Mock Test Paper - Series I: March 2025

Date of Paper: 21st March, 2025

Time of Paper: 2 P.M. – 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

Due to increased urbanization, there has been a strong demand for residential housing facilities in various cities in India. Residential housing construction in each region is largely a fragmented market dominated by local and regional builders. Few builders have a nationwide presence. Residential construction is segmented by type, that is apartments and condominiums, villas and other types. Most of the apartments' construction is aimed at the mid-range income to luxury segment of customers. There are very few players targeting the low-income customers who are also in need of affordable housing facilities. The need for affordable housing is especially felt in well-developed cities like Pune, Bangalore, Gurgaon and Ahmedabad that have become urban centers in the last few decades. Housing facilities catering to the low-income customer segment are generally of poor quality, consequently, are prone to unfortunate accidents.

BharatTech3D (B3D) is a company established by Mrs. Sinha, an architect and avid innovator. She has been a seasoned professional having more than 25 years of experience in the construction industry. She is also an innovator who wishes to harness the power of technology that can revolutionize the construction industry. ***"Provide over each head a safe and secure roof, without a huge debt" is the current vision for her latest project.*** B3D specializes on building 600 sq. ft to 800 sq. ft single- and two-bedroom homes using 3D technology. This is a revolutionary innovation in the construction industry. Traditional construction involved developing a blueprint for the home, then procure men, material and machines to work on the home. Completing a project the traditional way can take months, up to even more than a year in some cases.

B3D plans to turn this concept on the head, by introducing 3D printing technology for construction. Once the blueprint is finalized, the 3D construction printer takes over and creates the physical structure by printing out layers of concrete based on the design and specifications in the blue print. This substantially reduces wastes, errors and time required for construction in addition to generating better quality output. One housing project can be built within 6 months as compared to a period of 18 months for a similar project built using traditional construction techniques.

As compared to traditionally built homes, the cost of construction of 3D printed homes are expected to be cheaper. An advantage of using 3D construction technology is that it reduces the need for construction labourers as many of the processes are automated. This results in the reduction of construction labour cost by almost 40%. Also, reduction in wastes and errors helps in managing costs better. B3D is in talks with 3D construction printer manufacturers to procure machines needed for construction. These are costly machines that require huge initial investment. B3D is considering financing options for procurement of these machines, currently the loan financing rates are high. Due to limited supply in the face of high demand for prime locations, the cost of land procurement in these fast-developing urban centres is also high. Inflationary pressures on cost of materials, labour and other constructions costs, high financing costs etc. are challenges that B3D expects to encounter. Hence, generating a quick inventory turnover is critical.

B3D has well qualified engineers and architects who will be working on this project. Since B3D plans to build these 3D homes across different cities, their expertise will be required at multiple locations. Hence, in order to retain them and motivate them, the company has offered good remuneration packages to them. For the staff it is a matter of pride to be able to be part of such innovative projects.

B3D wants construction material such as cement and steel need to be of specific quality. There are limited suppliers who can provide material of such grade quality. Moreover, B3D's material requirements form a very small portion of the suppliers' market. Many times, the lead times for procuring these materials are uncertain. Construction material includes bricks and glass that are very fragile and difficult to store. These materials are widely available in the market with many suppliers and can be procured easily on demand. B3D is considering its strategy for inventory management for each of the requirements like cement, steel, bricks and glass.

B3D targets to achieve low cost of production, less lock in of time and capital for each project. Keeping this in mind, the company plans to price the houses at a very attractive price of ₹ 10 lakhs for a single bedroom flat and ₹ 12 lakh for double bedroom flat in prime locations in urban cities across India. On average, similar traditional homes costs around ₹ 15 lacs per single bedroom flat and ₹ 18 lakh for double bedroom flat in the same locality. This will bring a lot of relief for this segment of customers who until now were dependent on the traditional builders for their home shelter needs. B3D targets to make a profit of at least 8% on sale price per flat. At present, it plans to have a uniform selling prices for single bedroom and double bedroom flats across cities in order to popularize the projects. However, there is flexibility for B3D to charge according to the exact cost considerations for each location in each city. Incumbents in the real estate cannot compete at this low range pricing, hence the company expects them to concentrate their business on the higher end segments for middle income and luxury class segments.

B3D has received the requisite approvals for the projects from town planning and other regulatory authorities. To create awareness and generate demand among the lower income groups, it plans to advertise its products in vernacular newspapers and TV channels. This would ensure better reach to the target customer segment. The cost of advertising in these channels is also cheaper as compared to other mediums. B3D will have a sales office at each project website, which will handle customer enquiries and take them on site tours in order to familiarize themselves with this novel building project.

B3D wishes to create traction on its sales quickly in order to capitalize on its revolutionary concept. Hence, B3D has tied up with Smart Bank Ltd. This is a reputed bank that has a national presence. It has vetted and listed B3D's project across various cities as one of its approved projects for which it is willing to provide loans along with assistance with loan processing. This tie-up gives further credibility in the market for this novel housing project.

