Mock Test Paper - Series II: December, 2025

Date of Paper: 15th December, 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

Background

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Inputs for Management Decision Making:

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

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

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

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

I. Multiple Choice Questions

[Please provide the correct option to the following questions].

1.1 The Company has recognized Deferred Tax Asset on the carried forward business losses. Do you think that this treatment is appropriate with reference to the relevant Ind AS ?

(A) No, as it is not in compliance with the relevant Ind AS.

(B) Yes, as it is not only based on Management Assessment but also in compliance with the relevant Ind AS.

(C) Yes, as there are convincing evidences available.

(D) It depends on the decision to be taken by the Management if there is a probable merger with other entity.

1.2 What shall be amount of Cash and Cash Equivalent to be shown in the Cash Flow Statement as at 31st March, 2025 (₹ In Lakh)?

(A) 400

(B) 190

(C) 290

(D) 440

1.3 State the total amount of Contingent Liabilities of YTL as at 31st March, 2025. (₹ In Lakh)

(A) 130

(B) 315

(C) 390

(D) 430

1.4 Assertion (A): A legal notice can be served for patent infringement.

Reason (R): Patents provide a source of competitive advantage and allow unlimited time benefits to the patent holder.

Options

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

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

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

1.5 Expected Credit Loss Provisioning (ECL) is not required for Retention Receivables arising out of contract terms. The said statement is:

(A) Incorrect, since it is a financial asset/contract asset.

(B) Correct, in view of it being a contract asset.

(C) Correct, it all depends upon the general circumstances and facts.

(D) Incorrect, ECL is not applicable to Textile Companies. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

1.6 In respect of the credit proposal submitted by YTL to ANZ Bank Limited for sanction of a Term Loan of ₹ 150 crore required for procuring and installing a latest Plant and Machinery for their upcoming project, elucidate the steps that should be taken by Ms. C, Chartered Accountant to fulfill the requirements of ANZ Bank Limited in this regard. **(6 Marks)**

1.7 Explain with reasons whether the Company is responsible for deducting tax at source from disbursement of tips to its employees? **(4 Marks)**

1.8 Show how the borrower can hedge the risk using Option Cap arising out of expected rise in the rate of interest when he wants to peg his interest cost at 9% per annum.

(5 Marks)

CASE STUDY 2

A Ltd., an established player in the hospitality industry, oversees its subsidiary B Ltd., which specializes in the tourism sector, contributing to synergies between hospitality and tourism through interconnected services and offerings. In a strategic move to bolster its operational capabilities, A Ltd. undertook a significant expansion by purchasing a new building and pre-installed office furniture and fixtures from P Ltd., a well-known construction company that operates under two distinct divisions: commercial real estate and residential real estate, managed by Manager 1 and Manager 2 respectively.

A Ltd.'s purchase of the new building from P Ltd. marks a significant enhancement in its infrastructure, directly impacting its ability to deliver superior services in the hospitality sector. The integration of state-of-the-art facilities and high-quality furnishings ensures that A Ltd. can offer a first-rate experience to its clients, setting a benchmark in the industry. This strategic move also positions A Ltd. to better accommodate the growing demands and complexities of the modern businesses, which increasingly values seamless, high-quality service delivery.

Moreover, this also facilitates greater collaboration between A Ltd. and its subsidiary, B Ltd., fostering an ecosystem where both entities can thrive through mutual support and shared resources. For instance, the new building could also serve as a central hub for both managing operations and hosting client meetings, workshops, and corporate events, thereby enhancing the synergy between A Ltd.'s hospitality services and B Ltd.'s tourism offerings.

P Ltd. is recognized for its diversified portfolio, catering to a broad spectrum of clients. The commercial real estate division, under the leadership of Manager 1, focuses on developing and selling properties tailored for businesses, such as office spaces and commercial complexes. This division is renowned for its turnkey solutions, providing clients with ready-to-use spaces that are modern, functional, and well-equipped. The residential real estate division, managed by Manager 2, deals with housing projects ranging from high-rise apartments to luxury villas, emphasizing comfort, aesthetics, and community living.

P Ltd.'s ability to deliver such tailored real estate solutions stems from its robust relationships with suppliers like Q Ltd., whose high-quality materials are crucial for the construction and maintenance of premium properties. Their materials are pivotal in ensuring the structural integrity and aesthetic quality of buildings. This relationship highlights the importance of a reliable supply chain in maintaining the quality and reliability of real estate developments. P Ltd.'s strategic choice of materials ensures durability and aesthetic appeal, which are critical for properties serving the high expectations of the hospitality and tourism sectors. Q Ltd.'s commitment to quality and timely delivery helps P Ltd. maintain its reputation for reliability and excellence in the construction industry.

As A Ltd. continues to grow and adapt to the changing dynamics of these industries, the strategic foresight demonstrated in such acquisitions will be pivotal. By aligning its physical assets with its service goals, A Ltd. enhances its competitive edge and cements its reputation as a leader in providing comprehensive hospitality and tourism experiences. This strategic alignment not only benefits A Ltd. but also sets a standard for operational excellence and integration within the industry, ultimately leading to sustained growth and success in a competitive marketplace.

Overall, the interconnections between these companies exemplify a well-integrated supply chain and strategic business relationships that span different sectors, each contributing to the final delivery of quality real estate solutions tailored to the specific needs of industries such as hospitality and tourism.

The case centres around A Ltd., where a cashier committed fraud by absconding with the company's funds. The Chief Accountant of A Ltd. was unaware of the fraudulent activity until the audit had been completed. The audit, conducted in an unfocussed and haphazard manner, failed to detect the fraud, which was only discovered by the Chief Accountant post-audit. An investigation later found that the auditor had not exercised proper skill and care.

