Mock Test Paper - Series I: March, 2024

Date of Paper: 15 March, 2024

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

Para 1

Mr. Harsh Chawda, is a practising Chartered Accountant, resident of Pune. The marriage of his daughter, Seema Chawda, has been finalized with Mr. Dharmesh Raval, an NRI settled in Argentina. The marriage is scheduled on 21st October in Pune during the Diwali Festival. Mr. Harsh Chawda wanted to send 2,000 marriage invitation cards to all his relatives and friends in India to attend the marriage. He had to send invitations by inland letters.

He also wished to provide a gift pack of food items to his relatives at the Haldi programme of his daughter for which he provided order to M/s Goyal Sweets for 500 packs, made as per its Diwali offer.

Para 2

M/s Goyal Sweets, a store located and registered under GST in Maharashtra, had come out with big discount offer at the time of Diwali on various gift items.

In order to attract more customers, it had decided to supply a gift pack containing 5 packets of Ladila's Namkeen (200 gram each) taxable @ 12%, 1 packet of Roasted Smoked Almonds (100 gram) taxable @ 18%, 1 packet of Cournville Chocolate (50 mg) taxable @ 28% and 1 bottle of Teal Fresh Juice (1 litre) taxable @ 18% in a single basket for a single price of ₹ 600 (GST inclusive).

Para 3

Mr. Harsh Chawda also provides management consultancy and internal audit services to his clients. Looking at his expertise in financial management, Mr. Jaman, a student of Chartered Accountancy course, is very much impressed with his knowledge.

He approached Mr. Harsh to take guidance on some topics of financial management subject related to his course. Mr. Harsh, on request, decided to spare some time and started providing classes to Mr. Jaman along with some other aspirants for 3 days in a week and for 1 hours in a day. However, he had not taken any specific permission for such private tutorship from the Council.

Para 4

Mr. Harsh was appointed as internal auditor of Khwab Pharma Ltd., a company engaged in manufacturing of medicines based at Pune, Maharashtra, as the company was required to appoint internal auditor in accordance with statutory provisions given in the Companies Act, 2013. The company is registered under GST in the state of Maharashtra.

BMK & Co. was appointed to conduct statutory audit of Khwab Pharma Ltd. The engagement partner of the firm, Mr. Rajan asked Mr. Harsh to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements.

He also sought his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests.

Para 5

Khwab Pharma Ltd. was considering its projects namely 'Dehradun Plant' and 'Borsad Plant', respectively, for establishing its manufacturing units, for which it took assistance of Mr. Harsh for providing project appraisal, based on following information:

Project	Expected NPV (₹)	Standard deviation (₹)
Dehradun Plant	2,44,00,000	1,80,00,000
Borsad Plant	4,50,00,000	2,40,00,000

Also, Mr. Harsh was asked to provide a brief that how project appraisal is done under inflammatory conditions, as the aforesaid projects faced the similar situation.

Para 6

Khwab Pharma Ltd. has 200 employees, who are each entitled to five working days of paid sick leaves for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (LIFO basis).

At 31st March, 2024, the average unused entitlement is two days per employee. The entity, on the basis of experience, expects that 184 employees will take not more than five days of paid sick leaves in 2024-2025 and that the remaining sixteen employees will take on an average six and half days each.

The entity expects that it will pay an additional 24 days of sick pay as a result of the unused entitlement that has accumulated at 31st March, 2024 (one and a half days each, for sixteen employees).

Further, the company has a post-employment medical plan which will reimburse 15% of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 40% of those costs if the employee leaves after twenty or more years of service.

Para 7

The Assessing Officer having proper jurisdiction surveyed the principal business place of Khwab Pharma Ltd. at 8 p.m. in night for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961. The place of business of the company is kept open for business every day between 10 a.m. and 9 p.m. He impounded and retained in his custody, books of account and other documents inspected by him, after recording his reasons for doing so, for 12 days. Further, he made an inventory of valuable articles in form of gold biscuits found at such place weighing 3 kgs each.

The Commissioner of Income-tax had issued notice to revise the order passed by an Assessing Officer under section 143 in case of Khwab Pharma Ltd. During the pendency of proceedings before the Commissioner, on the basis of material gathered during the aforesaid survey under section 133A after issue of the first notice, the Commissioner of Income-tax issued a second notice, the contents of which were different from the contents of the first notice.

Para 8

During the November month, the company entered into an agreement to sell a consignment of some medicines to Rajratna Medicines of Rampur, Uttar Pradesh. While the goods were being packed in Pune factory of the company, Rajratna Medicines got an order from Saras Med Pvt. Ltd. of Udupi, Karnataka for the said goods. Rajratna Medicines agreed to supply the said goods to Saras Med Pvt. Ltd. and asked the company to deliver the goods to Saras Med Pvt. Ltd. at Udupi. For determining the place of supply in case of aforesaid situation, Mr. Arvind, the tax manager of the company, made discussion with Mr. Harsh.

Further, during the December month, the company had availed input tax credit of ₹ 84,500 for one of the invoices during December month under IGST head, instead of availing ₹ 42,250 under CGST & SGST heads. Mr. Arvind asked the accountant to use Form GST PMT-09 for making a transfer from IGST head to respective CGST & SGST heads.

I. Multiple Choice Questions

1. With respect to information given in Para 2, calculate the amount of GST payable in respect of supply of a gift pack in the form of a single basket by M/s Goyal Sweets.

   (a) ₹ 108

   (b) ₹ 168

   (c) ₹ 92

   (d) ₹ 131

2. With respect to information given in Para 3, Whether Mr. Harsh is guilty of professional misconduct in providing private tutorship to Mr. Jaman along with some other aspirants as described in case study?

   (a) Mr. Harsh is not guilty of professional misconduct as there are no restrictions on providing private tutorship.

(b) Mr. Harsh is guilty of professional misconduct as private tutorship cannot be provided by practising chartered accountants.

(c) Mr. Harsh is guilty of professional misconduct as he has not obtained specific permission from the Council for the same.

(d) Mr. Harsh is not guilty of professional misconduct as he is teaching within prescribed hours permitted by the Council generally.

3. With respect to information given in Para 4, engagement partner sought direct assistance from Mr. Harsh, internal auditor. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.

   (a) The engagement partner cannot ask Mr. Harsh for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, Mr. Harsh may assist engagement partner in assembling information necessary to resolve exceptions in confirmation responses.

   (b) Mr. Harsh cannot assist engagement partner in assembling information necessary to resolve exceptions in confirmation responses. However, the engagement partner can ask Mr. Harsh for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements.

   (c) The engagement partner cannot ask Mr. Harsh for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses.

   (d) The engagement partner can ask Mr. Harsh for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses.

4. With respect to information given in Para 7, which of the following statements is correct in respect of the survey conducted at the business place of Khwab Pharma Ltd.?

   (a) The Assessing Officer's action in entering the business place of Khwab Pharma Ltd. at 8 p.m. and impounding books of account and documents inspected by him is in order.

   (b) The Assessing Officer's action in entering the business place of Khwab Pharma Ltd. at 8 p.m. is not in order, since he should enter the business place atleast 3 hours before the close of business place and impounding books of account and documents inspected by him is in order.

   (c) The Assessing Officer's action in entering the business place of Khwab Pharma Ltd. at 8 p.m. and in impounding books of account and documents inspected by him are not in order, since he can enter the business place only after sunrise but before sunset and he does not have the power to impound books of account.

(d) The Assessing Officer's action in entering the business place of Khwab Pharma Ltd. at 8 p.m. is in order but impounding books of account and documents inspected by him is not in order.

5. With respect to information given in Para 7, which of the following statements is correct as to making presumptions in relation to the survey conducted at the business place of Khwab Pharma Ltd.?

(i) The books of account, other documents and gold biscuits belong to Khwab Pharma Ltd.

(ii) The contents of such books of account and other documents are not true.

(iii) The contents of such books of account and other documents are true.

(iv) For documents stamped, executed or attested, that it was not duly stamped and executed or attested by the company.

(a) (i), (iii) & (iv)

(b) (ii) & (iii)

(c) (i) & (iii)

(d) (ii) & (iv) **(5 x 2 = 10 Marks)**

II. Descriptive Questions

6. With respect to information given in Para 5,

(i) Which project would have been recommended by Mr. Harsh? Explain whether his opinion will change, if coefficient of variation is used as a measure of risk. **(3 Marks)**

(ii) Suppose if Mr. Harsh has been asked to suggest approaches that may be used while appraising the project under inflationary conditions. Explain these approaches. **(2 Marks)**

7. With respect to information given in Para 6,

(i) Comment whether the entity would require to recognize any liability in respect of leaves.

(ii) State how the benefit to be attributed for the employee service for the last 20 years, 10 and 20 years and within 10 years, be measured.

(3 Marks)

8. With respect to information given in Para 7, examine whether the action of the Commissioner in case of Khwab Pharma Ltd.is justified as to the second notice. **(3 Marks)**

9. With respect to information given in Para 8,

(i) Determine the place of supply(ies) between Khwab Pharma Ltd., Rajratna Medicines and Saras Med Pvt. Ltd.

(ii) Mr. Arvind, asked the accountant to use Form GST PMT-09 for making a transfer from IGST head to respective CGST & SGST heads. Examine the said scenario. **(4 Marks)**

CASE STUDY 2

Para 1

YK & Associates is a reputable firm of Chartered Accountants, with its headquarters situated in the vibrant city of Jaipur, Rajasthan. Founded by CA. Yashdeep and CA. Karan, the firm has established itself as a trusted entity in the field of accounting and financial consultancy within the region.

Led by the expertise and vision of its partners, YK & Associates offers a comprehensive range of professional services tailored to meet the diverse needs of its clients. From auditing and taxation to financial advisory and compliance, the firm prides itself on delivering reliable solutions that drive business success.

With a deep understanding of both local regulations and global market dynamics, YK & Associates serves a diverse clientele spanning across industries such as manufacturing, hospitality, retail, and more. Whether assisting startups in navigating regulatory frameworks or providing strategic insights to established enterprises, the firm's commitment to excellence remains unwavering.

Beyond its professional endeavour, YK & Associates actively engages in initiatives aimed at contributing to the local community and promoting financial literacy. Through seminars, workshops, and pro bono services, the firm strives to empower individuals and businesses with the knowledge needed to make informed financial decisions.

Para 2

YK & Associates get their website developed as www.YKassociates.com from Adarsh Tech Ltd.

The colour of their website was very bright and attractive to run on a “push” technology. Names of the partners of the firm and the major clients were also displayed on the web-site without any disclosure obligation from any regulator.

Para 3

In exchange of consideration of developing website by Adarsh Tech Ltd., CA. Yashdeep, accepted appointment as its tax auditor for A.Y. 2024-25 and commenced the tax audit within four days of appointment since the client was in hurry to file Return of Income before the due date.

However, before signing the tax audit report, he sent a registered post letter to the previous auditor and obtained the postal acknowledgement.

Para 4

Adarsh Tech Ltd. duly filed its income tax return for the Assessment Year (AY) 2024-25 duly on September 30th, 2024. The Income Tax Department processed the return and sent an intimation to Adarsh Tech Ltd., indicating that no immediate issues were found. Despite the intimation, the return was selected for regular assessment.

Para 5

Jaipur Municipal Corporation (JMC) had invited online bids for development of online cloud system, for maintaining some vital statistics including registration of births and deaths, within the pre-defined period as per the contract. The work involved composite supply of goods and services wherein the supply of services was the principal supply.

The value of goods (in form of computer hardwares) constituted 25% of the total value of composite supply. Mr. Arsh, Managing Director of Adarsh Tech Ltd., located and registered under GST in Jaipur, wanted to bid for the same.

Para 6

Mr. Arsh wanted investment advisory services from YK& Associates for investing the surplus funds of Adarsh Tech Ltd. for which purpose he had invited Mr. Yashdeep for a meeting. In the meeting, Mr. Yashdeep explained the benefits of investing in mutual fund schemes along with its drawbacks and also recommended investing in Scheme Purnarth floated by HMKD Plus Mutual Fund managed by his own friend. The details of such scheme are as follows:

HMKD Plus Mutual Fund had the following assets in Scheme Purnarth at the close of business on 31stMarch,2024.

Company	No. of Shares	Market Price Per Share
Nepathya Ltd.	25000	20
D-Con Ltd.	35000	300
Sarpan Ltd.	29000	380
Care Health Ltd.	40000	500

The total number of units of Scheme Purnarth are 12 lakhs. The Scheme Purnarth has accrued expenses of ₹ 1,50,000 and other liabilities of ₹ 3,00,000.

