Mock Test Paper - Series I: November, 2025

Date of Paper: 28th November, 2025

Time of Paper: 2 P.M. to 6 P.M.

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

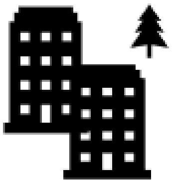
*Attempt any **four** out of **five** case study based questions.*

Each Case Study carries 25 Marks.

Time Allowed – 4 Hours **Maximum Marks – 100**

CASE STUDY 1

Project Mangala Vilas



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

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

Cost management in pre-launch phase of Project Mangala Vilas

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

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

Cost management in under-construction phase of Project Mangala Vilas

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

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

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

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

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

Expansion plans to launch Project Happy Years

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

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

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

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

Agreement with Sunrise Apartments, Vadodara regarding Project Happy Years

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

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

Annexure 1

January 25th, 2023 email

Vikrant Soni/ Certified Management Accountant, VSAS

From: “Vikrant Soni”; <vikrants@vsas.com>

Sent: 25th January, 2023

To: “Naresh Mehta”<nareshm@nhc.com> ; “Hiral Gangwani”<hiralg@nhc.com>

Cc:

Subject: Cost management for Project Mangala Vilas

Date: 25th January, 2023

Naresh and Hiral,

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

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

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

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

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

With regards,

Vikrant

Annexure 2

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

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

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

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

Annexure 3

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

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

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

I. Multiple Choice Questions

1.1 Would the compensation of ₹ 40 lakh paid by Sunrise Builders to NHC to refrain them from building upto 10 floors in their Vadodara project be considered as supply of service? Choose the most appropriate answer.

(a) No, NHC is not supplying anything to Sunrise Builders since there is no sale transaction between them.

(b) No, NHC is not supply anything to Sunrise Builders since it is only a mutual agreement between the two builders which is not covered under GST.

(c) Yes, NHC is supplying a service to Sunrise Builders since it is refraining to act by constructing only 8 floors instead of 10.

(d) Yes, NHC is supplying a service as it is entering into a non-compete agreement with Sunrise Builders since it is building only 8 floors instead of 10 floors.

1.2 For FY 2026-27, how much would be the approximate borrowing costs that needs to be capitalized towards Project Happy Years?

(a) 1.4 crores

(b) 1 crores

(c) 0.65025 crores

(d) 0.469625 crores

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

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

Options

(a) I-B; II-A; III- C

(b) I-A; II-B; III- C

(c) I-C; II-B; III- A

(d) I-A; II-C; III- B

1.4 While assessing the cost of quality of the work at Project Mangala Vilas, which of the following is true?

(a) Costs incurred to get periodic certifications from appropriate authorities is preventive costs while rework done by NHC to address the complaints of some of the customers post possession of the flat at Project Mangala Vilas is external failure costs

(b) Costs incurred to get periodic certifications from appropriate authorities and rework done by NHC to address the complaints of some of the customers post possession of the flat at Project Mangala Vilas are preventive failure costs

(c) Costs incurred to get periodic certifications from appropriate authorities and rework done by NHC to address the complaints of some of the customers post possession of the flat at Project Mangala Vilas are external failure costs

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

1.5 The business model of NHC can be best described as:

(a) Access over ownership model

(b) Experience model

(c) On Demand model

(d) Hyper market model **(5 x 2 = 10 Marks)**

II. Descriptive Questions

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

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

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

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

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

(2 Marks)

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

1.8 ADVISE the company whether it should adopt forward cover or money market cover? Under what circumstances, money market hedge is advantageous to forward hedge?

(5 Marks)

CASE STUDY 2

DOON Products Ltd. (DPL): A Journey of Strategic Growth

Founded in the heart of India's industrial hub, Lucknow, in the early 1980s, DOON Products Ltd. (DPL) began its journey as a modest manufacturing unit specializing in agricultural implements. The company's entrepreneurial spirit and a keen understanding of rural India's needs propelled its initial growth. Recognizing the burgeoning construction sector, DPL expanded its product line in the late 1990s to include basic building materials. This strategic move proved to be a cornerstone in solidifying the company's position in the market.

Over the decades, DPL consistently reinvested its profits into research and development, enabling it to diversify its product portfolio. The early 2000s witnessed DPL's foray into the consumer durables market with the introduction of essential home appliances. This expansion was driven by the growing middle class and the increasing demand for modern conveniences. The company's commitment to quality and affordability quickly garnered a loyal customer base. By the mid-2010s, DPL had established itself as a formidable force in the Indian manufacturing industry. The company's ability to adapt to evolving market trends and consumer preferences allowed it to navigate economic challenges and emerge stronger. A strategic focus on building a robust distribution network and prioritizing customer satisfaction further cemented DPL's position as a trusted brand.

The company’s product portfolio is strategically categorized to cater to different market segments, offering a comprehensive range of building materials essential for various construction projects, including pipes, wires, electrical fittings, and prefabricated building components. In the home appliances sector, DPL meets the needs of modern households with a selection of essential appliances like refrigerators, washing machines, and water purifiers, potentially expanding to include smaller appliances like kettles or toasters. Recognizing the importance of long-lasting consumer durables, DPL’s offerings in this category include products like bicycles, furniture, and even electronics like televisions. Beyond product diversification, DPL prioritizes exceptional customer service and has established a robust distribution network across North India, ensuring easy product availability for retailers and consumers. Additionally, DPL emphasizes responsive after-sales support through a network of service centres, fostering customer satisfaction and brand loyalty.

Strategic Acquisition of DEHRA Ltd.

In a strategic move to enhance synergy and expand its market presence, DOON Products Ltd. (DPL) acquired DEHRA Ltd. DEHRA Ltd. is projected to generate an expected free cash flow of ₹ 2 crores for the upcoming year, with a forecasted growth rate of 5%. The company's cost of equity is calculated at 12%, while the after-tax cost of debt stands at 6%. Notably, the market value of DEHRA Ltd.'s equity is estimated to be three times its book value, whereas the book value as well as the market value of its debt is equivalent to book value of equity.

The acquisition process saw significant milestones, beginning with the receipt of the certified copy of the order of amalgamation from the National Company Law Tribunal (NCLT) on 26th April 2024. This document, dated 25th April 2024, was subsequently filed with the Registrar of Companies (ROC) for registration on 2nd May 2024, within the stipulated timeline. The amalgamation was officially registered by the ROC on 10th May 2024, with the scheme of amalgamation indicating an appointed date of 5th May 2024.

Initially, DEHRA Ltd. was valued at ₹ 50 crore by an analyst for the purpose of amalgamation. However, a registered valuer of DPL later discovered that the analyst had utilized the book values of debt and equity in his calculations, which necessitated a revision of DEHRA Ltd.'s value in the amalgamation scheme. As a part of the acquisition, DPL also gained two valuable trade secrets from DEHRA Ltd. — 'Design A,' a patented interlocking bricks design, and 'Design B,' which pertains to the internal component design of bricks but lacks legal protection.

Legal Challenges and Risk Management

To commemorate two significant milestones—the successful acquisition of DEHRA Ltd. and the 25th anniversary of its founding—DOON Products Ltd. (DPL) hosted a grand celebration for the major shareholders of both companies. However, the festive atmosphere was soon overshadowed by a controversy that emerged in the media, shedding light on legal issues involving a former director of DEHRA Ltd. This unexpected revelation posed a significant legal challenge for DPL, as the company had to address the complexities surrounding the personal liability of directors for actions taken before the acquisition.