Soon, another scandal follows. The Income-tax department collected documents from ABC Bank which revealed that B Ltd. had remitted substantial amounts abroad. The documents collected include Form 15CB issued by the Chartered Accountant, list of passengers, copy of their passports, date of travel and invoice raised by the foreign party. On enquiring from the passengers and verifying their passports, it is found that they did not travel abroad during the dates mentioned in the documents. Further, the passengers denied any sort of transactions with B Ltd. The department, therefore, concluded that the amounts were remitted abroad on the basis of false invoices and for wrong reasons, leading to FEMA violations and that the Form 15CB issued by the Chartered Accountant facilitated such violations. During the nine-month period in question, the chartered accountant had issued 150 certificates in Form 15CB approximately involving remittances of 40 crores in favour of B Ltd.

The Chartered Accountant submitted that he had issued Form 15CB based on invoices produced by the company and verifying the KYC documents of the signatory to the invoices. He however, failed to bring on record the invoices. He further submitted that since he was not the statutory auditor of the company, he did not examine the books of account before issuance of Form 15CB or conduct due diligence of its business activities. He had charged ₹ 4,000 per certificate. Mostly, the fee was collected in cash. Some part of the fee was credited to his bank account.

In the wake of such huge scandals, A Ltd. wants to know the provision for applicability to conduct secretarial audit as they never conducted secretarial audit thinking they don't have enough business transactions to consider these requirements earlier. Company provides you information: Paid-up Share Capital ₹45 crore, Turnover ₹170 crore and Outstanding Loans and Borrowings of ₹ 120 crore from banks.

A Ltd has decided to appoint Mr. Anurag as Chief Internal Auditor to lead the internal audit function for the Company. The CEO of the Company has asked the HR head to define the reporting structure of the Chief Internal Auditor, so that he can discharge his duties objectively.

Further, CEO is also sceptical regarding the provisions of the Companies Act, 2013, applicable with respect to the constitution of the audit committee, he accordingly discussed his understanding with you and asked him to rectify in case he is not correct. He told you that he has the following understanding with respect to the provisions applicable for Audit Committee.

- *Any senior member of the company having expertise of accounting and financial management can be appointed as the chairperson of the Audit Committee.*

As discussed earlier, P Ltd. procures its raw materials from Q Ltd., a supplier specializing in metals. P Ltd. has recently decided to invest in an Electronic Data Interchange system that will enable P Ltd. to automatically place orders with its major suppliers. Currently, P Ltd.'s purchasing department staff have to place orders using postal mails and telephone to the company's suppliers, which is slow and inefficient.

Q Ltd. began its operations in 1991, starting as a modest enterprise and gradually transforming into a key player in the metal supply sector. Over the years, it has become an essential resource for a variety of industries, now supporting more than twelve distinct sectors with its extensive range of metal products. These sectors include Wood & Panel Products Manufacturing, Hearth Products, Site Furnishings, and both Commercial and Residential Construction, among others. This diversity has not only broadened Q Ltd.'s market presence but has also enhanced its expertise in delivering tailored solutions across various fields.

The growth of Q Ltd. can largely be attributed to its unwavering commitment to its clientele. The company has always prioritized customer satisfaction, ensuring that each client receives personalized service and support tailored to their specific industry needs. This customer-centric approach has been pivotal in fostering strong, long-lasting relationships and in securing a loyal customer base. Moreover, Q Ltd. prides itself on its dedication to quality. Each product in their extensive catalogue is a testament to meticulous craftsmanship, designed to meet the highest industry standards.

Employing a team of experts, Q Ltd. ensures that each sector it serves is backed by professionals with deep knowledge and specialized skills. These experts not only understand the unique demands of their respective industries but are also equipped to advise and assist customers in selecting the best materials for their specific applications. This level of expertise is critical in industries where the quality and specifications of materials can significantly influence the overall success of a project.

The operational structure of Q Ltd. is divided into two main divisions: Division 'F' and Division 'G'. Division 'F' focuses on serving industrial and commercial construction needs, providing robust materials that are essential for large-scale construction projects. This division is known for its ability to supply large volumes of materials reliably and efficiently, thereby supporting some of the most demanding construction timelines and project specifications.

On the other hand, Division 'G' caters more to specialized industries like Hearth Products and Site Furnishings, offering bespoke solutions that often require a finer attention to detail and aesthetics. This division combines technical expertise with creative design, ensuring that even the most aesthetically driven projects benefit from the highest standards of structural integrity and material excellence.

Each division works as an investment centre separately. The salary of each divisional manager is ₹ 7,20,000 per annum with the addition of an annual performance-related bonus based on divisional return on investment (ROI). A minimum ROI of 12% p.a. is expected to be achieved by each divisional manager. If a manager only achieves the 12% target, he will not be rewarded with a bonus. However, for every whole 1% point above 12% which the division achieves for the year, a bonus equal to 3% of annual salary will be paid subject to a maximum bonus of 20% of annual salary. The figures belonging to the year ended 31 March 2025 are given in Annexure. During the financial year 2024-25, PAO, manager of Division 'G' invested ₹ 13.6 million in new equipment including an advanced cutting machine, which will increase productivity by 10% per annum. BAO, manager Of Division 'F', has made no investment during the year, even though its computer system needs updation. Division 'F's manager has already delayed payments of its suppliers due to limited cash & bank balance although the cash balance at Division 'F' is still better than that of Division 'G'.

ANNEXURE

The News

A Ltd. Expands Infrastructure with Strategic Acquisition of State-of-the-Art Building from P Ltd.