Para 7

Further, Mr. Yashdeep, in his busy schedule, took some time to attend one another meeting, this time arranged by manager of RFIN Bank, Mr. Ravi, who wanted Mr. Yash's firm to perform an audit of the blockchain-based system, the details of which are provided by Mr. Ravi to Mr. Yashdeep, in the said meeting, as follows:

Bouyanc Bank, headquartered in Chicago, offers a broad range of financial services including asset management, commercial banking, investment banking, and treasury and securities services.

RFIN Bank in partnership with Bouyanc Bank, provides a comprehensive range of banking services and products encompassing retail banking, corporate banking, international banking, and other financial services. RFIN Bank has been significant contributors to the digitalization of banking services in India.

Under the pilot programme, the Indian bank will open on-chain Nostro accounts with Bouyanc Bank branch in Gift City. The blockchain-based system is expected to facilitate instant, 24×7 settlement between the accounts held at the US bank. Essentially, it will create a private intra-correspondent banking network, redefining the traditional banking hours and enabling seamless money transfer.

Para 8

Mr. Ravi, the manager of RFIN Bank, gave an order on 1st January, 2024 for 1,000 custom-made corporate gifts to be provided to their prestigious corporate clients along with the information about the aforesaid blockchain-based system to GM Stores Pvt. Ltd. (GMSPL), the financial statements of which are audited by YK & Associates.

On 3rd January, 2024, GMSPL purchased raw materials to be consumed in the production process for ₹ 6,50,000, including ₹ 50,000 refundable purchase taxes. The purchase price was funded by raising a loan of ₹ 6,55,000 (including ₹ 5,000 loan-raising fees). The loan is secured by the inventories.

During January, 2024, GMSPL designed the corporate gifts for the customer bank. Design costs included:

- cost of external designer = ₹ 6,000; and
- labour = ₹ 4,000.

During February, 2024, GMSPL's production team developed the manufacturing technique and made further modifications necessary to bring the inventories to the conditions specified in the agreement. The following costs were incurred in the testing phase:

- materials, net of ₹ 3,000 recovered from the sale of the scrapped output = ₹ 21,000
- labour = ₹ 11,000
- depreciation of plant used to perform the modifications = ₹ 5,000

During February, 2024, GMSPL incurred the following additional costs in manufacturing the customised corporate gifts:

- consumable stores = ₹ 55,000
- labour = ₹ 65,000
- depreciation of plant used to manufacture the customised corporate gifts = ₹ 15,000

The customised corporate gifts were ready for supply on 1st March, 2024. No abnormal wastage occurred in the development and manufacture of the corporate gifts. The accountant head of GMSPL took assistance of CA Karan for computing the inventory cost involved in the aforesaid supply at the time of routine audit conducted by CA Karan.

I.	Multiple Choice Questions

1. With reference to the information given in Para 2, whether, website designed for YK & Associates is in compliance with guidelines issued by the Council in this regard:
   (a) Yes, website can have names of partners and major clients along with its fees.
   (b) Yes, as the websites can be designed on a "push" technology.

(c) No, as there is restriction on the colours used in the website.

(d) No, as names of the major clients were displayed without any disclosure obligation from a Regulator.

2. With reference to the information given in Para 3, before signing the tax audit report, CA. Yashdeep sent a registered post letter to the previous auditor and obtained the postal acknowledgement. Will CA. Yashdeep be held guilty of professional misconduct under the Chartered Accountants Act, 1949?

   (a) CA. Yashdeep will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.

   (b) CA. Yashdeep will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor would apply to statutory audit only and not to tax audit of company.

   (c) CA. Yashdeep will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

   (d) CA. Yashdeep will not be held guilty of professional misconduct since he has already obtained postal acknowledgement regarding communication with previous auditor.

3. With reference to the information given in Para 4, the time limit for service of notice for regular assessment under Income-Tax Law in this case is –

   (a) 30.06.2025

   (b) 30.9.2025

   (c) 31.12.2025

   (d) 31.03.2026

4. With reference to the information given in Para 4, which of the following cannot be adjusted in computation of total income of Adarsh Tech Ltd. while processing the return of income for A.Y. 2024-25?

   (a) any arithmetical error in the return

   (b) an incorrect claim apparent from any information in the return

   (c) disallowance of expenditure indicated in the audit report but not taken into account in computing total income in the return.

   (d) addition of income appearing in Form 26AS which has not been included in computing total income in the return.

5. With reference to the information given in Para 5, Adarsh Tech Ltd. approaches you to ascertain the taxability of supply of services of development of online cloud system to JMC under GST law, in the given case, for quoting the best price. You are required to determine the taxability of the given supply.

   (a) GST is exempt on said supply since the value of supply of goods constitutes not more than 25% of the value of the said composite supply.

(b) GST is payable on said supply. It will be exempt if value of supply of goods constitutes less than 25% of the value of the said composite supply.

(c) GST is payable on said supply. It will be exempt if value of supply of goods constitutes more than 25% of the value of the said composite supply.

(d) Said supply is neither supply of goods nor supply of services in terms of Schedule III of the CGST Act, 2017. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

6. With reference to the information given in Para 6,

   (i) Calculate the NAV per unit of the Scheme Purnarth **(4 Marks)**

   (ii) Explain any three advantages as well as drawbacks of investing in Mutual Funds as would have been narrated by Mr. Yashdeep. **(3 Marks)**

7. With reference to the information given in Para 7, provide some illustrative steps for performing audit of the blockchain-based system. **(4 Marks)**

8. With reference to the information given in Para 8, compute the cost of the inventory? Substantiate your answer with appropriate reasons and calculations, wherever required. **(4 Marks)**

CASE STUDY 3

Anupama Hotels Ltd. operating an all category resort – "THE VILLAS" which is a famous Vacation Property located in the Hills of Shivalik and the Room occupancy is almost full throughout the year. This property was a hot favorite for not only the people of India but also for International tourists. But, unfortunately, due to sudden local crisis in the hills of Shivalik, this property also suffered huge economical losses with very less business and thus, the Board of Directors wanted to either go for putting it on sale or work out a process of restructuring as a measure to improve the economical feasibility of the property. Restructuring is the corporate management term for the act of reorganizing the legal, ownership, operational, or other structures of a company for the purpose of making it more profitable, or better organized for its present needs. Alternate reasons for restructuring include a change of ownership or ownership structure, demerger, or a response to a crisis or major change in the business such as bankruptcy, repositioning, or buyout. Restructuring may also be described as corporate restructuring, debt restructuring and financial restructuring. The underlying object of corporate restructuring is efficient and competitive business operations by increasing the market share, brand power and synergies. In the emerging scenario, joint ventures, alliances, mergers, amalgamations and takeovers are becoming the easiest and quickest way to expand capacities and acquire dominance over the market. They didn't want to sell it as the price quotes they were getting were quite low as they would have got if the conditions were normal. Out of all the offers they have been getting, they have come down to 3 Options and want to discuss them with you to finalise the most feasible option as follows :-

Option :-1

Naman Hotels Ltd. has shown interest in acquiring this Resort Property as they are of the view that they can help each other in the Business with Naman Group's experienced staff and innovative team in collaboration with the beautiful structure and landscape of "THE VILLAS". This business combination can be carried out by setting up a new entity called "the Namupama Villas Ltd." that will issue 50 shares to Anupama Hotels Ltd. shareholders and 100 shares to Naman Hotels Ltd. shareholders in exchange for the transfer of the shares in those entities. The number of shares reflects the relative fair values of the entities before the combination. Also, respective company's shareholders get the voting rights in the Namupama Villas Ltd. based on their respective shareholdings. The timeline, if the deal is finalised, will stand as:-

(a)	Date of shareholder agreement	1st June
(b)	Appointed date as per shareholder agreement	1st April
(c)	Date of obtaining control over the Board representation	1st July
(d)	Date of transfer of shares	1st August

Option:- 2

Another Company – Kavya Hotels Ltd. from a different state wants to acquire Anupama Hotels Ltd. to take charge of the Resort Property with its Managing Director, Miss Kavya Narula, having confidence of pulling the property out of economic losses using her vast experience in the field of Hospitality industry. To substantiate this, they are asked by the Management of Anupama Hotels Ltd. to put forward the financial details of their performance during the F.Y./P.Y. 2023-24 for Anupama Hotel Ltd.'s consideration regarding striking a deal with them w.r.t. "THE VILLAS". The Head Accountant of Kavya Hotels Ltd. wants to discuss some peculiar transactions w.r.t. the Profit/Loss made by the Group with Miss Kavya and other members of the management as follows, before they finalise their books and submit a report of their Financial Performance to Anupama Hotels Ltd. The Head accountant tells them that their group's Statement of Profit and Loss for the previous year ended 31st March, 2024 shows a profit of ` 150 lakhs after debiting or crediting the following items:-

(a) Payment of ` 0.35 lakh in cash on 20th December 2023 to a local farmer for purchase of daily use vegetables and ₹ 0.30 lakh to a Confectionary Wholesaler on 26th December 2023 for different products.

(b) Contribution towards employees' pension scheme notified by the Central Government under section 80CCD for a sum of ₹ 3 lakhs calculated at 12% of aggregate of basic salary and dearness allowance (forming part of retirement benefits) payable to the employees in terms of employment.

(c) Payment of ₹ 5.50 lakhs towards transportation of various materials procured by the resort to M/s. PQR Transport, a partnership firm, without deduction of tax at source. The firm declares profit under presumptive taxation scheme under section 44AE and has furnished a declaration to this effect. It also furnished its Permanent Account Number in the tender document.

(d) Profit of ₹ 12 lakhs on sale of a plot of land to Divya Limited, a domestic company, the entire shares of which are held by the assessee company. The plot was acquired by Kavya Hotels Limited on 1st June, 2022.

(e) Contribution of ₹ 0.50 lakhs to Indian Institute of Technology with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.

(f) Expense of ₹ 5 lakhs on foreign travel of two directors for a collaboration agreement with a foreign company for a brewery project to be set up. The negotiation did not succeed, and the project was abandoned.

(g) Fees of ₹ 1 lakh paid to independent directors for attending Board meeting without deduction of tax at source under section 194J.

(h) Depreciation charged ₹ 10 lakhs.

After submitting a report on their financial performance, Kavya Group works out on the Acquisition plan of "THE VILLAS" as this - On 1 April 2024, it will acquire 80 percent of the equity interest of Anupama Hotels Ltd. in exchange for cash of ₹ 300 Lakhs. Due to legal compulsion, Anupama Hotels Ltd. will have to dispose off their investments by a specified date such that they will not have sufficient time to market their property to multiple potential buyers. The management of Kavya Hotels Ltd. initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirement of Ind AS. The identifiable assets are measured at ₹ 600 lakhs and the liabilities assumed are measured at ₹ 200 lakhs. Kavya Ltd. engages an independent consultant who determined that the fair value of 20 per cent non-controlling interest in Anupama Hotels Ltd. is ₹ 84 lakhs. Kavya Hotels Ltd. reviewed the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in Anupama Hotels Ltd. and the consideration transferred. After the review, it decided that the procedures and resulting measures are appropriate and it waited for approval from the end of Anupama Hotels Ltd. to move ahead with this plan if they accept their offer.

