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Case Study – 1 :

Zenith Sports Limited is a professionally managed public company incorporated in 2008, having its registered office and principal manufacturing facilities located in Ludhiana, Punjab, a region historically recognized as one of India's largest hubs for sports goods manufacturing. Over the past decade and a half, the company has evolved from a mid-sized domestic manufacturer into an integrated sports solutions provider engaged in the design, manufacture, branding and export of a diversified portfolio of sports equipment and performance products. Its product range includes professional-grade cricket bats and protective gear, footballs and volleyballs manufactured using thermally bonded technology, indoor sports equipment, strength-training and fitness machines, sportswear, and customized team kits supplied to educational institutions, academies and professional leagues.

Zenith Sports Limited operates three semi-automated manufacturing plants equipped with modern assembly lines, robotic finishing systems and in-house quality testing laboratories. The company places significant emphasis on research and development, particularly in lightweight composite materials, shock-absorbent polymers and moisture-resistant sports fabrics. It supplies products through a hybrid distribution model comprising institutional sales, authorized dealer networks across more than twenty states, exclusive brand outlets in metropolitan cities and e-commerce platforms. In addition, the company exports its products to various jurisdictions and has established wholly owned subsidiaries in the United Kingdom, Singapore and South Africa to strengthen its international presence and brand positioning.

While international expansion has enabled revenue diversification and foreign exchange earnings, it has also introduced complexities in global treasury management. The company has been experiencing delays in realization of receivables from certain overseas customers, resulting in elongated working capital cycles. Further, frequent inter-company settlements in foreign currency have led to high banking and transaction costs. Profits accumulated in the South African subsidiary remain substantially unremitted owing to local exchange

control regulations, thereby restricting free repatriation of funds. Simultaneously, the Singapore subsidiary is holding surplus cash balances that remain idle due to limited local investment opportunities aligned with group treasury policy. The Board of Directors is therefore considering adoption of an integrated international cash management framework aimed at optimizing global cash flows, minimizing transaction costs, improving liquidity deployment and strategically investing surplus funds. However, the management acknowledges that achieving both efficient cash mobility and optimal yield on excess funds may require balancing conflicting treasury objectives.

From a financial reporting perspective, Zenith Sports Limited is transitioning to Indian Accounting Standards (Ind AS) for the first time with effect from 1st April, 2024. The transition marks a significant milestone in the company's financial evolution, as it prepares to align its reporting framework with globally converged accounting standards. During the process of first-time adoption, management is evaluating adjustments arising from recognition, measurement and presentation differences between previous GAAP and Ind AS.

A significant matter under review relates to a government-assisted borrowing obtained on 1st April, 2022, whereby the company received a term loan of ₹ 10 crores at a concessional interest rate of 2% per annum, while the prevailing market rate for comparable borrowings was approximately 9% per annum. Under the previous GAAP framework, the loan was recognized at its face value of ₹ 10 crores, and no separate government grant component was identified or accounted for. As the loan continues to remain outstanding as at the transition date, the company is assessing whether the concessional element represents a government grant that requires separate recognition and how such adjustment would impact retained earnings on the date of transition. The evaluation involves complex considerations relating to fair valuation of financial liabilities and systematic recognition of grant income over the relevant period.

Simultaneously, the company has undertaken substantial capital expenditure to modernize its manufacturing facilities and enhance production efficiency. On 1st April, 2021, Zenith Sports Limited had acquired an old-generation manufacturing machine for ₹ 12,00,000 (exclusive of GST), on which GST at

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18% – comprising CGST of ₹ 1,08,000 and SGST of ₹ 1,08,000 – was fully availed as input tax credit. As part of a technology upgradation plan implemented in August, 2023, the company installed advanced automated machinery and disposed of the old machine on 20th August, 2023 for ₹ 5,00,000 (exclusive of GST) to an unrelated buyer. The disposal has prompted examination of GST implications on sale of capital goods, including tax liability determination and compliance requirements under applicable indirect tax provisions.

To strengthen its export competitiveness and upgrade technological capability, Zenith Sports Limited obtained an EPCG (Export Promotion Capital Goods) Authorization on 1st April, 2024. Under this scheme, the company imported CNC machines having a CIF value of ₹ 5,00,00,000, resulting in savings of Basic Customs Duty amounting to ₹ 50,00,000, IGST of ₹ 90,00,000 and Social Welfare Surcharge of ₹ 5,00,000. Additionally, it procured indigenous machinery valued at ₹ 2,00,00,000, leading to notional customs duty savings of ₹ 20,00,000. Based on the preceding three years' export performance, the Average Export Obligation (AEO) was fixed at ₹ 3,00,00,000 per annum.

Upto 31st March, 2026 (During last 3 years), Zenith achieved direct physical exports aggregating ₹ 8,50,00,000, exports through third parties amounting to ₹ 2,00,00,000, exports under RoDTEP of ₹ 1,50,00,000 and supplies of ITA-1 items to Domestic Tariff Area with realization in free foreign exchange amounting to ₹ 1,00,00,000. The management is currently analyzing whether the cumulative export performance satisfies the stipulated export obligation criteria under the EPCG scheme and whether each category of supply qualifies for discharge of obligation.

On the corporate governance front, developments within the Board composition have attracted attention. At the Annual General Meeting held on 28th September, 2022, Mr. P was appointed as a director for a term of five years. However, he tendered his resignation on 10th December, 2024 due to health reasons. The Articles of Association of the company do not expressly provide for the manner of filling casual vacancies. In its meeting dated 5th January, 2025, the Board appointed Ms. Q to fill the vacancy arising from Mr. P's resignation, but the appointment was not placed before shareholders for approval at the immediately

succeeding General Meeting. Subsequently, Ms. Q also resigned from office on 20th August, 2025. These developments have raised questions regarding procedural compliance, validity of appointments and tenure continuity under the applicable provisions of Company Law.

During the financial year 2025-26, Zenith Sports Limited, being liable to tax audit under the Income-tax Act, 1961 and following the mercantile system of accounting, engaged in significant transactions with suppliers registered under the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act). Total purchases from Micro and Small Enterprises during the year amounted to ₹ 80,00,000. Of this, ₹ 50,00,000 was paid within 30 days as per the written agreement, ₹ 10,00,000 was paid after 60 days despite the agreement permitting only 45 days' credit, and ₹ 20,00,000 remained outstanding as at 31st March, 2026 beyond the permissible period. Interest under Section 16 of the MSMED Act aggregated ₹ 1,20,000, out of which ₹ 70,000 was paid and ₹ 50,000 remained payable. As the entire purchase amount was debited to the Profit and Loss Account, the company is examining the tax implications of delayed payments, deductibility of interest and disclosure requirements under tax audit reporting.

Further, in relation to statutory audit for FY 2025-26, the auditors engaged members of the internal audit department to provide direct assistance in testing operating effectiveness of Internal Financial Controls over revenue recognition, performing substantive procedures on trade receivables and attending physical verification of Property, Plant and Equipment. Although the technical competence of internal audit personnel was evaluated, no formal documentation was prepared assessing threats to objectivity, particularly considering that the Chief Internal Auditor reported functionally to the Chief Financial Officer. No written confirmation was obtained from internal auditors acknowledging confidentiality and independence obligations. The audit file recorded only a general statement that internal audit work had been reviewed, without specifying the reviewer's identity, date of review or extent of procedures performed, and detailed working papers prepared by internal auditors were not included in the audit documentation. During internal quality review, the engagement partner justified the approach on the premise that since internal audit is mandatory for

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such companies under the Companies Act, 2013, documentation and reliance requirements stand inherently reduced – an assertion currently under professional scrutiny.

In summary, Zenith Sports Limited stands at a critical juncture characterized by convergence to Ind AS, complex government-assisted financing arrangements, global treasury optimization challenges, capital goods modernization, and export incentive compliance under EPCG, MSME-related tax implications, corporate governance considerations and audit documentation concerns. The integration of these financial, regulatory, operational and governance aspects makes the company's current scenario multidimensional, requiring coordinated evaluation from accounting, taxation, corporate law, foreign trade policy and auditing perspectives to ensure sustained growth, compliance integrity and financial transparency.

Multiple Choice Questions

Provide the correct or most appropriate option to the following questions **5×2 =10**

1.1. Which of the following is the MOST appropriate accounting treatment for government loan at the date of transition to Ind AS ?

(A) Re-measure the loan at fair value using the market rate and recognize the difference between fair value and carrying amount as a government grant under Ind AS 20.

(B) Continue to recognize the loan at amortized cost under Ind AS 109 and recognize the benefit of below-market interest rate as a government grant on transition.

(C) Classify the loan as a financial liability or equity instrument as per Ind AS 32 and apply Ind AS 109 and Ind AS 20 prospectively, without recognizing any government grant for the past benefit.

(D) Recognize the loan as an equity instrument due to concessional interest and transfer the benefit directly to retained earnings.

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1.2. Which of the following combination of international cash management techniques would be MOST appropriate for Zenith Sports Limited ?

(A) Accelerating cash inflows, managing blocked funds, netting, and investing excess cash.

(B) Accelerating cash inflows, international transfer pricing, and investing excess cash.

(C) Managing blocked funds, netting, international transfer pricing, and investing excess cash.