Following the acquisition, DPL's management prioritized strengthening its internal controls to ensure smooth integration of the merged entities and to mitigate potential risks. As part of this initiative, DPL's management met with their statutory auditors, LR & Co., to discuss implementing a risk-based audit approach. To further bolster its internal controls, particularly in Accounts & Finance, DPL purchased standardized finance software at a list price of ₹ 15 lakhs, paying ₹ 0.25 lakh towards non-refundable purchase tax. The company was also granted a trade discount of 5% on the initial list price and incurred a cost of ₹ 3.5 lakhs for customizing the software for its intended use. Additionally, DPL entered into a 5-year maintenance contract with the vendor company for ₹ 1 lakh.

Audit and Financial Reporting

During the audit of DPL's consolidated financial statements for the year 2024-25, which are required to be prepared in accordance with Division II of Schedule III to the Companies Act, 2013, CA Lokesh, the engagement partner from LR & Co., noticed important details. The notes to the accounts in respect of consolidated financial statements disclosed additional information pertaining to the holding company and its subsidiaries. This included percentages of consolidated net assets, consolidated profit and loss, and total comprehensive income, along with their respective amounts. Additionally, during the year 2024-25, goodwill of ₹ 10 crores arose from the acquisition of a subsidiary, with no impairment loss as of the balance sheet date. Adjustments were made in the consolidated financial statements concerning intra-group indebtedness and harmonizing different accounting policies adopted by the parent and its subsidiaries.

DPL's journey from a small manufacturing unit to a leading player in multiple sectors showcases its strategic foresight and adaptability. The recent acquisition of DEHRA Ltd. and the company's ongoing efforts to strengthen internal controls reflect DPL's commitment to sustainable growth and strong governance.

ANNEXURE

City Times

Lucknow, May 15, 2025 — In the aftermath of a high-profile corporate amalgamation, Mr. Rajeev, a former director of DEHRA Ltd., finds himself embroiled in a legal controversy that could have significant implications for corporate governance and accountability. The amalgamation, which saw DEHRA Ltd. being acquired by DOON Products Ltd. (DPL), has brought to light a series of alleged offenses committed by Mr. Rajeev in violation of the Companies Act, 2013.

Mr. Rajeev, who was a key figure in DEHRA Ltd. before the company's amalgamation with DPL, is now under scrutiny for actions that reportedly breached corporate regulations. The offenses, which include several violations of the Companies Act, 2013 were committed prior to the completion of the amalgamation. However, Mr. Rajeev is attempting to distance himself from the legal consequences of these actions, arguing that since the offenses occurred before the amalgamation, he should not be held liable for any resulting penalties or punishments.

Legal experts are closely watching the case, as it raises important questions about the extent of personal liability for directors in the context of corporate mergers and acquisitions. The key issue at hand is whether a director can be absolved of responsibility for actions taken before a amalgamation simply because the company has changed ownership or structure.

I. Multiple Choice Questions

2.1 Under McKinsey's 7S framework, DPL's acquisition of DEHRA Ltd. and subsequent efforts to strengthen internal controls would most likely be classified under:

(a) Strategy and Systems

(b) Style and Strategy

(c) Structure and Staff

(d) Shared Values and Skills

2.2 From the following options you are required to choose the correct 'effective date' of amalgamation:

(a) 10/05/2024

(b) 26/04/2024

(c) 25/04/2024

(d) 05/05/2024

2.3 At what cost the intangible asset i.e. the finance software will be recognised by DPL?

(a) ₹ 18 lakhs

(b) ₹ 18.05 lakhs

(c) ₹ 17.75 lakhs

(d) ₹ 17.95 lakhs

2.4 Considering disclosure of additional information in consolidated financial statements, which of the following statements is correct?

(a) The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.

(b) The said disclosure is not proper as percentage of consolidated revenue from operations along with respective amount pertaining to holding company and its subsidiaries is also required.

(c) The said disclosure is not proper as percentages of consolidated revenue from operations as well as other comprehensive income along with their respective amounts pertaining to holding company and its subsidiaries are also required.

(d) The said disclosure is proper.

2.5 Which of the following statements best reflects the proper treatment of goodwill and the other consolidation adjustments within the context of these financial statements?

(a) Goodwill represents current period consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments.

(b) Adjustments relating to goodwill, intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by parent and its subsidiaries represent current period consolidation adjustments.

(c) Goodwill and adjustments relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments. Adjustments relating to intra-group indebtedness represent current period consolidation adjustments.

(d) Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

2.6 How should DPL APPLY the relevant Indian Accounting Standards (Ind AS) to account for the acquisition of Design A and Design B and at what amount? **(5 Marks)**

2.7 Determine the accurate valuation of DEHRA Ltd. as calculated by the registered valuer of DPL, and provide an ANALYSIS based on the revised valuation. **(6 Marks)**

2.8 Can Mr. Rajeev be absolved of responsibility for actions taken prior to the acquisition solely because the company has undergone a change in ownership or structure? COMMENT. **(4 Marks)**

CASE STUDY 3

Icy Foods Limited (IFL)

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

Business Operations

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

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

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

Discount vouchers and seasonal promotions

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

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

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

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

Responding to threat from quick-commerce business

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

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

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

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

Political contributions

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

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

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

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

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

Annexure 1: Information collated from IFL's information systems

Cost per month

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

Average transportation cost of IFL per trip to any retail store

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

Additional Information (average for any retail store)

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

Retail store information

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

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

Icy Foods Limited

Date: May 1, 2025

Seller:

Icy Foods Limited
234 A, 2nd Floor, Shopping Towers,
Indra Nagar, Lucknow-100100
GSTIN: 12ABCDE3456E7FG
Customer support: 0522-12345678
email: IFL12345678@ifl.co.in

Recipient:

Hotel Paradise
4th Floor, Dreams Shopping Mall,
Gomti Nagar, Lucknow – 100101
GSTIN: 98ZYXWV76543U2TS
Mobile: 1234567890
Order Number: 2025051002

Sr. No.	Item Details	HSN Code	Item Quantity	Unit Price ₹	Discount	Net Price ₹	Tax amount	Total ₹
1	Frozen Foods	030X72200	100 cartons	450 per carton	NIL	45,000	2,250	47,250
	Total							47,250

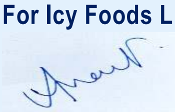
Tax Summary:

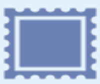
HSN Code	CGST Rate	CGST ₹	SGST Rate	SGST ₹	Total Tax ₹
030X72200	2.5%	1,125	2.5%	1,125	2,250
Total tax					2,250

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

Thank you for shopping with us.

For Icy Foods Limited





Anant Mahant
Authorized Signatory

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

Annexure 3: Dark truth about “dark warehouses”

Business Pluse

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

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

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

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

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

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

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

I. Multiple Choice Questions

3.1 Which of the following suggestions by employees help IFL compete with companies like Zing Zong:

(i) Ensure the quality and safety standards of its products are sold to the customers.

(ii) Extending credit facilities to its regular, loyal and creditworthy customers, particularly the ones that purchase in bulk.

(iii) Offer 15-minute delivery service like that offered by companies like Zing Zong

(iv) Increase the product range offered, in terms of variety and size, that is unavailable online

Options

(a) (i), (ii) and (iii)

(b) (ii) and (iii)

(c) (i) and (iv)

(d) (i), (ii) and (iv)

3.2 Which strategy is Kailash Bhandari adopting to compete with quick commerce companies like Zing Zong Limited?

(a) Milking as cash cow

(b) Restrict presence and shift focus to the core

(c) Counter disruption

(d) Withdraw

3.3 Which is the business model followed by Zing Zong Limited?

(a) Freemium model

(b) Access over ownership model

(c) Experience model

(d) On-demand model

3.4 Regarding the compliance of IFL's donation to political parties as per the Company's Act, 2013, which of the following options correctly states the reason for the change in opinion of Miss Niraja Rai, IFL's Company Secretary?

