on the decision to be taken by the Management if there is a probable merger with other entity.
2. What shall be amount of Cash and Cash Equivalent to be shown in the Cash Flow Statement as at 31st March, 2025 (₹ In Lakh)?
 - (A) 400
 - (B) 190
 - (C) 290
 - (D) 440

3. State the total amount of Contingent Liabilities of YTL as at 31st March, 2025. (₹ In Lakh)
- (A) 130
 - (B) 315
 - (C) 390
 - (D) 430
4. **Assertion (A):** A legal notice can be served for patent infringement.
- Reason (R):** Patents provide a source of competitive advantage and allow unlimited time benefits to the patent holder.
- (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. Expected Credit Loss Provisioning (ECL) is not required for Retention Receivables arising out of contract terms. The said statement is:
- (A) Incorrect, since it is a financial asset/contract asset.
 - (B) Correct, in view of it being a contract asset.
 - (C) Correct, it all depends upon the general circumstances and facts.
 - (D) Incorrect, ECL is not applicable to Textile Companies.
- (5 × 2 = 10 Marks)**

II. Descriptive Questions

6. In respect of the credit proposal submitted by YTL to ANZ Bank Limited for sanction of a Term Loan of ₹ 150 crore required for procuring and installing a latest Plant and Machinery for their upcoming project, elucidate the steps that should be taken by Ms. C, Chartered Accountant to fulfill the requirements of ANZ Bank Limited in this regard.
- (6 Marks)**
7. Explain with reasons whether the Company is responsible for deducting tax at source from disbursement of tips to its employees?
- (4 Marks)**
8. Show how the borrower can hedge the risk using Option Cap arising out of expected rise in the rate of interest when he wants to peg his interest cost at 9% per annum.
- (5 Marks)**

ANSWERS

I. Answers to the Multiple Choice Questions

1. The correct answer is (A) - No.

Reason: Ind AS 12 on "Income Taxes", require exercise of prudence while recognizing tax assets and required only probable existence of taxable profit against which deductible temporary differences can be utilized. Ind AS 12 is more realistic focusing only on probable existence of taxable profits. Ind AS 12 moves to exercise caution only in case of unused tax losses, where it specifies that deferred tax asset arising from unused tax losses or tax credits can be recognized only to the extent that the entity has sufficient temporary differences of there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the entity. Considering that there is no such convincing evidence available in this case, deferred tax asset should not be recognized.

2. The correct answer is (C) - 290 Lakhs.

Reason: According to Ind AS 7, Statement of Cash Flows, cash and cash equivalents are defined as short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. In this case, opening cash and cash equivalents has been given as ₹ 40 Lakhs and this excludes the amount of bank balances that are restricted. The aggregate of the amount of cash flows during the year from operating, investing and financing activities is ₹ 250 lakhs. Since there is no movement in the opening and closing restricted cash balance, it does not impact net cash flows for the year. Accordingly, the closing cash and cash equivalents as at 31 March 2025 is ₹ 290 lakhs (₹ 40 lakhs plus ₹ 250 lakhs.)

3. The correct answer is (A) -130 Lakhs.

Reason: Ind AS 37 on 'Provisions, Contingent Liabilities and Contingent Assets' defines contingent liability as a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more of the uncertain future events not wholly within the control of the enterprise or a presents obligation that arises from past events but is not recognised because (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) a reliable estimate or the amount of obligation cannot be made.

As per the facts of the case study:

The Company currently has disclosed ₹ 125 lakhs as contingent liabilities.

LCs opened for imports - is not a past or present obligation and it arises only in the future bases on when the vendor supplies the goods. Hence, an LC is not a contingent liability.

In respect of the tax liable to be paid of ₹ 5 lakhs, whilst the company believes it has a fair chance, it is a possible obligation the outcome of which will be confirmed by the outcome of the appeal process. Hence, the same is to be disclosed as contingent liability.

On the legal notice of ₹ 300 lakhs, since the legal opinion states that probability of a cash outflow is more likely than not, it is not a contingent liability but is a provision to be accounted for in the financial statements.

4. The correct answer is (C)- Assertion (A) is true, but Reason (R) is false.

Reason: Assertion (A) is true - a legal notice can indeed be served for patent infringement.

Reason (R) is false - a patent does not allow unlimited time benefits; it provides exclusive rights only for a limited period (generally 20 years).

5. The correct answer is (A) - Incorrect since it is a financial asset/ contractual asset.

Reason: As per Ind AS 109 on Financial Instruments, an entity shall recognize a loss allowance for credit loss on the following:

- A financial asset that is recognized at amortized cost.
- A financial asset that is measured at fair value through other comprehensive income.
- A lease receivable.
- A contract asset or a loan commitment
- A financial guarantee contract.

Retention money receivable would normally meet the definition of a financial asset or a contract asset based on facts and circumstances applicable to a contract. Accordingly, ECL would be applicable for retention receivables under Ind AS 109.