Since customers are of the lower income group, the probability of their requirement for loan financing would be higher. Hence where felt appropriate, the sales team of B3D would encourage customers to approach Smart Bank Ltd. for home loans. Fast loan processing due to pre-approved tie-up, speeds up fund procurement and the transaction can be completed quickly, improving churn in sales. Smart Bank Ltd. will also use its digital marketing activities and direct selling agents who will advertise the availability of home loan facilities through these channels. For each loan that gets approved through this tie-up, B3D gets a small commission on each transaction. B3D expects at least 85% of the potential customers to utilize the tip-up with Smart Bank Ltd. to avail loans.

Bhavna, an engineer in the research and development team, has been working on making the construction process more efficient. Consequently, it can reduce the cost of construction. Given, the spectre of inflationary pressures on cost of operations, this project is considered to be critical to business and has the support of the senior management at B3D. Required finances have been approved by the management for this project i.e., efficient 3D construction technology. Project costs are easily identifiable and quantifiable. Bhavna believes that the cost reductions will exceed the project costs within 36 months of their implementation. Regulatory testing, health and safety approvals were obtained on June 1, 2023. This removed uncertainties concerning the project, which was finally completed on April 30, 2024. Costs of ₹ 24,00,000 incurred till March 31, 2024 have been recognized as an intangible asset. An offer of ₹ 17,00,000 has been received from a third party potential buyer, but it was rejected by B3D, believes that the project will be a major success and that the B3D has the potential to save ₹ 19,00,000 in perpetuity. However, Mrs. Sinha, the head of the research and development team, is concerned about the long term prospects of the new process. She is of the opinion that competitors would have developed new technologies at some time which would require to replace the new process within five years. She estimates the present value of future cost savings over this period to be ₹18,00,000. After that, she feels there is no certainty about the future.

In order to know the state of art developments in the 3D construction business, B3D engages technical services of Pathway Consulting GMBH (having no PE in India), a consulting company in Germany for ₹ 25,00,000. On 31st December 2024, it paid the fees for technical services to this company. This was paid to the company's account in Germany. The accountant engaged at B3D was new to the job. He deducted the tax at source correctly but forgot to deposit the same. B3D paid the relevant TDS in December 2025. India and Germany have a Double Taxation Avoidance Agreement (DTAA) in place to prevent the double taxation of income earned in both countries. As per Article 12 of the India-Germany DTAA, the applicable TDS rate on royalties and fees for technical services (FTS) is 10%.

The management of B3D is considering the following capital budgeting report for its first project in Pune. Due to the novel nature of the project, the management wishes to know the guaranteed return that it would rather accept as compared to a higher but uncertain return. Accordingly, the capital budgeting analysis has incorporated the certainty equivalent co-efficient of future cash flows.

Total investment in the project in Pune ₹ 5 crores.

Risk free return 3%

Expected cash flow for the next five years

Year	Expected cash flow (₹)	Certainty Equivalent co-efficient
1	1 crore	0.95
2	2 crores	0.90
3	2 crores	0.85
4	3 crores	0.80
5	2 crores	0.75

In May 2024, B3D enters into a lease with AK Enterprises for a 3D construction printer for the Pune project for a period of 3 years. The contract stipulates that AK Enterprises will perform maintenance of the leased 3D construction printer and receive consideration for that maintenance service. The contract contains the following fixed prices for the lease and non-lease component:

Lease component for 3D printer	₹ 6,00,000 per annum
Maintenance component for 3D printer	₹ 1,00,000 per annum
Total payment made to AK Enterprises	₹ 7,00,000 per annum

Assume that the stand-alone prices cannot be readily observed, so B3D makes estimates maximizing the use of observable information of the lease and non-lease components as follows:

Lease component for 3D printer	₹ 8,00,000 per annum
Maintenance component for 3D printer	₹ 2,00,000 per annum
Total payment made to AK Enterprises	₹ 10,00,000 per annum

B3D has not opted for the practical expedient option regarding the lease and non-lease component.

Multiple Choice Questions

1. Which type of disruption does the introduction of 3D printing in the real estate sector represent?

   (a) Low end disruption

   (b) New market disruption

   (c) competitive disruption

   (d) Generic disruption

2. From the case scenario, which stage of startup is B3D in and what is the value proposition match has it achieved?

   (a) Pre-start up stage with problem-market FIT stage

   (b) Pre-start up stage with problem-solution FIT stage

   (c) Start up stage with product-market FIT stage

   (d) Start up stage with scale-FIT stage

3. B3D is considering its strategy for inventory management. Given the information in the case study about the lead times, availability of suppliers and negotiating powers with suppliers, which of the following inventory management methodologies can the company follow for these products?

   (a) Just in Time Purchasing for all construction materials like bricks and glass, cement and steel.

   (b) Just in Time Production for all construction materials like bricks and glass, cement and steel.

   (c) inventory to stock for materials like bricks and glass and Just in Time Production for construction materials like cement and steel.

(d) Inventory to stock for construction materials like cement and steel while Just in Time purchasing for materials like bricks and glass.

4. The net present value of the project in Pune using the certainty equivalent technique shall be approximately

(a) ₹ 3.35 crores

(b) ₹ 2.60 crores

(c) ₹ 4.07 crores

(d) ₹ 5.00 crores

5. What will be the allocation of consideration paid by B3D for the lease and non-lease component against the contract with AK Enterprises for 3D printer?