Option :- 3

The management of Anupama Hotels Ltd. wants you to carry out a special audit of the controls implemented in their Property and suggest them solutions to improve any deficiency in controls or any management incompetencies which might need improvement or replacement to bring back the good old days and the Company could ask its Financers for a Corporate Restructuring based on your Audit report. You suggest them about Risk Based audit and deliberate them about the process of this audit on their request. You tell them that your Audit would be risk-based or focused on areas of greatest risk to the achievement of the audited entity's objectives. Risk-based audit (RBA) is an approach to audit that analyzes audit risks, sets materiality thresholds based on audit risk analysis and develops audit programmes that allocate a larger portion of audit resources to high-risk areas. Risk Based Audit is an essential element of financial audit- both in the attest audit of the financial statements and in the audit of financial systems and transactions including evaluation of internal controls. It focuses primarily on the identification and assessment of the financial statement misstatement risks and provides a framework to reduce the impact to the financial statement of these identified risks to an acceptable level before rendering an opinion on the financial statements. It also provides indicators of risks as a basis of opportunity for improvement of auditee risk management and control processes. This affords an opportunity to the auditee to improve its operations from recommendations on risks that do not have a current impact on the financial statements but impact the audited entity's operational strategies and performance over the longer term. The auditor's objective in a risk-based audit is to obtain reasonable assurance that no material misstatements whether caused by fraud or errors exist in the financial statements. This involves the following three key steps: - Assessing the risks of material misstatement in the financial statements; Designing and performing further audit procedures that respond to assessed risks and reduce the risks of material misstatements in the financial statements to an acceptably low level; and Issuing an appropriate audit report based on the audit findings and this work is done in three distinct phases. You have three articles in your team and you delegate them the work as – Komal to check and evaluate the controls in the Restaurant & Bar and work on the risks associated while another two articles Sagar & Ritu to help you with the allotted works as follows:-

KOMAL :- During the process of extracting the exception reports in the Restaurant, she observes numerous purchase entries without valid purchase orders. In terms of percentage, about 30% of purchases were made without valid purchase orders and also few purchase orders were validated after the actual purchase. Also there was no reconciliation between the goods received and the goods ordered. She proceeds ahead to check the validity of purchases at account Balance level and follows some specific audit procedures to achieve her objective. Also, she is told that the Resort has a tie up with Hard Coupons Ltd. which sells coupons to general public that are redeemable against specified luxury food products at selected properties and "THE VILLAS" being one of them. Each coupon is sold for value of ₹ 900 but is redeemable for supplies worth ₹ 1,000. She also notices a Working Capital Block relating to GST ITC utilisation by the Hotel. During the current year, they have been awarded a contract for catering in a marriage to be held at Dehradun. They have further subcontracted it for supply of snacks, to be served in the marriage, to Vanraj & Sons, a local caterer of Dehradun. The Head accountant is of the view that they can't avail ITC on such sub-contract.

SAGAR :- Performing client acceptance or continuance procedures; Planning the overall engagement; Performing risk assessment procedures to understand the business and identify inherent and control risks; Identifying relevant internal control procedures and assessing their design and implementation; Assessing the risks of material misstatement in the financial statements , etc.

RITU :- Designing and performing further audit procedures that respond to the assessed risks of material misstatement and will provide the evidence necessary to support the audit opinion.

Finally, you, as the auditor, assess the audit evidence obtained and determine whether it is sufficient and appropriate to reduce the risks of material misstatement in the financial statements to an acceptably low level and hand over your Audit Report to the management of Anupama Hotels Ltd. with all your suggestions and scope for improvements for reviving the economic operations of the their Resort.

THE DECISION:- Considering all the above options and working out on the feasibility of each , the management of Anupama Ltd. chooses to go further with Option No. 3 of going for Corporate Debt Restructuring and request you to frame a scheme to be discussed with their main financers XYZ Bank Ltd. in due time.

I. Multiple Choice Questions

1. Which of following is not an indicator of possible potential misstatement with respect to “Existence” assertion which could be identified while performing audit of Anupama Hotels Ltd?

   (a) Source Documents overstated

   (b) Fictitious transactions entered on source documents

   (c) Processing of transactions is inaccurate.

   (d) Transactions duplicated on source documents

2. The Head Accountant’s view with respect to utilisation of ITC on the contract outsourced to Vanraj & sons is:

   (a) Correct, as ITC on catering service is not available under GST law.

   (b) Incorrect, as ITC is available for utilisation as per GST Law.

   (c) Correct, as ITC is available only when catering service is provided by an employer to its employees under a statutory obligation.

   (d) Correct, as ITC on sub-contracting of catering service is not available under GST law.

3. Which two Account Balances are most likely to be affected by the wrongdoings found by Komal while auditing the expenses of the Restaurant?

   (a) Sales invoices and Purchases.

   (b) Inventory & Account Payables.

   (c) Opening & Closing Stocks only.

   (d) Purchases & Account Payables.

4. What is the value of supply of Luxury food coupons as sold by Hard Coupons Ltd. under GST law?

   (a) ₹ 1000.

   (b) ₹ 900.

   (c) ₹ 100.

   (d) Either (a) or (b) depending upon the time of its redemption.

5. Suppose Anupama Hotels Ltd. strikes a deal with Naman Hotels Ltd. as per the plan of Business combination put forward by the latter :-

   STATEMENT 1 :- In this case , the ACQUIRER will be Anupama Hotels Ltd. and not Naman Hotels Ltd.

STATEMENT 2 :- 1st July will be considered as the ACQUISITION DATE.

(a) Both the Statements are Incorrect.

(b) Both the Statements are Correct.

(c) Statement 1 is Incorrect while Statement 2 is Correct.

(d) Statement 1 is Correct while Statement 2 is Incorrect.

(5 x 2 = 10 Marks)

II. Descriptive Questions

6. Calculate the gain or loss, Kavya Hotels Ltd. will make on acquisition of Anupama Hotels Ltd., if their deal is finalised. Also show the Journal entries for accounting of its acquisition. Also calculate the value of the non-controlling interest in Anupama Hotels Ltd. on the basis of proportionate interest method, if alternatively applied and resulting goodwill/gain on bargain purchase?

(4 Marks)

7. "Auditors are required to assess the risks of material misstatement at two levels". Briefly explain the same and state the procedures to be followed by Komal regarding validity of account balances relating to the purchases while auditing the controls in the restaurant of Anupama Hotels Ltd. **(4 Marks)**

8. With the help of data provided by the Head Accountant of Kavya Hotels Ltd. and the following additional information, compute profits and gains of business or profession of Kavya Hotels Limited for the Assessment Year 2024-25 indicating the reason for treatment of each item assuming that the company is not eligible for deduction u/s 35AD. Ignore the provisions relating to minimum alternate tax and the provisions of section 115BAA:-

   (a) As a corporate debt restructuring arrangement, their bank has converted unpaid interest of ₹ 10 lakhs upto 31st March 2023 into a new loan account repayable in five equal annual installments. The first installment of ₹ 2 lakhs was paid in March 2024 by debiting new loan account.

   (b) Depreciation as per Income-tax Act, 1961 is ₹ 15 lakhs.

   (c) The company received a bill for ₹ 3 lakhs on 31st March 2024 from a supplier of vegetables for supply made in March 2024. The bill was omitted to be recorded in the books in March 2024. The bill was paid in April 2024 and the necessary entry was made in the books then.

(7 Marks)

CASE STUDY 4

CA Parminder Kaur who qualified as a Chartered Accountant 3 years back has set up her own Practice in Jalandhar, Punjab. Her major expertise is in the field of consultancy to her clients regarding Global Accounting, Foreign Exchange related Legal matters, International taxation & promoting Financial Literacy. Through reference of an NRI relative, she recently bagged a contract of providing her services to the corporate house "SIMRAJ", a venture of Raj Arora & Simran Arora, husband & wife, based at Frankfurt, Germany. Raj & Simran met each other during their post-graduation days in London School of Economics and became best friends there. While Simran was simultaneously involved in the construction business of her father in London, Raj was always a kind of creative person who would like to promote innovations in the field of Healthcare and Pharmaceuticals. At present, Simran is successfully running her construction business by the name of Simran Constructions GmbH in Germany, while Raj has set up his venture by the name of Raj Pharma AG, incorporated in Germany and 63% of its shares are held by Simraj (P) Ltd., an Indian company. Raj Pharma AG has its presence in India also.

Simran's one of the biggest construction project was being executed in India at Amritsar through Sim Contractors Pvt. Ltd., another company based in India, shortly known as "SIMCO", which is a foreign operation of Simran Constructions GmbH, primarily set up to execute construction projects in India. The functional currency of Simran Constructions GmbH is Euros. 78% of SIMCO's finances have been raised in USD by way of contribution from Simran Constructions GmbH. SIMCO's bank accounts are maintained in USD as well as in INR. Cash flows generated by it are transferred to the German Company on a monthly basis in USD in respect of repayment of finance received from the German Company. Revenues of SIMCO are in USD. Its competitors are globally based. Tendering for the construction project happened in USD. SIMCO incurs 80% of the cost in INR and remaining 20% costs in USD.

While carrying out this construction project in Amritsar, SIMCO was in need of a heavy excavation machinery "XALTI" which was not available in India. CA Parminder arranges a meeting of SIMCO's Manager in India with one of her clients, Mr. Amit Juneja, at the request of Simran to enter into a contract of importing this machinery from out of India. Mr. Juneja has been in the business of trading in heavy machineries used in construction business since the past 5 years and had been planning since long to start importing highly technical machines from outside India to include in his trade segment. He felt it to be the right time and opportunity to enter into the Global market. He imported "XALTI" from Malta Machineries based in France. CA Parminder guides and helps Mr. Juneja to execute this import transaction following all the general guidelines as laid under the domestic laws of India. Along with this transaction, Mr. Juneja requires to transfer U.S. $ 15,000 for remittance towards hiring charges of transponders to be paid to Ross and U.S. $ 20,000 to be paid to Chandler for payment related to call back services of telephones, both being foreign nationals.

Raj Arora is very curious to know about the compliances to be made by Raj Pharma AG. He provides the following details to CA Parminder Kaur relating to Raj Pharma AG for the P.Y. 2023-24:

Particulars	India	Germany
Fixed assets at depreciated values for tax purposes (₹ in crores)	100	60
Intangible assets (₹ in crores)	50	100
Other assets (value as per books of account) (₹ in crores)	40	120

Income from trading operations (₹ in crores)		50	75
The above figure includes:			
(i)	Income from transactions, where purchases are from associated enterprises and sales are to unrelated parties	2	4
(ii)	Income from transactions, where sales are to associated enterprises and purchases are from unrelated parties	3	5
(iii)	Income from transactions, where both purchases and sales are from/to associated enterprises	5	10
Interest and dividend from investments (₹ in crores)		30	20
Number of employees (Residents in respective countries)		60	90
Payroll expenses on employees (₹ in crores)		10	15

During F.Y.2023-24, eight board meetings of Raj Pharma AG were held – 3 in India and 5 in Germany.

Raj Pharma AG's Indian counterpart – Simraj (P) Ltd. required a high tech machinery "Medifix" to be purchased from Cambridge, UK. For importing such machinery, Raj contacted one of his friends in Cambridge, who runs a company by the name of "Medico Inc.", a London based company, having several business units all over the world. It has a unit for manufacturing pharma machineries with its Headquarters in New Delhi. It has a branch in Dubai which is controlled by the Headquarters in New Delhi. However, "Medifix", being not available with 'Medico Inc.', Raj's friend in Cambridge helped him to procure the machinery from another company in Frankfurt, Germany known to him. This foreign currency asset amounting to Euro 100,000 is recorded by Simraj (P) Ltd. as a non-monetary item at the date of purchase when the exchange rate was ₹ 52 at ₹ 52 lakhs. The recoverable amount of the asset on the reporting date is calculated as Euro 90,000. The exchange rate on the date of valuation was ₹ 60 to a Euro and the carrying amount of Medifix recorded accordingly, as per the relevant Ind-AS, in the books of Simraj (P) Ltd. is ₹ 54 lakhs.

Raj and Simran, both made several trips to India during the previous year and they are quite skeptical about the taxation of their income in both the countries – Germany & India. One day, over dinner table, they discussed all these aspects. Raj, having an experience in International tax matters and having discussed the same with CA Parminder tells Simran that in the case of income arising to an assessee in countries with which India does not have any double taxation agreement, relief would be granted under the Indian Income tax law subject to fulfilment of certain conditions. Simran tells him that one of her friends told her in a Kitty party that the double taxation avoidance treaties entered into by the Government of India with other countries can never ever override the domestic law of India.

Further, Simran is curious to tell Raj about her father's business in the same segment and how her father is doing so good with the finances of the business that inspires her as well. She tells Raj that one of her father's business set-ups in India by the name of Entity "P" whose functional currency is '₹', has a foreign operation, Entity "Q" with Euro as its functional currency. Entity Q issued to Entity P, a perpetual debt denominated in Euros with an annual interest rate of 6%. The perpetual debt has no issuer call option or holder put option. Thus, contractually it is just an infinite stream of interest payments in Euros.

Further, being highly impressed with CA Parminder's work and quality of her performance, they both decided to offer her the role of CFO in their German Group "SIMRAJ" and wanted her to get migrated to Germany to which CA Parminder agreed. As per the offer letter, Parminder should join the company at any time between 1st September, 2023 and 31st October, 2023. She has maintained a joint account with her father in UCO Bank, Jalandhar, in India.