II. Answers to the Descriptive Questions

6. To investigate the profitability of the business for judging the accuracy of the schedule of repayment furnished by the borrower, as well as the value of the security in the form of assets of the business already possessed and those which will be created out of the loan, the investigating accountant should take the under-mentioned steps:

(1) Prepare a condensed income statement from the Statement of Profit and Loss for the previous five years, showing separately therein various items of income and expenses, the amounts of gross and net profits earned and taxes paid annually during each of the five years. The amount of maintainable profits determined on the basis of foregoing statement should be increased by the amount by which these would increase on the investment of borrowed funds.

(2) Compute the under-mentioned ratios separately and then include them in the statement to show the trend as well as changes that have taken place in the financial position of the company:

- (i) Sales to Average Inventories held.
- (ii) Sales to Fixed Assets.
- (iii) Equity to Fixed Assets.
- (iv) Current Assets to Current Liabilities.
- (v) Quick Assets (the current assets that are readily realizable) to Quick Liabilities.
- (vi) Equity to Long Term Loans.
- (vii) Sales to Book Debts.
- (viii) Return on Capital Employed.

(3) Enter in a separate part of the statement the break-up of annual sales productwise to show their trend.

7. In respect of tips collected by the company from the guests and distributed to the employees, the person responsible for paying the employee was not the employer at all, but a third person, namely the guest. The payments of collected tips included and paid by way of credit cards, UPI or Net Banking in the bills by guest, would not be payments made "by or on behalf of" an employer.

The contract of employment not being the proximate cause for the receipt of tips by the employee from a guest, such payments would be outside the scope of Sections 15 and 17 of the Income tax Act, 1961.

There is no employer-employee relationship between customers and the employees of Nahar Hotels and Resorts Ltd. and therefore, such payments do not fall in the nature of salary. This view is supported by Supreme Court judgment (ITC Ltd v. CIT (2016) 384 ITR 14 (SC).

On account of such tips being received from guests and not from the employer, Section 192 of the Income tax Act, 1961, would not get attracted at all in the hands of Nahar Hotels and Resorts Ltd. Thus, the company is not responsible for deducting tax at source from disbursement of tips to its employees.

8. As borrower does not want to pay more than 9.00% p.a., on this loan where the rate of interest is likely to rise beyond this, hence, he has to hedge the risk by entering into an agreement to buy interest rate caps with the following parameters:

- Notional Principal: ₹ 200,00,000/-
- Strike rate: 9.00% p.a.
- Reference rate: Rate of interest declared by Central Bank or the rate of interest applicable to this loan.
- Calculation and settlement date: 31st March every year.
- Duration of the caps: till 31st March 2028.
- Premium for caps: Negotiable between both the parties.

To purchase the caps, this borrower is required to pay the premium upfront at the time of buying caps. The payment of such premium will entitle him with right to receive the compensation from the seller of the caps as soon as the rate of interest on this loan rises above 9.00%.

The compensation will be at the rate of the difference between the rate of none of the cases the cost of this loan will rise above 9.00% calculated on ₹ 200,00,000.

This implies that in none of the cases the cost of this loan will rise above 9.00%. This hedging benefit is received at the respective interest due dates at the cost of premium to be paid only once.

Case Study- 231

Needs 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.

Needs 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, Needs 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.

Needs Retail finalized its financial statements for the year ending 31st 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 25th April 2025, the Board approved the financial statements for the F.Y. 2024-2025. The following events happened:

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

I. Multiple Choice Questions

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.

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. 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)
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)
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.
- (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.

II. Descriptive Questions

6. (a) Explain why gross margin is an inadequate tool for decision-making in retail organizations like Needs Retail Limited. **(3 Marks)**
- (b) Venture capitalists wants 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? **(3 Marks)**
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?
- (6 Marks)**
8. List three circumstances when GST input credit is not available for capital goods like machinery purchase in this case. **(3 Marks)**

ANSWERS

I. Answers to the Multiple Choice Questions

1. **The correct answer is (A)** - ₹ 25 Crore is Third stage funding, ₹ 15 Crore is second stage funding and risk perception for 10 Crore is extreme.
2. **The correct answer is (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. **The correct answer is (B)** - Only statement (i)

4. **The correct answer is (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.

5. **The correct answer is (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.

II. Answers to the Descriptive Questions

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.
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.

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/s17(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.

Case Study - 232

Tech Solutions Ltd. (TSL) is a listed Indian company, based in Gujarat, operating in the EV (Electric Vehicle) and battery pack manufacturing segment. It has its main factory in Pune and an R & D center in Bengaluru. The company also exports batteries to Europe and Southeast Asia. Total Net worth of TSL as per the last audited Balance sheet is ₹ 100 Crore.

TSL is undergoing a transformation as it had recently acquired a startup engaged in AI-powered battery diagnostics. The acquired start up is located in SEZ Gujarat and complies with all conditions to be recognised as a unit in SEZ.

TSL has noticed that while revenue from EV batteries has grown 30%, the overall profitability has not improved proportionately. The CFO has presented the following data:

Particulars	FY 2023-24	FY 2024-25
Revenue (₹ Crore)	2,400	3,500
Operating Cost (₹ Crore)	1,700	2,900

Observations of the team appointed by the management:

Production Department: To reduce per-unit cost, the production head decided to run longer batches and reduce machine changeover time. As a result, Inventory levels of slow-moving models increased.