(a) Lease component ₹ 6,00,000 per annum and non lease component ₹ 1,00,000 per annum

(b) Entire payment of ₹ 7,00,000 per annum as lease component as B3D has not opted for practical expedient regarding the lease and non lease components

(c) Lease component ₹ 8,00,000 per annum and non lease component ₹ 2,00,000 per annum

(d) Lease component ₹ 5,60,000 per annum and non lease component ₹ 1,40,000 per annum **(5 x 2 = 10 Marks)**

Descriptive Questions

6. What are the tax implications for B3D due to the non-deduction of TDS on payments made to Pathway Consulting GMBH? Additionally, is there any interest liability for failing to deduct TDS? **(5 Marks)**

7. B3D wants to ensure that its business model has a competitive advantage over its rivals. DEVELOP Osterwalder's Business Model Canvas to help the management understand the key elements of its business model. **(5 Marks)**

8. ADVISE the appropriate accounting treatment for the research and development costs incurred by Bhavna to make construction process more efficient that will consequently result in future cost savings. **(5 Marks)**

CASE STUDY 2

An article singing paeans for India's space-tech start-ups appeared in *"The New York Times"* recently. The article underlined that India has become home to many such start-ups. It pointed out that space technology is fulfilling smaller-scale and commercial purposes like helping farmers in timely insurance of their crops. Space technology is also helping commercial fishing fleets in tracking their catch by sending images back to Earth. Satellites are bringing phone signals to country's remotest corners and are helping in operation of solar farms far away from India's megacities. It's also one of India's most sought-after sectors for venture capital investors. Space technology is at the forefront of humanity's next great leap expanding our presence beyond Earth while enhancing life on our home planet. By making in-space resources available on demand, we are not only enabling sustainable exploration but also unlocking new opportunities for innovation, commerce, and scientific discovery.

Start-ups are mushrooming in different sectors of India's economy as varied as education, health, agriculture, fintech, clean energy, electric vehicles, bio technology, waste management, food processing and even drones. *Economic Survey for year 2021-22* highlights that by capitalising on the digital infrastructure support, India has also emerged as one of the world's most vibrant destinations for start-up ecosystems. Start-ups are being envisioned as the spine of new India. In fact, India is home to world's third largest start-up eco system.

Agrofine is an ed-tech start-up incorporated as a private company in April 2022. The founders of start-up believe that some benefits are available to start-ups under income tax law. However, they are unaware about nitty-gritty of the same as they are from engineering and management backgrounds. The company had launched its products in year 2024-25 itself and had a turnover of ₹ 20 crores. It is recognized by DPIIT (Department for Promotion of Industry and Internal Trade under Ministry of Commerce and Industry) and holds a certificate of eligible business and is recognized as a technology driven start-up by competent authority.

Agrofine's vision is to help farmers with space & science and to accelerate humanity's expansion into space by making in-space resources available on-demand.

Agrofine's mission is make the earth a more vibrant and sustainable place to live in by ensuring education for all sects and to promote the higher standards of education and to revolutionizing space access by dramatically lowering costs.

Agrofine has issued shares to certain investors who are familiar with founders of this ed-tech start-up during year 2024-25. They believe in the business idea of founders of the company and have decided to invest money out of their own resources. These investors are wedded to idea of providing quality affordable education to all and promoting standards of education in the country. In this way, their ideological belief stands aligned with mission of founders of start-up.

The start-up Agrofine has issued equity shares having face value of ₹ 10/-per share to these individuals @ ₹ 50/-per share during year 2024-25. The fair market value of equity shares of start-up as on valuation date is ₹ 11/-per share. The existing paid up share capital of company is ₹ 1.50 crores. The company has not issued shares at premium anytime in past.

Agrofine is still in nascent stages. However, it has already launched its products and has entered a segment of the market. The market has a considerable potential for company's business to grow. Start-ups not only need finance but they also require favourable and conducive eco system to grow. It includes not only hand holding at time of germination of a business idea but also policy measures having a legislative backing. In India, relaxations and benefits have been provided to start-ups under various laws like under Income tax Act,1961 and Companies Act,2013.

Agrofine needs talented and skilled employees for its business. However, the company is not in a position to pay high cash salaries to attract and retain employees. It is, therefore, considering route of employee stock option plans (ESOPs). Employee stock option plans provide a chance to employees to become shareholders in the company and also be benefitted by its future growth. The company plans to draft an ESOP scheme containing matters relating to grant of option, vesting period and manner of determining exercise price among others. The company is approaching many talented persons for assuming various senior roles in its organizational set-up. One such senior person, Mr. X, has shown interest in joining the company. However, he is sceptical regarding income tax implications pertaining to ESOPs. He has a doubt that it may lead to withholding of tax by start-up impacting his immediate "in-hand" salary.

Agrofine purchased a patent right in April, 2022, for ₹ 3,00,000, which has a legal life of 15 years. However, due to the competitive nature of the product, the management estimates a useful life of only 5 years. Straight-line amortisation is determined by the management to be the best method. As at 1st April, 2023, management is uncertain that the process can actually be made economically feasible, and decides to write down the patent to an estimated market value of ₹ 1,50,000 and decides to amortise over 2 years. As at 1st April, 2024, having perfected the related production process, the asset is now appraised at a value of ₹ 3,00,000. Furthermore, the estimated useful life is now believed to be 4 more years.