(D) Accelerating cash inflows, leading and lagging strategy, and investing excess cash.

1.3. Based on the above facts, consider the following statements :

(I) The vacancy created due to resignation of Mr. P is a casual vacancy.

(II) The Board of Directors was not empowered to fill the vacancy as the Articles were silent.

(III) Approval of members in the immediate next general meeting was mandatory for the appointment of Ms. Q.

(IV) The vacancy created due to resignation of Ms. Q shall again be treated as a casual vacancy.

(V) If validly appointed, Ms. Q could hold office only upto the unexpired term of Mr. P.

Which of the following is/are correct ?

(A) Statements (I), (III) and (V) only

(B) Statements (I), (II) and (IV) only

(C) Statements (II), (III) and (V) only

(D) Statements (I), (III), (IV) and (V) only

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1.4. At the time of disposal of the old machinery, what amount of CGST and SGST is Zenith Sports Limited required to pay under Rule 40(2) of the CGST Rules ?

Options

(A) CGST ₹ 54,000 and SGST ₹ 54,000

(B) CGST ₹ 45,000 and SGST ₹ 45,000

(C) CGST ₹ 54,000 and SGST ₹ 54,000 or GST on transaction value, whichever is higher

(D) CGST ₹ 45,000 and SGST ₹ 45,000 or GST on transaction value, whichever is higher

1.5. Which of the following statements are correct in respect of reporting under Clause 22 of Form 3CD and allowability of deduction under Section 43B(h) of the Income- tax Act, 1961 in compliance with MSMED Act, 2006 ?

Statements :

I. ₹ 1,20,000 being interest under MSMED Act is inadmissible under Section 23 and shall be reported under Clause 22(i).

II. ₹ 80,00,000 shall be reported under Clause 22(ii), irrespective of payment status.

III. ₹ 20,00,000 shall be reported under Clause 22(iii) (b) since it satisfies conditions of Section 43B(h).

IV. ₹ 10,00,000 paid after 60 days shall also be reported under Clause 22(iii)(b).

V. ₹ 20,00,000 outstanding will be allowed as deduction if paid before due date of filing return under Section 139(1).

Options

(A) I, II & III only

(B) I, II, III & IV only

(C) I, II & V only

(D) II, III & IV only

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Descriptive Questions :

1.6. Zenith Sports Limited is exposed to foreign exchange risk due to its international trade and overseas investments. The finance department faces the following situations : 5

(a) The treasury team wants to predict day-to-day movements in the USD/INR exchange rate for speculative trading over the next few days using historical price patterns and charts.

(b) The management is evaluating a long-term investment project in Europe and needs an exchange rate forecast based on inflation, interest rates, balance of payments, and economic growth indicators.

(c) The Company plans to hedge a USD receivable due after three months and considers using the current spot and forward exchange rates available in the foreign exchange market.

(d) Due to high volatility and uncertainty in currency movements, the company decides to rely on more than one forecasting method and arrive at a final forecast by assigning weights to different techniques.

Identify and explain the most appropriate exchange rate forecasting technique applicable in each of the above four situations.

1.7. (a) Compute the Specific Export Obligation (EO) to be fulfilled under the EPCG Scheme. 5

(b) Determine whether the company is eligible for condonation of remaining EO under early fulfillment incentive provisions.

(c) Briefly state whether the following exports are eligible for EO fulfillment under EPCG Scheme :

(i) Exports through third party

(ii) Exports under RoDTEP

(iii) Supplies of ITA-1 items to DTA against free foreign exchange

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1.8. The SA 610 relating to "Using the work of an Internal Auditor" deals with certain aspects of relationship between internal and external auditors including direct assistance by internal auditors and audit documentation. 5

In the light of the above, critically evaluate the compliance position of the statutory auditor based on the facts provided in the case study. Identify the major lapses, if any, and explain whether statutory recognition of internal audit reduces the documentation responsibility of the external auditor.

Case Study – 2 :

ABC Company Limited (ABC) is a diversified engineering and technology company engaged in the design, manufacture and supply of specialised industrial equipment and technology-enabled solutions to customers in India and overseas. The engineering industry in which ABC operates is characterised by increasing competition, rapid technological developments and demanding customer requirements relating to product quality, delivery schedules and customised solutions. ABC has established manufacturing facilities, a network of suppliers and customers and an integrated business-support infrastructure. ABC uses an enterprise resource planning system for several of its business processes, including procurement, inventory management, production, sales, finance and accounting. The company has also been progressively adopting technology to improve operational efficiency and strengthen its internal processes. During the financial year 2026-27, ABC undertook a capacity-expansion programme, reviewed its quality-management practices and initiated various technology-driven projects. It also interacted with financial institutions for funding its expansion and was required to deal with various tax and regulatory matters arising in the ordinary course of its business. In the course of these activities, several matters came up before the management and the Board of Directors.

During the year, ABC experienced an increase in customer complaints relating to certain specialised equipment manufactured at one of its facilities. The

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management had already incurred substantial expenditure on quality control and inspection. However, the increase in complaints indicated that a broader review of ABC's quality-management practices was necessary. The Operations Head therefore, placed the following proposals before the management for consideration : (i) develop a long-term relationship with one reliable supplier for each major raw material to minimise variation in input quality; (ii) continue inspection at critical stages of production to identify defects before dispatching finished goods; (iii) constitute cross-functional teams comprising personnel from production, quality control, procurement and marketing to address process improvement initiatives; (iv) introduce aggressive production quotas and evaluate employees primarily on the basis of numerical performance targets; (v) institute periodic training programmes to enhance employees' skills in process improvement and problem-solving techniques; and (vi) foster a work environment in which employees can freely report quality issues and process deficiencies without fear of criticism or punitive action. The Operations Head seeks to align ABC's quality-management practices with the principles of Deming's 14-Point Methodology.

ABC's technology-enabled solutions division also undertakes event-infrastructure assignments for corporate customers. During the financial year 2026-27, the following transactions took place in connection with such activities : (i) ABC received an advance from a customer for providing event-infrastructure services for an international business conference. GST was paid on the advance. Subsequently, a tax invoice was issued before the scheduled supply of service. Owing to unforeseen business exigencies of the customer, the conference was cancelled before the event could be conducted; (ii) in another case, ABC received an advance for providing event-infrastructure services for a corporate off-site event. A receipt voucher was issued and GST was paid on the advance. Before any tax invoice could be issued, the customer cancelled the contract due to a change in travel plans; and (iii) ABC supplied customised decorative lighting

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systems under a tax invoice. Subsequently, the customer returned the entire consignment owing to revised design specifications. The Finance Manager of ABC is required to determine the appropriate GST treatment of these transactions before finalising the relevant GST records and returns.

For purposes of the statutory audit of ABC, the engagement partner commenced the audit planning process by asking the audit team to review the company's system of internal controls before finalising the audit programme. The review indicated that ABC's system of internal control contained both manual and automated elements. Controls over routine purchase and sales transactions appeared to be operating effectively. However, the audit team identified weaknesses in controls relating to inventory adjustments and manual journal entries passed at the year-end. The engagement partner noted that the review of internal controls would assist in determining the extent of reliance that could be placed on the system and in locating areas of weakness so that the audit programme and the nature, timing and extent of audit procedures could be adjusted, wherever necessary. The engagement partner now has to decide how the results of this internal control review should be reflected in the audit programme for ABC.

Pursuing its long-term technology strategy, ABC's research and innovation division developed an AI-based industrial analytics solution capable of predicting equipment failures and improving maintenance efficiency. The management believed that the solution had potential applications beyond ABC's existing customer base. The Board therefore considered commercialising the technology through a proposed separate private company in which ABC would make an initial investment. The proposed start-up venture would subsequently seek equity funding from venture capital investors. Before determining the extent of ABC's investment and the equity to be offered to external investors, the Board sought an appropriate method for valuing the proposed start-up venture. The Chief Financial Officer suggested applying one of the traditional methods of business valuation. The investment team, however, expressed reservations regarding the

suitability of traditional methods for valuing a new-age start-up, which would have valuable intellectual property but limited tangible assets and no established track record of positive cash flows. The Board now requires an assessment of the traditional valuation approaches in the context of the proposed start-up venture.

During the year-end financial reporting process, the management of ABC reviewed the draft financial statements for the year ended 31st March, 2026 before their approval by the Board. While reviewing the financial statements, the management considered the fundamental requirements relating to compliance with Ind AS, selection and application of accounting policies and presentation of a true and fair view. The management also considered the disclosures required in circumstances where compliance with the specific requirements of Ind AS would not, by itself, be sufficient to enable users to understand the effect of particular transactions, events or conditions. The following observations were made by the management : (i) the financial statements contain an explicit and unreserved statement that they comply with Ind AS. The auditor's report contains a qualification arising from a disagreement with the management regarding the application of one Accounting Standard. However, the management, based on its assessment of the applicable requirements of Ind AS, believes that the financial statements comply with all the applicable Ind AS; (ii) the management selected and applied accounting policies in accordance with Ind AS 8 and presented information in a manner that is relevant, reliable, comparable and understandable; (iii) the management concluded that, where an inappropriate accounting policy had been adopted, disclosure of the accounting policy in the notes to accounts would adequately rectify the inappropriate accounting treatment adopted in the financial statements; (iv) in an extremely rare circumstance, the management departed from a requirement of an Ind AS to present a true and fair view. It disclosed the title of the Ind AS departed from, the nature of the departure, the treatment that the Ind AS would require, the reason why such treatment would be so misleading, and the financial effect of the departure for each period presented;

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(v) while assessing whether the financial statements present a true and fair view, the management considered whether additional disclosures were necessary to enable users to understand the impact of a particular item on the financial statements; and (vi) in the above case of departure from an Ind AS, the management concluded that disclosure of the title of the Ind AS departed from, the nature of the departure and the reason why the treatment required by the Ind AS would be so misleading was sufficient, and that disclosure of the treatment required by the Ind AS and the financial effect of the departure was not necessary. The Chief Financial Officer is required to identify the observations that require reconsideration before the financial statements are approved.