Sales Department: Focused aggressively on fast-moving compact products and secured large retail orders. However, these products were often out of stock due to low production priority.

Procurement Team Negotiated bulk deals for components specific to high-capacity appliances to avail discounts. This locked up working capital and delayed procurement of parts needed for fast-selling items.

Further in Q4 of FY 2024-25, the company recorded a 70% increase in customer complaints in its electric batteries segment. The nature of complaints includes:

- Shorter battery life than advertised (less than 200 cycles Vs. claimed 500 cycles)
- Overheating during charging, especially in summer months
- Leakage and swelling of battery packs
- Delayed response from the service team and warranty claim denials

The SEZ unit procures certain input services from domestic suppliers located in the non-SEZ area. During FY 2024-25, it received consulting services and software licenses from vendors outside the SEZ, who charged IGST on invoices.

TSL filed a Letter of Undertaking (LUT) and made all its supplies from SEZ unit without payment of IGST. However, during departmental audit, the following issues were raised:

- ITC was claimed on input services provided by M/s RTA & Co., where IGST was paid, but supplier did not mention "Supply to SEZ unit" on the invoice.
- M/s GHB Consultants, based in Gujarat, charged CGST and SGST, citing place of supply as Gujarat.
- TSL availed Input Tax Credit (ITC) on such services and utilized it for making exports under LUT's.
- Poonawala & Associates, a law firm, provided legal services for authorized operations and issued invoice without GST. TSL did not pay any RCM assuming that SEZ units are exempt.

In December 2024, the company entered into collaboration with a German foundation, under which it received ₹ 60 lakh for conducting a research project on AI-powered battery diagnostics.

Tech Solutions Ltd. is not registered under the Foreign Contribution Regulation Act, 2010 (FCRA), but the management believed the receipt was for a commercial purpose. The payment was received in the regular current account of the company and all the documentation was provided to the bank and RoC. Later, the Ministry of Home Affairs (MHA) raised an objection and served a notice for violation of FCRA provisions. The company had not sought prior permission or registration under FCRA. The company submitted a written reply explaining that the funds were used solely for research purposes and no part of it was diverted. They requested for compounding of the offence. The MHA reviewed the matter and decided to initiate penalty proceedings under FCRA, 2010 and FCRA Rules, 2011.

The company receives export proceeds in convertible foreign exchange and occasionally avails export incentives from the Government. During the statutory audit, the auditor noticed that:

- Export proceeds for certain shipments made 9 months ago are still pending realisation.
- The company has received some Advance Payments received from foreign buyers in the year 2023 but no shipment has been made till date.
- It has fully converted ECBs into equity but no reporting to any authority has been done.
- As part of its strategic expansion, the company decided to acquire 60% equity in a newly formed company in Singapore, named SA Pte Ltd for a total investment of INR 500 Crore.

During an informal discussion after a board meeting, one of the directors approached the statutory auditor privately to seek advice regarding a personal income tax matter. The matter pertains to his brother Mr. Dinesh Mehra. Dinesh, aged 72, a retired professor, who owns a residential bungalow in Lucknow, purchased it in 1986 for ₹ 2,50,000. On 1st April 2001, the Fair Market Value (FMV) of the property was determined at ₹ 7,00,000. He continued to live in the property and never claimed any depreciation or rented it out.

In FY 2022-23, Mr. Mehra enters into a reverse mortgage agreement with Swan Finance Ltd., a non-notified NBFC. The circle rate of the property at that time was 1 crore. As per the agreement, he was to receive ₹ 40,000 per month for 15 years.

In April 2024, Mr. Mehra passed away. The total amount received by him under the reverse mortgage scheme was ₹ 9,60,000. His only legal heir, Anita Mehra, inherits the property.

In June 2024, Anita decides to sell the property for ₹ 1.25 crore. She incurs ₹ 75,000 as brokerage and legal expenses during the sale.

TSL prepares its annual financial statements in accordance with Ind AS. The company follows a financial year from April to March and presents quarterly interim financial reports for the periods ending 30th June, 30th September, 31st December, and 31st March.

For the quarter ended 30th September 2024, TSL identified the following developments:

- A legal case settlement was finalized in August 2024, resulting in a gain of ₹ 50 lakh. The case had been disclosed as a contingent asset in the annual report for FY 2023-24.
- Inventory was written down by ₹ 30 lakh due to obsolescence identified during a quarterly review.
- An actuarial gain of ₹ 20 lakh arose on defined benefit plans, recognised in OCI as per Ind AS 19.
- Management decided to restate the comparative interim period (Q2 of previous year) due to a material error discovered in October 2024 related to overstatement of revenue by ₹ 25 lakh.
- The company adopted a new Ind AS from 1st April 2024 which requires retrospective application.

TSL exported a consignment of goods to a client in Germany on February 15, 2025, on payment of IGST. The original invoice value was ₹ 50,00,000. Their contract included a clause allowing for price adjustments based on fluctuating steel prices.