I. Multiple Choice Questions

1. Referring to the provisions of the Foreign Exchange Management Act, 1999, state the kind of approval required for the transactions to be carried out by Mr. Amit Juneja for payment to Ross and Chandler respectively:-

   (a) Ross :- Central Government ; Chandler :- Reserve Bank of India

   (b) Ross :- Reserve Bank of India; Chandler :- Central Government

   (c) Ross :- Prohibited Transaction ; Chandler :- Reserve Bank of India

   (d) Ross :- Central Government ; Chandler :- Prohibited Transaction

2. What would be the residential status under the FEMA, 1999, of Pharma unit of "Medico Inc." in New Delhi and that of Dubai branch?

   (a) Both are persons resident outside India.

   (b) New Delhi Headquarters – Resident person & Dubai Branch – Non-resident person

   (c) Both are persons resident in India.

   (d) New Delhi Headquarters – Non-resident person & Dubai Branch – Resident-person

3. Determine the value of Impairment loss in foreign currency with respect to "Medifix" and whether it should be recognised in books by Simraj (P) Ltd.?

   (a) Euro 10,000 should be recognised as impairment loss

   (b) ₹ 2 lakh should be recognized as impairment loss

   (c) ₹ 2 lakh should not be recognised as impairment loss

   (d) Euro 10,000 should not be recognised as impairment loss

4.. In Entity P's consolidated financial statements, can the perpetual debt be considered, in accordance with Indian Accounting Standards, a monetary item "for which settlement is neither planned nor likely to occur in the foreseeable future" (i.e. part of P's net investment in Q), with the exchange gains and losses on the perpetual debt therefore being recorded in equity? Entity “P’s” functional currency is INR, and Entity “Q’s” functional currency is Euro.

(a) Yes, the Perpetual Debt can be considered as a monetary item and the related exchange gains and losses should not be recognised.

(b) No, the Perpetual Debt should not be considered as a monetary item and the related exchange gains and losses should not be recognised accordingly.

(c) Yes, the Perpetual Debt can be considered as a monetary item and the related exchange gains and losses should be recorded in equity at the consolidated level.

(d) No, the Perpetual Debt should not be considered as a monetary item and the related exchange gains and losses should be recognised in consolidation of accounts.

5. By what date maximum, should CA Parminder leave India and how should she receive her salary to minimize her tax liabilities in India, if her total income during P.Y. 2023-24 was ₹ 14 lakhs?

(a) She should leave India on or before 28 September, 2023 and get her salary credited to a Bank account in Germany only, to be remitted, later on, to her Joint account in India.

(b) She should leave India on or before 27 September, 2023 and get her salary credited directly to her Joint account in India.

(c) She should leave India on or before 27 September, 2023 and get her salary credited to a Bank account in Germany only, to be remitted, later on, to her Joint account in India

(d) She should leave India on or before 28 September, 2023 and get her salary credited directly to her Joint account in India. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

6. Mr. Amit Juneja wants to know from CA Parminder, the various modes of payment he can use, to make payment to Malta Machineries for importing “XALTI”. Also, he requests her to guide on the time-limit for making settlement of such payment as laid under the Domestic law. **(5 Marks)**

7. Can INR be presumed as the Functional Currency for SIMCO? **(4 Marks)**

8. Determine the residential status of Raj Pharma AG for A.Y.2024-25, as per the Indian Income tax law. **(6 Marks)**

CASE STUDY 5

Background for establishment of Thunderbolt Airlines Private Limited (TAPL).

Avian Airlines Inc. is a renowned airline company with a global presence, headquartered in New York, United States of America. In the year 2000, Avian Airlines Inc. (AAI) established a branch office in Mumbai to handle its Indian flight operations. The Indian flight operations are handled only at the Mumbai airport.

Passengers are either transported from Mumbai to destinations abroad or transported to Mumbai from overseas. There are no domestic flight operations within India. The Mumbai office handles routine day-to-day operations undertaken by junior and middle-level management staff. The work handled by the Mumbai office includes flight ticket booking and cancellation, managing Avian's airport lounge facilities, managing the check-in counters at the airport, assisting customers with services like in-flight meals, providing access to airport lounge facilities, providing flight information, travel insurance information, assisting with missing luggage queries, and any other customer-related services. At the same time, the place of effective management is outside India, and it is determined that Avian Airlines Inc. has an active business outside India.

Below are the details of revenue from business operations of operating aircrafts received by the Mumbai Branch office for the year ended 31st March 2024:

(i) ₹ 5 crores in India on account of carriage of passengers from Mumbai to destinations outside India

(ii) ₹ 2 crores in India on account of carriage of passengers from outside India to Mumbai

(iii) ₹ 3 crores in New York, United States of America on account of carriage of passengers from United States of America to Mumbai

The total expenditure incurred by AAI's Mumbai branch for the purpose of carrying out its operations in India is ₹8 crores.

The Indian economy is considered one of the fastest-growing economies, with projections for GDP growth of 7% year-on-year. Private consumption and growing economic activity in both the manufacturing and service sectors have spurred growth since 2022. Post-pandemic, with the easing of restrictions on civil aviation, consumers' appetite for travel has increased manifold. It is expected that domestic aviation will require at least 4,000 fleets within the next two decades to meet the anticipated growth in demand.

Since 2022, passenger traffic in India has increased. With the rise in disposable incomes, rapid urbanization, and an increase in the working-class population, the growth in demand for air travel is expected to remain constant. Tier 2 and Tier 3 cities are also expected to play a pivotal role due to the greater spread of economic activity and increasing population in these cities. The government is focused on building and expanding modern infrastructure facilities across the country to support the domestic civil aviation industry. Almost 100 more new airports will be operational by 2028, giving scope for the development of new regional routes that can provide excellent connectivity within India. A growing economy will need to be supported by a burgeoning demand for international travel to and from India. Hence, India will require better connectivity with international destinations. This opens up the scope for developing newer routes to connect passengers across the globe.

TAPL, a Joint Venture between Avian Airlines Inc. and Power Group Limited

In order to be part of a growing market, Avian Airlines Inc. has decided to enter the Indian aviation industry. On April 1, 2024, AAI plans to enter into a joint venture with Power Group Ltd. (PGL), which is one of India's largest conglomerates with business interests in various sectors ranging from technology, automotive, infrastructure, to consumer and retail. Power Group Ltd. (PGL) is headquartered in Mumbai, India. Thunderbolt Airlines Private Limited (TAPL) is the joint venture between Power Group Ltd. and Avian Airlines Inc. Power Group Ltd. will have a 60% stake in the joint venture, while Avian Airlines Inc. will hold a 40% stake.

Avian Airlines Inc. is renowned for its full-service airline service, catering to the premium flying segment. On the other hand, Power Group Limited (PGL) has access to global markets due to its operations in various business segments. It has been a pioneer in many of the businesses it operates, hence it is considered one of India's most valuable conglomerates. The brand image of PGL has given it deep penetration in the Indian domestic market due to the various businesses it operates.

Most airlines in the Indian market operate as low-cost carriers (LCC). However, intense competition combined with inflationary pressures on input costs like ATF fuel, personnel costs, etc., means that margins are limited and always under pressure. Therefore, it has been decided to position TAPL as a full-service airline in the domestic civil aviation market. The targeted customer segment would be high-end business travelers in a price-sensitive market. Currently, 95% of the seating capacity within the domestic civil aviation sector is economy seats. The remaining 5% capacity consists of highly priced premium seats sold mostly to price-indifferent passengers, who form a very limited and niche market existing only on certain routes within the country. TAPL plans to offer a new segment of seats in its aircraft: “premium economy,” which combines the benefits of premium flying at affordable rates. Given that growing economic activity generally spurs the demand for business-related travel, TAPL plans to foray into the “premium economy” segment, positioned midway between economy seats and premium first-class seats.

While the rates may be slightly higher than the regular market price for economy seats offered by other airlines, for a small additional cost, passengers can avail themselves of benefits like customized service, faster check-in, and a better in-flight experience. All the seats in TAPL's aircraft will offer "premium economy" seating.

TAPL will have its main operational hub in Mumbai, which will serve as the nodal point for most of its domestic airline flights. It will also operate international flights to Dubai, where AAI has a major nodal hub for its international operations in Asia and the Middle East. Hence, a business flyer can connect to both domestic flights using TAPL’s fleet as well as international destinations through AAI’s fleet from Dubai.

TAPL’s vision “To be the most loved, most efficient, and most valuable airline”.

TAPL’s mission “To enhance customer experience by offering seamless connectivity”.

Avian Airlines Inc. will provide the technical and managerial support required to run a full-service airline. Power Group Limited (PGL), with its market presence and brand image, will provide access to the Indian aviation sector for AAI, acting as a stable and trustworthy partner in the joint venture. A few executives from AAI and PGL will be part of TAPL’s management team for the initial years until the airline can manage its operations independently. These executives will be well-versed with TAPL’s overall strategy, helping guide the company in its initial years of establishment. Once the "start-up" phase is over, TAPL will hire eligible executives with appropriate experience from the Indian market to oversee airline operations.

TAPL will have a hierarchical structure, with Mr. Tan being appointed as the Chief Operating Officer for India. Since TAPL is being developed as a full-fledged service carrier, it has been decided that decision-making, in the initial years of establishment, will follow a centralized model. Senior management at TAPL will comprise executives from AAI and PGL. Operations will be managed by AAI, given their expertise in the aviation sector, while PGL will oversee Sales & Marketing and Finance, being a recognized brand in India. The Directors of Operations, Finance, Human Resources, and Sales & Marketing will all report to Mr. Tan, who, in turn, reports to the Board Members at AAI and PGL.

As mentioned above, TAPL will have specific departments that will look into Operations, Finance, Human Resources, and Sales & Marketing. TAPL will invest in digitalization and the use of information technology to provide a high level of customized service to its passengers. Similarly, based on guidance from executives at AAI, workflows will be documented, established, and communicated throughout the organization. Digitalization can smooth process flows, make interactions less cumbersome, and speed up process times, all of which contribute towards cost efficiencies and enhanced customer satisfaction. Each department will have specific goals and performance measurement systems in place.

AAI and PGL are reputed companies with work cultures and ethics defined by the core values of their respective companies. The employees and other support partners of TAPL are expected to uphold similar values such as honesty, excellent work ethic, transparency in working, accountability, and trust. Both companies have a global presence. Hence, TAPL is expected to support a culture of diversity at its workplace in terms of gender, background, and age.

The aviation sector is a highly competitive industry. The success of the joint venture depends on the management leadership and teamwork at TAPL. It is expected that each department will create synergy that merges the work cultures of both AAI and PGL. Cross-functional project teams will be deployed to build this synergy and foster team spirit. This will encourage creativity and motivate employees to work towards a successful venture.

Due to its competitive environment, the aviation industry is prone to high attrition due to employee poaching. TAPL aims to create value for its employees by offering attractive pay packages, facilities, and a conducive environment for professional growth. A high attrition rate could have a detrimental impact on a business that wishes to be a full-fledged premium service airline.

Since TAPL is targeting to be a full-fledged service carrier, it is important for the staff to be well-experienced both technically and in soft skills like customer service. TAPL is expected to hire pilots, engineers, and other technical staff who are already working at other airlines. They are also planning to collaborate with institutes that offer aeronautical engineering and aviation technology courses to hire a well-experienced and rounded pool of staff who are highly skilled, as well as to arrange for periodic training of staff. Senior executives of AAI, who are deputed to TAPL, will be in charge of ensuring that the workforce comprises highly skilled and qualified staff in charge of airline operations. The other non-technical staff will be hired by the Human Resources department in consultation with the respective department heads.

However, Mr. Tan was well aware of the key factors required for success in the airline industry. He understood that one essential aspect was routes, and he knew that his main hub in Mumbai would only make sense if he secured a set of routes from Mumbai; otherwise, it would be catastrophic for the airline due to the high parking costs at Mumbai Airport. Being new to the Airlines of India, Mr. Tan was not familiar with all the laws but was determined to achieve his goals. He was aware that the renowned airline, TruJet Airways which had major routes originating from Mumbai, was undergoing insolvency due to running in losses and default in payment to secured creditors including in payment of current dues for the right to use the property in possession at Mumbai Airport.