(a) IFL shall be eligible to make donations to a political party after one year from date of incorporation.

(b) IFL shall be eligible to make donations to a political party after two years from date of incorporation.

(c) IFL shall be eligible to make donations to a political party after three years from date of incorporation.

(d) IFL shall be eligible to make donations to a political party after five years from date of incorporation.

3.5 In compliance with the Income Tax Act, 1961, for the FY 2025-26, how much should Devang Mehta state will be the deduction allowed in respect of the political contributions given as an advertisement in the souvenir published by the political party?

(a) NIL

(b) ₹ 5,00,000

(c) ₹ 6,00,000

(d) ₹ 3,00,000 **(5 x 2 = 10 Marks)**

II. Descriptive Questions

3.6 Please assist Devang Mehta in calculating the profit per unit of product sold. Advise him on how to interpret the results. **(5 Marks)**

3.7 Advise Dilip Sarkar on how the transaction with Hotel Paradise should be accounted for as per Ind AS. **(5 Marks)**

3.8 What type of audit opinion should M/s Ford & Rodes issue? Explain the reason with reference to materiality and pervasiveness. **(5 Marks)**

CASE STUDY 4

Emergence of Green Entrepreneurship

India's remarkable economic progress, marked by its position as the fastest-growing major economy, has been driven by a comprehensive strategy that emphasizes entrepreneurship and self-employment. The government’s policies have fostered an environment conducive to starting businesses, particularly in emerging sectors like sustainability and renewable energy.

Amidst this entrepreneurial renaissance, the story of Anita and Aditya stands out. Both graduates from a prestigious engineering college, they shared a passion for environmental conservation and a desire to contribute to a greener future. Inspired by the government's initiatives to promote clean technologies and the growing global demand for eco-friendly solutions, Anita and Aditya decided to take the entrepreneurial leap. In 2021, they founded SysTech Innovations Pvt. Ltd., a company dedicated to developing cutting-edge technologies for sustainable energy generation and waste management.

Guided by their **mission *"to pioneer innovative, sustainable technologies that drive environmental conservation, enhance waste management efficiency, and contribute to a cleaner future for all,*"** and their **vision "*to become a global leader in sustainable energy and waste management solutions"*** Anita and Aditya aimed to build their company that not only thrived in the market but also made a significant positive impact on the environment.

Growth, Expansion, and Strategic Partnerships

The waste management industry, where SysTech operates, is on a robust growth trajectory, projected to exceed $500 billion globally by 2027. With urbanization and industrialization surging, the industry is witnessing rapid advancements in AI, IoT, and recycling technologies. In 2024, the global waste management market was valued at approximately $380 billion, highlighting significant expansion potential. Government regulations and initiatives, such as the European Union's Circular Economy Action Plan and India's Swachh Bharat Mission, are driving improvements in waste desegregation, recycling rates, and plastic waste reduction. Public-private partnerships are also increasing, enhancing infrastructure and innovation. This sector is becoming crucial in achieving global environmental sustainability and resource efficiency goals.

Initially, Anita and Aditya were the sole shareholders and directors of SysTech Innovations Pvt. Ltd. However, as the business grew, they brought on board their friend, a sustainability expert, Mahesh, as a co-shareholder with a 15% stake. Anita and Aditya each retained 42.5% ownership. To navigate the complexities of finance, accounting, and compliance, they appointed their trusted friend Megha as the Chief Financial Officer (CFO).

As SysTech experienced rapid growth and expansion, the need for a new state-of-the-art head office became evident. The construction of the new office building commenced on 1st September, 2024 and continued until 31st December 2024. At the beginning of September month, the directly attributable expenditure on this asset was ₹ 1,00,000. However, as construction progressed, the costs increased, with the company incurring ₹ 2,50,000 in each of the subsequent months from October to December 2024. Although SysTech Innovations Pvt. Ltd. did not take any specific borrowings to finance the construction, the company incurred finance costs on its general borrowings during the construction period. To meet its capital requirements, SysTech issued 10% debentures with a face value of ₹ 20 lakhs during the year.

Additionally, the company had an existing overdraft facility of ₹ 5,00,000, which was increased to ₹ 7,50,000 in December, 2024. The interest rate on the overdraft was 15% until

1st October, 2024, after which it was increased to 16%. Megha was tasked with ensuring proper accounting treatment and compliance with the relevant accounting standards for the capitalization of borrowing costs related to the construction of the new head office building during the construction period. Her expertise in finance was crucial in navigating these complex financial decisions.

In addition to its domestic operations, SysTech also exports its eco-friendly solutions to European and Middle Eastern countries. During FY 2024-25, SysTech Innovations Pvt. Ltd. acquired a 55% equity stake in EcoWave Ltd., a company engaged in manufacturing and selling a product named 'GoClean.' The fair value of EcoWave Ltd.'s identifiable net assets as per the relevant Ind AS is ₹ 12 crore, and its paid up share capital is ₹ 10.50 crore. For the acquistion, SysTech paid a cash consideration of ₹ 10 crore, with the fair value of the non-controlling interest on the date of acquisition being ₹ 3 crore. EcoWave Ltd. appointed Mr. Mahesh as its whole-time company secretary and Mr. Aditya as its managing director, positions they also held at SysTech Innovations Pvt. Ltd. On 25th August, 2024, EcoWave Ltd. sold two of its machines to Mr. Aditya out of which one machinery was exchanged for a vehicle owned by Mr. Aditya, and the other was sold for cash consideration.

Compliance Challenges

SysTech Innovations Pvt. Ltd. has been self-funded since its inception, relying on the founders' expertise, determination, and the support of environmentally conscious investors. The company's innovative solutions have garnered recognition both domestically and internationally, exemplifying the potential of Indian entrepreneurship to drive sustainable development while contributing to the nation's economic growth. To further expand their operations and accommodate their growing team, SysTech Innovations Pvt. Ltd. entered into a lease agreement for a new office space in April 2024. The lease term is 10 years, with a single lease payment of ₹ 1,00,000 payable at the beginning of each year. According to the lease contract, the annual lease payments will increase by the rate of SOFR. Megha highlighted the importance of accurately measuring the lease liability as per the relevant Ind AS. This financial decision would play a crucial role in ensuring accurate financial reporting and compliance, which are vital for the company's continued success and growth.

Anita and Aditya understood the intricate interplay between inflation, project costs, demand patterns, and financing implications. They realized the importance of conducting comprehensive project appraisals that account for these factors. They appreciated Megha's expertise in guiding them through the complexities of project evaluation, ensuring that SysTech Innovations Pvt. Ltd. made well-informed decisions about its future growth strategies. During a board meeting in April 2024, Megha informed the directors that the company's financial statements for the current year would be prepared in accordance with the Indian Accounting Standards (Ind AS). Anita and

Aditya expressed their growing concerns to Megha about the lack of progress following the company's recent decentralization efforts. Despite granting greater autonomy to local managers in hopes of boosting performance and fostering innovation, the anticipated improvements had not materialized. They sought Megha's expertise and strategic insight on how to navigate this complex situation, improve local managers' engagement, and ensure the company's growth trajectory remained on track. Megha's role as CFO and her understanding of the company's financial health and strategic goals positioned her uniquely to provide the guidance needed to overcome this significant hurdle.