On March 20, 2025, the price was revised upwards. TSL issued a debit note for the differential amount of ₹ 5,00,000 and paid the additional IGST of ₹ 90,000 in their GSTR-3B for March 2025. The company has received the full payment, including the revised amount, in foreign currency.

I. Multiple Choice Questions

1. TSL identifies "reducing customer complaint rate by 25% in Q1 of F.Y 2025-2026" as a Critical Success Factor. What issue does this statement reveal?
 - (A) Overemphasis on qualitative goals and Critical Success Factor
 - (B) Improper use of operational metrics as Critical Success Factor
 - (C) Time period is too small and ignores employee engagement
 - (D) The statement focuses only on internal efficiency and not on customer outcomes.

2. Which of the following best describes the legal position under FCRA, 2010 regarding receipt of ₹ 60 lakh by Tech Solutions Ltd.?
- No violation has occurred as TSL is not required to register under FCRA for receipts relating to the specified purpose.
 - TSL can accept foreign amount without registration as it is a Limited Company and files the required board resolutions with Bank and RoC.
 - FCRA applies only to NGOs and not to Limited Companies as the Companies Act, 2013 controls the said transactions and reporting is being done in that Act only.
 - A company not registered under FCRA must obtain prior permission before accepting any foreign contribution.
3. Which of the following treatments is most appropriate under Ind AS 34 for the interim financial report for the quarter ended 30th September, 2024?
- The legal settlement gain should be recognised in Q2 2024-25 as it was realised during the quarter and the actuarial gain must be presented in the Statement of Profit and Loss.
 - The inventory write-down must be recognised in Q2 2024-25; the prior period error should be adjusted retrospectively in comparatives; actuarial gains should be excluded from interim reporting.
 - The legal settlement gain and inventory write-down must be recognised in Q2 2024-25; actuarial gain should be recognised in OCI; comparative figures for Q2 2023-24 should be restated for the revenue error and adoption of new Ind AS.
 - All items except the legal settlement gain are not relevant to interim reporting and must be dealt with only at the year-end.
4. Calculate the capital gain tax liability (without considering surcharge) at the time of sale of property for AY 25-26? VI
- ₹ 17,84,800
 - ₹ 14,65,625
 - ₹ 19,76,800
 - ₹ 13,45,625
5. Which of the following statement(s) is/are correct with respect to GST implications?
- M/s GHB Consultants should have charged CGST and SGST on all services as TSL SEZ unit is located in Gujarat.
 - Supply to TSL SEZ unit is considered zero-rated supply and supplier must issue invoice charging IGST if supplying without LUT/Bond.
 - TSL's view in relation to services provided by Poonawala & Associates is incorrect.
- Statement (i) and (ii)
 - Statement (ii)
 - Statement (i) and (iii)
 - Statement (ii) and (iii)
- (5 × 2 = 10 Marks)**
6. Identify and explain the problem with reference to the observations of team appointed by the management.
(2 Marks)
- Suggest which system could be implemented to resolve the inefficiencies and align departmental goals with overall organizational objectives and why?
(3 Marks)
7. Discuss the statutory provisions which form the basis of observations of the auditor relating to receipt of export proceeds in convertible foreign exchange.
(5 Marks)
8. As a Chartered Accountant, you are asked to prepare a checklist of all the essential documents TSL must compile to file a successful refund claim in Form GST RFD-01 for the ₹ 90,000 additional IGST paid.
(5 Marks)

ANSWERS

I. Answers to the Multiple Choice Questions

1. **The correct answer is (B)** - Improper use of operational metrics as Critical Success Factor

Reason: This is actually a Key Performance Indicator (KPI). CSFs are broader areas that influence success, not measurable targets.

2. **The correct answer is (D)** - A Company not registered under FCRA must obtain prior permission before accepting any foreign contribution.

Reason: Under Section 11 of the FCRA, 2010, no person (including a company) having a definite cultural, economic, educational, religious, or social programme can accept foreign contribution unless has either obtained registration or prior permission. In this case, the contribution for research is considered a foreign contribution for a social / educational / economic purpose, and accepting it without prior permission is a violation.

3. **The correct answer is (C)** - The legal settlement gain and inventory write -down must be recognised in Q2 2024-25; actuarial gain should be recognised in OC; comparative figures for Q2 2023-24 should be restated for the revenue error and new Ind AS adoption.

Reason: Legal Settlement Gain: Recognised in the interim period (Q2) when it become virtually certain and measurable (as per Ind AS 37 and Ind AS 34)

Inventory Write -down: Must be recognised in the interim financials if evidence arises during the period (Ind AS 2 and Ind AS 34).

Actuarial Gains: As per Ind AS 19, they are recognised in OCI, even in interim financials. Ind AS 34 requires consistent application of accounting policies.

Prior Period Error: Requires retrospective restatement under Ind AS 8, including in interim reports.