Consequently, Mr. Tan hired the best lawyers in town to acquire their slots. The lawyers immediately approached the DGCA and requested the reallocation of these rights to them. They argued that TruJet is not entitled and had no right to use. They claimed that this was a breach of TruJet's operating conditions with the DGCA, as no other Airlines were allotted and permitted to use. So requested that the slots should be immediately handed over for consumer welfare. The DGCA agreed and handed over the slots to TAPL.

TruJet was offended by this order and approached the Apex court, claiming it was unjust. It argued that no one, including the regulators, has the right to take possession of any property from an owner or lessor in possession of the Corporate Debtor. DGCA countered that they had not initiated any new proceedings and that it was a matter of breach of contract; hence, the DGCA had the right to refuse the Right of use to TruJet.

I. Multiple Choice Questions

1. On April 30th 2024, Power Group Ltd. (PGL) sells an aircraft that it owns to Thunderbolt Airlines Private Limited (TAPL). This aircraft is of an older model. Therefore, its fair value is ₹ 45 crores while the carrying cost in PGL's latest books is ₹ 50 crores. How will PGL account for the loss in its books?

   (a) Recognize a loss of ₹ 5 crores in its books

   (b) Recognize a loss of ₹ 3 crores in its books

   (c) Recognize a loss of ₹ 2 crores in its books

   (d) Will not recognize a loss as the books will be consolidated at the year end

2. Which type of product would the premium economy seats be considered as?

   (a) Revolutionary product

   (b) Evolutionary product

   (c) Me-too product

   (d) Perishable product

3. Which of the following will not be true regarding the accountability in performance measurement system for the Human Resource department at TAPL?

   (a) Maintaining staff attrition below the threshold level would be hard accountability for the Human Resource department

   (b) Ensuring that employee payout and benefits are within budgeted limits would be a hard accountability for the Human Resource department

   (c) Addressing employee concerns about working environment would be a soft accountability for the Human Resource department

   (d) Ensuring synergy between the work cultures of executives of PGL and AAI deputed at TAPL by arranging for team building exercises would be hard accountability for the Human Resource department

4. TAPL has the identified the following critical success factor (CSF) "Enhance customer experience by maintaining the best on-time performance within the industry"

   Which one of the following would be the most suitable key performance indicator for this CSF?

   (a) Reduce the number of customer complaints regarding flight delays by 25%

   (b) Reduce the average time taken to deal with complaints regarding flight delays by 20%

   (c) Keep log / record of flight on time performance

(d) Increase the training for customer facing staff like those at the check-in counters, staff assisting boarding and the aircraft cabin crew

5. Mr. Tan texted the CFO of the company about the recent efforts to acquire those slots and asked for his opinion on what the outcome might be. The CFO then sent you an email asking you to analyze what verdict the Apex Court could deliver.

   (a) As a regulator, the DGCA was well within its powers to transfer the right of use, and did not breach the Insolvency and Bankruptcy Code, 2016 due to default in payment of current dues arising for the use of possession of Mumbai airport.

   (b) As a regulator, the DGCA was well within its powers to transfer the right of use, but it breached the Insolvency and Bankruptcy Code, 2016.

   (c) The DGCA has no right to reallocate the rights because the airline was paying their current dues. However, they did not breach the Insolvency Bankruptcy Code, 2016 during the hearing of TAPL's petition.

   (d) The DGCA had no right to reallocate the rights because the airline was paying their current dues, but it breached the Insolvency and Bankruptcy Code, 2016 during the hearing of TAPL's petition. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

6. AAI plans to enter into a joint venture with PGL from 1st April, 2024. TAPL is new vehicle for this purpose. What role internal audit function can play in such a joint venture? **(6 Marks)**

7. Assess each of the hard and soft elements based on the McKinsey 7s Framework. **(9 Marks)**

Mock Test Paper - Series I: March, 2024

Date of Paper: 15 March, 2024

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. (d) As per Section 8 of the CGST Act, 2017,

The tax liability on a composite or a mixed supply shall be determined in the following manner, namely:-

(a) a composite supply comprising two or more supplies, one of which is a principal supply, shall be treated as a supply of such principal supply; and

(b) a mixed supply comprising of two or more supplies shall be treated as supply of that particular supply that attracts highest rate of tax

In order to determine whether the supplies are 'composite supply' or 'mixed supply', one needs to determine whether the supplies are naturally bundled or not naturally bundled in ordinary course of business. The concept of 'naturally bundled' supplies is emanating from the definition of 'composite supply'.

Accordingly, the supply which is not naturally bundled and not supplied in ordinary course of business is a mixed supply that attracts highest rate of tax.

Here, in the gift pack highest rate of tax is of Cournville Chocolate (50 mg) taxable @ 28% and the price of ₹ 600 is GST inclusive. Accordingly, GST payable would be ₹ 600×28/128 = ₹ 131 (rounded off)

2. **(d)** The Council has passed a Resolution under Regulation 190A granting general permission (for private tutorship, and part-time tutorship under Coaching organization of the Institute) and specific permission (for parttime or full-time tutorship under any educational institution other than Coaching organization of the Institute). Such general and specific permission granted is subject to the condition that the direct teaching hours devoted to such activities taken together should not exceed 25 hours a weekin order to be able to undertake attest functions.

3. **(a)** As per SA 610 "Using the Work of Internal Auditor", the external auditor shall not use internal auditors to provide direct assistance to perform procedures that Involve making significant judgments in the audit. Significant judgments, inter-alia, include the following:

- Assessing the risks of material misstatement;
- Evaluating significant accounting estimates;

Further, in accordance with SA 505, "External Confirmation" the external auditor is required to maintain control over external confirmation requests and evaluate the results of external confirmation procedures, it would not be appropriate to assign these responsibilities to internal auditors. However, internal auditors may assist in assembling information necessary for the external auditor to resolve exceptions in confirmation responses.

4. **(a)** Section 133A(2) of the Income Tax Act, 1961,

The income-tax authority may enter any place of business or profession mentioned above only during the hours at which such place is open for the conduct of business or profession and in the case of any other place, only after sunrise and before sunset.

Further, as per section 133A(3) of the Income Tax Act, 1961,

An income-tax authority, inter-alia, may impound and retain in his custody for such period as he thinks fit any book of account or other documents inspected by him after recording reasons for doing so.

However, the income tax authority cannot retain in his custody such books of account etc. for a period exceeding 15 days (excluding holidays) without obtaining the approval of the Principal Chief Commissioner or Chief Commissioner or Principal Director General or Director General or the Principal Commissioner or Commissioner or Principal Director or Director, as the case may be.

5. (c) Section 292C of the Income Tax Act, 1961, provides that where any books of account, other documents, money, bullion, jewellery or other valuable article or thing are or is found in the possession or control of any person in the course of a search under section 132 or survey under section 133A, it may, in any proceeding under this Act, be presumed that –

(i) such books of account, other documents, money, bullion, jewellery or other valuable article or thing belong or belongs to such person;

(ii) the contents of such books of account and other documents are true; and

(iii) the signature and every other part of such books of account and other documents which purport to be in the handwriting of any particular person or which may reasonably be assumed to have been signed by, or to be in the handwriting of, any particular person, are in that person's handwriting;

(iv) In the case of a document stamped, executed or attested, that it was duly stamped and executed or attested by the person by whom it purports to have been so executed or attested.

II. Answers to the Descriptive Questions

6. (i) On the basis of standard deviation project Dehradun Plant be chosen because it is less risky than Project Borsad Plant having higher standard deviation.

Decision on the basis of CV:

CV of project Dehradun Plant = SD/ENPV = 1,80,00,000/ 2,44,00,000 = 0.738

CV of project Borsad Plant = 2,40,00,000/4,50,00,000 = 0.533

On the basis of Co-efficient of Variation (C.V.) Project Dehradun Plant appears to be riskier and hence, project Borsad Plant should be accepted.

(ii) Under conditions of inflation, the project cost estimates that are relevant for a future date will suffer escalation. Inflationary conditions will tend to initiate the measurement of future cash flows. Either of the following two approaches may be used while appraising projects under such conditions:

(1) Adjust each year's cash flows to an inflation index, recognizing selling price increases and cost increases annually; or

(2) Adjust the 'Acceptance Rate' (cut-off) suitably retaining cash flow projections at current price levels.

An example of approach (ii) above can be as follows:

Normal Acceptance Rate: 15.0%

Expected Annual Inflation: 5.0%

Adjusted Discount Rate: 15.0 × 1.05 or 15.75%

It must be noted that measurement of inflation has no standard approach nor is easy. This makes the job of appraisal a difficult one under such conditions.

7. **(i)** At 31st March, 2024, the average unused entitlement is two days per employee. The company on the basis of experience expects that 184 employees will take no more than five days of paid sick leaves in 2024-2025 and that the remaining sixteen employees will take an average of six and a half days each.

The company expects that it will pay an additional 24 days of sick pay as a result of the unused entitlement that has accumulated at 31st March, 2024 (one and a half days each, for sixteen employees).

Therefore, the company would recognize a liability equal to 24 days of sick pay.

(ii) As per Ind AS 19, the benefit will be attributed till the period the employee service will lead to no material amount of benefits. And service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after twenty or more years, the entity would attribute benefit on a straight-line basis. Service beyond twenty years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first twenty years is 2% (i.e. 40% divided by 20) of the present value of the expected medical costs.

For employees expected to leave between ten and twenty years, the benefit attributed to each of the first ten years is 1.5% (15 % divided by 10) of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

For employees expected to leave within ten years, no benefit is attributed.

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

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

9. **(i)** The supply between Khwab Pharma Ltd. (Pune) and Rajratna Medicines (Rampur) is a bill to ship to supply where the goods are delivered by the supplier [Khwab Pharma Ltd.] to a recipient [Saras Med Pvt. Ltd. (Udupi)] or any other person on the direction of a third person [Rajratna Medicines]. The place of supply in case of domestic bill to ship to supply of goods is determined in terms of section 10(1)(b) of the IGST Act, 2017.

As per section 10(1)(b) of the IGST Act, 2017, where the goods are delivered by the supplier to a recipient or any other person on the direction of a third person, whether acting as an agent or otherwise, before or during movement of goods, either by way of transfer of documents of title to the goods or otherwise, it shall be deemed that the said third person has received the goods and the place of supply of such goods shall be the principal place of business of such person.

Thus, in the given case, it is deemed that the Rajratna Medicines has received the goods and the place of supply of such goods is the principal place of business of Rajratna Medicines. Accordingly, the place of supply between Khwab Pharma Ltd. (Pune) and Rajratna Medicines (Rampur) will be Rampur, Uttar Pradesh.

This situation involves another supply between Rajratna Medicines (Rampur) and Saras Med Pvt. Ltd. (Udupi). The place of supply in this case will be determined in terms of section 10(1)(a) of the IGST Act, 2017.

Section 10(1)(a) stipulates that where the supply involves movement of goods, whether by the supplier or the recipient or by any other person, the place of supply of such goods shall be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient.

Thus, the place of supply in second case is the location of the goods at the time when the movement of goods terminates for delivery to the recipient (Saras Med Pvt. Ltd.), i.e. Udupi, Karnataka.

(ii) As per provisions of section 49(10) read with rule 87(13) of CGST Rules, 2017, "A registered person may, on the common portal, transfer any amount of tax, interest, penalty, fee or any other amount available in the electronic cash ledger under the

Act to the electronic cash ledger for integrated tax, central tax, State tax or Union territory tax or cess in FORM GST PMT-09".

It is important to note that only amounts available under Electronic Cash Ledger can be transferred to the respective heads using Form GST PMT-09 and not otherwise.

Accordingly, contention of Mr. Arvind by asking the accountant to use Form GST PMT-09 is not valid for transfer of ₹ 84,500 from head IGST to respective CGST & SGST in Electronic Credit Ledger.

ANSWERS TO THE CASE STUDY 2

I. Answers to the Multiple Choice Questions

1. **(d)** Guidelines for Advertisement pursuant to decision of Council at its 388th Meeting:

Disclosure of names of clients and/or fees charged, on the website is permissible only where it is required by a regulator, whether or not constituted under a statute, in India or outside India.

2. **(c)** As per Clause (8) of the Part I of the First Schedule to the Chartered Accountants Act, 1949, a chartered accountant in practice cannot accept position as auditor previously held by another chartered accountant without first communicating with him/her in writing.

3. **(a)** Notice for detailed scrutiny i.e. regular assessment, under section 143(2) of the Income Tax Act, 1961, cannot be served after the expiry of 3 months from the end of the financial year in which the return of income is furnished.