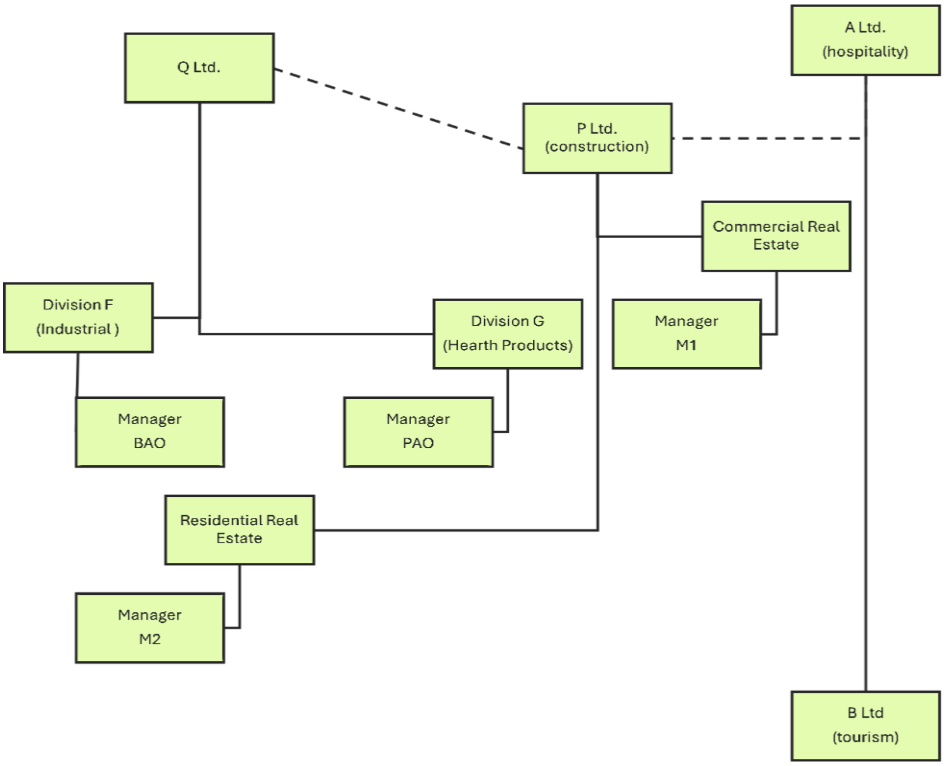
Gurugram, 20th April 2025 – In a major step towards enhancing its infrastructure and broadening its service offerings, A Ltd. has successfully acquired a state-of-the-art building from P Ltd. This acquisition is a key element of A Ltd.'s Future Ready Action Plan, aimed at revolutionizing its ability to deliver top-tier services in the hospitality sector and reinforcing its status as an industry leader.

The newly acquired building will house modern conference spaces, food labs, beverage research and development facilities, and versatile common areas. These cutting-edge additions will make conferences, virtual offices, and collaborative workspaces more accessible, affordable, and relevant, providing businesses with the tools they need to thrive in an increasingly competitive market.

With these advanced facilities and high-quality furnishings, A Ltd. is set to offer an unparalleled experience to its clients, setting new standards in the hospitality industry. This strategic investment not only reflects A Ltd.'s unwavering commitment to excellence in service delivery but also positions the company to meet the evolving demands of the modern business market.

As the complexities of the hospitality industry grow, A Ltd. is well-prepared to address the needs of today's businesses, who prioritize seamless and high-quality service. This expansion marks a pivotal moment in A Ltd.'s growth journey, underscoring its dedication to providing exceptional hospitality experiences and solidifying its future-ready approach.

Ecosystem



Financial Performance and Asset Overview of Division F and Division G

(₹ in ‘000)

	Division F	Division G
Revenue	30,000	17,500
Profit	5,200	4,000
Less: head office cost	(2,500)	(1,400)
Net profit	2,700	2,600
Non-current assets	19,500	30,000
Cash, inventory and trade receivables	5,000	6,500
Trade payable	6,200	2,800
Manager responsible	**BAO**	**PAO**

I. Multiple Choice Questions

2.1 Which of the following statements accurately characterize the situation of fraud committed by the cashier and the subsequent action:

(i) The auditor exhibited due diligence and careful conduct.

(ii) Clause (7) Of Part I of Second Schedule to the Chartered Accountants Act, 1949 and SA 240 are relevant in this situation

(iii) The auditor failed to plan and perform the audit with an attitude of professional skepticism

(iv) A Chartered Accountant in practice will be deemed to be guilty of professional misconduct based on clause (7) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.

Options

(A) Only (iv)

(B) Both (ii) & (iii)

(C) Both (ii) & (iv)

(D) Both (i) & (iii)

2.2 The Board of director of A Ltd. appointed you to analyse the business of the organisation and advise whether they are contravening the provision of the Companies Act, 2013 with respect to Secretarial Audit.

(A) No, A Ltd. is not required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. does not cross the threshold limit of outstanding loans and borrowings of rupees 200 crore or more.

(B) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of Paid-up share capital of rupees 25 crore or more.

(C) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of Turnover of rupees 100 crore or more.

(D) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of outstanding loans and borrowings of rupees 100 crore or more.

2.3 Whether the understanding of CEO of A Ltd. is correct with respect to the appointment of chairperson of the Audit Committee (assume if it's a listed company)?

(A) No, as the Chairperson of the Audit Committee shall be an independent director.

(B) No, as only the company secretary of the company can be appointed as the chairperson of the Audit Committee.

(C) Yes

(D) Partly correct as the chairperson should have expertise of accounting and financial management, however he should be a Chartered Accountant also.

2.4 With respect to the purchases made by A Ltd. from P Ltd., which of the following is correct regarding the GST liability?

(A) There will be no GST liability on purchase of building and Office furniture and fixtures.

(B) There will be GST liability on both purchase of building and Office furniture and fixtures.

(C) There will be no GST liability on purchase of building while Office furniture and fixtures will be liable to GST.

(D) There will be GST liability on purchase of building while Office furniture and fixtures will be not liable to GST.

2.5 Given the diverse functionalities of EDI systems in automating and standardizing transactional data across different departments and stakeholders, which specific area within P Ltd.'s value chain is expected to see the most significant improvement due to the implementation of this new EDI system?

(A) Inbound Logistic since it is directly involved in the transformation of a product or provisioning of a service.

(B) Infrastructure since it supports to perform primary activities.

(C) Procurement since it supports to perform primary activities.