SysTech Innovations Pvt. Ltd. had an outstanding interest liability of ₹ 1 crore towards a loan payable to GreenFinance Ltd., a public financial institution that had been a crucial supporter in the early stages of the company's growth. To manage this liability more effectively and preserve cash flow, SysTech issued debentures of ₹ 275 lakhs carrying an interest of 7.5% to GreenFinance Ltd. in lieu of the outstanding interest as well as for the outstanding loan payable to it. This strategic move allowed the company to defer the immediate cash outflow and focus on its operational needs. While computing the profits and gains of business for the A.Y. 2025-26, SysTech Innovations Pvt. Ltd. deducted the said interest, anticipating it would be a legitimate business expense. However, the Assessing Officer rejected the deduction of interest on the loan claimed by SysTech, creating an unexpected challenge for the financial team.

Additionally, SysTech achieved a gross profit of ₹ 18 crores and incurred indirect expenses of ₹ 4 crores for the financial year, reflecting its robust financial performance despite the complexities in interest liability management. During the annual audit of SysTech Innovations Pvt. Ltd., the tax consultant raised a concern regarding a notice issued by the Commissioner of Income-tax. The Commissioner had initially issued a notice to revise the order passed by an Assessing Officer under section 143. While the proceedings were ongoing before the Commissioner, based on material gathered during a survey under section 133A after the issuance of the first notice, the Commissioner of Income-tax issued a second notice with different contents from the first notice. The tax consultant questioned whether the action of the Commissioner in issuing the second notice with divergent contents was justified.

Finally, in a separate event, SysTech Innovations Pvt. Ltd. imported a machine from France for ₹ 180 lakh during March 2024, paying all duties of customs. Due to a technical manufacturing defect, the machine was sent back to the supplier for repairs in October 2024 and re-imported in August 2025 without any re-manufacturing or reprocessing, after repairs. Since the machine was under warranty, the repairs were carried out free of cost, although the fair cost of repairs would have been ₹ 5 lakh (excluding the cost of material, which was ₹ 10 lakh). The actual insurance and freight charges (to and from) were ₹ 5 lakh (₹ 2.50 lakh each way). The ownership of the machinery did not change during this period.

I. Multiple Choice Questions

4.1 Referring to the lease transaction in the case study, at the date of commencement of the lease, SOFR is 2 percent and the interest rate implicit in the lease is 5 percent. The amount of lease liability to be recognized initially will be -

(a) ₹ 8,75,645

(b) ₹ 8,60,789

(c) ₹ 8,80,889

(d) ₹ 8,74,889

4.2 Comment upon the validity of the action of the Assessing Officer on rejecting the deduction of interest on loan claimed by SysTech.

(a) The interest so converted into debentures shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y.2025-26. The action of the Assessing Officer is correct.

(b) The interest so converted into debentures shall be deemed as actual payment but would not be allowed as deduction while computing its profits and gains of business for A.Y.2025-26. The action of the Assessing Officer is correct.

(c) The interest so converted into debentures shall be deemed as actual payment, and hence, would be allowed as deduction but while computing 'Income from other sources' for A.Y.2025-26 even though the liability to pay is deferred to a future date. Thus, the action of the Assessing Officer is partially correct, as the said interest though not allowed while computing profits and gains of business but would be allowed as deduction while computing 'Income from other sources'.

(d) The interest so converted into debentures shall be deemed as actual payment as in the given case loan is provided by a public financial institution and hence, would be allowed as deduction while computing its profits and gains of business for A.Y.2025-26. The action of the Assessing Officer is not correct.

4.3 Whether there was any statutory requirement for EcoWave Ltd. to appoint a whole-time Company Secretary (CS) and whether Mr. Mahesh was eligible to be appointed as its whole-time Company Secretary?

(a) No, as its paid-up capital had not exceeded the prescribed limit and also Mr. Mahesh was not eligible as he was already holding office as a whole-time CS in one other company i.e. SysTech Innovations Pvt. Ltd.

(b) Yes, as its paid-up capital had exceeded the prescribed limit. However, Mr. Mahesh was not eligible to be appointed as its whole-time CS as he was already holding office as a whole-time CS in one other company i.e. SysTech Innovations Pvt. Ltd.

(c) No, as its paid-up capital had not exceeded the prescribed limit. However, Mr. Mahesh was eligible to be appointed as its whole-time CS as it was the subsidiary company of SysTech Innovations Pvt. Ltd.

(d) Yes, as its paid-up capital had exceeded the prescribed limit and also Mr. Mahesh was eligible to be appointed as its whole-time CS in EcoWave Ltd. as it was the subsidiary company of SysTech Innovations Pvt. Ltd.

4.4 What will be the capitalization rate for construction period of four months for computation of borrowing cost in accordance with the relevant Ind AS related to the construction of a new office building?

(a) 3.986%

(b) 3.757%

(c) 3.189%

(d) 2.607%

4.5 What shall be the value of goodwill for SysTech Innovations Pvt. Ltd. on the acquisition of 55% shares of EcoWave Ltd. as per the fair value method and proportionate share method?

(a) There is no goodwill arising but there is a gain on bargain purchase of ₹ 1,00,00,000

(b) ₹ 1,00,00,000, ₹ 7,40,00,000

(c) ₹ 2,00,00,000, ₹ 3,40,00,000

(d) ₹ 1,00,00,000, ₹ 3,40,00,000 **(5 x 2 = 10 Marks)**

II. Descriptive Questions

4.6 SysTech Innovations Pvt. Ltd. owns 30% of the share capital in GreenTech Solutions Pvt. Ltd. and has the ability to exercise significant influence over it. GreenTech Solutions Pvt. Ltd. holds the following investments:

70% of the share capital of its subsidiary, SustainCo Ltd., and 30% of the share capital of EcoEnergy Pvt. Ltd., with the ability to exercise significant influence. SysTech Innovations Pvt. Ltd. transacts with SustainCo Ltd. and EcoEnergy Pvt. Ltd.

Should SysTech Innovations Pvt. Ltd. disclose these transactions as related party transactions in its separate financial statements? Also, explain the disclosure of such transactions in the financial statements of SustainCo Ltd. and EcoEnergy Pvt. Ltd. as related party transactions. **(3 Marks)**

4.7 Anita and Aditya, the founders of SysTech Innovations Pvt. Ltd., were concerned about the potential implications of this notice on the company's tax compliance. They sought guidance from their Chief Financial Officer, Megha. Accordingly, examine whether the action of the Commissioner is justified as to the second notice. **(3 Marks)**

4.8 You are required to advice SysTech Innovations Pvt. Ltd. on the concessions (if any) available for importation of the machinery after repairs, also state the conditions to be satisfied for availing such concession. Also compute the customs duty and integrated tax payable (if any) on the re-import of the machine after repairs. The rate of basic customs duty is 15% and integrated tax is 12%. Ignore Agriculture infrastructure and development cess. **(6 Marks)**

4.9 Whether there were any restrictions for EcoWave Ltd. to sell its machinery to Mr. Aditya in exchange for a vehicle and if yes, then what legal requirements would have been followed by it? **(3 Marks)**

CASE STUDY 5

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

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

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

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

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

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

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

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

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

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

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

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

(i) Loans and advances amounting to ₹ 2.5 crore were extended to various entities that had no identifiable business relationship with the company. These transactions lacked formal agreements and supporting documentation.

(ii) Payments were made on behalf of directors towards personal expenses, indicating potential misuse of company funds.

(iii) Goods valued at ₹ 1 crore were recorded as purchased in the books of accounts; however, no physical verification nor supporting documentation were available to substantiate the existence of such inventory.