In connection with its capacity-expansion programme, ABC imported specialised machinery from Germany for installation at its new manufacturing facility. To facilitate early customs clearance, ABC electronically filed the Bill of Entry on 15th March, 2026, before the vessel carrying the machinery obtained entry inwards at Chennai Port on 18th March, 2026. The Finance Manager is required to determine the date that should be considered for applying the rate of duty and tariff valuation to the imported machinery.

To finance its capacity-expansion programme, the company approached a financial institution for long-term financing for a new manufacturing facility. The institution sanctioned a term loan of ₹ 100 crores. Under the financing arrangement, the institution was entitled to nominate one person to the Board of ABC. The Articles of Association of ABC also authorised the appointment of nominee directors. The institution nominated a person for appointment to the Board. The management explained that the purpose of the nomination was to enable the institution to safeguard its interests and monitor ABC's compliance with the important terms of the financing arrangement. During discussions before the appointment, certain directors raised questions regarding the role and eligibility of a nominee director, particularly whether such appointment could be made merely on the basis of the financing arrangement and whether the nominee

was required to represent the nominating institution. The Board is required to determine the legal position before proceeding with the appointment.

While ABC was proceeding with its business activities, it received a communication from the income-tax authorities in connection with assessment proceedings for the Assessment Year 2026-27. The Tax Manager was asked to examine certain positions taken by ABC with regard to actions of the income-tax authorities. The following matters arose for consideration : (i) a notice issued under the Income-tax Act, 1961 was served on the Principal Officer of ABC in the form of an electronic record in the prescribed manner. ABC accepted the service of the notice as valid; (ii) an assessment order contained an inadvertent clerical error. The order was otherwise, in substance and effect, in conformity with or according to the intent and purpose of the Income-tax Act, 1961. ABC contended that the assessment order was invalid on account of the clerical error; (iii) during the assessment proceedings, ABC appeared before the Assessing Officer and co-operated in the enquiry without raising any objection regarding non-service or improper service of notice before completion of the assessment. Subsequently, ABC contended that it could challenge the validity of the assessment on the ground that the notice had not been properly served; and (iv) an approval earlier granted to ABC was withdrawn by the prescribed authority after the reasons for withdrawal were recorded and ABC was given a reasonable opportunity of showing cause against the proposed withdrawal. ABC accepted the withdrawal of the approval in the circumstances stated above. The Tax Manager is required to examine the positions taken by ABC and determine which of them can validly be sustained under the Income-tax Act, 1961.

ABC's technology-transformation programme involved automating the accounting process relating to the sale and dispatch of standardised industrial components and spare-parts from its sales and dispatch centre. At present, the process involves several manual steps across the sales, billing, stores and accounts functions, and also requires recording of customer receipts. This result

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in duplication of data entry and a time lag between the sale of goods, generation of the invoice, recording of receipts, updating of inventory records and recording of the accounting transaction. The Chief Internal Auditor suggested that the proposed automated process should integrate the front-end transaction processing with the back-end inventory, tax and accounting processes. The management decided to introduce the proposed system at the sales and dispatch centre. During the initial implementation of the proposed system, the Chief Internal Auditor observed the following issues : (1) some employees in ABC's sales and accounts functions, who were accustomed to the existing manual procedures, faced difficulty in operating the new system. In one instance, an employee entered incorrect transaction details while processing a sale, resulting in an error in the related records; (2) automation of certain repetitive activities in the sales, dispatch and accounting functions could make some existing manual positions redundant; and (3) in another instance, an employee received an email appearing to originate from an internal department and, without verifying its authenticity, entered the employee's login credentials through a link provided in the email. The incident was detected before any material loss occurred.

Multiple Choice Questions

Provide the correct or most appropriate option to the following questions **5×2 =10**

2.1. Based on the review of ABC's internal controls, which of the following statements correctly reflects the action that may be taken by the engagement partner in finalising the audit programme ?

(i) The engagement partner may place reliance on particular internal controls found to be operating effectively as part of the preliminary evaluation.

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(ii) The weaknesses identified in inventory adjustments and year-end journal entries may require modification of the audit programme and the nature, timing and extent of audit procedures in those areas.

(iii) Since weaknesses have been identified in certain controls, the engagement partner should disregard the entire internal control system and adopt a fully substantive audit approach for all areas of the audit.

(iv) The review of the internal control system enables the engagement partner to locate areas of weakness and determine whether modification of the audit programme is necessary.

(v) Once a weakness is identified in an internal control, the auditor is required to treat the related financial statements as unreliable irrespective of the results of further audit procedures.

Which of the following statements are correct ?

(A) (i), (ii) and (iv) -

(B) (i), (iii) and (v)

(C) (ii), (iii) and (iv)

(D) (i), (iv) and (v)

2.2. With reference to the positions considered by the Tax Manager as referred in the case study, identify the positions taken by ABC that are in accordance with the provisions of the Income-tax Act, 1961.

(A) (ii) and (iii)

(B) (iii) and (iv)

(C) (i) and (iv)

(D) (i) and (ii)

2.3. In evaluating ABC's quality-management practices, which combination of the proposals as referred in the case study is most consistent with Deming's 14-Point Methodology ?

(A) (i), (ii), (iii) and (vi)

(B) (ii), (iii), (iv) and (v)

(C) (i), (iv), (v) and (vi)

(D) (i), (iii), (v) and (vi)

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2.4. In determining the eligibility and role of the nominee director proposed to be appointed to the Board of ABC, consider the following statements with reference to the relevant provisions of the Companies Act, 2013 :

(i) A person may be appointed as a nominee director where an institution has a nomination right arising from an agreement.

(ii) A nominee director is appointed to represent the interests of the body that nominated him for appointment as a director.

(iii) A financial institution granting financial assistance may nominate its representative to safeguard its interests.

(iv) A nominee director can be appointed by the Board even if the Articles of the company do not authorise such appointment.

(v) A nominee director can be appointed only where the nominating institution holds equity shares in the company.

(vi) The Board may appoint a nominee director where the Articles authorise such appointment and the nomination right arises under any law or an agreement.

Which of the following statements are correct ?

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

2.5. Based on the management's review of ABC's draft financial statements, identify the observations as referred in the case study that requires reconsideration before the financial statements are approved.

(A) Statements (ii) and (iii)
(B) Statements (iii) and (vi)
(C) Statements (iii) and (v)
(D) Statements (ii) and (iv)

Descriptive Questions :

2.6. Briefly explain the three globally accepted traditional methods of valuing a business. Discuss the applicability of each method to the proposed technology start-up. Which of these traditional valuation methods would be relatively more suitable for valuing the proposed start-up ? Briefly justify your answer. 5

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2.7. The Chief Internal Auditor of ABC, after reviewing the proposed changes to the existing process, is required to advise the management on the proposed automated accounting process. 5

Accordingly :

(A) Explain how the proposed front-end and back-end processes of ABC should be integrated to achieve an automated accounting process; and

(B) State the appropriate responses to the issues observed by the Chief Internal Auditor during the initial implementation.

2.8 (A) With reference to ABC's filing of the Bill of Entry before the vessel obtained entry inwards, explain the relevant date for determination of the rate of duty and tariff valuation with reference to the relevant provisions of the Customs Act, 1962. 5

(B) Advise ABC on the appropriate GST treatment of the international business conference, corporate off-site event and return of customised decorative lighting systems, giving brief reasons in each case.