Company has recently developed a Soil & Water Diagnostic equipment, AgriSense-20, featuring advanced environmental analysis Instruments for soil testing, water pH evaluation and indicate the presence of dissolved salts or minerals. The company projects a total profit of ₹75,000 from the first 256 equipments produced. The first equipment required 112.50 hours to manufacture, with a labor rate of ₹20 per hour. A 90% learning curve is expected to apply indefinitely, improving efficiency as production scales. This efficiency gain will play a crucial role in making soil and water analysis more accurate and accessible, aligning with Agrofine's mission to drive sustainable agricultural and environmental solutions. With the AgriSense-20 equipment, Agrofine takes another step toward pioneering the next generation of precision farming, empowering farmers and researchers with cost-effective and reliable diagnostic tools for improved resource management.

Agrofine is planning to merge another start-up company engaged in similar line of activity to increase its size, revenue and scalability. However, founders of the company are clueless regarding modalities of the same under relevant laws. Valuation of start-ups is often required for bringing in investments. The value of a start-up is dependent upon its future growth prospects. It is also quite likely that such a business idea has never been tested before. It only lies in realms of future. Another problem in start-up valuation is totally new or non-comparable business products and strategies. Start-ups also depend upon many rounds of funding. Agrofine may also approach another set of investors in further rounds of funding. It is actively exploring multiple avenues for funding to support its growth and business expansion. Agrofine is also planning to approach venture capital (VC) funds, which specialize in providing financial support to high-growth startups with significant market potential.

Multiple Choice Questions

1. From the description given in case study relating to finance brought by individuals from their own resources and whose belief in promoting affordable education to all in the country and also improving its standards is aligned with mission of founders, which type of financing for a start-up is being referred to?

   (a) Bootstrapping

   (b) Venture capital financing

   (c) Funding by angel investors

   (d) Factoring

2. The founders of Agrofine believe that some benefits are available to start-ups. Considering the description provided in case study, which of the following statements is in accordance with provisions of income tax law?

   (a) Company is eligible to deduction @ 75% of its profits from eligible business for any 5 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by Inter-Ministerial Board for Certification.

(b) Company is eligible to deduction @ 100% of its profits from eligible business for any 3 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by Inter-Ministerial Board for Certification.

(c) Company is eligible to deduction @ 75% of its profits from eligible business for any 5 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by CBDT.

(d) Company is eligible to deduction @ 100% of its profits from eligible business for any 3 consecutive years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by CBDT.

3 As regards doubt of Mr. X regarding withholding tax in relation to ESOPs is concerned, which of the following statements is most appropriate?

(a) Income tax would be withheld at rates in force when option is exercised and shares are allotted to Mr. X.

(b) The company is an eligible start-up holding certificate of eligible business. Income tax would not be withheld when option is exercised and shares are allotted to Mr. X as such transactions are exempted from withholding tax in case of eligible start-ups.

(c) The company is an eligible start-up holding certificate of eligible business. However, such start-up is allowed to defer withholding tax when option is exercised and shares are allotted to Mr. X. It is deducted in required manner after expiry of certain timelines and/ or happening of certain events.

(d) Income tax would be withheld when option is granted. Such withholding tax would be deducted at the rates in force at time option is granted to Mr. X.

4. The start-up is planning merger with another start-up engaged in similar activities. Which of the following statements is in line with provisions of law regarding proposed merger of these start-ups?

(a) It requires filing of proposed scheme with NCLT and final order in respect of merger is made by NCLT after following a detailed procedure.

(b) It involves giving notice of proposed scheme to Registrar and Official Liquidators and approval of scheme by both the companies. After approval of scheme by creditors, the scheme is approved by Registrar of Companies.

(c) It involves giving notice of proposed scheme to Registrar and Official Liquidators and approval of scheme by both the companies. After approval of scheme by creditors, the scheme is filed with Regional Director, Registrar and Official Liquidators. The scheme is finally registered by Regional Director.

(d) It requires filing of proposed scheme with NCLT and final order in respect of merger is made by NCLT after following a fast-track procedure.

5. Which of the following is not a factor to be considered for valuing a start-up like Agrofine?

(a) Past performance indicators

(b) Educational background of founders

(c) Uniqueness of product launched by start-up

(d) Traction **(5 x 2 = 10 Marks)**

Descriptive Questions

6. Determine the value of the intangible asset i.e. patent right, as of the financial year ending 31st March, 2025. Consider factors such as amortization, impairment, market valuation, and any relevant financial adjustments that may impact its final valuation. **(5 Marks)**

7. Explain the different stages of Venture capital funding and also state an indicative Risk Matrix along with period and activity to be financed during each of these stages.