(D) Outbound Logistic since it is directly involved in the transformation of a product or provisioning of a service. **(5 x 2 = 10 Marks)**

II.	Descriptive Questions

2.6 ADVISE the ideal reporting structure of the Chief Internal Auditor that HR head may propose to the Managing Director? **(4 Marks)**

2.7 EXAMINE the ethical implications of the chartered accountant's issuance of Form 15CB without proper verification and due diligence in this case. **(3 Marks)**

2.8 For each division of Q Ltd., COMPUTE, ROI for the year ending 31 March 2025. JUSTIFY the figures used in your calculation also COMPUTE bonus of each manager for the year ended 31 March 2025. DISCUSS whether ROI provides a justifiable basis for computing the bonuses of managers and the problems arising from its use at Q Ltd. for the year ended 31 March 2025. **(5 Marks)**

2.9 DISCUSS how the strategic acquisition of a state-of-the-art building from P Ltd. will provide A Ltd. with a competitive advantage in the hospitality industry. **(3 Marks)**

CASE STUDY 3

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

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

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

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

- Early-stage profitability at the unit level

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

Seed Stage Funding-₹ 10 Crore

Mezzanine Financing - ₹ 25 Crore

Growing Working Capital Needs-₹ 15 Crore

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

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

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

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

  (i) Adjusted the financial statements for impairment of receivables.

  (ii) Recognised dividend as a liability in the financial statements as at 31 March, 2025.

(iii) No accounting adjustment was made for fire but disclosed the occurrence of fire.

(iv) Recognized the sale of assets of the division, but did not de-recognised the liability of the division.

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

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

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

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

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

I. Multiple Choice Questions

[Please provide the correct option to the following questions]

3.1 Identify the correct statement(s) from the following in relation to venture capital funding?

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

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

(C) ₹ 25 Crore is second stage funding, ₹ 15 Crore is Third stage funding and risk perception for 10 Crore is very high.

(D) ₹ 25 Crore is fourth stage funding, ₹ 15 Crore is Third stage funding and risk perception for 10 Crore is very high.

3.2 What is the taxable value of machinery under GST at the time of supply?

(A) ₹ 5,19,92,000

(B) ₹ 5,69,92,000

(C) ₹ 5,43,92,000

(D) ₹ 5,44,00,000

3.3 In Your opinion which of the following statements is true in relation to actions proposed to be taken by the management to achieve the targets set?

(i) Management should use Direct Product Profitability as it analyse the profitability of each product separately.

(ii) Management should use Product Based Cost Management measures like space used for transportation and storage of goods, refrigeration time, etc.

(iii) Product batch cost will not be analyzed as a part of indirect costs while using direct product profitability.

(iv) As a part of technique adopted, activity analysis, which necessarily deals with eliminating non-value-added activities and thus reducing the total number of activities to be performed will also be used.

(A) Statement (i), (iii) and (iv)

(B) Only statement (i)

(C) Statement (i) and (ii)

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

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

(A) (i) and (ii)

(B) (ii) and (iii)

(C) (ii) and (iv)

(D) (iii) and (iv)

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

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

Options

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

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

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

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

II. Descriptive Questions

3.6 (a) Explain why gross margin is an inadequate tool for decision-making in retail organizations like Needs Retail Limited. **(3 Marks)**

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

(3 Marks)

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

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

(6 Marks)

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

CASE STUDY 4

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

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

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

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

Observations of the team appointed by the management:

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

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

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

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

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

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

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

(i) ITC was claimed on input services provided by M/s RTA & Co., where IGST was paid, but supplier did not mention "Supply to SEZ unit" on the invoice.

(ii) M/s GHB Consultants, based in Gujarat, charged CGST and SGST, citing place of supply as Gujarat.

(iii) TSL availed Input Tax Credit (ITC) on such services and utilized it for making exports under LUT's.

(iv) Poonawala & Associates, a law firm, provided legal services for authorized operations and issued invoice without GST. TSL did not pay any RCM assuming that SEZ units are exempt.

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

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

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

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

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

In FY 2022-23, Mr. Mehra enters into a reverse mortgage agreement with Swan Finance Ltd., a non-notified NBFC. The circle rate of the property at that time was1 crore. As per the agreement, he was to receive ₹ 40,000 per month for 15 years.

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

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

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

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

- A legal case settlement was finalized in August 2024, resulting in a gain of ₹ 50 lakh. The case had been disclosed as a contingent asset in the annual report for FY 2023-24.
- Inventory was written down by ₹ 30 lakh due to obsolescence identified during a quarterly review.

- An actuarial gain of ₹ 20 lakh arose on defined benefit plans, recognised in OCI as per Ind AS 19.
- Management decided to restate the comparative interim period (Q2 of previous year) due to a material error discovered in October 2024 related to overstatement of revenue by ₹ 25 lakh.
- The company adopted a new Ind AS from 1st April 2024 which requires retrospective application.

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

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

I. Multiple Choice Questions

[Please provide the correct option to the following questions]

4.1 TSL identifies "reducing customer complaint rate by 25% in Q1 of F.Y 2025-2026" as a Critical Success Factor. What issue does this statement reveal?

(A) Overemphasis on qualitative goals and Critical Success Factor

(B) Improper use of operational metrics as Critical Success Factor

(C) Time period is too small and ignores employee engagement

(D) The statement focuses only on internal efficiency and not on customer outcomes.

4.2 Which of the following best describes the legal position under FCRA, 2010 regarding receipt of ₹ 60 lakh by Tech Solutions Ltd.?

(A) No violation has occurred as TSL is not required to register under FCRA for receipts relating to the specified purpose.

(B) TSL can accept foreign amount without registration as it is a Limited Company and files the required board resolutions with Bank and RoC.

(C) FCRA applies only to NGOs and not to Limited Companies as the Companies Act, 2013 controls the said transactions and reporting is being done in that Act only.

(D) A company not registered under FCRA must obtain prior permission before accepting any foreign contribution.

4.3 Which of the following treatments is most appropriate under Ind AS 34 for the interim financial report for the quarter ended 30th September, 2024?

(A) The legal settlement gain should be recognised in Q2 2024-25 as it was realised during the quarter and the actuarial gain must be presented in the Statement of Profit and Loss.