Case Study – 3 :

VDSL Technologies Limited (VDSL) is a listed Indian information technology and digital solutions company engaged in developing and providing software, digital platforms and technology-based business solutions to customers in India and overseas. The company has expanded its operations through different business divisions and a group of companies engaged in related technology and business activities. The information technology and digital-solutions industry in which VDSL operates is characterised by rapid technological developments, increasing competition, changing customer expectations and growing reliance on digital platforms and data-driven processes. VDSL has established business operations in India and overseas and works with a network of customers, suppliers, service providers and strategic business partners. VDSL uses integrated information

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estimated its income-tax liability at ₹ 8.40 crores. The company paid advance tax of ₹ 8.20 crores within the prescribed dates and filed its income-tax return before the applicable due date. The management had also put in place procedures to monitor compliance with its tax obligations and ensure that the necessary records were maintained. In the second situation, during the same financial year, VDSL received ₹ 12 crores from certain services provided to customers. During an internal review, it was found that a senior executive had proposed classifying ₹ 2 crores of the customer receipts in the ERP system as income exempt from income-tax, although the receipts were taxable under the Income-tax Act, 1961. The proposal was intended to reduce the taxable income and consequent tax liability of VDSL. In the third situation, VDSL proposed to acquire and install new machinery costing ₹ 4 crores for expansion of its operations. The machinery was expected to be ready for use either in March, 2026 or April, 2026. The management was considering to put to use, the machinery before 31st March, 2026. In a separate tax matter, VDSL proposed to acquire a specialised business division of another group company through a series of inter-dependent agreements. Each agreement was legally valid and had an independent legal effect. The agreements were entered into pursuant to a common understanding and, taken together, were intended to achieve a single commercial objective that could not be achieved by any agreement in isolation. One of the directors contended that, since each agreement was legally valid, the tax consequences should necessarily be determined solely with reference to the legal form of each individual agreement. VDSL further proposed to amalgamate its wholly-owned subsidiary, VDSL Digital Services Limited, with VDSL. The subsidiary had accumulated business losses and unabsorbed depreciation, which could provide a tax benefit to VDSL, subject to the applicable provisions of the Income-tax Act, 1961. The management intends to obtain necessary sanctions for the proposed merger scheme from NCLT. The management identified the following commercial objectives for the amalgamation : integration of operations,

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systems for several of its business processes, including customer and vendor management, financial reporting, treasury operations, project management and other business activities. The company has also been progressively adopting technology to improve operational efficiency, strengthen internal controls and support its expanding domestic and international operations. Its group structure includes both listed and unlisted public companies, each carrying out activities relevant to the group's overall business operations.

With the expansion of its technology and digital-solutions business, VDSL has been strengthening its employee incentive and talent-retention programmes. In this connection, VDSL considered various independent transactions involving equity instruments and employee-related arrangements while finalising its financial statements. The management evaluated whether each transaction falls within the scope of Ind AS 102. (i) VDSL granted share options to its employees that will vest upon completion of three years of continuous service. (ii) VDSL issued its equity shares as consideration for acquiring control over another company in a business combination. (iii) VDSL granted all existing equity shareholders the right to subscribe to additional equity shares at a concessional price in proportion to their existing shareholding. (iv) VDSL issued equity shares to a technology consultant in exchange for specialised services, although the specific services received could not be separately identified. (v) VDSL introduced a cash bonus scheme for its employees, with the amount payable based purely on the share price of VDSL. (vi) Employees of VDSL were granted equity shares of a company within the VDSL group in exchange for employee services rendered to VDSL.

In the course of its business and restructuring activities, VDSL considered various proposals having tax implications. While evaluating these proposals, the management considered the manner in which its tax affairs should be planned and administered and also examined the tax consequences of certain proposed arrangements. In the first situation, during the financial year 2025-26, VDSL

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estimated its income-tax liability at ₹ 8.40 crores. The company paid advance tax of ₹ 8.20 crores within the prescribed dates and filed its income-tax return before the applicable due date. The management had also put in place procedures to monitor compliance with its tax obligations and ensure that the necessary records were maintained. In the second situation, during the same financial year, VDSL received ₹ 12 crores from certain services provided to customers. During an internal review, it was found that a senior executive had proposed classifying ₹ 2 crores of the customer receipts in the ERP system as income exempt from income-tax, although the receipts were taxable under the Income-tax Act, 1961. The proposal was intended to reduce the taxable income and consequent tax liability of VDSL. In the third situation, VDSL proposed to acquire and install new machinery costing ₹ 4 crores for expansion of its operations. The machinery was expected to be ready for use either in March, 2026 or April, 2026. The management was considering to put to use, the machinery before 31st March, 2026. In a separate tax matter, VDSL proposed to acquire a specialised business division of another group company through a series of inter-dependent agreements. Each agreement was legally valid and had an independent legal effect. The agreements were entered into pursuant to a common understanding and, taken together, were intended to achieve a single commercial objective that could not be achieved by any agreement in isolation. One of the directors contended that, since each agreement was legally valid, the tax consequences should necessarily be determined solely with reference to the legal form of each individual agreement. VDSL further proposed to amalgamate its wholly-owned subsidiary, VDSL Digital Services Limited, with VDSL. The subsidiary had accumulated business losses and unabsorbed depreciation, which could provide a tax benefit to VDSL, subject to the applicable provisions of the Income-tax Act, 1961. The management intends to obtain necessary sanctions for the proposed merger scheme from NCLT. The management identified the following commercial objectives for the amalgamation : integration of operations,

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elimination of duplication of administrative and support functions, improvement in utilisation of resources, reduction in operating costs and strengthening of the group's market presence. The tax benefit arising from the eligible carry forward and set-off of accumulated business losses and unabsorbed depreciation was also considered in evaluating the proposal. One of the directors contended that, since the amalgamation would enable VDSL to obtain a tax benefit through the carry forward and set-off of the accumulated business losses and unabsorbed depreciation of the subsidiary, the arrangement would necessarily attract the General Anti-Avoidance Rule (GAAR) under the Income-tax Act, 1961.

VDSL was negotiating a strategic collaboration agreement with a foreign technology company. The proposed collaboration was expected to have a significant positive impact on the future earnings of VDSL, and the information had not yet been made public. Accordingly, the information constituted Unpublished Price Sensitive Information (UPSI). To facilitate due diligence and documentation relating to the proposed transaction, Mr. K, the Chief Financial Officer of VDSL, shared the UPSI with the company's legal advisors in accordance with the policy on "legitimate purposes" framed by the Board of Directors as part of the Code of Fair Disclosure and Conduct. The legal advisors were required to maintain confidentiality of the UPSI in accordance with the applicable confidentiality and non-disclosure obligations. Subsequently, Mr. P, a close friend of one of the legal advisors, came to know that the advisor was assisting VDSL in a significant corporate transaction. Intending to purchase shares of VDSL before the proposed collaboration was publicly disclosed, Mr. P persuaded the legal advisor to disclose details of the proposed collaboration. The legal advisor eventually disclosed the UPSI to Mr. P.

VDSL proposed to strengthen its international business operations as part of its overseas expansion strategy. In connection with the expansion, the company proposed to import plant and machinery, obtain technical consultancy services from overseas experts, acquire equity shares in a foreign company and obtain

short-term credit facilities from an overseas supplier. Before implementing the proposals, the Chief Financial Officer advised the Board that the transactions would have to be examined under the provisions relating to current account transactions and capital account transactions under the Foreign Exchange Management Act, 1999. The Board accordingly sought advice on the classification of the proposed transactions.

VDSL Business Services Limited (VBSL), an unlisted public company and a wholly-owned subsidiary of VDSL Technologies Limited, provides digital technology and support services to customers of the VDSL group. During the financial year, VBSL borrowed ₹ 65 crore from banks and public financial institutions for expansion of its digital infrastructure. The Managing Director of VBSL asked the Legal Department to examine whether the company would be required to establish a Vigil Mechanism in view of its borrowings from banks and public financial institutions exceeding and to advise on its purpose.

The Digital Finance Division (DFD) of VDSL provides financial solutions as part of the company's digital business operations. In pursuing its financial-solutions strategy, DFD acquired a pool of retail housing loans and commercial vehicle (CV) loans from a finance company. During the life of the transaction, DFD observed the following developments : (i) A prolonged downturn in industrial production significantly reduced the earnings of commercial vehicle operators, adversely affecting their ability to service their loan instalments. (ii) Due to a sharp decline in the resale value of commercial vehicles, some borrowers intentionally stopped repaying their loans, allowing the finance company to repossess the vehicles. (iii) Following a substantial reduction in market interest rates, a large number of retail borrowers prepaid their housing loans, requiring investors to reinvest the funds at lower yields. (iv) The underlying loan pool carried floating interest rates, whereas investors were promised fixed-rate payouts, resulting in an interest rate mismatch that can lead to insufficient cash inflows from the pool despite full collection efficiency. (v) To address the interest

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rate mismatch between the underlying loan pool and investor payouts, DFD proposed entering into an interest rate swap arrangement, expecting it to completely eliminate the interest rate risk.

VDSL's operations involve the use of specialised inputs and components, for which certain processing activities are carried out through job workers. In one such arrangement, VDSL, through its Digital Solutions Division (DSD), undertook the following transactions during the financial year 2025–26 in relation to job work under the CGST Act, 2017 : (1) VDSL instructed its supplier to dispatch certain inputs directly to a registered job worker, without first bringing the inputs to VDSL's place of business. VDSL availed input tax credit in accordance with the provisions of the Act. (2) Another consignment of inputs was sent by VDSL to the same job worker for carrying out specialised processing. The inputs were neither returned to VDSL nor supplied from the job worker's premises within the prescribed period. (3) During the job-work process, waste and scrap having commercial value were generated. The registered job worker supplied such waste and scrap directly from its premises on payment of the applicable GST. (4) VDSL also engaged an unregistered job worker, where waste and scrap were generated during the course of the job work.