(6 Marks)

8. For the developed Soil & Water Diagnostic equipment,

i. What will be the total labour cost for the first 256 equipments produced at 90% learning curve effect?

ii. What should be the revised labour cost required to achieve zero profit, and at revised labour cost what will be the cumulative average time (Revised) required per equipment for producing 256 equipments? **(4 Marks)**

CASE STUDY 3

Shakti Agrochemical Limited (SAL)

Shakti Agrochemical Limited (SAL) is engaged in the business of producing agrochemical chemicals, specializing in fertilizers. Known as the Crop Nutrition Business (CNB) the company has a portfolio of 20 products offering different grades of fertilizers for different requirements of farmers. Crop nutrition is an important part of any farming activity as it has a direct impact on productivity and sustainability. An active management of micro and macro nutrients is required to ensure that the crop yield is maximized. Maximizing crop yield has become a significant global challenge due to the food requirement demands of a growing population. Hence, companies like SAL need to provide top grade fertilizers in order to ensure that farmers can maximize the crop yield from their farming activity.

Government grants

SAL carries out various projects with government's financial assistance. It received two grants of ₹ 5 crores each in April 2024 for ongoing research and development initiatives. The first unconditional grant pertains to research on "Soil degradation due to misuse of fertilizers", focusing on the long-term effects of excessive fertilizer use, such as soil acidification, hardening, and pollution in a designated agricultural belt in Punjab. However, as of March 31, 2025, no major steps have been taken to commence this research. The second grant supports the commercial development of crop-specific nutrition solutions, designed to provide tailored nutrients based on crop variety and growth stage to enhance yield and meet the country's food requirements. SAL is confident in the technical feasibility and financial viability of this research, with the product expected to be available for sale by April 2026. Additionally, in September 2024, an earthquake led to a complete production loss at one of SAL's factories, forcing a two-month shutdown. The state government introduced a compensation package for affected manufacturing entities, entitling SAL to claim compensation based on the average sales of the preceding three months. To avail of this relief, SAL must submit an application with the necessary figures by May 30, 2025. However, by the time SAL's financial statements were adopted on May 31, 2025, the claim form had not yet been submitted.

Development of customized micronutrient mixture fertilizers for specific crops

After considerable research, SAL developed customized micronutrient mixture fertilizers that are designed to meet specific needs of certain soil type and crop variety. These are specialized fertilizers made by enriching mixing and blending fertilizers along with the crop or soil specific nutrient requirements. They promote growth of healthy crops and enhance soil nutrition. In recent years, in order to improve crop yield and soil productivity, there has been a lot of research and development done on such specialized fertilizers. They are not covered under any government subsidy scheme. The manufacturer can fix the Maximum Retail Price (MRP) and can also offer discounts as needed.

Recently, SAL has introduced 3 new grades of such fertilizers in the market. All three grades can be primarily used for growing vegetables. SAL has decided to test the market by launching these products in a limited scale.

After the end of the financial year in April 2025, the sales manager Mr. Ray looked up the sales volume report. The SAL had sold 11,000 units of all 3 grades put together during the year, this was more than the budget of 10,000 units for the period. Mr. Ray planned to mention this in his annual performance assessment report in order to get a good bonus for the year. He approaches Mr. Bose, the management account of the company, to help him analyse the sales performance.

The budget for the year 2024-25 projected sales of 2,000 kg for Grade 1, 3,000 kg for Grade 2, and 5,000 kg for Grade 3, totaling 10,000 kg. The average selling price per kg was set at ₹ 500 for Grade 1, ₹ 300 for Grade 2, and ₹ 200 for Grade 3. The direct material cost per kg was budgeted at ₹ 150, ₹ 100, and ₹ 75 for Grades 1, 2, and 3, respectively, while the direct labour cost was projected at ₹ 100, ₹ 60, and ₹ 75 per kg for the three grades. Variable overhead costs were expected to be ₹ 50 per kg for Grade 1, ₹ 40 per kg for Grade 2, and ₹ 10 per kg for Grade 3.

In contrast, actual sales for the year stood at 2,500 kg for Grade 1, 3,100 kg for Grade 2, and 5,400 kg for Grade 3, bringing the total to 11,000 kg. The average selling price per kg realized was ₹ 450 for Grade 1, ₹ 280 for Grade 2, and ₹ 180 for Grade 3. Direct material costs per kg increased to ₹ 170 for Grade 1, ₹ 120 for Grade 2, and ₹ 95 for Grade 3. Meanwhile, direct labour costs remained consistent with the budget at ₹ 100, ₹ 60, and ₹ 75 per kg for Grades 1, 2, and 3, respectively. Similarly, variable overhead costs remained unchanged at ₹ 50, ₹ 40, and ₹ 10 per kg for the respective grades.

The main sales responsibility of Mr. Ray is restricted to these grades of fertilizers. Due to the novelty of these products, the management of SAL decided not to stock up the products as inventory as they want to first test the demand and market conditions. Rather for these products alone, SAL follows Just in Time system for purchasing and production and does not hold any inventory. Mr. Ray co-ordinates as an intermediary with the whole sale dealers in various regions and SAL's production department. Mr. Ray is not in charge of any other function or operation of the manufacturing process.