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

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

(₹ in crore)

Net Profit as per statement of Profit and Loss	200
Deferred Tax Liability debited to Profit and Loss Account due to Ind AS Transition	20
Revaluation surplus credited to Other Comprehensive Income (OCI)	15

Provision for doubtful debts debited to P & L Account	5
Fair value charges in Equity Investments credited to Other Comprehensive Income (OCI)	12

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

I. Multiple Choice Questions

5.1 Which of the following statements is most accurate regarding the approval and compliance process for a lease agreement for a new factory premises with Green Space Pvt. Ltd?

(a) The transaction can be approved by the Audit Committee without further approvals, provided Mr. Manish abstains from voting.

(b) Since the transaction is not at arm's length and exceeds 10% of turnover, it requires both Audit Committee and shareholder approval via an ordinary resolution.

(c) The transaction requires prior approval of the Audit Committee (excluding interested director), approval of the Board and prior approval of the shareholders via ordinary resolution.

(d) The transaction is voidable unless approved only by disinterested shareholders through a special resolution as per SEBI Regulations.

5.2 Which of the following statements is most appropriate for Aero X?

(a) The target cost for Aero X is ₹ 85,000 and the company needs to reduce cost by ₹ 10,000; this aligns with strategies used in the maturity phase of the PLC.

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

(c) ATL should try and increase the selling price to ₹ 1,27,000.

(d) Since ATL is in the growth phase, it should focus on penetration pricing rather than cost control via target costing.

5.3 Assertion (A): Setting up a specialized drone manufacturing facility significantly impacts the Systems element of the McKinsey's 7S framework within ATL.

Reason (R): Introducing advanced testing environments, automated assembly lines, and compliance protocols leads to drastic changes in ATL's organisational culture and leadership behaviour.

Options

(a) A is true, but R is false

(b) A is false, but R is true

(c) Both A and R are true, and R is the correct explanation of A

(d) Both A and R are true, but R is *not* the correct explanation of A

5.4 Calculate the total duty saved by ATL under the DFIA scheme on imported inputs and confirm if value addition guidelines has been complied with.

(a) Total duty saved is ₹ 24,75,000. Value addition guidelines complied with.

(b) Total duty saved is ₹ 22,05,000. Value addition guidelines not complied with.

(c) Total duty saved is ₹ 11,25,000. Value addition guidelines complied with.

(d) Total duty saved is ₹ 24,75,000. Value addition guidelines not complied with.

5.5 Calculate the amount of book profits under Section 115JB of the Income-tax Act, 1961.

(a) ₹ 195 crore

(b) ₹ 203 crore

(c) ₹ 215 crore

(d) ₹ 185 crore **(5 x 2 = 10 Marks)**

II. Descriptive Questions

5.6 How will you classify the instruments issued to GNH Capital and whether any separate disclosure requirements have been prescribed for such issues under Ind AS if they are classified as equity? **(5 Marks)**

5.7 How should the statutory auditor, M/s GSB & Co., address the issues identified above in accordance with the provisions of the Companies Act, 2013? **(6 Marks)**

5.8 ATL seeks your guidance under the provision of the Income Tax Act, 1961 in relation to:

(i) Compliance requirements on payment of interest on debentures.

(ii) Compliance at the time of receipt of consideration on issue of debentures.

(4 Marks)

Mock Test Paper - Series I: November, 2025

Date of Paper: 28th November, 2025

Time of Paper: 2 P.M. to 6 P.M.

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

SUGGESTED ANSWERS

ANSWERS TO THE CASE STUDY 1

I. Answers to the Multiple Choice Questions

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

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

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

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

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

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

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

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

1.3 The correct answer is (a) I-B; II-A; III- C

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

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

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

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

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

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

1.5 The correct answer is (b) Experience model.

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

II. Answers to the Descriptive Questions

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

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

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

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

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

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

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

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

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

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

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

(b) For FY 2025-26, NHC offers only 5% of the total turnover that is ₹ 10,00,000 instead of the minimum of ₹ 12,10,000 as prescribed u/s 44 AD. NHC should therefore maintain books of accounts as per section 44AA and get them audited under section 44AB.

(c) Since NHC has not offered income in accordance with the provisions of section 44AD(1) for five successive consecutive years (i.e., from AY 2025-26 to AY 2029-30, it will not be eligible to claim the benefit u/s 44AD for next five succeeding assessment years i.e. from AY 2027-28 to AY 2031-32 (relevant to financial years 2026-27 to 2030-31)

1.8 Amount Payable under Forward Cover (€ 42,500 × ₹ 92.60**) ₹ 39,35,500**

Money Market Hedge

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

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

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

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

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

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

Money market hedge is advantageous to forward cover as under:

(i) When forward contracts are not available or forward rates are not attractive.

(ii) As soon as we create money market hedge, we fix the future rate. This eliminates downside risk due to adverse exchange rate movements.

(iii) It is more flexible if we consider the amount to be covered.

ANSWERS TO THE CASE STUDY 2

I. Answers to the Multiple Choice Questions

2.1 The correct answer is (a) Strategy and Systems

Reason: Under McKinsey's 7S framework, "Strategy" refers to the plan devised to maintain and build a competitive advantage over the competition. DPL's acquisition of DEHRA Ltd. is a strategic move aimed at enhancing synergy, expanding market presence, and strengthening its product portfolio. This aligns with the "Strategy" aspect of the 7S framework.

"Systems" refers to the processes and procedures used to manage the organization. The efforts to strengthen internal controls post-acquisition—such as implementing a risk-based audit approach and purchasing standardized finance software—are related to the "Systems" aspect. These efforts are aimed at ensuring smooth integration of the merged entities and improving governance.

Therefore, the acquisition and subsequent focus on internal controls fit within the "Strategy and Systems" elements of McKinsey's 7S framework.

2.2 The correct answer is (d) 05/05/2024

Reason: Section 232(6) of the Companies Act, 2013, the scheme under this section shall clearly indicate an appointed date from which it shall be effective and the scheme shall be deemed to be effective from such date and not at a date subsequent to the appointed date.

Here, the scheme of such amalgamation had indicated an 'appointed date' - 05/05/2024 and accordingly, the effective date' of amalgamation would be 05/05/2024.

2.3 The correct answer is (a) ₹ 18 lakhs

Reason: In accordance with Ind AS 38 'Intangible Assets', the cost of a separately acquired intangible asset is its purchases price and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use. Therefore, the initial cost of the intangible asset should be:

Particulars	₹
List price	15,00,000
Less: Trade discount (5%)	(75,000)
Non-refundable purchase tax	25,000
Customisation cost	3,50,000
Total cost	18,00,000

The maintenance contract of ₹ 1,00,000 is an expense and therefore should be taken as a prepaid expense and charged to profit and loss over a period of 5 years.

2.4 **The correct answer is (a)** The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.

Reason: In addition to the information required pursuant to Schedule III to the Companies Act, 2013 ('general instructions for the preparation of consolidated financial statements') following information is also required to be disclosed in the consolidated financial statements separately for the parent and each of its components (including foreign component) which has been consolidated:

(i) amount of net assets and net assets as a percentage of consolidated net assets;

(ii) amount of share in profit or loss and the percentage share in profit or loss as a percentage of consolidated profit or loss;

(iii) amount in other comprehensive income (OCI) and the percentage of OCI as a percentage of Consolidated OCI.

2.5 **The correct answer is (d)** Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments.

Reason: Permanent consolidation adjustments are those adjustments that are made only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity which is consolidated. Examples are determination of goodwill or capital reserve, equity attributable to minority shareholders.