VDSL uses an integrated ERP system for several of its business processes, including financial reporting, payment processing, remote access by authorised personnel and handling of financial and operational data. During the statutory audit for the year ended 31st March 2026, the Engagement Partner, while evaluating internal controls over financial reporting, identified certain cyber-related incidents. In the first incident, a senior employee who had left VDSL continued to have remote login access to the ERP system for three months after cessation of employment. During this period, unauthorised transactions were initiated using the employee's credentials. In the second incident, VDSL experienced a ransomware attack that affected certain systems supporting its financial and operational processes. The company was unable to access certain

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critical data for several hours and had to undertake recovery procedures to restore normal operations. In the third incident, an internal review at VDSL found that a large volume of financial and operational data had been copied from the ERP environment to a removable storage device connected to a workstation. The transfer had taken place outside normal business hours, and the employee concerned was unable to provide a satisfactory explanation for the activity. The Audit Committee requested the Engagement Partner to assess the adequacy of VDSL's internal controls in relation to the cyber risks identified and recommend appropriate controls for strengthening the control environment.

VDSL operates through different responsibility centres involved in the development and supply of components and integrated solutions. Division S manufactures Component X, while Division P uses Component X in the manufacture of a finished product. Division S has the flexibility either to sell Component X to external customers or transfer it internally to Division P, depending upon the transfer pricing policy adopted by VDSL. The management proposes to formulate an appropriate transfer pricing policy with the objective of promoting goal congruence between the two divisions while ensuring fair performance evaluation. Since Division S may operate at different capacity levels, the management has sought advice on the principles that should govern the determination of transfer prices before finalising the policy.

Multiple Choice Questions 5×2

Provide the correct or most appropriate option to the following questions =10

3.1. Based on the developments observed by DFD in relation to the loan pool, which of the following events represent Market Risks in the securitisation transaction ?

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

3.2. In respect of the proposed transfer pricing policy adopted by VDSL as mentioned in the case study, which of the following combinations of statements would be most relevant while advising the management ?

I. When the supplying division has excess capacity, the minimum transfer price is normally equal to the marginal cost per unit.

II. When the supplying division operates at full capacity, the opportunity cost should be considered while determining the minimum transfer price.

III. The maximum transfer price is normally the lower of the external purchase price and the net marginal revenue.

IV. Fixed costs become relevant in determining the minimum transfer price merely because an internal transfer takes place.

(A) I, II and IV
(B) I and III
(C) I, II and III
(D) I, II, III and IV

3.3. With reference to the foreign exchange transactions proposed as part of VDSL's overseas expansion, which of the following statements are correct in the light of the provisions of the Foreign Exchange Management Act, 1999 ?

(i) Payment for import of plant and machinery constitutes a current account transaction notwithstanding that the machinery may be capitalised in the books of account.

(ii) Payment for technical consultancy services obtained from overseas experts constitutes a current account transaction.

(iii) Payment of interest on overseas borrowings constitutes a current account transaction.

(iv) Acquisition of equity shares of a foreign company as part of the overseas expansion programme constitutes a current account transaction.

(v) The classification of a transaction under the Foreign Exchange Management Act, 1999 depends upon its accounting treatment in the financial statements of the company.

(vi) Import of plant and machinery on short-term credit from an overseas supplier in the ordinary course of business constitutes a current account transaction.

(A) (i), (ii), (iii) and (iv) (B) (i), (iii), (iv) and (v)

(C) (ii), (iii), (iv) and (vi) (D) (i), (ii), (iii) and (vi)

3.4. In relation to VDSL's arrangements involving equity instruments and employee-related matters, which of the following transactions fall within the scope of Ind AS 102 ?

(A) (i), (ii), (iv) and (vi)

(B) (i), (iii), (v) and (vi)

(C) (i), (iv), (v) and (vi)

(D) (i), (ii), (v) and (vi)

3.5. In respect of the job-work transactions undertaken by VDSL, examine the correctness of the following statements :

(i) VDSL is entitled to avail input tax credit on the inputs dispatched directly by its supplier to the registered job worker even though such inputs were not first received at VDSL's place of business.

(ii) Where inputs sent for job work are neither received back by VDSL nor supplied from the job worker's premises within the prescribed period, the deemed supply by VDSL to the job worker takes place on the date on which the inputs were originally sent for job work.

(iii) Where inputs sent for job work are neither returned to VDSL nor supplied from the job worker's premises within the prescribed period, VDSL becomes liable to pay the applicable GST together with the applicable interest. However, such liability arises only from the date immediately following the expiry of the prescribed period.

(iv) The registered job worker may supply the waste and scrap generated during the job work directly from its premises on payment of the applicable GST.

(v) Where the job worker is not registered under the GST law, the principal may supply the waste and scrap generated during the job work from the premises of the job worker only if such premises have been declared as an additional place of business of the principal.

Which of the following combinations correctly identifies the above statements ?

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

Descriptive Questions :

3.6. Examine the following in the context of the tax matters and arrangements described in the case study :

(i) Classify each of the three tax-related situations as Tax Planning, Tax Management or Tax Evasion, giving brief reasons for your classification.

(ii) Assess the director's contention regarding the tax consequences of the inter-dependent agreements with reference to the Doctrine of Form and Substance, giving reasons for your conclusion.

(iii) Determine whether the director's contention regarding the applicability of the GAAR to the proposed amalgamation is correct, giving reasons for your conclusion.

3.7. With reference to the cyber-related incidents identified in VDSL's ERP environment :

(i) Recommend any two internal controls for each incident that should be strengthened or introduced to mitigate such cyber-related risks. Briefly explain how the recommended controls would address the particular cyber-related risk arising from each incident.

(ii) Briefly conclude on the adequacy of VDSL's internal controls over the cyber-related risks identified in the case.

Marks

3.8 (A) As a member of the Legal Department, state briefly the purpose of a Vigil Mechanism and advise whether VBSL would be required to establish a Vigil Mechanism. 5

(B) Examine, with brief reasons, the following with reference to the SEBI (Prohibition of Insider Trading) Regulations, 2015 :

(i) Whether Mr. K was permitted to communicate the UPSI to the legal advisors.

(ii) Whether the legal advisors became insiders upon receipt of the UPSI.

(iii) Whether the legal advisor was permitted to disclose the UPSI to Mr. P.

Case Study – 4 :

AVS Motor Company Limited ('AVSM') is a reputed two and three-wheeler manufacturer headquartered in Chennai that operates three state-of-the-art manufacturing facilities in Manesar, Aurangabad, and Nalagarh. The company's foundation dates back to 1975, when it began business operations manufacturing brakes and automotive parts, later establishing its first plant in Aurangabad in 1985 to produce India's first two-wheeler moped. In 1990, AVSM entered into a historic technical collaboration with Japanese auto major SV Motor Corporation to manufacture motorcycles and scooters, however, due to differing strategic directions, the companies eventually parted ways, leading AVSM to buy out SV Motor Corporation's stake. The company operates in the domestic market through extensive network of dealers and distributors. It also has a wide presence in international market with its operations in more than 20 countries. Internationally, it uses a combination of exports, subsidiaries, distributors and partnerships and manufacturing. It has two subsidiaries situated in Singapore and Malaysia and an associate company, PQR Components Inc in Taiwan in which it holds 30% share.

Its product portfolio includes a wide range of two and three-wheelers including mopeds, scooters, motorcycles, and three-wheelers. It develops products for

different customer segments rather than relying on one product for everyone. AVSM's strength is rooted in its extensive in-house research and development capabilities, enabling them to deliver innovative products. AVSM leverages customer segmentation to cater to diverse consumer needs, targeting daily commuters and families, young performance-oriented riders, premium motorcycle buyers, commercial three-wheeler users, and increasingly, environmentally conscious consumers. It seeks to understand what customers aim to accomplish, the problems and risks they face, and the benefits they expect from the products and services they purchase. The company is dedicated to delivering exceptional customer value by proactively understanding changing market expectations and continuously improving its products and services. The company's performance can be evaluated through its vision of delivering reliable, high-quality vehicles that align with customer needs, while ensuring prompt service and offering competitive prices. It provides benefits to the customers such as fuel efficiency, comfort, performance and attractive designs. Customer needs, challenges, and expectations are addressed through cross-functional teams, with market research and customer teams identifying customer requirements, concerns, and desired benefits, while product planning and R & D teams translate these insights into products that effectively meet the needs of different customer segments. It develops products that address customer challenges while delivering additional value and enhancing the overall customer experience. The Company utilizes a comprehensive Customer Relationship Management strategy across the entire customer journey from initial enquiry and purchase to servicing, feedback, and repeat business, leveraging digital touch points like apps, websites, WhatsApp, and chatbots. After-sales service is a core component, offering automated service reminders, online appointment booking, and easy access to vehicle and warranty details, while advanced customer data analytics enable precise segmentation and predictive purchase behaviour model.