Sales campaign of customized micronutrient mixture fertilizers for specific crops

The above grades Grade 1, Grade 2 and Grade 3 are of a variety of fertilizers that can substitute one another based on the requirements of the farmer. SAL launched a sales and marketing campaign through social media that helped them reach out to farmers directly all across the country. This campaign was spearheaded by Mr. Ray. This was done to understand how product pricing can impact sales of each of these grades. Since the products are similar, SAL expects the product price to play a primary role in generating sales. As a threshold for analysis, the company considers a product to be price sensitive only if there is an impact of 5% of sales volume due to a change in price.

During the campaign, SAL offered slightly higher discounts on bulk purchases beyond a certain limit. This helped spur the sales volumes. The additional discount policy was not factored in the budgets. The campaign also helped SAL overcome the problem of good sales personnel who have been hard to find in the recent past. There have been times when there is a sudden spike in demand for a particular grade of fertilizer since the conditions to grow and sell that crop is favourable in that season.

Combined with a successful sales and marketing campaign that spurred sales volume, the procurement department had to procure the raw material from the open market at prevailing prices. Generally, the current prevailing market prices are higher than that agreed with the JIT supplier partners.

Educational and promotional campaign for effective use of fertilizers

Crop yield can be maximized only if the farmers use the fertilizers effectively. There is not much awareness about customized micronutrient mixture fertilizers. The above-mentioned grades of customized micronutrient mixture fertilizers have the potential to improve agricultural productivity of farmers. SAL's management expects the demand for such customized mixture fertilizers to increase in future. Hence it was important to promote the potential such products, educate and spread awareness about them among farmers and agriculturalists.

Sales campaigns such as those above have been helpful in generating preliminary interest in these products. They are more temporary and seasonal in nature. Proper awareness about the application techniques of these fertilizers would generate more regular sales. This requires SAL to be able to connect even better with the farmers by educating them and making them aware about these products. With this in mind, the company bought a plot of agricultural land, which was used exclusively to showcase fertilizer application techniques for farmers. By being able to understand firsthand from the experts at SAL, the farmers can better understand the potential benefits of these fertilizers. These promotional events are held almost all year round, where depending on the season, fertilizers can be customized to suit the crop that requires it. After gaining adequate knowledge, many farmers who attend such events buy such customized fertilizers from the stalls in such events, based on their requirements. No actual agricultural production occurs on this land.

Financial performance

As of 31st March 2025, SAL has a share capital of ₹5 crores; reserves and surplus of ₹4 crores; long term debt of ₹16 crores; trade payables of ₹0.2 crores. SAL has demonstrated strong financial performance by achieving a profit before interest and tax (PBIT) of ₹9 crores; Interest paid for the financial year is ₹1.12 crores. The corporate tax rate is 30%; the cost of equity is 12.50% and the cost of debt is 4.9%.

To effectively evaluate the company's financial performance and make informed investment decisions, SAL utilizes the weighted average cost of capital (WACC) as a key metric. At all times, the management wishes to keep the average cost of financing the company's operations across all sources of capital (debt and equity) to be below 10%.

Regulatory scrutiny: Refer Annexure 1

Out of the 20 products in its portfolio, SAL sells 3 products that have a red label and 2 products that have a yellow label. Such products generate higher margins and thus far they have contributed around 25% of SAL's annual revenue. Central Insecticide Board (CIB) has periodically raised queries and investigations about these products in the recent years. Due to the increased scrutiny of these harmful products, SAL's management has decided to gradually phase out them from its portfolio. On stopping their production, the revenue is likely to fall by at least 25% in the short term. Meanwhile, SAL plans to invest in R&D to develop more environmentally safe products. PAL which is a competitor of SAL in the same industry also derives around 30% of its annual revenue from sale of red and yellow labelled products. CIB has recently launched an investigation into these highly toxic products that PAL is manufacturing. Yet PAL, on account of them being high margin products, plans to increase its production of these products despite regulatory concerns of imposition of a ban in the near future. PAL expects revenues to grow by at least 10% in the coming year.

Merger with Unlimited Urea Limited (UUL): Refer Annexure 2

SAL (transferee company) decided to acquire UUL (transferor company) by acquiring its shares via a process of takeover under section 235 of the Companies Act, 2013. SAL prepared a scheme by which an offer was made to the shareholders of UUL. The offer was made on 1st August 2024. The offer has remained open for 4 months and was approved by shareholders having 92% value of the shares. Subsequently, SAL gave notice to the remaining dissenting shareholders that it desires to acquire their shares. Such notice was given on 5th January 2025. Certain dissenting shareholders made an application to the Tribunal that acquisition of their shares should not be permitted. However, the application was dismissed by the Tribunal. Hence, SAL acquired shares of 5% of the dissenting shareholders (out of the balance 8%). The shareholding of the remaining 3% shareholders continued to remain with the dissenting shareholders.

Annexure 1

State Times

Hidden Dangers of Agrochemicals

Jaipur, 21st February 2025 – A bountiful harvest, at affordable prices is the need of the hour to feed the world's growing population. Enter agrochemicals, in particular chemical fertilizers and pesticides which have ensured higher crop yield. Chemical formulations are precise and deliberate, depending on the intended use, and they are relatively cost effective. This has helped farmers across the globe get better control over their crop production. In the short-term farmers can produce more and higher quality crops. However, excessive usage of these fertilizers erodes soil health in the long run. They can seep into groundwater and other water sources leading to contamination, which can be toxic in the long run. Greenhouse gases emitted during the production of nitrogen fertilizers have had a profound impact on climate change and caused immense biodiversity losses.