Current period adjustments are those adjustments that are made in the accounting period for which the consolidation of financial statements is done like elimination of intra-group transactions and account balances.

II. Answers to the Descriptive Questions

2.6 Ind AS 38, "Intangible Assets," provides detailed guidance on the recognition, measurement, and disclosure of intangible assets, which are non-monetary assets without physical substance. The standard emphasizes the importance of identifying intangible assets distinctly from goodwill, particularly in the context of a business combination.

Identifiability of Intangible Assets

Paragraphs 11 and 12 of Ind AS 38 set out the criteria for an asset to be recognized as an intangible asset:

1. Separable Criterion: An asset is considered identifiable if it is separable, meaning it can be separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset, or liability, regardless of whether the entity intends to do so.
2. Contractual-Legal Criterion: An asset can also be identifiable if it arises from contractual or other legal rights, irrespective of whether those rights are transferable or separable from the entity or from other rights and obligations.

Application to Design A and Design B

In the context of a business combination, the identification of intangible assets is critical because they must be recognized separately from goodwill. Goodwill represents the future economic benefits that arise from other assets acquired in a business combination that are not individually identified and separately recognized.

<u>Design A:</u>

Contractual-Legal Criterion: Design A is protected by a patent, which means it arises from legal rights that are enforceable. According to Ind AS 38, an asset that arises from contractual or other legal rights is identifiable as an intangible asset, regardless of whether these rights are transferable or separable. Therefore, Design A meets the contractual-legal criterion and must be recognized as a separate intangible asset in the business combination.

<u>Design B:</u>

Separable Criterion: Although Design B is not protected by a patent and does not meet the contractual-legal criterion, it still qualifies as an intangible asset under the separable criterion. The separable criterion emphasizes that an asset is identifiable if it can be separated from the entity and sold, transferred, licensed, or exchanged. In practice, unpatented designs like Design B can often be exchanged, licensed, or leased to others. This ability to be separated and dealt with independently of the entity fulfills the separable criterion. Consequently, Design B should also be recognized as a separate intangible asset in the business combination.

Measurement

Once identified, these intangible assets must be measured at their fair value at the acquisition date, as per Ind AS 103, "Business Combinations," which is closely aligned with Ind AS 38. The fair value reflects the price that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

2.7 Step 1: Calculate Correct Weights

- Let E = Market value of equity and D = Market value of debt = Book value of equity
- Total market value (V) = E + D = 3B + B = 4B (where B is book value of equity)
- Weight of equity (W_e) = E / V = 3B / 4B = 0.75
- Weight of debt (W_d) = D / V = B / 4B = 0.25

Step 2: Calculate Correct WACC

- WACC = $W_e \times K_e + W_d \times K_d$ = 0.75 × 12% + 0.25 × 6% = 10.5%

Step 3: Calculate Correct Firm Value

- Firm value (V_0) = $FCFF_1$ / (WACC - g) = ₹ 2 crores / (0.105 - 0.05) = ₹ 36.36 crores

Conclusion

The correct valuation of DEHRA Ltd. is ₹ 36.36 crores. This figure is notably lower than the initial valuation of ₹ 50 crores provided by the analyst, who incorrectly relied on book values rather than market values in the Weighted Average Cost of Capital (WACC) calculation. This discrepancy underscores the critical importance of using accurate market value weights when determining the value of a company, especially in strategic acquisitions like that of DEHRA Ltd. by DPL. The revised valuation provides a more realistic assessment, aligning with DPL's commitment to prudent financial management and informed decision-making during the acquisition process.

2.8 Section 240 of the Companies Act, 2013 states that notwithstanding anything in any other law for the time being in force, the liability in respect of offences committed under this Act by the officers in default, of the transferor company prior to its merger, amalgamation or acquisition shall continue after such merger, amalgamation or acquisition.

In the given case, Mr. Rajeev, who was a key figure in DEHRA Ltd. before the company's amalgamation with DPL, is under scrutiny for actions that reportedly breached corporate regulations. The offenses, which include several violations of the Companies Act, were committed prior to the completion of the amalgamation. However, Mr. Rajeev is attempting to distance himself from the legal consequences of these actions, arguing that since the offenses occurred before the amalgamation, he should not be held liable for any resulting penalties or punishments.

With reference to the above quoted section and the given case, the contention of Mr. Rajeev is not correct since the liability in respect of offences committed under the Companies Act 2013 by the officers in default, of the transferor company prior to its merger, amalgamation or acquisition shall continue after such merger, amalgamation or acquisition.

ANSWERS TO THE CASE STUDY 3

I. Answers to the Multiple Choice Questions

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

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

3.2 **The correct answer is (a)** Milking as cash cow

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

3.3 The correct answer is (d) On-demand model.

Reason: By monetizing time, this model disrupts by offering customers instance access to products and have it delivered at their doorstep. For this convenience they pay delivery charges. Since access is available to the customer instantly on demand, Zing Zong has an on-demand model.

3.4 The correct answer is (c) IFL shall be eligible to make donations to a political party after three years from date of incorporation.

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

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

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

3.5 The correct answer is (b) ₹ 5,00,000

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

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

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

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

II. Answers to the Descriptive Questions

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

In the case of chips and crisps, while they do not need refrigeration, their slow inventory turnover causes the storage costs to increase. This reduces its profitability marginally. However, unlike frozen foods, the number of items that can be kept per metric cube of space is much higher (300 per m^3 as against 50 per m^3 for frozen foods). Therefore, the storage cost is spread over more units, thereby reducing the cost per unit.

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

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

Workings

Direct Product Profitability (DPP) **Amount (in ₹)**

Sr. No.	Particulars	Frozen food	Chips & crisps	Ice cream
1	Selling price per unit	90	50	90
2	Less: Purchase price per unit	80	40	80
3	**Gross profit (Step 1 – Step 2)**	**10**	**10**	**10**

	Less: Direct product costs			
4	Warehouse costs per m^3 (W.N. 1)	8.03	3.60	0.80
5	Retail store costs per m^3 (W.N. 2)	5.88	3.00	0.59
6	Transportation costs per m^3 (W.N. 3)	150	120	150
7	Total DPP costs per m^3 Step 4 + Step 5 + Step 6	163.91	126.60	151.39
8	Items per m^3 (W.N. 4)	50	300	1000
9	**Cost per item (Step 7/Step 8)**	**3.28**	**0.43**	**0.16**
10	Direct Product Profit (Step 3 – Step 9)	6.72	9.57	9.84

Working note 1: Warehouse related costs

	General costs ₹	**Costs related to Refrigerated goods ₹**
Labour and staff costs per month	7,50,000	---
Refrigeration costs per month	---	22,50,000
Material handling costs per month	4,50,000	---
Total warehouse related costs per month	12,00,000	22,50,000
Volume of goods sold (in m3) per month	5,00,000	4,00,000
Costs per m^3	**2.40**	**5.63**

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

Working note 2: Retail store related costs

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

Products	Time in retail store	Costs per m³	Total cost ₹ per m³
Frozen food	1.00	5.88	**5.88**
Chips & crisps	2.00	1.50	**3.00**
Ice cream	0.10	5.88	**0.59**

Working note 3: Transportation costs

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

Working note 4: No. of items per m³

Products	Number of cartons Per m³	Number of items Per carton	Number of items Per m³
Frozen food	10	5	**50**
Chips & crisps	30	10	**300**
Ice cream	50	20	**1,000**

The gross profit that IFL earns from each of its product is ₹10 per unit. However, this does not account for the huge indirect costs that it incurs warehouse storage costs, head office costs, costs at retail outlets etc. In order to calculate the profit per unit per product, Devang has to breakdown these indirect costs to the per unit level. Currently information is available about the average cost incurred transportation per store, accounting for warehouse, head office and in-store costs. The inventory of these products occupies space. Therefore, information is also given in terms of volume of space occupied by these products on meter cube (m^3) basis (space occupied). There is further information about the number of cartons that this space can occupy as well as the number of items of each product that can be held in a carton. Indirect costs are allocated based on measures like space used for transportation and storage of goods, time period of storage of goods and other relevant cost drivers to arrive at the indirect cost attributable per unit. This cost is then used along with the procurement cost to arrive at the profit per unit per product. This method of analysis is known as Direct Product Profitability (DPP) method.