New Ind AS Adoption: Retrospective application means comparatives should also be restated as per Ind AS 8. (3.93 Ind AS 34)

4. **The correct answer is (A)**-₹17,84,800

Reason:

Calculation of Long Terms Capital Gain Tax Liability

Particulars	Without Revers Mortgage	Without Revers Mortgage	With Reverse Mortgage	With Reverse Mortgage
	With Index	Without Index	With Index	Without Index
Sales	1,25,00,000	1,25,00,000	1,25,00,00 0	1,25,00,000
Less: Brokerage	75,000	75,000	75,000	75,000
Less: Amount received under reverse mortgage	---	---	9,60,000	9,60,000
Net Consideration	1,24,25,000	1,24,25,000	1,14,65,00 0	1,14,65,000
Less: Index Cost	25,41,000	---	25,41,000	---
Less: Non-Index Cost	---	7,00,000	---	7,00,000
Long term Capital Gain	98,84,000	1,17,25,000	89,24,000	1,07,65,600
Tax %	20%	12.5%	20%	12.5%
Tax Liability	19,76,800	14,65,625	17,84,800	13,45,625

5. The correct answer is (D) - Statement (ii) and (iii)

Reason: Option (i) is incorrect: Supply to SEZ is inter -State supply even if supplier and SEZ are in same State (Section 7 of IGST Act).

Option (ii) is correct: Supply to SEZ is zero-rated, and supplier needs to supply either under bond /LUT without payment of tax or charge IGST.

Option (iii) is correct: SEZ has to deposit RCM and then claim refund.

II. Answers to the Descriptive Questions

6. When departments and functions try to maximise their own performance and efficiency at the expense of the whole organisation it leads to sub-optimisation.

Business integration can be seen as proposed solution because, through it-

- Processes are viewed from an entity's perspective (rather than from the viewpoint of an individual department or function), that stretch from the initial order to the final delivery of a product.
- Information Technology breakthroughs can be used to integrate these processes and activities.

7. Realisation and Repatriation of Export Proceeds:

As per FEMA (Export of Goods & Services) Regulations, 2015, and the Master Direction on Export of Goods and Services, export proceeds must be realised and repatriated to India within the prescribed time limit:

For normal goods and services: 9 months from the date of export.

Where an exporter receives advance payment (with or without interest), from a buyer / third party named in the export declaration made by the exporter, outside India, the exporter shall be under an obligation to ensure that -

The shipment of goods is made within one year from the date of receipt of advance payment.

In case of full conversion of ECB into equity, the reporting to the Reserve Bank will be as under: the entire portion is to be reported in Form FC-GPR, while reporting to DSIM in Form ECB 2 Return should be done with remarks "ECB fully converted to equity". Subsequent filing of Form ECB 2 Return is not required.

Limit for financial commitment - (1) The total financial commitment made by an Indian entity in all the foreign entities taken together at the time of undertaking such commitment shall not exceed 400 percent of its net worth as on the date of the last audited balance sheet or as directed by the Reserve Bank, in consultation with Central Government from time to time.

8. Checklist for documentary evidence to be submitted:

A statement containing:

- number and date of export invoices along with copy of such Invoices,
- the number and date of shipping bills or bills of export along with copy of such shipping bills or bills of export,
- the number and date of Bank Realisation Certificate (BRC) or Foreign Inward Remittance Certificate (FIRC) in respect of such shipping bills or bills of export along with copy of such BRC / FIRC.
- the details of:
 - ✓ refund already sanctioned,
 - ✓ the number and date of relevant supplementary invoices or debit note issued subsequent to the upward revision in prices along with copy of such supplementary invoices/debit notes.
- the details of:
 - payment of additional amount of IGST,
 - proof of payment of such additional amount of integrated tax and interest paid thereon,
 - number and date of FIRC in respect of additional FOREX received in respect of upward revision in price of exports along with copy of such FIRC.

Certificate issued by a practicing-chartered accountant or a cost accountant to the effect that the said additional FOREX remittance is on account of such upward revision in price of the goods subsequent to exports

Copy of contract or other documents, as applicable. A reconciliation statement reconciling the value of supplies declared in supplementary invoices, debit notes or credit notes issued along with relevant details of BRC or FIRC.

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Retail Stores Limited (RSL) is a public listed (in top 1000) company and is one of India's largest retailers (by revenue and store count), operating a chain of hypermarkets, discount department stores, and grocery stores. Founded in 2001 by Mr. G, RSL has grown into a national powerhouse with hundreds of stores in multiple locations. RSL is having subsidiaries also as part of the group with each subsidiary being managed by separate directors (no common director). Out of all subsidiaries, RLV is considered as a material subsidiary. RSL has been successful due to its ability to offer low prices achieved through:

- Efficient Supply Chain Management.
- Economies of Scale.
- Minimal Operating Costs.

With a strong presence in both physical and online retail, RSL has revolutionized India's shopping experience.

RSL also imports premium chocolates (Ziva) from Europe by paying applicable Indirect taxes and sell them in the domestic market.