(B) The inventory write-down must be recognised in Q2 2024-25; the prior period error should be adjusted retrospectively in comparatives; actuarial gains should be excluded from interim reporting.

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

(D) All items except the legal settlement gain are not relevant to interim reporting and must be dealt with only at the year-end.

4.4 Calculate the capital gain tax liability (without considering surcharge) at the time of sale of property for AY 25-26? VI

(A) ₹ 17,84,800

(B) ₹ 14,65,625

(C) ₹ 19,76,800

(D) ₹ 13,45,625

4.5 Which of the following statement(s) is/are correct with respect to GST implications?

(i) M/s GHB Consultants should have charged CGST and SGST on all services as TSL SEZ unit is located in Gujarat.

(ii) Supply to TSL SEZ unit is considered zero-rated supply and supplier must issue invoice charging IGST if supplying without LUT/Bond.

(iii) TSL's view in relation to services provided by Poonawala & Associates is incorrect.

Options

(A) Statement (i) and (ii)

(B) Statement (ii)

(C) Statement (i) and (iii)

(D) Statement (ii) and (iii) **(5 x 2 = 10 Marks)**

II. Descriptive Questions

4.6 Identify and explain the problem with reference to the observations of team appointed by the management. **(2 Marks)**

Suggest which system could be implemented to resolve the inefficiencies and align departmental goals with overall organizational objectives and why? **(3 Marks)**

4.7 Discuss the statutory provisions which form the basis of observations of the auditor relating to receipt of export proceeds in convertible foreign exchange. **(5 Marks)**

4.8 As a Chartered Accountant, you are asked to prepare a checklist of all the essential documents TSL must compile to file a successful refund claim in Form GST RFD-01 for the₹ 90,000 additional IGST paid. **(5 Marks)**

CASE STUDY 5

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

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

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

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

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

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

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

Ravi, Rahul and Rohit: Graduated in Science.

Vijay, Raman and Mohit Graduated in Commerce.

(Rahul, Raman and Mohit being Independent Directors).

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

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

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

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

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

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

(ii) Aging of Inventory - Categorization of inventory based on age to highlight obsolescence risks.

(iii) Geographical Segmentation Breakdown of inventory held in different locations or regions.

(iv) Obsolete and Slow-Moving Inventory - Additional disclosures on provisions for obsolete inventory and write-offs.

(v) Inventory Purchase Commitments - Information on significant future purchase commitments that might impact inventory levels.

(vi) Impact of Inflation or Price Changes Analysis of how inflation, foreign exchange fluctuations, or commodity price changes affect inventory valuation.

(vii) Seasonality Effects Explanation of seasonal fluctuations in inventory levels and their impact on financial performance.

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

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

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

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

I. Multiple Choice Questions

[Please provide the correct options to the following questions]:

5.1 What is the biggest challenge in calculation of 'value' of DAILY NEEDS?

(A) Arriving at the cost of capital which in turns depend on Beta.

(B) Industry-specific factors, market dynamics and geographical similarities.

(C) Illiquidity discount is objective and varies by industry and company specifics.

(D) Financial statements may not follow standardized accounting practices or might be less detailed.

5.2 Identify the correct statement in compliance with the SEBI Regulations:

(A) RSL should have one Women Director on its Board.

(B) RSL should have one independent Women Director on its Board and also majority of directors of RSL should also be a director in RLV.

(C) RSL should have one independent Women Director on its Board and any one of Rahul, Raman or Mohit should also be a director in the Board of RLV.

(D) RSL should have one independent Women Director on its Board and Rahul, Raman and Mohit should also be directors in the Board of RLV.

5.3 Whether information used for issue of notice for enquiry to Ravi is validly collected?

(A) It is not valid as it is based on the documents which were collected during the financial year and such document collection power is not there with the officer of Inspector level.

(B) It is not valid as it is based on the information and documents which were collected from Rustom and not Ravi and such document collection power is not there with the officer of Inspector level.

(C) It is not valid as it is based on the information and documents which were collected prior to marriage.

(D) It is valid as it is based on the information and documents which were collected at the permitted place, permitted time, from the person who had full knowledge about the events and by proper Income Tax Authority.

5.4 Whether RR Enterprises and RSZ(P) Ltd. are considered to be Associated Enterprises (AE) under the provisions of the Income Tax Act, 1961?

Choose the correct option.

(A) RR Enterprises and RSZ(P) Ltd. are Associated Enterprises having mutual interest in each other's firm by being relatives.

(B) RR Enterprises and RSZ(P) Ltd. are deemed Associated Enterprises as Ravi and Rajeev are relatives and they both control their respective enterprises.

(C) RR Enterprises and RSZ(P) Ltd. are not Associated Enterprises as they have no common control in each other companies/entities.

(D) RR Enterprises and RSZ(P) Ltd. cannot be considered as Associated Enterprises as they do not hold any stake directly or indirectly in the other enterprises.

5.5 Whether the classification of supply made to TFC Limited and provisional refund amount calculated is correct?

(A) Classification is correct but the refund amount is ₹ 30.4 lakh and the same will be received within 7 days after giving the acknowledgement.

(B) Classification is incorrect as the same is treated as zero rated supply but the provisional refund amount is correct and the same

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

(D) Classification is correct but the refund amount is ₹ 34.20 lakh and the same will be received within 7 days of filing the claim. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

5.6. Discuss some defense tactics which a company can adopt in a situation like RSL is facing. **(6 Marks)**

5.7 As an auditor, how will you deal with the supplementary information made in relation to inventory in the financial statements for the year ended 31-03-2024? **(4 Marks)**

5.8 The Accounts department of RSL is of the view that duty paid at the time of import of premium chocolates is custom duty and not IGST.

Comment its validity. **(1 Mark)**

Also explain:

(i) Which place is treated as place of supply in case of Import? **(2 Marks)**

(ii) At what point and on which value GST is collected on imported goods? **(2 Marks)**

Mock Test Paper - Series II: December, 2025

Date of Paper: 15th December, 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 (A) – No.