Here, Adarsh Tech Ltd. filed its return of income for A.Y. 2024-25 on 30th September, 2024, so, 3 months would expire on 30.06.2025.

4. **(d)** Section 143(1)(a) of the Income Tax Act, 1961, provides for computation of the total income of an assessee after making the following adjustments to the returned income:-

(a) any arithmetical error in the return;

(b) an incorrect claim, if such incorrect claim is apparent from any information in the return;

(c) Disallowance of loss claimed, if return of the previous year for which set-off is claimed was filed beyond due date u/s 139(1);

(d) Disallowance of expenditure or increase in income indicated in the audit report but not taken into account in computing the total income in the return;

(e) Disallowance of deduction claimed under section 10AA or under any of the provisions of Chapter VI-A under the heading "C.—Deductions in respect of certain incomes", if return is filed beyond due date u/s 139(1)

5. (a) Entry 3A of the Exemption ***Notification No. 12/2017 Central Tax (Rate) dated 28.06.2017***: provides exemption to composite supply of goods and services in which the value of supply of goods constitutes not more than 25% of the value of the said composite supply provided to the Central Government, State Government or Union territory or local authority by way of any activity:

in relation to any function entrusted to a Panchayat under article 243G of the Constitution or

in relation to any function entrusted to a Municipality under article 243W of the Constitution.

Thus, GST is exempt on supply of services of development of online cloud system to JMC, in the given case, for quoting the best price.

II. Answers to the Descriptive Questions

6. (i)

Shares	No. of shares	Price	Amount (₹)
Nepathya Ltd.	25,000	20.00	5,00,000
D-Con Ltd.	35,000	300.00	1,05,00,000
Sarpan Ltd.	29,000	380.00	1,10,20,000

Care Health Ltd.	40,000	500.00	2,00,00,000
			4,20,20,000
Less: Accrued Expenses			1,50,000
Other Liabilities			3,00,000
Total Value			4,15,70,000
No. of Units			12,00,000
NAV per Unit (4,15,70,000/12,00,000)			**34.64**

(ii) ADVANTAGES OF MUTUAL FUND

(a) **Professional Management:** The funds are managed by skilled and professionally experienced managers backed by a team of Research Analysts.

(b) Diversification: Mutual Funds invest into many securities and offer diversification which reduces the concentration risk.

(c) **Convenient Administration:** There are no administrative risks of share transfer, as many of the Mutual Funds offer services in a demat form which saves investor's time and prevents delay.

(d) **Higher Returns:** Over a medium to long-term investment horizon, investors get higher returns in Mutual Funds as compared to other avenues of investment. However, investors are cautioned that such very high returns during the exceptional bull phase of the market like IT boom or Infrastructure boom should not be considered as regular returns and therefore one should look at the average returns provided by the Mutual Funds particularly in the equity schemes over a long period of time.

(e) **Low Cost of Management:** SEBI has prescribed maximum limit of charging 2.50% for Equity Mutual Funds. No Mutual Fund can increase the cost beyond prescribed limits of 2.5% maximum and any extra cost of management is to be borne by the AMC.

(f) **Liquidity:** In all the open ended funds, liquidity is provided by direct sales / repurchase by the Mutual Fund and in case of close ended funds, the liquidity is provided by listing the units on the Stock Exchange.

(g) **Transparency:** The SEBI Regulations now compel all the Mutual Funds to disclose their portfolios on a half-yearly basis. However, many Mutual Funds disclose their Scheme Portfolio on a quarterly or monthly basis to their investors. The NAVs are calculated on a daily basis in case of open ended funds and are published through AMFI in the newspapers.

(h) **Other Benefits:** Mutual Funds provide systematic withdrawal and systematic investment plans according to the need of the investors. The investors can also switch from one scheme to another without any restrictions except in case of Tax Savings Fund which restricts switch out for first 3 years of its investments.

(i) **Highly Regulated:** Mutual Funds all over the world are highly regulated and in India all Mutual Funds are registered with SEBI and are strictly regulated as per the Mutual Fund Regulations which provide high level of investor protection.

(j) **Economies of scale:** The way mutual funds are structured gives it a natural advantage. The “pooled” money from numerous investors ensures that mutual funds enjoy economies of scale; it is cheaper compared to investing directly in the capital markets which involves higher charges. This also allows retail investors access to participation in the Capital Market which otherwise is difficult for them go directly.

(k) **Flexibility:** One of the biggest advantages of a Mutual Fund Scheme is its flexibility. An investor can opt for Systematic Investment Plan (SIP), Systematic Withdrawal Plan etc. to plan his cash flow requirements as per his convenience. The wide range of schemes being launched in India by different mutual funds also provides an added flexibility to the investor to plan his portfolio accordingly.

(I) **Convenience:** It is very convenient & easy to invest & disinvest from Mutual Fund Schemes specially through digital transaction portals

Note: Any three points need to be mentioned.

DRAWBACKS OF MUTUAL FUND

(a) No guarantee of Return – There are three issues involved:

(i) All Mutual Funds cannot be winners. There may be some Schemes who may underperform against the benchmark index. However, the Fund Manager will endeavour to give better return than the underlying benchmark Index in the long run.

(ii) A mutual fund may perform better than the stock market but this does not necessarily lead to a similar gain for every investor. This is because of the different entry & exit points for each investor.

(iii) In case of a massive fall in the value of the stocks held in the Portfolio, the investor may lose principal in the short-term e.g., during Global Financial Crisis in 2008 or during outbreak of Covid 19 pandemic in 2020 etc. But if the investment is held for a longer term, the chances of losing principal are very remote & negligible.

(b) **Diversification** – A mutual fund helps to create a diversified portfolio. Though diversification minimizes risk, it does not ensure maximizing returns. The returns that mutual funds offer is at times lesser than what an investor can earn from a single stock. For example, if a single security held by a mutual fund double in value, the mutual fund itself would not double in value because that security is only one small part of the fund's holdings. By holding a large number of different investments, mutual funds tend to do neither exceptionally well nor exceptionally poor.

(c) **Selection of Proper Fund** – It may be easy for someone to select the right share rather than the right mutual fund scheme. For stocks, one can rely his selection on the parameters of economic, industry and company analysis. In case of mutual funds, past performance is the one of the most important criteria to fall back upon but the past performance cannot predict the future.

(d) **Cost Factor** – Every Mutual Fund Scheme charges some fund management fees as a part of Annual Recurring Expenses. Although there are no charges/load on entry, but at times an exit may get charged if withdrawn before a stipulated period, known as "Exit Load". Amount withdrawn after the stipulated period of holding, if withdrawn, doesn't attract any Exit Load. The fees paid to the Asset Management Company is in no way related to performance.

Note: Any three points need to be mentioned.

7. Following are the illustrative steps for performing audit of above said block chain:

(a) Obtain a comprehensive understanding of the blockchain-based pilot program, including its objectives, scope, and key processes involved.

(b) Review the partnership agreements, contracts, and legal documentation governing the relationship between the Indian bank and Bouyanc Bank.

(c) Identify the specific blockchain technology used, its functionalities, and the underlying mart contracts.

(d) Assess Internal Controls:

Review policies and procedures related to the on-chain Nostro accounts, settlement processes, and money transfer mechanisms.

Assess the governance framework, risk management practices, and compliance procedures established by the Indian bank and Bouyanc Bank.

(e) Review Security Measures:

Assess encryption methods, cryptographic key management, and secure transmission protocols used for data protection.

Review measures taken to prevent unauthorized access, cyber threats, and potential vulnerabilities in the blockchain network.

(f) Test Transaction Validity and Accuracy:

Validate that transactions are recorded and settled accurately on the blockchain, ensuring adherence to relevant regulations and contractual obligations.

Perform reconciliations between on-chain Nostro accounts and the corresponding accounts held at Bouyanc Bank to confirm the accuracy of balances and transactions.

(g) Evaluate Compliance and Regulatory Requirements:

Review documentation and procedures related to customer due diligence, transaction monitoring, and reporting obligations.

Ensure that the pilot program adheres to industry-specific standards and best practices.

(h) Assess Business Continuity and Disaster Recovery:

Evaluate the adequacy of backup and recovery procedures, redundancy measures, and failover mechanisms to ensure uninterrupted operations.

Test the effectiveness of these plans by conducting simulations or examining historical incidents and response procedures.

(i) Report Findings and Recommendations:

Provide recommendations for improving internal controls, security measures, compliance procedures, and overall efficiency and effectiveness of the pilot program.

Communicate the audit results to the relevant stakeholders, highlighting areas of concern and suggesting remedial actions.

8. Statement showing computation of inventory cost

Particulars	**Amount (₹)**	**Remarks**
Costs of purchase	6,00,000	Purchase price of raw material [purchase price (6,50,000) less refundable purchase taxes (50,000)]
Loan-raising fee	–	Included in the measurement of the liability
Costs of purchase	55,000	Purchase price of consumable stores
Costs of conversion	65,000	Direct costs—labour
Production overheads	15,000	Fixed costs—depreciation
Production overheads	10,000	Product design costs and labour cost for specific customer
Other costs	37,000	Refer working note
Borrowing costs	–	Recognized as an expense in profit or loss
Total cost of inventories	**7,82,000**	

Working Note:

Costs of testing product designed for specific customer:

= ₹ 21,000 material (i.e. net of the ₹ 3,000 recovered from the sale of the scrapped output) + ₹ 11,000 labour + ₹ 5,000 depreciation.

= ₹ 37,000

ANSWERS TO THE CASE STUDY 3

I. Answers to the Multiple Choice Questions

1. **(c)** Processing of transactions is inaccurate.

   Reason:

Possible potential misstatements - Indicators	
Completeness	•Transactions not identified. •Source documents not prepared. •Source documents not captured. •Rejected source documents not represented
Existence	•Fictitious or unauthorised transactions entered on source documents. •Source documents overstated. •Transactions duplicated on source documents. •Capture of source documents duplicated. •Invalid source documents captured on subsidiary ledgers.
Recording	•Source documents captured inaccurately. •Processing of transactions is inaccurate. •Inaccurate adjustments made in subsidiary ledgers.
Cut-Off Procedures	•Transactions that occur in one period are recorded in another period.

2. **(b)** Incorrect, as ITC is available for utilisation as per GST Law.

   Reason: ITC on such goods and/or services is allowed in the case of sub- contracting, i.e. when such goods and/or services are used by the taxpayer who is in the same line of business, e.g. outdoor catering service availed by another outdoor caterer.

3. **(d)** Purchases & Account Payables

   Reason: Assertions relating to validity of Purchases is being checked.

4. **(a)** ₹ 1000

Reason: In terms of rule 32(6) relating to valuation, the value of a coupon is the money value of the goods redeemable against it. Therefore, though the coupon is sold for ₹ 900, its value is ₹ 1000.

5. **(c)** Statement 1 is Incorrect while Statement 2 is Correct.

Reason: **STATEMENT 1** :- As per para B15 of Ind AS 103, in a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. However, in some business combinations, commonly called 'reverse acquisitions', the issuing entity is the acquiree. Other pertinent facts and circumstances shall also be considered in identifying the acquirer in a business combination effected by exchanging equity interests, including the relative voting rights in the combined entity after the business combination. The acquirer is usually the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity. In above mentioned para, acquirer shall be the either of the combining entities (i.e. Naman Hotels Limited or Anupama Hotels Limited) whose owners as a Group retain or receive the largest portion of the voting rights in the combined entity. Hence in the above scenario Naman Hotels Limited shareholder gets 67% Share [(100/150) x 100] and Anupama Hotels Limited shareholder gets 33% share in the Namupama Villas Limited. Hence Naman Limited is acquirer as per the principles of Ind AS 103.

STATEMENT 2 :- In this case, as the control over financial and operating policies are acquired through obtaining board representation on 1st July, it is this date that is considered as the acquisition date. It may be noted that the appointed date as per the agreement is not considered as the acquisition date, as Naman Hotels Ltd. did not have control over Anupama Hotels Ltd. as at that date.