Due to clean energy technology, low pollution emission, the popularity of electric vehicles is increasing globally. Many companies in India were importing the electric scooters since 2017 and market for these scooters is increasing. AVSM

has leveraged its in-house R & D and engineering capabilities to convert the changing needs of customers and the shift towards sustainable mobility into the electric scooter. The company has invested in electric mobility for several years before its launch, developing capabilities in batteries, controllers, software and connectivity. In 2019, Government launched FAME India scheme to encourage the manufacturer and sell electric scooters. Government has provided demand incentives to make EVs more affordable. Under current EV schemes, the main subsidy is a demand incentive given to the customer, which is then reimbursed to the eligible EV manufacturer. The Government of India's EV initiative was driven by a combination of environmental sustainability and energy security. It aimed to reduce vehicular pollution and greenhouse-gas emissions while reducing India's dependence on imported fossil fuels. Through extensive R & D, testing and validation, AVSM developed an electric scooter in 2020-21 that combined sustainable mobility with practical features such as connected technology, charging support, navigation and smart riding information. Initially company manufactured the electric scooter in limited quantity and 5,000 EV Scooters were sold in 2020-21. With the increasing popularity and attractive features and response from the customers, company touched the sale of 5 lakh EV scooters in 2025-26 as compared to 3.6 lakh in 2024-25. It has entered into a strategic partnership with Sunrise Power Limited for establishing EV charging infrastructure across India. AVSM operates a forecast driven production with customer booking and allocation. The Company has established a separate policy governing the replacement of parts and provision of repair services during the applicable warranty period for EV Scooters. Relevant details are given in Annexure 1.

The company's turnover increased by 20%, from ₹ 26,840 crores in FY 2024-25 to ₹ 32,210 crores in FY 2025–26. During the same period, Profit After Tax (PAT) grew by 30%, from ₹ 1,710 crores to ₹ 2,240 crores. AVSM declared and paid an annual dividend representing 25% of EPS of ₹ 32 per share, in October 2025, reflecting its commitment to creating value for shareholders. The risk-free rate is 6%, the expected return on the market portfolio is 13.5% and the beta of AVSM

is 1.2. According to management's guidance, the company expects the dividend to grow at 12% per annum over the next two years, driven by management's confidence in an improvement in financial performance and expectations of securing additional export orders. This anticipated growth reflects the company's positive outlook regarding its future business prospects and expansion opportunities. Beyond the initial three-year period, the dividend growth rate is expected to moderate to a sustainable 10% per annum indefinitely. The projected dividend growth provides a balanced outlook, combining near-term growth expectations with sustainable long-term shareholder returns.

Prime Auto Components Ltd. (PACL), a company engaged in the manufacture and supply of automotive components, is a major supplier of such components to AVSM and is neither a subsidiary nor an associate company of AVSM. AVSM, having a strong financial position with paid-up equity share capital of ₹ 6,800 crores and net owned funds of ₹ 9,200 crores, proposed to amalgamate PACL with AVSM with a view to achieving greater operational and business efficiencies. The Board of Directors of AVSM approved the draft Scheme of Amalgamation on 3rd May, 2025, providing for one AVSM share for every 20 shares of PACL, with a total merger value of ₹ 330 crores. The draft Scheme was thereafter submitted to the stock exchange for its observations/no-objection in accordance with applicable SEBI and stock-exchange requirements. Pursuant to SEBI's review and comments, the stock exchange issued its No-Objection letter on 15th July, 2025.

Upon receipt of the NOC, an application was filed within 30 days before the NCLT seeking directions and sanction for the proposed amalgamation. The NCLT, upon consideration of the application, directed that meetings of the members of both companies be convened. NCLT dispensed with the requirement of convening a meeting of the creditors, as creditors representing the requisite value of the total outstanding debt had consented to the proposed Scheme and had confirmed their consent by way of affidavits.

In the case of AVSM, the meeting was duly convened and held in accordance with the directions of the NCLT and applicable SEBI requirements through

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VC/OAVM and e-voting, and the Scheme was duly approved by the requisite majority of the members in accordance with the applicable provisions. In the case of PACL, the meeting was attended by 200 members through physical and e-voting holding an aggregate of 9,00,000 shares. Of these, 160 members holding 6,56,000 shares voted in favour of the Scheme, while 25 members holding 1,44,000 shares voted against the Scheme. The remaining 15 members, holding 1,00,000 shares, abstained from voting. The report of the members' meeting, along with the voting results, was filed with the NCLT by both Companies. After considering the Scheme and relevant documents and compliances, the NCLT sanctioned the Scheme on 10th March, 2026. The order was received by both Companies on 15th March, 2026, and certified copies were filed with the respective Registrars of Companies on 28th March, 2026. The Scheme provided 1st April, 2026 as the Appointed Date, from which the amalgamation will take effect in accordance with the sanctioned Scheme and applicable law.

Pursuant to the Scheme of Amalgamation and subject to applicable provisions of the Companies Act, 2013, including eligibility for compensation, if any, Pratik Roy, Whole-Time Director, and Soumya Ghosh, CFO of AVSM, removed from their respective offices and they vacated the office on 31st March, 2026. The original tenure of Pratik Roy's appointment with AVSM is upto 31st August, 2028. The remuneration drawn by Pratik Roy from the date of his joining the office i.e. 1st September, 2023 was ₹ 21 lakhs for the financial year 2023-24, ₹ 48 lakhs for the financial year 2024-25, and ₹ 55 lakhs for the financial year 2025-26. Soumya Ghosh was appointed on 1st October, 2023 for three years at a monthly remuneration of ₹ 3.6 lakhs which was increased to ₹ 4 lakhs per month from April, 2025.

AVSM purchased 60,000 AAA-rated bonds from the market at a fair value of ₹ 998.50 per bond. The bond has a face value of ₹ 1,200 each, carry stated interest at 6.5% p.a. on face value, have a maturity period of 5 years, and are redeemable at ₹ 1,200 per bond. The fair value of the bonds as at 31st March, 2026 is ₹ 1,060 per bond. The management has determined that the bonds are held as part of an investment portfolio whose objective is achieved both by

collecting contractual cash flows and selling the financial assets. The effective interest rate is determined at 11% p.a.

AVSM procures electric scooter components from multiple sources : partly from domestic subsidiaries within India, and partly via direct imports from foreign subsidiaries, associate companies, and unrelated global suppliers. During the relevant financial year, AVSM has imported 1,50,000 units of advanced automotive Microcontroller Units (MCUs) from PQR Components Inc. at ₹ 3,400 per unit and 2,00,000 TFT display units at ₹ 9,000 per unit. PQR Components Inc. provides a three-year warranty on both the MCUs and TFT displays supplied to AVSM. AVSM has also purchased 1,00,000 units of the same MCUs and 1,00,000 TFT display units from Best Components Co., an unrelated enterprise in Taiwan at ₹ 3,000 per unit and at ₹ 8,200 per unit respectively. The purchases from the Best Components Co. are covered by a one-year warranty. The cost attributable to the warranty may be considered at 4% of the purchase price per year. PQR Components Inc. provides AVSM with a one-month credit period in respect of the purchases of MCUs and TFT displays. The financing benefit arising from such credit period may be considered at 2% of the purchase price of the respective components. The MCUs and TFT displays purchased by AVSM are used in the manufacture of electric scooters. AVSM has exported 4,000 electric scooters to PQR Components Inc. and 1,000 electric scooters to its Singapore subsidiary at USD 1,600 per electric scooter. In comparison, 600 electric scooters each have been exported to an unrelated buyer in Singapore and Taiwan at USD 1,615. The Company has no formal discount policy.

Annexure 1

Warranty Parts Replacement and Repair Services Policy for EV Scooters :

(1) **Replacement of parts under warranty :** The Authorised dealer shall replace defective or warranted parts using the parts available from the stock/supply already received from the Company. The Authorised dealer shall not charge the customer any labour or service charges for the replacement of such parts under warranty.

Marks

(2) **Warranty Repair services :** In the event that any defect arises in the EV scooter during the warranty period, and such defect is not attributable to an accident, misuse, negligence, unauthorized modification, or any other exclusion under the warranty terms, the Authorised dealer station shall carry out the necessary repair/service without charging any amount to the customer.

(3) **Reimbursement by the Company :** The cost of eligible repair services carried out by the Authorised dealer/service station under the warranty, including applicable labour/service charges, shall be reimbursed by the Company to the Authorised dealer in accordance with the Company's applicable warranty reimbursement procedure and terms.

Multiple Choice Questions **5×2 =10**

Provide the correct or most appropriate option to the following questions

4.1 AVSM is designing a new model of electric scooter for marketing and e-commerce delivery employees who frequently travel to different locations within a city to meet clients and deliver products. The company has conducted customer research and identified the following :

(i) Customers want more schedule flexibility and lower travel costs.

(ii) Fast-charging and timely alerts minimize delays caused due to recharging.

(iii) Customers worry that recharging during busy workdays wastes productive time.

(iv) Scooter's mobile application intelligently plans daily client visits based on distance, traffic conditions, and available battery range.

Which of the following options correctly match each statement with the most appropriate element of the Value Proposition Map ?

(A) (i) Pain, (ii) Gain Creator, (iii) Pain Reliever, (iv) Gain

(B) (i) Gain, (ii) Pain Reliver, (iii) Pain, (iv) Gain Creator

(C) (i) Pain Reliever, (ii) Gain Creator, (iii) Pain, (iv) Gain

(D) (i) Gain, (ii) Pain, (iii) Pain Reliever, (iv) Gain Creator

4.2 What is the intrinsic value per share as per the two-stage Dividend Growth Model ? (Take PV factor upto three decimals)

(A) ₹ 110.83 (B) ₹ 167.13

(C) ₹ 141.60 (D) ₹ 130.12

4.3 What is the total compensation payable to Pratik Roy, Whole-Time Director, and Soumya Ghosh, CFO of AVSM as per the relevant provisions of Companies Act 2013 ?