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

1.2 The correct answer is (C) – 290 Lakhs.

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

1.3 **The correct answer is (A)** – 130 Lakhs.

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

As per the facts of the case study:

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

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

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

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

1.4 **The correct answer is (C)** – Assertion (A) is true, but Reason (R) is false.

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

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

1.5 **The correct answer is (A)** – Incorrect since it is a financial asset/ contractual asset.

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

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

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

II. Answers to the Descriptive Questions

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

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

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

(i) Sales to Average Inventories held.

(ii) Sales to Fixed Assets.

(iii) Equity to Fixed Assets.

(iv) Current Assets to Current Liabilities.

(v) Quick Assets (the current assets that are readily realizable) to Quick Liabilities.

(vi) Equity to Long Term Loans.

(vii) Sales to Book Debts.

(viii) Return on Capital Employed.

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

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

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

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

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

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

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

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

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

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

ANSWERS TO THE CASE STUDY 2

I. Answers to the Multiple Choice Questions

2.1 The correct answer is (B) Both (ii) & (iii).

Reason: In the given case, during the audit, auditor failed to discover the fraud. It is clearly given that investigation indicated that the auditor did not exercise reasonable skill and care and performed his work in a casual and unmethodical manner. According to the Clause (7) of Part I of Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties". As per SA 240, "The auditor's responsibilities relating to fraud in an audit of financial statements", it can be concluded that the auditor did not plan and perform the audit with an attitude of professional scepticism. Thus, having regard to this and a fraud has actually taken place during the year, committed by the absconding cashier, it is reasonable to think that prima facie there is a case against the auditor for gross negligence. From the facts given in the case and by applying Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 and SA 240, it is clear that the auditor is guilty of professional misconduct.

2.2 The correct answer is (D) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of outstanding loans and borrowings of rupees 100 crore or more.

Reason: In given case, A Ltd. crosses the threshold limit of outstanding loans and borrowings of rupees 100 crore or more for getting Secretarial Audit conducted. Accordingly, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013.

[In terms of Rule 9(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, for the purposes of sub-section (1) of section 204, Every Company having outstanding loans or borrowings from banks or public financial institutions of 100 crore rupees or more.]

2.3 The correct answer is (A) No, as the Chairperson of the Audit Committee shall be an independent director.

Reason: As per Regulation 18(1) of LODR Regulations, the chairperson of the Audit Committee shall be an independent director and he shall be present at Annual General Meeting to answer shareholder queries.

2.4 **The correct answer is (C)** There will be no GST liability on purchase of building while office furniture and fixtures will be liable to GST.

Reason: There will be no GST liability on purchase of building as sale of building is covered under Schedule III to the CGST Act, 2017. However, Office furniture and fixtures will be liable to GST.

2.5 **The correct answer is (C)** Procurement since it supports to perform primary activities.

Reason: The EDI system will improve the system for sourcing and purchasing materials. This is procurement. Note that inbound logistics refers to inventory management - not the purchasing of inventory itself.

II. Answers to the Descriptive Questions

2.6 HR Head needs to evaluate multiple options and identify the most suitable option in light of the relevant provisions, guidance and overall governance of the organization. HR head also needs to evaluate different options for his administrative reporting and various options for functional reporting of Chief Internal Auditor. The possible options to be considered and evaluated may include the Board of Directors, Audit Committee, Managing Director of the Company, Chief Executive Officer or Chief Financial Officer.

As per section 138 of the Companies Act 2013, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in the practice or not), or such other professional as may be decided by the Board to conduct an internal audit of the functions and activities of the company.

As per the revised definition of the term 'Internal Audit' as per para 3 of the ICAI's Framework Governing Internal Audits, "Internal audit provides independent assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives".

The Internal Auditor shall be free from any undue influences which force him to deviate from the truth. This independence shall be not only in mind but also in appearance. Also, the internal auditor shall resist any undue pressure or interference in establishing the scope of the assignments or the manner in which these are conducted and reported, in case these deviate from set objectives.

As per the requirement of the above stated provision, Chief Internal Auditor needs to be independent of the operational activities and report of Audit Committee / Board of Directors to enjoy his true status of independent auditor. He may administratively report to CEO or Managing Director for his administrative reporting purpose or any other similar authority till the time it is approved by Board of Directors, and it does not impact his independence to be able to perform his duties and report to audit committee / Board of Director independently.

2.7 Form 15CB is a certificate of an accountant wherein he certifies that he has examined the agreement between the remitter and the beneficiary requiring such remittance as well as the relevant documents and books of account required for ascertaining the nature of remittance and for determining the rate of deduction of tax at source. The chartered accountant certifying the form undertakes to have verified the agreement between the remitter and the beneficiary as well as the relevant documents and books of account to ascertain the nature of remittance and determine the rate of TDS. In this case, however, the chartered accountant mentioned that he had only verified KYC of signatory to invoice and the invoices thereof, He had not only failed to justify as to how verification of invoices was considered as sufficient compliance for certifying the forms but also failed to bring on record the said invoices. Thus, he failed to provide any basis on which he relied for issuing Form 15CB certificates to the company. On account of such failure, clauses (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 for failure to exercise due diligence in discharging his professional responsibilities and failure to obtain sufficient information may be invoked.

2.8 ROI

ROI expresses divisional profit as a percentage of the assets employed in the division. Assets employed can be defined as total divisional assets, assets controllable by the divisional manager, or net assets. ROI is a common measure and thus ideal for comparison across corporate divisions for companies of similar size and in similar sectors.

Division 'F'

controllable profit = ₹ 5,200K

Net Assets = ₹19,500k + ₹ 5,000K - ₹ 6,200K = ₹ 18,300K

ROI = 28.42%

Division 'G'

Controllable profit = ₹ 4,000K

Net Assets = ₹ 30,000K + ₹ 6,500K - ₹ 2,800K = ₹ 33,700K

ROI = 11.87%

Responsibility accounting advocates that managers performance shall be judged based upon how well he or she manages the items under his or her control, hence in computation Of ROI of division, controllable profit has been taken into consideration, because head Office costs are not controllable by divisional managers. Figures of non-current and current assets apart from the current liabilities have been taken into consideration as they are such items over which divisional managers have complete control.