Human health issues also crop up as due to the use of fertilizers, crops are not as nutritious as they should be. It also increases the risk of developing cancer in adults and children. The nervous, endocrine and immune systems are severely affected by their usage, especially with that of pesticides. Many other health issues have been highlighted by medical fraternity over the past few decades.

The recent months have seen a lot of public outcry and debate over the excessive use of fertilizers in India. There has been increasing pressure on the government to force companies to label their products based on their toxicity. Due to the profound, sometimes adverse impact that agrochemicals (including fertilizers) can have on human health and other natural resources, the Central Insecticide Board (CIB) has categorised agrochemical toxicity levels based on a labelling system – using red, yellow, blue and green labels – where red is the most toxic while green is the least toxic. In addition, to prevent counterfeit products companies are adding barcode or other identifying technologies to identify their product packaging.

Red-labelled products have come under a lot of scrutiny in recent years following public outcry about their harmful effects. The regulatory authorities are severely curtailing the use of these products and are also gradually bringing restrictions for the yellow labelled products as well. It is very likely that they will be banned in the near future as per ESG guidelines. All packages carry labels to help users identify their toxicity level. Despite this certain companies are increasing production of such products since they are highly profitable to them.

Annexure 2

The Chronicle

Shakti Agrochemicals Limited to Acquire Unlimited Urea Limited in a ₹ 1,000 Crore Deal

Jaipur, 2nd September 2024 – Unlimited Urea Limited (UUL) to change hands by sale of unit to Shakti Agrochemicals Limited (SAL). Unlimited Urea Limited (UUL) based at Gadepan in Kota district of Rajasthan, is set to change hands with the company revealing sale of its entire business to Shakti Agrochemical Limited (SAL) for a total consideration of ₹ 1,000 crores.

The company disclosed the information as part of the mandatory disclosure to the stock exchanges, the BSE and the NSE, under Regulation 30 of SEBI (listing obligations and disclosure requirements) Regulations, 2015. The disclosure states that the board of directors at its recent meeting granted in-principal approval for the sale of its business to SAL. The agreed consideration value is expected to be ₹ 1,000 crores. The notice adds that the sale is subject to approval from shareholders, other regulatory and statutory approvals and financial due diligence.

The acquisition is of particular interest since the Government of India had announced New Investment Policy (NIP) to facilitate fresh investment in the urea sector and to make India self-sufficient in the urea sector. SAL is a well-established player in the fertilizer industry, its portfolio includes both chemical and organic fertilizers and crop nutrition solutions. The acquisition of the urea business of UUL will give a fillip to unlocking value within its business. Recent geo-political tensions have led to supply chain disruptions and sent price of raw materials including that of urea skyrocketing. Having a captively owned urea manufacturing unit will help it mitigate risks of supply chain disruptions and price fluctuations.

Multiple Choice Questions

1. Which of the following statements are true?

   (i) One of the reasons for actual material procurement to be higher than the budget is on account of SAL following JIT procurement which had to cater to higher than anticipated demand due to a successful marketing campaign by SAL.

(ii) Mr. Ray is solely responsible for the contribution generated from sale of each grade of fertilizer.

(iii) JIT production system may not always be suitable since there have been instances of sudden spike seasonal demand for certain products depending on the seasonal conditions for growing crops. Production department may not be able to account for this in their annual planning exercise.

(iv) JIT procurement of raw materials is suitable since production is also done on a just in time basis.

Options:

(a) (i) and (iii)

(b) (i), (ii) and (iii)

(c) (i), (iii) and (iv)

(d) (ii), (iii) and (iv)

2. Referring to sale of highly toxic red and yellow labelled products, which of the following should be the consideration by the auditors of SAL and PAL in the audit of the financial statements?

(i) Auditors of SAL and PAL need to obtain audit evidence regarding compliance with laws and regulations and audit procedures have to be designed accordingly.

(ii) Auditors of SAL and PAL do not need to obtain audit evidence regarding compliance with laws and regulations since these products are not explicitly banned in India.

(iii) Auditors of PAL need to keep in mind SA 250 where non-compliance with laws and regulations may result in fines and litigations or other consequences that may have a material effect on the financial statements.

(iv) Auditors of SAL need to be concerned about the phase out of these products that can impact revenue negatively by 25%. In addition, the company plans to invest in R & D to develop environmentally safe products despite losing revenue following this decision.

Options:

(a) (i) and (iv)

(b) (ii) and (iv)

(c) (i) and (iii)

(d) (ii), (iii) and (iv)

3. Based on the sales variance analysis, which product(s) should the management prioritize for future discounts to maximize sales volume while ensuring continued profitability?

   (a) Grade 1 and Grade 2 since they both have increased sales volumes as well as positive net contribution

   (b) Grade 1 and Grade 3 since they both are price sensitive, given the 5% threshold for analysis as considered by the company.

   (c) Grade 1, Grade 2 and Grade 3 since the volume increased in all the cases for the discount that was given

   (d) Grade 1 only as that is the only product that is both price sensitive as well as has the capability of yielding positive contribution due to high margins.