II. Answers to the Descriptive Questions

6. The amount of Anupama Hotels Ltd. identifiable net assets [₹ 400, calculated as ₹ 500 - ₹ 100) exceeds the fair value of the consideration transferred plus the fair value of the non controlling interest in Anupama Hotels Ltd. [₹ 384 calculated as 300 + 84]. Kavya Hotels Ltd. measures the gain on its purchase of the 80 per cent interest as follows:

		₹ in lakh
Amount of the identifiable net assets acquired (₹ 600 - ₹ 200)		400
Less: Fair value of the consideration transferred for Kavya Hotels Ltd. 80 per cent interest in Anupama Hotels Ltd.	300	
Add: air value of non controlling interest in Anupama Hotels Ltd.	84	(384)
Gain on bargain purchase of 80 per cent interest		16

Journal Entry

	₹ in lakhs	₹ in lakhs
Identifiable assets acquired Dr.	600	
To Cash		300
To Liabilities assumed		200
To OCI/Equity-Gain on the bargain purchase		16
To Equity-non controlling interest in Anupama Hotels Ltd.		84

Alternatively if the acquirer chooses to measure the non-controlling interest in Anupama Hotels Ltd. on the basis of its proportionate interest in the identifiable net assets of the acquiree, the recognized amount of the non-controlling interest would be ₹ 80 Lakhs (₹ 400 x 0.20). The gain on the bargain purchase then would be ₹ 20 lakhs (₹ 400- (₹ 300 + ₹ 80)

7. (a) **Auditors are required to assess the risks of material misstatement at two levels :-**

- ♦ The first is at the overall financial statement level, which refers to risks of material misstatement that relate pervasively to the financial statements as a whole and potentially affect many assertions.
- ♦ The second relates to risks identifiable with specific assertions at the class of transactions, account balance, or disclosure level. This means that for each account balance, class of transactions and disclosure, an assessment of risk (such as high, moderate, or low) should be made for each individual assertion being addressed.

(b) **Audit Procedures:** The following procedures by Komal may address the validity of the account balance:-

- ♦ Make a selection of the purchases, review correspondence with the vendors, purchase requisitions (internal document) and reconciliations of their accounts.
- ♦ Review Vendor listing along with the ageing details. Follow up the material amounts paid before the normal credit period and analyse the reasons for exceptions.
- ♦ Meet with the company's Purchase officer and obtain responses to our inquiries regarding the purchases made without purchase orders.
- ♦ Discuss the summary of such issues with the client.

8. **Computation of Profits and Gains of Business or Profession of Kavya Hotels Ltd. for the A.Y. 2024-25**

Particulars	Amount (₹)	
Profit as per Statement of profit and loss		1,50,00,000
Add: Items debited but to be considered separately or to be disallowed		
(a) Payment to middleman for purchase of vegetables, etc. in an amount exceeding ₹ 10,000	30,000	

	[Under section 40A(3), disallowance is attracted in respect of expenditure for which cash payment exceeding ₹ 10,000 is made on a day to a person. Payment of ₹ 35,000 to farmer for purchase of vegetables is covered by exception under Rule 6DD. However, payment of ₹ 30,000 to confectionery wholesaler is not covered under the exception - CBDT Circular 27/2017 dated 3/11/2017].		
(b)	Contribution towards employees' pension scheme in excess of 10% of salary disallowed under section 40A(9) [Contribution to the extent of 10% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as deduction under section 36(1)(iva)]	50,000	
(c)	Payment to transport contractor without deduction of tax at source [Since the contractor declares profit under presumptive taxation scheme under section 44AE and furnished a declaration to this effect, tax is not required to be deducted at source under section 194C in respect of payment to transport contractor].	-	
(e)	Contribution to IIT for scientific research [Contribution to IIT for scientific	-	

research programme approved by the prescribed authority qualifies for deduction @100% under section 35(2AA). Since the amount of contribution has already been debited to the statement of profit and loss, there is no further adjustment required]		
(f) Expenses on foreign travel of two directors for a collaboration agreement which failed to materialize	5,00,000	
[Where expenditure is incurred for a project not related to the existing business and the project was abandoned without creating a new asset, the expenses are capital in nature as per *Mc Gaw-Ravindra Laboratories (India) Ltd. v. CIT (1994) 210 ITR 1002 (Guj.)*. Brewery project is not related to the existing business of running hotels]		
(g) Fees paid to directors without deducting tax at source [30% of ₹ 1 lakh]	30,000	6,10,000
[Disallowance @ 30% would be attracted under section 40(a)(ia) for non-deduction of tax at source from director's remuneration on which tax is deductible under section 194J]		
		1,56,10,000
Less: Items credited but to be considered separately/ Expenditure to be allowed		
(d) Profit on sale of plot of land to 100% subsidiary	12,00,000	

	[Short-term capital gains arise on sale of plot of land held for less than 24 months. However, in this case, since the transfer is to a 100% subsidiary company and the subsidiary company is an Indian company, the same would not constitute a transfer for levy of capital gains tax as per section 47(iv). Since this amount has been credited to the statement of profit and loss, the same has to be deducted for computing business income].		
(h)	Depreciation	5,00,000	
	[Depreciation allowable under the Income-tax Act, 1961 is ₹ 15 lakhs whereas the depreciation as per books of account debited to the statement of profit and loss is ₹ 10 lakhs. Hence, the additional amount of ₹ 5 lakhs has to be deducted while computing business income]		
(i)	Interest paid during the year	2,00,000	
	[Conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose section 43B. The amount of unpaid interest converted into a new loan will be allowable as deduction only in the year in which such converted loan is actually paid. Since ₹ 2 lakhs has been paid in the P.Y. 2023-24, the same is allowable as deduction]		
(iii)	Purchases omitted to be recorded in the books [Since the purchase is made in March,	3,00,000	22,00,000

2024 (i.e., P.Y.2023-24), in respect of which bill of ₹ 3 lakhs received on 31.3.2024 has been omitted to be recorded in the books in that year, it has to be deducted to compute the business income [*Kedarnath Jute Manufacturing Company Ltd. v. CIT (1971) 82 ITR 363 (SC)*]. It is logical to assume that the company is following mercantile system of accounting.]		
Income under the head "Profits and Gains of Business or Profession"		1,34,10,000

ANSWERS TO THE CASE STUDY 4

I. Answers to the Multiple Choice Questions

1. (d) Ross: Central Government: Chandler: Prohibited Transaction

Reason: Under section 5 of the Foreign Exchange Management Act, 1999, and Rules relating thereto, some current account transactions require prior approval of the Central Government, some others require the prior approval of the Reserve Bank of India, some are freely permitted transactions and some others are prohibited transactions. Accordingly,

(i) It is a current account transaction, where Amit is required to take approval of the Central Government for drawal of foreign exchange for remittance of hire charges of transponders.

(ii) Withdrawal of foreign exchange for payment related to call back services of telephone is a prohibited transaction. Hence, Amit cannot obtain US $ 20,000 for the said purpose.

2. (c) Both are persons resident in India.

Reason: Medico Inc. being a UK based company would be person resident outside India [(Section 2(w)]. Section 2 (u) defines 'person' under clause (viii) thereof, as person would include any agency, office or branch owned or controlled by such person. The term such person appears to refer to a person who is included in clause (i) to (vi). Accordingly, the Headquarters in New Delhi, being a branch of a company would be a 'person'. Section 2(v) defines a person resident in India. Under clause (iii) thereof person resident in India would include an office, branch or agency in India owned or controlled by a person resident outside India. Headquarters Unit in New Delhi is owned or controlled by a person resident outside India, and hence it, would be a 'person resident in India.' However, Dubai Branch though not owned is controlled by the Headquarters in New Delhi which is a person resident in India. Hence, the Dubai Branch is also a person resident in India.

3. (d) Euro 10,000 should not be recognized as impairment loss

Reason: The carrying value of the foreign currency asset will be determined based on the recoverable amount of the asset converted into functional currency at the exchange rate on valuation date which is ₹ 54 lakhs. Therefore, the impairment loss of Euro 10,000 in foreign currency should not to be recognised.

4. (c) Yes, the Perpetual Debt can be considered as a monetary item and the related exchange gains and losses should be recorded in equity at the consolidated level.

Reason: Yes, as per Ind AS 21, net investment in a foreign operation is the amount of the reporting entity's interest in the net assets of that operation. As per para 15 of Ind AS 21, an entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables. In accordance with para 15 of Ind AS 21, the foreign exchange gains and losses should be recorded in equity at the consolidated level because settlement of that perpetual debt is neither planned nor likely to occur.

5. **(a)** She should leave India on or before 28th September, 2023 and get her salary credited to a Bank account in Germany only, to be remitted, later on, to her Joint account in India

Reason: In this case, since Parminder is an Indian citizen and leaving India during P.Y. 2023-24 for the purpose of employment outside India, she will be treated as resident only if the period of her stay during the previous year amounts to 182 days or more. Therefore, Parminder should leave India on or before 28th September, 2023, in which case, her stay in India during the previous year would be less than 182 days and she would become non-resident for the purpose of taxability in India. In such a case, only the income which accrues or arises in India or which is deemed to accrue or arise in India or received or deemed to be received in India shall be taxable. The income earned by her in Germany would not be chargeable to tax in India for A.Y. 2024-25, if she leaves India on or before 28th September, 2023. If any part of Parminder's salary will be credited directly to her bank account in Jalandhar, then, that part of her salary would be considered as income received in India during the previous year under section 5 and would be chargeable to tax under Income-tax Act, 1961, even if she is a non-resident. Therefore, Parminder should receive her entire salary in Germany and then remit the required amount to her bank account in Jalandhar in which case, the salary earned by her in Germany would not be subject to tax in India.

II. Answers to the Descriptive Questions

6. As per Master Direction No. 17 on Import of Goods and Services issued by the RBI, the general Guidelines for Imports are as follows:-

(i) **Mode of payment**: A person resident in India may make payment for import of goods in foreign exchange through-

- an international card held by him/in rupees from international credit card/ debit card through the credit/debit card servicing bank in India against the charge slip signed by the importer, or

- as prescribed by Reserve Bank from time to time,

provided that the transaction is in conformity with the extant provisions and the import is in conformity with the Foreign Trade Policy in force. In essence, payment has to be made through banking channels.

Any person resident in India may also make payment as under:

(a) In rupees towards meeting expenses on account of boarding, lodging and services related thereto or travel to and from and within India of a person resident outside India who is on a visit to India;

(b) By means of a crossed cheque or a draft as consideration for purchase of gold or silver in any form imported by such person in accordance with the terms and conditions imposed under any order issued by the Central Government under the Foreign Trade (Development and Regulations) Act, 1992 or under any other law, rules or regulations for the time being in force;

(c) A company or resident in India may make payment in rupees to its non- whole time director who is resident outside India and is on a visit to India for the company's work and is entitled to payment of sitting fees or commission or remuneration, and travel expenses to and from and within India, in accordance with the provisions contained in the company's Memorandum of Association or Articles of Association or in any agreement entered into it or in any resolution passed by the company in general meeting or by its Board of Directors, provided the requirement of any law, rules, regulations, directions applicable for making such payments are duly complied with.

(ii) Time Limit for Settlement of Import Payments:

(i) Time limit for Normal Imports:

- In terms of the extant regulations, remittances against imports should be completed not later than six months from the date of shipment, except in cases where amounts are withheld towards guarantee of performance, etc.

- AD may permit settlement of import dues delayed due to disputes, financial difficulties, etc. However, interest if any, on such delayed payments, usance bills (a bill of exchange which allows the drawee to have period of credit or term) or overdue interest is payable only for a period of up to three years from the date of shipment at the rate prescribed for trade credit from time to time.

(ii) Time Limit for Deferred Payment Arrangements:

- Any deferred payment arrangements (including suppliers' and buyers' credit) entered into, for up to three years in case of import of capital goods and up to one year or the operating cycle whichever is less, in case of import of non-capital goods, shall be treated as trade credits for which the procedural guidelines as laid down in the Master Direction on External Commercial Borrowings, Trade Credits and Structured Obligations (updated from time to time) may be followed.

(iii) Extension of Time:

(i) limit of extension: AD Category – I banks can consider granting extension of time for settlement of import dues up to a period of six months at a time (maximum up to the period of three years) irrespective of the invoice value for delays on account of disputes about quantity or quality or non-fulfilment of terms of contract; financial difficulties and cases where importer has filed suit against the seller. In cases where sector specific guidelines have been issued by Reserve Bank of India for extension of time (i.e. rough, cut and polished diamonds), the same will be applicable.

(ii) Circumstances: While granting extension of time, AD must ensure that:

a. The import transactions covered by the invoices are not under investigation by Directorate of Enforcement / Central Bureau of Investigation or other investigating agencies;

b. While considering extension beyond one year from the date of remittance, the total outstanding of the importer does not exceed USD one million or 10 per cent of the average import remittances during the preceding two financial years, whichever is lower; and

c. Where extension of time has been granted by the AD, the date up to which extension has been granted may be indicated in the 'Remarks' column.