Bonus

Bonus to be paid for each whole percentage point is ₹ 21,600 (₹ 7,20,000 x 3%). But there is ceiling limit as well, i.e. 20% of salary hence the maximum Bonus be ₹ 1,44,000 (₹ 7,20,000 x 20%).

Division 'F'

Divisional ROI is 28.42%, which results in 16 whole percentage points above the minimum required ROI of 12%. Hence the bonus according to each whole percent of excess ROI will be ₹ 3,45,600 (16 x ₹ 21,600). But there is upper cap of ₹ 1,44,000. Therefore, BAO be paid the bonus of ₹ 1,44,000.

Division 'G'

Divisional ROI is 11.87%, since same is less than the minimum required ROI of 12%, hence PAO will not be rewarded with a bonus.

PAO will not receive any bonus since he has not earned any point above minimum percentage. This is due to the larger investment base on which the ROI figure has been computed. Total investment of Division 'G' is almost 1.84 times to that of Division 'F'. The major reason behind this is that Division 'G' invested ₹ 13.6 million (₹ 13,600K) in new equipment during the year. Ignoring this investment of division D is just 0.91 times to that of division 'F' and net Investments would have been only ₹ 20,100K and the ROI for Division 'G' would have been 19.9% resulting in payment of a bonus ₹ 1,44,000 (7 × ₹ 21, 600 i.e. ₹ 1,51,200 but subject to upper cap of ₹ 1,44,000) rather than the nothing. So, PAO is being penalized for making investment decisions which are in the best interests of his division and company, because new investment enhance productivity which will support customer loyalty, dedication to customer services and quality, the CSFs for Q Ltd. It is very surprising that he decided to invest where he knew that he would receive a lesser bonus subsequently. On the other hand, BAO has benefited from the fact that he has not invested in anything even though it was needed for computer system updation. This is an example of sub-optimal decision making.

Further, Division 'F''s trade payables are more than double those of Division 'G'. In part, one would expect this due to higher sales (almost 71% more than Division 'G') and low cash levels at Division 'F'. Higher trade payable leads to a reduction in net assets figures. The fact that Q Ltd. is rewarding BAO with a bonus, even though relationships with suppliers may be badly affected, is again a case of sub-optimal decision making.

If the profit margin (excluding head office cost) as percentage of sales is calculated, it comes to 17.33% (₹ 5,200 / ₹ 30,000) for division 'F' and 22.86% (₹ 4,000 / ₹ 17,500) for division 'G'. Therefore, it can be seen that division 'G' is performing better if capital employed is ignored. ROI is simply distorting the division 'G''s performance.

PAO might feel extremely disappointed by getting nothing and in the future, he may opt to postpone the investment to increase the bonus. Non- investing in new technology and equipment will mean that the Q Ltd. will not be kept updated with industry changes and its overall future competitiveness will be affected.

Briefly, the use of ROI results in sub-optimal decision making and a lack of goal congruence i.e. what is good for the managers is not necessarily good for the company too and vice versa. Hence ROI is not a justifiable basis to for computing the bonuses of divisional managers and also cause problem for Q Ltd.

2.9 The acquisition of the state-of-the-art building from P Ltd. offers A Ltd. several competitive advantages that can significantly enhance its position in the hospitality industry:

1. **Enhanced Service Offerings**: The new building will include modern conference spaces, food labs, beverage research and development facilities, and common areas. These additions allow A Ltd. to diversify its services, catering to a broader range of clients, including business travellers, corporate clients, and event organizers. By offering comprehensive, high-quality amenities, A Ltd. can attract new customer segments and retain existing ones, giving it a competitive edge over other players in the market.

2. **Differentiation in the Market**: The integration of cutting-edge facilities and high-quality furnishings sets A Ltd. apart from its competitors. In an industry where customer experience is paramount, the ability to provide state-of-the-art accommodations and services positions A Ltd. as a premium provider. This differentiation can lead to increased brand loyalty and the ability to command higher prices, further strengthening the company's market position.

3. **Future-Proofing and Innovation**: By incorporating food labs and beverage R&D facilities, A Ltd. is positioning itself as a leader in hospitality innovation. These facilities enable the company to experiment with new offerings and trends, staying ahead of market demands and setting trends rather than following them. This proactive approach to innovation helps A Ltd. maintain relevance in a rapidly evolving market.

4. **Operational Efficiency and Cost Savings**: The acquisition allows A Ltd. to consolidate its operations into a single, well-equipped location, leading to potential

cost savings in terms of logistics, maintenance, and management. Efficient operations can improve profit margins and provide the financial flexibility needed to invest in further growth or offer competitive pricing.

5. **Attracting High-Profile Clients and Events**: The availability of modern conference spaces and advanced facilities makes A Ltd. an attractive venue for high-profile clients and large-scale events. Hosting such events not only generates significant revenue but also enhances the company's reputation, leading to positive word-of-mouth and further business opportunities.

6. **Scalability and Growth Opportunities**: With an expanded and upgraded infrastructure, A Ltd. can scale its operations more effectively. Whether it's expanding into new markets, launching new services, or increasing capacity, the acquisition provides the physical and operational foundation needed for sustained growth.

7. **Strategic Positioning**: As part of A Ltd.'s Future Ready Action Plan, this acquisition aligns with the company's long-term strategy of making conferences, virtual offices, and collaborative workspaces more accessible. This strategic alignment ensures that A Ltd. remains competitive in the face of evolving market trends, particularly in response to the increasing demand for hybrid and virtual work environments.

In summary, the acquisition offers A Ltd. a comprehensive set of competitive advantages, from enhanced service offerings and market differentiation to innovation, operational efficiency, and strategic growth. These factors collectively strengthen A Ltd.'s market position, ensuring it remains a leader in the hospitality industry.