(A) ₹ 116 lakh (B) ₹ 139.52 lakh

(C) ₹ 99.87 lakh (D) ₹ 140 lakh

4.4 Which of the following correctly describes the accounting treatment in respect of AAA Bonds for the year ended 31st March, 2026 as per the relevant Ind AS ?

(A) Recognise interest income of ₹ 38,94,150 in P & L and fair value gain of ₹ 26,95,950 in OCI.

(B) Recognise interest income of ₹ 46,80,000 in P & L and fair value gain of ₹ 36,90,000 in OCI.

(C) Recognise interest income of ₹ 65,90,100 in P & L and fair value gain of ₹ 17,79,900 in OCI.

(D) Recognise interest income of ₹ 65,90,100 in P & L and fair value gain of ₹ 19,10,100 in OCI.

4.5 Which of the following statement(s) is/are incorrect in respect of Warranty Parts Replacement and Repair Services Policy for EV Scooters as per the relevant provisions of the CGST Act 2017 ?

(i) AVSM is required to pay GST on the full value of all parts provided by it on the basis of requisition raised by the Authorised Dealer for the replacement of parts under warranty, even when no additional consideration is charged from the customer.

(ii) AVSM may issue a credit note in respect of parts replaced by the Authorised Dealer under warranty out of the supply already received by the Dealer, and may accordingly adjust its tax liability without requiring any reversal of the ITC availed by the Authorised Dealer in respect of such parts.

Marks

(iii) The Authorised Dealer shall issue a tax invoice/debit note to AVSM for the repair services provided to customers free of cost under the warranty period.

(iv) Replacement of parts to the customer during the warranty period is an exempt supply, hence AVSM is not required to reverse any ITC or pay any output tax in respect of replaced parts.

Options :

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

Descriptive Questions :

4.6 How has AVS Motor Company Limited leveraged the principles of Value Proposition Canvas to develop its business strategy and achieve success in domestic markets ? 5

4.7 Briefly assess the validity of the effected amalgamation of PACL with AVSM, with reference to compliance with the Companies Act, 2013, applicable Rules and SEBI/stock-exchange requirements. 5

4.8 Determine the Arm's Length Price of AVSM's international transactions using the Most Appropriate Method prescribed under the relevant provision of the Income-tax Act, 1961 and quantify the resulting transfer-pricing adjustment, if any, to determine its impact on the total income of AVSM. Also, advise, whether AVSM can opt for the Safe Harbour Rules in respect of its transactions with PQR Component Inc. (Exchange rate may be taken at USD 1 = ₹ 96 throughout the relevant financial year.) 5

Case Study – 5 :

Castings form an integral part of India's engineering industry, with the country ranking as the world's second-largest producer of castings. Driven by continuous improvements in quality, technology, and manufacturing capabilities, India has emerged as a pivotal player in the global casting market. The country is home to approximately 5,000 foundries, compared with more than 6,000 a decade ago. Despite the consolidation in the number of foundries, the total industry's production capacity has expanded substantially from over 2 million tonnes per

annum a decade ago to approximately 15 million tonnes per annum today. Casting industry units are spread across numerous industrial estates throughout India, with approximately 90% of these units falling under the Micro, Small and Medium Enterprises (MSME) category. Of these, around 1,500 units possess international quality accreditations and are regarded as modern, globally competitive manufacturing facilities. The industry is organized into clusters, with each cluster typically specializing in a particular type of casting or production process to serve specific market requirements. The Indian casting industry serves as a critical upstream enabler for the pump, compressor, valve, agricultural equipment, and automotive sectors, supporting the development of localized and resilient supply chains. The automotive and auto-components sector accounts for roughly one-third of total output of casting units and is highly dependent on cast components such as engine blocks, transmission housings, and structural parts. The primary materials used in metal casting include both ferrous and non-ferrous metals, such as pig iron, steel scrap and cast aluminium. Given the energy-intensive nature of casting operations, effective management of production costs and efficient power consumption are of vital strategic importance for maintaining competitiveness, improving operational efficiency and achieving sustainable growth. Intense price competition in standard grey and ductile-iron castings leaves the casting units with thin margins, as they struggle to fully pass on soaring raw material and energy costs to customers.

The industry is expected to grow at a compound annual growth rate of approximately 6-8% during the year 2026-2030, driven by rising demand across automotive, industrial, and engineering applications. However, intense price competition among casting manufacturers continues to exert pressure on profitability and margins. At the same time, the industry faces several structural challenges, including increasingly stringent environmental regulations, dependence on ageing technologies and equipment, shortages of skilled labour, volatility in raw material prices, and growing competition from neighbouring countries in international markets. Buyers are highly price-sensitive, and large-volume customers often have greater negotiating power, enabling them to secure more favourable pricing and terms. The Indian casting market is experiencing robust growth, driven by rapid urbanization, expanding infrastructure projects, and government initiatives such as "Make in India". At the same time, Integrated Casting units are accelerating technological modernization by adopting,

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computer-aided simulation, 3D printing for rapid prototyping, robotics, and automated pouring systems to improve productivity, reduce defects, and enhance operational efficiency. The growing adoption of electric vehicles (EVs) is further reshaping the industry, creating rising demand for lightweight, high-performance non-ferrous components such as aluminium and magnesium pressure die castings and encouraging Indian casting industry to diversify and upgrade their product portfolios.

HT Metal Casting Limited (HMCL), a listed company, is one of the largest integrated casting units located in Coimbatore, Tamil Nadu engaged in manufacturing of Automotive, Tractor, Railway and General Engineering casting. It was founded in 1981 by M. Shivakumar with a capacity of 1,000 metric Tons/year. With the focus on producing high quality casting over a period of 45 years, it has reached a capacity to 1,60,000 metric Tons/year. The company caters to the demand of both domestic and overseas market. Revenue from operations and net profit of the company for year 2025-26 are ₹ 1850 crores and ₹ 86 crores respectively as compared to ₹ 1740 crores and ₹ 78 crores during the year 2024-25. The availability and volatility of raw material prices, along with power availability, remain major concerns that directly impact the Company's profitability. Over the years, the Company has successfully implemented strategic tools and practices such as Total Productive Maintenance, Overall Equipment Effectiveness, 5S and Kaizen costing. These initiatives have enabled the Company to maintain international quality standards, effectively compete in domestic and overseas markets, attract new customers and maintain a competitive edge. The Company has also developed strong and enduring relationships with its suppliers, facilitating the consistent procurement of high-quality raw materials and supporting operational efficiency. The Company has established a strong and enduring customer base, supported by long-standing relationships across a diversified clientele comprising Original Equipment Manufacturers (OEMs) as well as customers from the Automotive, Railway and General Engineering industry. These capabilities, combined with its established market presence and operational expertise, provide the Company with a distinct advantage over domestic competitors. However, the international market remains highly competitive, particularly due to the presence of well-established casting manufacturers in neighbouring countries. These competitors benefit from lower cost structures and competitive pricing while maintaining stringent quality

standards, thereby creating continued pressure on the Company's competitiveness in export markets.

HMCL has made substantial capital investments in state-of-the-art machinery, casting equipment, and furnaces. The company drives efficiency through advanced manufacturing technologies, ranging from high-pressure automated moulding and CNC machining to robotics, 3D rapid prototyping, and sophisticated CAD simulation tools. These advanced systems enable faster product development, improved process control, reduced casting defects, and enhanced operational efficiency. HMCL is also equipped with state-of-the-art physical and chemical laboratories, supported by standardized quality procedures to ensure consistent product quality and performance. HMCL has a highly skilled workforce with an average of 12 to 15 years' experience. HMCL plans to engage a consultant to assess the casting industry using Porter's Five Forces framework, identify key competitive dynamics, and evaluate factors affecting industry profitability and sustainability.

As a part of staff welfare measures, on 1st April, 2025, 'HMCL' has advanced loan of ₹ 280 lakhs to its 200 employees at 5% per annum. The principal loan amount will be repaid in four equal annual installments. The accumulated interest, calculated using simple interest, will be collected in two equal annual installments, following the repayment of the principal. The market rate of interest is 9% per annum. The Chief Accountant of the company, who is not well versed with Ind AS, has recognized the staff loan in the books equivalent to ₹ 280 lakhs on 1st April, 2025.

Mr. S. Venkateshwar, COO of HMCL wants to assess the performance of the newly installed CNC machines used for manufacturing the auto part MX-200. He asked Dinesh, Cost and Management Accountant, to submit the overall performance of CNC machine. The production data for a single 8-hour shift indicate that the total shift time is 480 minutes, comprising a 20-minute lunch break and a 10-minute tea break. In addition, 20 minutes are allocated for scheduled tool changes and the morning safety check. There is also 25 minutes of downtime due to machine breakdowns and waiting for raw castings from the foundry. The ideal cycle time for producing one MX-200 part is 2 minutes. During the shift, the CNC machine produced a total of 198 parts, out of which 8 were defective.