(iii) Cases not covered by the above instructions / beyond the above limits, may be referred to the concerned Regional Office of Reserve Bank of India.

(iv) The above shall be reported in IDPMS as per message "Bill of Entry Extension" and the date up to which extension is granted will be indicated in "Extension Date" column.

7. No, SIMCO cannot presume INR to be its functional currency on the basis of its location. It needs to consider various factors listed in Ind AS 21 for determination of functional currency.

Primary indicators:

1. The currency that mainly influences:

(a) sales prices for its goods and services. This will often be the currency in which sales prices are denominated and settled; and of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

(b) labour, material and other costs of providing goods and services. This will often be the currency in which these costs are denominated and settled.

2. Other factors that may provide supporting evidence to determine an entity's functional currency are ***(Secondary indicators):***

    (a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated; and

    (b) the currency in which receipts from operating activities are usually retained.

3. ***If an entity is a foreign operation***, additional factors set out in Ind AS 21 should be considered to determine whether its functional currency is the same as that of the reporting entity of which it is a subsidiary, branch, associate or joint venture:

    a. Whether the activities of foreign operations are carried out as an extension of that reporting entity, rather than being carried out with a significant degree of autonomy;

    b. Whether the transactions with the reporting entity are a high or a low proportion of the foreign operation's activities;

    c. Whether cash flows from the activities of the foreign operations directly affect the cash flows of the reporting entity and are readily available for remittance to it.

    d. Whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligation without funds being made available by the reporting entity.

On the basis of additional factors mentioned in point 3 above, SIMCO cannot be said to have functional currency same as that of Simran Constructions GmbH.

Hence, primary and secondary indicators should be used for the determination of its functional currency giving priority to primary indicators. The analysis is given below:

- Its significant revenues and competitive forces are in USD.
- Its significant portion of cost is incurred in INR. Only 20% costs are in USD.
- 78% of its finances have been raised in USD.

- ♦ It retains its operating cash flows partially in USD and partially in INR.

Keeping these factors in view, USD should be considered as the functional currency of Sim Contractors Pvt. Ltd.

8. **The residential status of a foreign company is determined on the basis of place of effective management (POEM) of the company.** For determining the POEM of a foreign company, the important criteria is whether the company is engaged in active business outside India or not.

A company shall be said to be engaged in "Active Business Outside India" (ABOI) for POEM, if

- the passive income is not more than 50% of its total income; and
- less than 50% of its total assets are situated in India; and
- less than 50% of total number of employees are situated in India or are resident in India; and
- the payroll expenses incurred on such employees is less than 50% of its total payroll expenditure.

Raj Pharma AG shall be regarded as a company engaged in active business outside India for P.Y. 2023-24 for POEM purpose only if it satisfies all the four conditions cumulatively:-

Condition 1: The passive income of Raj Pharma AG should not be more than 50% of its total income

Total income of Raj Pharma AG during the P.Y. 2023-24 is ₹ 175 crores [(₹ 50 crores + ₹ 75 crores) + (₹ 30 crores + ₹ 20 crores)]

Passive income is the aggregate of, -

(i) income from the transactions where both the purchase and sale of goods is from/to its associated enterprises; and

(ii) income by way of royalty, dividend, capital gains, interest or rental income;

Passive Income of Raj Pharma AG is ₹ 65 crores, being sum total of:

(i) ₹ 15 crores, income from transactions where both purchases and sales are from/to associated enterprises (₹ 5 crores in India and ₹ 10 crores in Germany)

(ii) ₹ 50 crores, being interest and dividend from investment (₹ 30 crores in India and ₹ 20 crores in Germany)

Percentage of passive income to total income = ₹ 65 crore/ ₹ 175 crore x 100 = 37.14%

Since passive income of Raj Pharma AG is 37.14%, which is not more than 50% of its total income, the first condition is satisfied.

<u>Condition 2: Raj Pharma AG should have less than 50% of its total assets situated in India</u>

- Value of total assets of Raj Pharma AG during the P.Y. 2023-24 is ₹ 470 crores [₹ 190 crores, in India + ₹ 280 crores, in Germany]
- Value of total assets of Raj Pharma AG in India during the P.Y. 2023-24 is ₹ 190 crores
- Percentage of assets situated in India to total assets = ₹ 190 crores/₹ 470 crores x 100 = 40.43%.

Since the value of assets of Raj Pharma AG situated in India is less than 50% of its total assets, the second condition for ABOI test is satisfied.

<u>Condition 3: Less than 50% of the total number of employees of Raj Pharma AG should be situated in India or should be resident in India</u>

- Number of employees situated in India or are resident in India is 60 Total Number of employees of Raj Pharma AG is 150 [60 + 90]
- Percentage of employees situated in India or are resident in India to total number of employees is 60/150 x 100 = 40%

Since employees situated in India or are residents in India of Raj Pharma AG are less than 50% of its total employees, the third condition for ABOI test is satisfied.

<u>Condition 4: The payroll expenses incurred on employees situated in India or resident in India should be less than 50% of its total payroll expenditure</u>

- Payroll expenses on employees employed in and resident of India = ₹ 10 crores.
- Total payroll expenses = ₹ 25 crores (₹ 10 crores + ₹ 15 crores)
- Percentage of payroll expenses of employees situated in India or are resident in India to the total payroll expenses = 10 x 100/25 = 40%

Since the payroll expenses incurred on employees situated in India or resident in India is less than 50% of its total payroll expenditure, the fourth condition for ABOI test is also satisfied.

Thus, since Raj Pharma AG has satisfied all the four conditions, the company would be said to be engaged in "active business outside India" during the P.Y. 2023-24.

<u>POEM of a company engaged in active business outside India shall be presumed to be outside India, if the majority of the board meetings are held outside India.</u>

Since Raj Pharma AG is engaged in active business outside India in the P.Y. 2023-24 *and majority of its board meetings i.e., 5 out of 8, were held outside India, POEM of Raj Pharma AG would be outside India.*

Therefore, Raj Pharma AG would be non-resident in India for the P.Y. 2023-24.

ANSWERS TO THE CASE STUDY 5

I. Answers to the Multiple Choice Questions

1. The correct answer is (a) Recognize a loss of ₹ 5 crores in its books. As per Ind AS 28, Investment in Associates and Joint Ventures, the sale of aircraft by PGL to TAPL will be a downstream transaction where the investor sells the asset to the joint venture. There has been an impairment loss of ₹ 5 crores in the value of the aircraft since the fair value is less than the carrying value of the asset. As per para 29 of Ind AS 28, in case of downstream transactions where there has been an impairment in the net realizable value of the asset, the loss should be recognized in full by the investor.

Therefore, the entire loss has to recognized by PGL, who is the investor in TAPL.

2. The correct answer is (b) Evolutionary product. Premium economy are an upgraded version of economy seats which currently form 95% of the seating capacity within the domestic aviation market. Premium economy offers few upgraded services and facilities as compared to the economy seats for a slightly higher charge. Hence, they have evolved out the economy seat concept, with few additional features. At the same time premium economy are not as niche in terms of their service as full premium seats.

3. The correct answer is (d) Ensuring synergy between the work cultures of executives of PGL and AAI deputed at TAPL by arranging team building exercises would be soft accountability for Human Resources department. Team building exercises to build synergy is human input in the system that cannot be objectively measured and is essentially intangible in nature. Hence from a performance management perspective, it is a soft measure.

The other measures are either financial or quantitative information which can be measured.

4. The answer is (a) since reduction in the number of complaints will be definitively indicative of achievement of on time performance

Reduction in time taken to attend customer complaints, record of on time performance or increased staff training do not necessarily indicate the achievement of the best on time performance within the industry.

5. The answer is (a) According to Section 14 of the Insolvency and Bankruptcy Code, 2016, the institution of suits and continuation of pending proceedings against a Corporate Debtor in any court is not allowed during the period of moratorium. However, the DGCA had not instituted any suit to reallocate the right; hence, they did not breach the Insolvency and Bankruptcy Code.

Furthermore, Section 14 explicitly states that a license, permit, registration, or similar grant or right issued by the Central

Government, State Government, local authority, or sectoral regulator shall not be suspended or terminated on the grounds of insolvency, provided there is no default in the payment of current dues arising from the use of such license or grant during the moratorium.

The DGCA has right to reallocate the rights to use due to default of the current dues by Trujet. However, DGCA did not breach the Insolvency and Bankruptcy Code, 2016 during the hearing of TAPL's petition.

II. Answers to the Descriptive Questions

6. The internal audit can play an important role in joint venture in assessing key governance risks. Such risks in a joint venture may include: -

- Establishing joint venture strategy and its monitoring
- Issues in capital planning
- Controls governing investments in joint venture
- Division of governance functions and consequent delegation of authority
- Agreement between both the stakeholders on key governance matters

The purpose of a joint venture is sharing risks and rewards in developing new market for "premium economy" segment in India. A joint venture involves joint control of a business with contribution of resources by investors to run it.

Internal audit provides independent assurance on effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives. In fact, internal audit can help an organisation in achieving its objective without compromising upon its independence. It includes review of operational activities, underlying internal controls and compliance with applicable laws and regulations.

Therefore, internal audit function can play a critical role in joint venture like TAPL.

7. AAI and PGL will benefit from the McKinsey 7s framework as it is undergoing substantial change in its operations by entering the Indian aviation sector. There are 3 hard elements – Strategy, Structure and Systems and 4 soft elements – Shared values, Style, Staff and Skills. Each of these elements represent a constellation of systems, which when integrated well assist in effective implementation of strategies, efficient use of resources and ultimately enables the organization to create value. The hard elements can be easily quantified, defined, and influenced by the management while the soft elements are those that are influenced by culture within an organization, making them intangible in nature and therefore relatively difficult for the management to influence. It is important for TAPL to have properly integrated systems in place in order to execute its strategies well in the highly competitive aviation industry. It is a Joint Venture between two globally established, reputed organizations and therefore this framework will help the organization identify any blind spots at the inception stage itself.

Strategy

- TAPL strategically positions itself in the "premium economy" segment to capture a unique market niche, leveraging Avain Airlines' premium services and PGL's extensive market presence.
- It differentiates by offering superior service at slightly higher rates than economy, aiming to attract business travellers and price-sensitive premium customers.
- The partnership with AAI enhances global connectivity, a key differentiator in the competitive Indian aviation market.

Structure

- The joint venture's structure, with PGL's majority and AAI's strategic stake, balances expertise and control, optimizing the organizational workflow.

- Initially centralized under COO Mr. Tan for coherent early decision-making, with a view to evolve towards flexibility and scalability as TAPL grows.
- Functional departmentalization harnesses AAI's aviation expertise and PGL's market insight, fostering efficiency and market responsiveness.

Systems

- Digitalization and technology adoption streamline operations and improve customer satisfaction, positioning TAPL for operational excellence.
- Strategic implementation of advanced reservation and CRM systems underpins competitive advantage through enhanced efficiency and service personalization.
- Clear goals and performance measurement for each department ensure aligned and efficient operational execution.

Style

- Leadership style integrates AAI and PGL's diverse cultures, promoting innovation, agility, and a unified approach towards strategic goals.
- Emphasizes a corporate culture of creativity, motivation, and customer-centricity, crucial for navigating the dynamic aviation sector.
- Cross-functional teams foster collaboration and a shared vision, enhancing TAPL's strategic and operational agility.

Staff

- TAPL's strategic talent management focuses on diversity, competitive remuneration, and professional growth to mitigate industry-high attrition rates.
- A supportive work environment and opportunities for development aim to attract and retain a motivated workforce.
- Recognizes staff as crucial for delivering the high service standards expected in the premium economy segment.

Skills

- Collaborative training and continuous learning initiatives ensure the workforce is equipped with necessary technical and soft skills.
- Balanced focus on operational safety and customer service excellence supports TAPL’s differentiation strategy.
- Continuous investment in staff development ensures alignment with TAPL's premium service ethos and brand promise.

Shared Values

- TAPL’s core values of honesty, work ethic, transparency, accountability, and trust underpin its operations and customer interactions. These values are central to building a strong, customer-focused brand identity and fostering loyalty in the competitive aviation sector.
- Aligning strategic and operational practices with these shared values ensures TAPL’s market positioning and brand strength.