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

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

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

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

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

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

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

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

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

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

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

ANSWERS TO THE CASE STUDY 4

I. Answers to the Multiple Choice Questions

4.1 The correct answer is (c) ₹ 8,80,889

Reason: As per Ind AS 116, the lease payments should initially be measured using SOFR of 2 percent as at the commencement date. Therefore, while measuring the lease liability, each year the payments will be increased by 2 per cent, as follows:

Year	Lease Payment	Discount Factor	PV of lease payments (₹)
1	1,00,000	1	1,00,000
2	1,02,000	0.952	97,104
3	1,04,040	0.907	94,364
4	1,06,121	0.864	91,689
5	1,08,243	0.823	89,084
6	1,10,408	0.784	86,560
7	1,12,616	0.746	84,012
8	1,14,869	0.711	81,672
9	1,17,166	0.677	79,321
10	1,19,509	0.645	77,083
			8,80,889

Therefore, the lease liability will initially be measured at ₹ 8,80,889.

4.2 **The correct answer is (a)** The interest so converted into debentures shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y.2025-26. The action of the Assessing Officer is correct.

Reason: As per section 43B, interest payable by the assessee on interest on loan from a public financial institution is allowable as deduction only in the year in which such interest is actually paid by the assessee. The proviso to section 43B permits deduction if such sum is paid on or before the due date of filing of return under section 139(1) in respect of the previous year in which the liability to pay such sum was incurred. Explanation 3C to section 43B clarifies that if any sum payable by the assessee as interest on any such loan is converted into a loan or borrowing or debenture or any other instrument by which the liability to pay is deferred to a future date, the interest so converted shall not be deemed as actual payment, and hence, would not be allowed as deduction. In this case, since SysTech has converted the interest of ₹ 1 crore payable to GreenFinance Ltd. on loan borrowed from it, the interest so converted into debentures shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y.2025-26. Accordingly, the action of the Assessing Officer in rejecting the deduction of interest on the loan claimed by SysTech while computing its profits and gains of business for A.Y. 2025-26, is correct.

4.3 **The correct answer is (d)** Yes, as its paid-up capital had exceeded the prescribed limit and also Mr. Mahesh was eligible to be appointed as its whole-time CS in EcoWave Ltd. as it was the subsidiary company of SysTech Innovations Pvt. Ltd.

Reason: Requirement of Company Secretary in certain other companies Section 203 read with Rule 8 and Rule 8A of Companies (Appointment and Managerial Personnel) Rules 2014, as amended provides that every–

Listed company or

Public company having paid up share capital ₹ 10 crore or more or

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

Bar on multiple appointments- A whole-time key managerial personnel shall not hold office in more than one company at the same time except in its subsidiary company. [Section 203(3)]

4.4 **The correct answer is (d)** 2.607%

Reason: Since the entity has only general borrowing, hence first step will be to compute the capitalisation rate. The capitalisation rate of the general borrowings during the period of construction is calculated as follows-

Particulars	Amount (in ₹)
Finance cost on ₹ 275 lakhs 7.5% debentures during September-December 2024	6,87,500
Finance cost on ₹ 20 lakhs 10% debentures during September-December 2024	66,667
Interest @15% on overdraft of ₹ 5,00,000 in September 2024	6,250
Interest @16% on overdraft of ₹5,00,000 in October and November 2024	13,333
Interest @16% on overdraft of ₹ 7,50,000 in December 2024	10,000
Total finance cost during September-December 2024	7,83,750

Weighted average borrowings during period

= [(2,75,00,000 × 4) + (20,00,000 × 4) + (5,00,000 × 3) +(7,50,000 × 1)]/4

= ₹ 3,00,62,500

Capitalisation Rate for 4 months period = Total finance costs during the construction period/ Weighted average borrowing cost during the construction period

= 7,83,750 /3,00,62,500

= 2.607%

4.5 The correct answer is (d) ₹ 1,00,00,000, ₹ 3,40,00,000

Reason:

Fair Value Method	Amount (in ₹)
Fair value of cash consideration transferred	10,00,00,000
Fair value of non-controlling interest	3,00,00,000
	13,00,00,000
Less: Value of subsidiary's identifiable net assets as per Ind AS 103	12,00,00,000
Goodwill	**1,00,00,000**

Proportionate Share Method	Amount (in ₹)
Fair value of cash consideration transferred	10,00,00,000
Proportional share of non-controlling interest in the net identifiable assets of acquiree (12,00,00,000 x 45%)	5,40,00,000
	15,40,00,000
Less: Value of subsidiary's identifiable net assets as per Ind AS 103	12,00,00,000
Goodwill	**3,40,00,000**

II. Answers to the Descriptive Questions

4.6 **Disclosure by SysTech Innovations Pvt. Ltd.:** Under Ind AS 24, "Related Party Disclosures," related parties are defined as entities or individuals that have the ability to exercise control or significant influence over the reporting entity, or vice versa. In this scenario, SysTech Innovations Pvt. Ltd. owns 30% of the share capital in GreenTech Solutions Pvt. Ltd., which gives it the ability to exercise significant influence over GreenTech. This significant influence extends to the subsidiaries of GreenTech as well, making SustainCo Ltd. a related party to SysTech Innovations Pvt. Ltd. because SustainCo Ltd. is a subsidiary of GreenTech Solutions Pvt. Ltd. Therefore, any transactions between SysTech Innovations Pvt. Ltd. and SustainCo Ltd. are considered related party transactions and must be disclosed in SysTech Innovations Pvt. Ltd.'s separate financial statements.

Disclosure of Transactions with EcoEnergy Pvt. Ltd.: Although GreenTech Solutions Pvt. Ltd. holds 30% of the share capital in EcoEnergy Pvt. Ltd. and has significant influence over it, SysTech Innovations Pvt. Ltd. neither directly own any share capital in EcoEnergy Pvt. Ltd. nor it have significant influence or control over EcoEnergy Pvt. Ltd. Therefore, according to Ind AS 24, EcoEnergy Pvt. Ltd. is not considered a related party to SysTech Innovations Pvt. Ltd. The mere fact that SysTech Innovations Pvt. Ltd. transacts with EcoEnergy Pvt. Ltd. which is an associate of GreenTech Solutions Pvt. Ltd., does not establish a related party relationship under Ind AS 24. Consequently, SysTech Innovations Pvt. Ltd. is not required to disclose transactions with EcoEnergy Pvt. Ltd. as related party transactions in its financial statements.

Disclosure by SustainCo Ltd.: SustainCo Ltd. is required to disclose its transactions with SysTech Innovations Pvt. Ltd. in its financial statements. According to Ind AS 24, a related party relationship exists between SustainCo Ltd. and SysTech Innovations Pvt. Ltd. because SysTech Innovations Pvt. Ltd. has significant influence over GreenTech Solutions Pvt. Ltd., which is the parent company of SustainCo Ltd. This creates a relationship where SysTech Innovations Pvt. Ltd. can influence the decisions of SustainCo Ltd., making it a related party. As a result, any transactions between

SustainCo Ltd. and SysTech Innovations Pvt. Ltd. must be disclosed in SustainCo Ltd.'s financial statements as related party transactions.