The company received a notice from the GST Department alleging discrepancies on account of excess availment of Input Tax Credit (ITC) in the GSTR-3B returns

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filed by the company. The Chief Accountant of the company, being unfamiliar with the intricacies and detailed provisions of the GST law, approached CA Jatinder, a professional specialising in GST and Customs matters, for expert advice and guidance. He visited the office of CA Jatinder and produced the relevant records, documents, and other particulars pertaining to the notice. The relevant details of the notice issued by the GST Department, together with the information and explanations furnished by the Chief Accountant are set out in Annexure 1 and Annexure 2 respectively.

HMCL owned a commercial plot of land near the highway in Coimbatore, which was purchased in the year 2019-20 for ₹ 1.25 crores. The Company held it for the purpose of construction of warehouse and Board of Directors had already passed a resolution in meeting held on 15th April, 2025 to construct a building. In May, 2025, the company received a communication from the Government proposing the compulsory acquisition of the said plot for the construction of a new highway. The compulsory acquisition proceedings were completed on 25th August, 2025 and compensation of ₹ 4.50 crores was determined in respect of the land. Out of the compensation of ₹ 4.50 crores, ₹ 3.00 crores were received by the company on 1st December, 2025 and the balance amount of ₹ 1.50 crores was received on 10th March, 2026. The Company purchased a factory building adjoining it's existing manufacturing facility in February, 2026 for ₹ 2.8 crores and invested ₹ 0.50 crore in NHAI bonds in March, 2026.

In November, 2026, Mr. Sanjay, the CFO of the company, suffered a severe heart attack while he was in the office discussing financial matters with the staff. He was immediately taken to a nearby hospital and recovered soon thereafter. However, due to poor health condition, he decided to discontinue his services and tendered his resignation. Mr. Sanjay submitted his resignation letter dated 1st December, 2025, stating his intention to resign with effect from 15th December, 2025. The resignation letter was received by the company on 5th December, 2025 and was duly accepted. Consequently, a vacancy arose in the office of the CFO. However, the vacancy could not be filled by the end of March, 2026, as the company was unable to identify and appoint a suitable person as a permanent replacement.

Sharma & Associates has been appointed as the Statutory Auditor of the Company for the second consecutive year. CA Vishal, the engagement partner and his audit team, planned to use audit evidence obtained during the previous

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year's audit regarding the operating effectiveness of certain controls. As this was his second year of auditing the company, he decided to obtain audit evidence to determine whether any significant changes have occurred in those controls subsequent to the previous audit. Upon obtaining and evaluating the relevant audit evidence, he concluded that no significant changes have occurred in the controls. Accordingly, he determined that there is no need to test controls during the current year's audit, and reliance could be placed on the audit evidence obtained during the previous year's audit with respect to controls. During the course of the audit, he also made the following observations :

(i) The Company has availed a working capital facility of ₹ 110 crores from a Nationalised Bank, secured by hypothecation of paid stock and book debts. As per the terms of the sanction, the Company is required to submit monthly stock statements to the Bank for the purpose of calculating the Drawing Power (DP). During the comparison of the stock and book-debt statements/returns submitted to the Bank with the Company's books of account, certain anomalies were noticed in these stock statements. These included stock of material and Work-in-Progress being reported at an inflated value and 15% of total trade receivables, which had an ageing of 100 days, being reported as receivables outstanding for less than 90 days.

(ii) During the year, fraud amounting to ₹ 25 lakhs was committed by three employees of the company. The fraud was identified and reported in the company's internal audit report.

Annexure 1

Form GST ASMT- 10

Ref: No. XXXXXXXXX

Dated: 20.08.2025

To

M/s. HT Metal Casting Limited

GSTN: xxxxxxxxxx

Subject : Notice for intimating discrepancies in the return after scrutiny under Section 61 of the CGST/PGST Act, 2017 – reg.

Whereas your return(s) for the tax period 2023-24 have been scrutinised under Section 61 of the CGST/PGST Act, 2017 and the following discrepancies have been noticed :

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1. During the financial year, it has been observed that you have availed excess Input Tax Credit amounting to ₹ 36,00,000 in GSTR-3B, as compared to the eligible ITC available as reflected in GSTR-2B.
2. Excess availment of Input Tax Credit (ITC) has been detected in respect of supplies received from suppliers registered under GST, wherein the goods and/or services supplied are covered under the blocked credits specified under Section 17(5) of the CGST Act, 2017. The details of such suppliers, along with the corresponding taxable value and ITC availed, are provided below :

S.No.	Name of Supplier	Taxable amount ₹	IGST ₹	CGST ₹	SGST ₹
1	Surya Auto Private Limited	24,00,000	–	2,16,000	2,16,000
2	XYZ Motors LLP	35,00,000	6,30,000	–	–
3	Sky Insurance Co. Ltd.	1,50,000	–	13,500	13,500
4	ABC Hotel Ltd.	3,00,000	–	27,000	27,000
5	Apex Works Contractors	14,00,000	–	1,26,000	1,26,000
			6,30,000	**3,82,500**	**3,82,500**

You are required to furnish your explanation for the above discrepancies within 10 days from the date of service of this notice, along with supporting records.

If you accept the discrepancy, you may pay the amount of tax along with interest, as applicable, and furnish proof of payment in Form GST DRC-03.

If no satisfactory reply is received within the prescribed time, action will be initiated under Section 73/74 of the Act for determination of tax liability and recovery.

[Signature & Seal]

Designation State Tax Office

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Annexure 2

Details provided by the Chief Accountant to CA Jatinder:

1. Difference in ITC of ₹ 30,00,000 relates to the invoices which were issued in March, 2023, but material received in April, 2023 and balance amount relates of purchase of material from two suppliers whose GST registration cancelled in December, 2023, from the date of their original registration, but suppliers had already filed their GSTR 1 and GSTR 3B upto December, 2024 and invoices relates to purchased made in during April, 2023 to October, 2023.
2. The company purchased a bus with a seating capacity of 30 persons from Surya Auto Private Limited for the transportation of its employees between their residences and the factory. The total payment of ₹ 24 lakhs, includes the cost of the bus, warranty charges, and insurance charges for a period of one year. It had purchased a mini truck from XYZ Motors LLP for use in the inward and outward movement of finished products and materials. An amount of ₹ 1.5 lakhs, was incurred towards insurance obtained from Sky Insurance Co. for the cars used by the Managing Director, Chief Executive Officer and Chief Financial Officer for commuting between the office and other official purposes. During the year, the Company organised three marketing events for its existing and prospective customers at ABC Hotels Ltd. and as per the bill it includes ₹ 1.20 lakhs, for conference hall and balance amount relates to food and beverage charges. An amount of ₹ 14 lakhs, paid to Apex Works Contractors pertained to the construction of a platform as a structural support for the installation of new machinery commissioned during the financial year 2023-24 and amount (excluding GST) was capitalised during the year. During the year, building repair and maintenance work was also carried out, for which an amount was paid to Apex Works Contractors and said amount was debited to Profit and Loss account.

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Multiple Choice Questions **5×2**

Provide the correct or most appropriate option to the following questions **=10**

5.1 What is the Overall Equipment Effectiveness (OEE) of New CNC machine ?

(A) 90.38% (B) 88.38%

(C) 89.41% (D) 84.80%

5.2 What is the value of staff loan to be recognized as on 01st April, 2025 in the books of 'HMCL' as per the relevant Ind AS ? PV factor upto three decimals for calculation are given below :

31st March, 2026	0.917
31st March, 2027	0.842
31st March, 2028	0.772
31st March, 2029	0.708
31st March, 2030	0.650
31st March, 2031	0.596

(A) ₹ 280 lakhs (B) ₹ 264.34 lakhs

(C) ₹ 248.54 lakhs (D) ₹ 243.03 lakhs

5.3 What is the taxable amount of capital gain chargeable to tax for the AY 2026-27 ? (Ignore indexation)

(A) ₹ 3.25 crores (B) ₹ 0.45 crores

(C) NIL taxable LTCG (D) ₹ 2.75 crores

5.4 Which of the following statements are not fully correct in respect to a vacancy arose in the office of the CFO, as per the provisions of the Companies Act 2013 ?

(i) The vacancy arose on 5th December 2025 upon acceptance of the resignation, and the Board is required to fill it within six months from that date.

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(ii) The vacancy arose on 15th December 2025, and the Board is required to fill the resulting vacancy within six months of the month in which Mr. Sanjay resigned.

(iii) The vacancy must be approved by passing a resolution at a duly convened meeting of Board of Directors and subsequently approved by shareholders by a resolution at the next general meeting of the company.

(iv) The vacancy must be approved by passing a resolution at a duly convened meeting of Board of Directors or by passing of resolution by circulation, but subsequent approval by shareholders in a general meeting is not required.

Options :

(A) (i), (iii)

(B) (i), (iv)

(C) (ii), (iii)

(D) (i), (ii), (iii), (iv)

5.5 Which of the following statements is most appropriate as per the relevant SA on auditing ?

(A) CA Vishal's approach is appropriate because, in the absence of significant changes, previous audit evidence can be relied upon, and testing is mandatory only in the first year of audit.

(B) CA Vishal's approach is inappropriate because, even where no significant changes have occurred, he should test some controls in each audit and ensure that controls are tested at least once in every third audit.

(C) CA Vishal must retest all controls in the current year, even where no significant changes have occurred.

(D) CA Vishal's approach is inappropriate because even where no significant changes have occurred, he should test at least 50% of total number of controls each year.