ANSWERS TO THE CASE STUDY 3

I. Answers to the Multiple Choice Questions

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

3.2 **The correct answer is (D)** – ₹ 5,44,00,000

Reason:

Computation of taxable value of machinery

Particulars	Amount (₹)
Basic price	5,00,00,000

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

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

3.3 The correct answer is (B) – Only statement (i)

3.4 The correct answer is (C) – (ii) and (iv)

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

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

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

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

No accounting adjustment but disclose the event – Correct

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

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

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

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

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

II. Answers to the Descriptive Questions

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

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

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

Majorly there are three components –

(i) **Growth Component** measures the change in the quantity of output sold. The growth component of the change in the operating income measures the increase/ decrease in revenue and in costs due to selling more/ less quantity units from the previous period.

(ii) **Price Recovery Component** of change in operating income measures the changes in the revenue and costs solely due to changes in prices.

(iii) **Productivity Component** measures the change in the operating income due to changes in the product mix and/ or yield of inputs as compared with the last year. This component uses current year's prices of input to measure the changes in costs only.

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

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

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

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

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

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

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

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

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

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

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

ANSWERS TO THE CASE STUDY 4

I. Answers to the Multiple Choice Questions

4.1 **The correct answer is (B)** – Improper use of operational metrics as Critical Success Factor

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

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

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

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

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

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

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

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

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

4.4 The correct answer is (A) – ₹ 17,84,800

Reason:

Calculation of Long Terms Capital Gain Tax Liability

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

4.5 The correct answer is (D) – Statement (ii) and (iii)

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

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

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

II. Answers to the Descriptive Questions

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

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

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

4.7 Realisation and Repatriation of Export Proceeds:

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

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

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

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

In case of **full conversion of ECB into equity**, the reporting to the Reserve Bank will be as under:

the entire portion is to be reported in **Form FC-GPR, while reporting to DSIM in Form ECB 2** Return should be done with remarks "ECB fully converted to equity". **Subsequent filing of Form ECB 2 Return is not required.**

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

4.8 Checklist for documentary evidence to be submitted:

A statement containing:

- number and date of export invoices along with copy of such Invoices,
- the number and date of shipping bills or bills of export along with copy of such shipping bills or bills of export,
- the number and date of Bank Realisation Certificate (BRC) or Foreign Inward Remittance Certificate (FIRC) in respect of such shipping bills or bills of export along with copy of such BRC / FIRC.

- the details of:
  - ✓ refund already sanctioned,
  - ✓ the number and date of relevant supplementary invoices or debit note issued subsequent to the upward revision in prices along with copy of such supplementary invoices/debit notes.
- the details of:
- payment of additional amount of IGST,
- proof of payment of such additional amount of integrated tax and interest paid thereon,
- number and date of FIRC in respect of additional FOREX received in respect of upward revision in price of exports along with copy of such FIRC.

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

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

ANSWERS TO THE CASE STUDY 5

I. Answers to the Multiple Choice Questions

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

Reason:

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

Reason: Board of Directors [Regulation 17]

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

- BOD shall have optimum combination of executive and non -executive directors with at least one-woman director and not less than 50% of the BOD shall comprise of non-executive directors.

Provided that the BOD of the top 1,000 listed entities shall have at least one independent woman director.

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

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

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

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

(i) a principal Commissioner or Commissioner, a Principal Director or Director, a Joint Commissioner or Joint Director, an Assistant Director or Deputy Director or Deputy Director or an Assessing Officer or a Tax Recovery Officer; and

(ii) includes an inspector of Income tax (only for the purpose of inspection of books of account or other documents, placing marks of identification on such books of account or other documents inspected by him and making or causing to be made extracts or copies therefrom and recording statements from any person in connection with any ceremony, function or event mentioned in section 133A(5) above).

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

Reason:

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

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

(a) export of goods or services or both; or

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

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

II. Answers to the Descriptive Questions

5.6 A target company can adopt a number of tactics to defend itself from hostile takeover through a tender offer:

- **Divestiture** - In a divestiture the **target company divests or spins off some of its businesses** in the form of an independent, subsidiary company. Thus, reducing the attractiveness of the existing business to the acquirer.
- **Crown jewels** - When a target company **uses the tactic of divestiture** it is said to sell the crown jewels. In some countries such as the UK, such tactic is not allowed once the deal becomes known and is unavoidable.
- **Poison pill** - The tactics used by the acquiring company to **make itself unattractive** to a potential bidder is called poison pills. For instance, the acquiring company may issue substantial amount of convertible debentures to its existing shareholders to be converted at a future date when it faces a takeover threat. The task of the bidder would become difficult since the number of shares having voting control of the company increases substantially.
- **Poison Put** - In this case the target company **issues bonds that encourage the holder to cash in at higher prices**. The resultant cash drainage would make the target unattractive.
- **Greenmail** - Greenmail refers to an **incentive offered by management** of the target company to the potential bidder **for not pursuing the takeover**. The

management of the target company may offer the acquirer a higher price for its shares than the market price.

- **White knight -** In this a target company **offers to be acquired by a friendly company** to escape from a hostile takeover. The possible motive for the management of the target company to do so is not to lose the management of the company as the hostile acquirer may change the management.
- **White squire -** This strategy is essentially the same as white knight and **involves sell out of shares to a company that is not interested in the takeover.** Consequently, the management of the target company retains its control over the company.
- **Golden parachutes -** When a company offers **hefty compensations to its managers** if they get ousted due to takeover, the company is said to offer golden parachutes. This reduces acquirer's interest for takeover.
- **Pac-man defence -** This strategy aims at the target company making a **counter bid for the acquirer company.** This would force the acquirer to defend itself and consequently may call off its proposal for takeover.

5.7 Supplementary Information Presented with the Financial Statements

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

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

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

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

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

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

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

(i) The place of supply of goods, imported into India is the location of the importer [Section 11 of the IGST Act, 2017] - Punjab.

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

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