Disclosure by EcoEnergy Pvt. Ltd.: EcoEnergy Pvt. Ltd. is not required to disclose its transactions with SysTech Innovations Pvt. Ltd. as related party transactions. Under Ind AS, for entities to be considered related parties, there must be a direct or indirect control, joint control, or significant influence. In this case, SysTech Innovations Pvt. Ltd. does not exert control or significant influence over EcoEnergy Pvt. Ltd. through GreenTech Solutions Pvt. Ltd. Therefore, no related party relationship is established between EcoEnergy Pvt. Ltd. and SysTech Innovations Pvt. Ltd. As a result, EcoEnergy Pvt. Ltd. does not need to disclose its transactions with SysTech Innovations Pvt. Ltd. as related party transactions in its financial statements.

4.7 The action of the Commissioner in issuing the second notice is not justified. The term "record" has been defined in clause (b) of Explanation 1 to section 263(1). According to this definition "record" shall include and shall be deemed always to have included all records relating to any proceeding under the Act available at the time of examination by the Commissioner. In other words, the information, material, report etc. which were not in existence at the time the assessment was made and came into existence afterwards can be taken into consideration by the Commissioner for the purpose of invoking his jurisdiction under section 263(1). However, at the same time, in view of the express provisions contained in clause (b) of the Explanation 1 to section 263(1), such information, material, report etc. can be relied upon by the Commissioner only if the same forms part of record when the action under section 263 is taken by the Commissioner.

Issuance of a notice under section 263 succeeds the examination of record by Commissioner. In the present case, the Commissioner initially issued a notice under section 263, after the examination of the record available before him. The subsequent second notice was on the basis of material collected under section 133A, which was totally unrelated and irrelevant to the issues sought to be revised in the first notice. Accordingly, the material on the basis of which the second notice was issued could not be said to be "record" available at the time of examination as emphasized in clause (b) of the Explanation 1 to section 263(1).

4.8 As per *Notification No. 45/2017 Cus. dated 30.06.2017*, duty payable on re-importation of goods which had been exported for repairs abroad is the duty of customs which would be leviable if the value of re-imported goods after repairs were made up of the fair cost of repairs carried out including cost of materials used in repairs (whether such costs are actually incurred or not), insurance and freight charges, both ways. However, following conditions need to be satisfied for availing this concession:

(a) goods must be re-imported within 5 years, extendable by further 2 years, after their exportation;

(b) exported goods and the re-imported goods must be the same;

(c) ownership of the goods should not change.

Since all the conditions specified above are fulfilled in the given case, the customs duty payable on re-imported goods will be computed as under:

Particulars	₹
Value of goods re-imported after exports [Cost of materials ₹10 Lakh + fair cost of repairs ₹ 5 Lakh + actual insurance and freight ₹ 5 lakh]	20,00,000
Add: Basic Customs duty @ 15% …(A)	3,00,000
Add: Social Welfare Surcharge @ 10% on ₹ 3,00,000 …(B)	30,000
Value for computing integrated tax	23,30,000
Integrated tax @ 12% (₹ 23,30,000 x 12 %) - …(C)	2,79,600
Customs Duty and integrated tax payable …[(A) + (B) + (C)]	**6,09,600**

4.9 According to Section 192(1) of the Companies Act, 2013, no company shall enter into an arrangement by which:

(a) A director of the company or its holding, subsidiary, or associate company, or a person connected with him, acquires or is to acquire assets for consideration other than cash from the company; or

(b) The company acquires or is to acquire assets for consideration other than cash from such director or person so connected.

The above restriction is relaxed under certain conditions. A company may enter into an arrangement involving non-cash transactions as stated above if prior approval for such arrangement is accorded by a resolution of the company in a general meeting. Furthermore, if the director or connected person is a director of its holding company, approval must also be obtained by passing a resolution in the general meeting of the holding company.

The notice for approval of the resolution in the general meeting issued by the company or holding company must include:

- The particulars of the arrangement.

- The value of the assets involved in such arrangement, duly calculated by a registered valuer.

In the given instance, EcoWave Ltd. entered into a non-cash transaction with its managing director, Mr. Aditya, by selling its machinery in exchange for a vehicle. To comply with Section 192(1) of the Companies Act, 2013, EcoWave Ltd. would have needed to:

Obtain prior approval for such an arrangement through a resolution in its general meeting.

Since Mr. Aditya is also a director of its holding company, SysTech Innovations Pvt. Ltd., prior approval would also need to be obtained by passing a resolution in the general meeting of SysTech Innovations Pvt. Ltd.

By following these legal requirements, EcoWave Ltd. and SysTech Innovations Pvt. Ltd. would ensure compliance with the Companies Act, 2013, regarding non-cash transactions involving directors and connected persons.

ANSWERS TO THE CASE STUDY 5

I. Answers to the Multiple Choice Questions

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

Reason

1. Related Party:

   Green Space Pvt. Ltd., is a related party under Section 2(76) of the Companies Act,2013, since Mr. Manish holds 20% equity.

2. Materiality threshold (As per the SEBI(LODR) Regulations, 2015 under the Regulation 23)

   The aggregate value of 180 crore is 12% of turnover (₹1,500 crore) - exceeds the 10% materiality threshold.

   Therefore, shareholder approval is required.

3. Arm's Length and Ordinary Course

   The transaction is not at arm's length and not in the ordinary course - triggers Board approval under Section 188 of the Companies Act, 2013.

4. Audit Committee

   Required as per Section 177 of the Companies Act, 2013 and Regulation 23 of the SEBI(LODR)Regulations, 2015

   Interested directors (Mr. Manish) must disclose interest and abstain from voting.

5. Shareholder Approval

As per Section 188 of the Companies Act, 2013 and SEBI (LODR) Regulations, 2015 ordinary resolution is required for material RPTs.

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

Reason:

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

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

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

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

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

Hence, A is true and R is false.

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

Reason: DFIA = Duty Free Import Authorization

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

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

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

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

5.5 Correct answer is (a), ₹ 195 crore

Reason:

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

II. Answers to the Descriptive Questions

5.6 Classification of the Instrument

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

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

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

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

Disclosure Requirements under Ind AS 107

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

Key disclosures include:

- Nature and extent of risks arising from such instruments.

- Conversion terms, period, and expected impact on share capital.
- Judgments made by management in determining the classification (equity vs liability).

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

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

(a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;

(b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;

(c) where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;

(d) whether loans and advances made by the company have been shown as deposits;

(e) whether personal expenses have been charged to revenue account;

(f) where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

Auditor's Duties in the Case of ATL:

1. **Inquiry into Loans and Advances:** The auditor must verify whether the loans of ₹ 2.5 crore were made against proper security. Check whether the terms were prejudicial to the interests of the company. In this case, there were no agreements or collateral, suggesting a possible violation.
2. **Verification of Personal Expenses:** Payments made to directors for personal travel and luxury items must not be charged to the company's expenses. Auditor must report if personal expenses were wrongly recorded as company expenditures.

3. **Valuation of Purchases Without Physical Verification:** Goods shown in purchase records but not physically verified must be inquired into. Auditor must question whether such entries are fictitious or involve misappropriation.

5.8 (i) Compliance Requirements

Interest on securities [Section 193]

Person responsible for deduction of tax at source:

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

Rate of TDS:

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

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

Time of tax deduction at source:

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

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