However, with the emergence of e-commerce company like "FAST DELIVERY" that specializes in delivering groceries and daily essentials to customers' doorsteps, often within 10 minutes, RSL's turnover is moving southwards as compared to previous years. (Customers can order from a selection of over 7,000 products, including groceries, fresh fruits and vegetables, bakery items, meats, personal care products, and more, through the FAST DELIVERY mobile app or website). To combat this competition, RSL decided to acquire a private unlisted entity "DAILY NEEDS" which is into the same business as FAST DELIVERY but not at such a large scale operation. RSL identified DAILY NEEDS as a potential target based on market research. A preliminary assessment was conducted to evaluate its financial health, technological assets and strategic fitness. However, as a private unlisted entity, determining its valuation posed challenges. Accordingly, a financial consultant was hired for calculating the business value of DAILY NEEDS.

As soon as the news got out in the market, its effect on share price was showing positive move and those gains stabilized indicating that market took it positively. However, data analysis showed that one Investment entity "APJ Limited" has bought shares of RSL on a consistent basis. This has been done through two different modes, open market purchase and block deal. Total equity bought by it is to the tune of 11%. Management got feared of aggressive buyout and started getting deep into the reason of buying. To its surprise, the investment entity was a subsidiary of its competitor and when this fact came to light, management called the meeting of various stakeholders. Financial consultants were also invited to give suggestions on how to defend against this type of attack by the competitors.

RSL's Board of Directors consists of the following directors:

Ravi, Rahul and Rohit: Graduated in Science.

Vijay, Raman and Mohit Graduated in Commerce.

(Rahul, Raman and Mohit being Independent Directors).

While preparing standalone financial statements for the year ended 31-03-2024, RSL disclosed the following ratios:

	31-03-2023	31-03-2024
Return on Investment	2.75%	20.61%
Inventory Turnover Ratio	8.01	6.10
Return on Capital Employed	15.92%	12.45%
Return on Investment	1.00%	1.75%

Besides this, no other disclosures were made in the notes to financial statements.

Also, these ratios were not disclosed in the Consolidated Financial Statements.

Further, in relation to inventory, RSL has disclosed the following supplementary information in the financial statements for the year ended 31-03-2024:

- (i) Breakdown of Inventory Categories Additional details on raw-materials, work-in-progress and finished goods beyond what is required in the notes.

- (ii) Aging of Inventory - Categorization of inventory based on age to highlight obsolescence risks.
- (iii) Geographical Segmentation Breakdown of inventory held in different locations or regions.
- (iv) Obsolete and Slow-Moving Inventory - Additional disclosures on provisions for obsolete inventory and write-offs.
- (v) Inventory Purchase Commitments - Information on significant future purchase commitments that might impact inventory levels.
- (vi) Impact of Inflation or Price Changes Analysis of how inflation, foreign exchange fluctuations, or commodity price changes affect inventory valuation.
- (vii) Seasonality Effects Explanation of seasonal fluctuations in inventory levels and their impact on financial performance.

Stock includes sizeable quantity and amount of Ziva also. RSL got order from M/s. TFC Limited (a unit situated in SEZ in Mohali, Punjab) for supply on the occasion of valentine day. Chocolates were delivered on 13-02-2025 with invoice value of ₹ 2.5 crore. The Accounts department of the company intimated that RSL is eligible for refund of GST paid at the time of import (₹ 38 lakh) and standing in the books as ITC as supply to SEZ is treated as an exempt supply. They further intimated that within 10 days of filing the claim, RSL will get refund of ₹ 28.5 lakh and balance after the documents get verified by the department.

Ravi, being the Promoter Director has seen the growth of the company since beginning and want his next generation to take the company forward with same zeal and enthusiasm. Ravi's son Rajeev will be inducted after he gets married which is scheduled on 03-02-2025 and lavish arrangements have been made for the ceremony in which top businessman, state level leaders and Bollywood celebrities have been invited. Ravi has delegated the work of arrangements to one of his friends "Rustom" who is taking care of every small thing and arrangements and is aware of the estimated cost of the ceremony. Market news is that this will be one of the high end marriage function which everybody dreams of. One of the Inspectors of the Income Tax Department who is in charge of the Range in which ITR of Ravi falls, is aware of the developments and thinks that the real time information collected today will help him at the time of making assessment. Evidence collected today will be matched with the ITR and any substantial differences can be identified. The Inspector visited the office of Ravi on 31-01-2025 and in his absence, asked Rustom about the details of the function. Rustom showed him the documents. The Inspector took extracts of the same and went. At the time of assessment, the Inspector used the evidences collected and issued a notice for enquiry to Ravi.

Ravi's son, Rajeev is an engineer by profession and runs his own consulting firm RR Enterprises in UAE.

RSZ (P) Ltd. which is a wholly owned subsidiary of RSL obtains technical and consultancy services from RR Enterprises.

I. Multiple Choice Questions

1. What is the biggest challenge in calculation of 'value' of DAILY NEEDS?
 - (A) Arriving at the cost of capital which in turns depend on Beta.
 - (B) Industry-specific factors, market dynamics and geographical similarities.
 - (C) Illiquidity discount is objective and varies by industry and company specifics.
 - (D) Financial statements may not follow standardized accounting practices or might be less detailed.
2. Identify the correct statement in compliance with the SEBI Regulations:
 - (A) RSL should have one Women Director on its Board.
 - (B) RSL should have one independent Women Director on its Board and also majority of directors of RSL should also be a director in RLV.
 - (C) RSL should have one independent Women Director on its Board and any one of Rahul, Raman or Mohit should also be a director in the Board of RLV.
 - (D) RSL should have one independent Women Director on its Board and Rahul, Raman and Mohit should also be directors in the Board of RLV.

3. Whether information used for issue of notice for enquiry to Ravi is validly collected?
- (A) It is not valid as it is based on the documents which were collected during the financial year and such document collection power is not there with the officer of Inspector level.
 - (B) It is not valid as it is based on the information and documents which were collected from Rustom and not Ravi and such document collection power is not there with the officer of Inspector level.
 - (C) It is not valid as it is based on the information and documents which were collected prior to marriage.
 - (D) It is valid as it is based on the information and documents which were collected at the permitted place, permitted time, from the person who had full knowledge about the events and by proper Income Tax Authority.
4. Whether RR Enterprises and RSZ(P) Ltd. are considered to be Associated Enterprises (AE) under the provisions of the Income Tax Act, 1961?
- (A) RR Enterprises and RSZ(P) Ltd. are Associated Enterprises having mutual interest in each other's firm by being relatives.
 - (B) RR Enterprises and RSZ(P) Ltd. are deemed Associated Enterprises as Ravi and Rajeev are relatives and they both control their respective enterprises.
 - (C) RR Enterprises and RSZ(P) Ltd. are not Associated Enterprises as they have no common control in each other companies/entities.
 - (D) RR Enterprises and RSZ(P) Ltd. cannot be considered as Associated Enterprises as they do not hold any stake directly or indirectly in the other enterprises.
5. Whether the classification of supply made to TFC Limited and provisional refund amount calculated is correct?
- (A) Classification is correct but the refund amount is ₹ 30.4 lakh and the same will be received within 7 days after giving the acknowledgement.
 - (B) Classification is incorrect as the same is treated as zero rated supply but the provisional refund amount is correct and the same
 - (C) Classification is incorrect as the same is treated as zero rated supply and also the correct provisional refund amount is ₹ 34.20 lakh and the same will be received within 7 days after giving the acknowledgement.
 - (D) Classification is correct but the refund amount is ₹ 34.20 lakh and the same will be received within 7 days of filing the claim.
- (5 × 2 = 10 Marks)**

II. Descriptive Questions

6. Discuss some defense tactics which a company can adopt in a situation like RSL is facing.
- (6 Marks)**
7. As an auditor, how will you deal with the supplementary information made in relation to inventory in the financial statements for the year ended 31-03-2024?
- (4 Marks)**
8. The Accounts department of RSL is of the view that duty paid at the time of import of premium chocolates is custom duty and not IGST.
- Comment its validity.
- (1 Marks)**
- Also explain:
- (i) Which place is treated as place of supply in case of Import? **(2 Marks)**
 - (ii) At what point and on which value GST is collected on imported goods? **(2 Marks)**

ANSWERS

1. **The correct answer is (A)** - Arriving at the cost of capital which in turns depend on Beta.

Reason:

2. **The correct answer is (C)** - RSL should have one independent Women Director on its Board and any ne of Rahul, Raman or Mohit should also be a director in the Board of RLV.

Reason: Board of Directors [Regulation 17]

Composition of Board: The composition of board of directors (BOD) of the listed entity shall be as follows:

- BOD shall have optimum combination of executive and non -executive directors with at least one-woman director and not less than 50% of the BOD shall comprise of non-executive directors.
- Provided that the BOD of the top 1,000 listed entities shall have at least one independent woman director.

Regulation 24- At least one independent director on the board of directors of the listed entity shall be director on the board of directors of an unlisted material subsidiary, whether incorporated in India or not.

3. **The correct answer is (C)** - It is not valid as it is based on the information and documents which were collected prior to marriage.

Reason: Power to collect information and record statements in connection with any function, ceremony or event [Section 133A(5)]:The income -tax authorities would also have the power to collect information and record the statements of any of the persons concerned at any time after any function, ceremony or event but even before the state of commencement of assessment proceedings for the following year for which the information may be relevant, if they are of the opinion that having due regard to the nature, scale and extent of the expenditure incurred, it is necessary or expedient to do so. This provision is intended to help in collecting evidence about ostentatious expenditure incurred for any function, etc., immediately after the event which may be used at the time of the assessment.

Meaning of "income tax authority" and restriction to exercise the power under this section [Clause (a) of Explanation to section 133A]. "Income tax authority". For the purpose of this section, means-

- (i) a principal Commissioner or Commissioner, a Principal Director or Director, a Joint Commissioner or Joint Director, an Assistant Director or Deputy Director or Deputy Director or an Assessing Officer or a Tax Recovery Officer; and
- (ii) includes an inspector of Income tax (only for the purpose of inspection of books of account or other documents, placing marks of identification on such books of account or other documents inspected by him and making or causing to be made extracts or copies therefrom and recording statements from any person in connection with any ceremony, function or event mentioned in section 133A(5) above).

4. **The correct answer is (B)** - RR Enterprises and RSZ(P) Ltd. are deemed Associated Enterprises as Ravi and Rajeev are relatives and they both control their respective enterprises.

5. **The correct answer is (C)** - Classification is incorrect as the same is treated as zero rated supply and also the correct provisional refund amount is ₹ 34.20 lakh and the same will be received within 7 days after giving the acknowledgement.

Reason: Zero rated supply: Zero rated supply shall have the meaning assigned to it in section 16 of the IGST Act, 2017 [Section 2 (23) of the IGST Act, 2017]. As per section 16(1) of IGST Act, "zero rated supply" means any of the following supplies of goods or services or both, namely:-

- (a) export of goods or services or both; or
- (b) supply of goods or services or both for authorized operations to a Special Economic Zone developer or a Special Economic Zone unit.

GST law provides for grant of provisional refund of 90% of the total refund claim, in case the claim relates for refund arising on account of zero -rated supplies. The provisional refund would be paid within 7 days after giving the acknowledgement

II. Answers to the Descriptive Questions

6. A target company can adopt a number of tactics to defend itself from hostile takeover through a tender offer:
- **Divestiture** - In a divestiture the target company divests or spins off some of its businesses in the form of an independent, subsidiary company. Thus, reducing the attractiveness of the existing business to the acquirer.
 - **Crown jewels** - When a target company uses the tactic of divestiture it is said to sell the crown jewels. In some countries such as the UK, such tactic is not allowed once the deal becomes known and is unavoidable.
 - **Poison pill** - The tactics used by the acquiring company to make itself unattractive to a potential bidder is called poison pills. For instance, the acquiring company may issue substantial amount of convertible debentures to its existing shareholders to be converted at a future date when it faces a takeover threat. The task of the bidder would become difficult since the number of shares having voting control of the company increases substantially.
 - **Poison Put** - In this case the target company issues bonds that encourage the holder to cash in at higher prices. The resultant cash drainage would make the target unattractive.
 - **Greenmail** - Greenmail refers to an incentive offered by management of the target company to the potential bidder for not pursuing the takeover. The management of the target company may offer the acquirer a higher price for its shares than the market price.
 - **White knight** - In this a target company offers to be acquired by a friendly company to escape from a hostile takeover. The possible motive for the management of the target company to do so is not to lose the management of the company as the hostile acquirer may change the management.
 - **White squire** - This strategy is essentially the same as white knight and involves sell out of shares to a company that is not interested in the takeover. Consequently, the management of the target company retains its control over the company.
 - **Golden parachutes** - When a company offers hefty compensations to its managers if they get ousted due to takeover, the company is said to offer golden parachutes. This reduces acquirer's interest for takeover.
 - **Pac-man defence** - This strategy aims at the target company making a counter bid for the acquirer company. This would force the acquirer to defend itself and consequently may call off its proposal for takeover.

7. Supplementary Information Presented with the Financial Statements

If supplementary information that is not required by the applicable financial reporting framework is:

- presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's professional judgment, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion.
- not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited.

In the case of Retail Stores Limited [RSL], the auditor shall evaluate the nature and presentation of the supplementary inventory disclosures, including the breakdown of inventory categories, aging, geographical segmentation, obsolete and slow-moving items, purchase commitments, impact of inflation or price changes, and seasonality effects, for the year ended 31st March 2024.

As per SA700, if these disclosures are considered integral to the financial statements (for example, forming part of the notes to accounts on inventory), they shall be covered by the auditor's opinion.

If they are not integral, the auditor must ensure that they are clearly differentiated from the audited financial statements.

Where such differentiation is not made and management refuses to revise the presentation, the auditor shall appropriately identify in the audit report that the supplementary information has not been audited and is not covered by the auditor's opinion.

8. IGST on goods imported into India is levied and collected in accordance with the provisions of section 3 of the Customs Tariff Act, 1975 [Proviso to section 5(1) of the IGST Act, 2017]. Thus, though goods imported into India are leviable to IGST under the IGST Act, machinery of the customs law is used to levy and collect the same.

- (i) The place of supply of goods, imported into India is the location of the importer [Section 11 of the IGST Act, 2017] - Punjab.
- (ii) IGST on goods imported into India is levied and collected at the point when duties of customs are levied on the said goods under the Customs Act, 1962. Customs duty is leviable when importation of goods gets complete, i.e. when the goods become part of the mass of goods within the country; the taxable event being reached at the time when the goods reach the customs barriers and bill of entry for home consumption is filed. Thus, the point of levy and collection of IGST is the point when the bill of entry for home consumption is filed.

The value of the goods for the purpose of levying IGST is the assessable value of the imported goods determined under section 14 of the Customs Act, 1962 plus customs duty levied under that Act and any other sum chargeable on the said goods under any law for the time being in force as customs duties excluding IGST and GST Compensation Cess (wherever applicable).