4. Which of the following statements would be true regarding the takeover of UUL by SAL?

   (a) The takeover of UUL by SAL is valid as the Tribunal dismissed the application made by the dissenting shareholders.

   (b) The takeover of UUL by SAL is invalid as even after the Tribunal dismissed the application made by the dissenting shareholders, UUL acquired the shares of only 5% out of the total 8% dissenting shareholders.

   (c) The takeover of UUL by SAL is valid as shareholders having 92% of shareholding value gave approval to the offer and this was done within 4 months of receiving the offer from SAL.

   (d) The takeover of UUL by SAL is invalid as shareholders having 8% of the shareholding value have dissented to the takeover and they cannot be legally bound to surrender their ownership to SAL.

5. How should SAL's income from the sale of such customized micronutrient mixture fertilizers at these stalls be classified under the Income Tax Act, 1961?

   (a) The income qualifies as agricultural income because SAL acquired agricultural land to promote awareness of fertilizer usage in farming.

   (b) The income qualifies as agricultural income only if SAL's fertilizers are applied on the acquired land for agricultural production.

   (c) The income does not qualify as agricultural income and is taxable as business income under "Profits and Gains of Business or Profession," despite acquiring agricultural land.

   (d) The income can be partially considered agricultural if the fertilizers sold by SAL are used by farmers trained on the acquired land. **(5 x 2 = 10 Marks)**

Descriptive Questions

6. ADVISE the appropriate accounting treatment, if any, for the two grants received and the earthquake-related compensation in the books of accounts of SAL as at March 31, 2025.

   (5 Marks)

7. PERFORM a detailed variance analysis of the budgeted and actual contributions. Include a comprehensive breakdown of all elements causing the variances, such as volume differences, variations in selling prices, changes in cost structures, and the impact of discounting strategies. **(5 Marks)**

8. EVALUATE SAL's financial performance based on the given data. **(5 Marks)**

CASE STUDY 4

JayZee Ltd.

Indian automotive industry is a cornerstone of the nation's economy, contributing around 7.1% to the GDP and nearly 49% to the manufacturing GDP. In the fiscal year 2020-2021, the industry produced over 22 million vehicles, including passenger cars, commercial vehicles, and two-wheelers. The two-wheeler segment dominates the market, with over 80% of the total automotive sales. In the same period, India exported approximately 4.5 million vehicles, showcasing its growing influence in the global automotive market. The government aims to make India a hub for electric vehicles (EVs), targeting a 30% EV adoption rate by 2030. This ambitious goal is supported by policies such as the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME) scheme, which allocates significant funds to boost EV infrastructure and adoption.

Raj Malhotra, founder of JayZee Ltd. , a leading manufacturer of automotive spare parts, envisioned the company's potential during one of his visits to the USA. In 1998, he anticipated the forthcoming boom in the Indian automotive industry, particularly from 2011 to 2020. Foreseeing this growth, he decided to establish JayZee Ltd. to provide high-quality and affordable spare parts for the Indian market. The company is based in Gurgaon, Haryana, with manufacturing facilities in Uttarakhand and Uttar Pradesh strategically located to leverage government benefit schemes.

Over the years, JayZee Ltd. has expanded its product range to include various components such as engine parts, brake systems, suspension systems, electrical components, and more. The company has a state-of-the-art manufacturing facility spread over 20 acres, equipped with advanced machinery imported from Germany and Japan. JayZee Ltd. employs over 1,000 skilled technicians, engineers, and support staff dedicated to maintaining the highest standards of quality. JayZee Ltd.'s commitment to quality has earned it a reputation as a trusted supplier among domestic and international customers. The company follows stringent quality control measures adhering to international standards like ISO 9001, TS 16949, and IATF 16949, ensuring its products meet stringent performance, safety, and environmental regulations. While Raj Malhotra provided the technical vision, his sons Arjun and Karan, have been instrumental in driving the company's financial strategy and decision-making processes. Their astute financial acumen and business insights have played a crucial role in JayZee Ltd.'s growth and expansion plans.

In addition to the domestic market, JayZee Ltd. has a strong global presence, exporting to over 30 countries across Asia, Europe, Africa, and North America. Major export destinations include the UAE, Saudi Arabia, South Africa, Germany, USA, and Canada. The company has established robust distribution networks and partnerships in these regions. In line with the government's vision, Raj Malhotra knows that the next decade, from 2021 to 2030, will be a boom period for the EV market in India. He foresees this due to the recent government push towards Atmanirbhar Bharat with its Production Linked Incentive (PLI) Scheme and the global shift towards India as part of the China Plus One strategy. This strategy essentially means that companies do not want all their manufacturing footprint in China due to geopolitical tensions. Additionally, the fast acceleration towards EVs is driven by climate and sustainability strategies of companies.

To meet the burgeoning demand, JayZee Ltd. has implemented aggressive expansion plans, including the construction of two new state-of-the-art manufacturing units in Gujarat and Tamil Nadu. The company has also invested heavily in R&D, collaborating with leading automotive engineering institutes to develop innovative products using advanced materials and cutting-edge technologies.

Apr'2023 Begining

To support the company's strategic objectives, JayZee Ltd. relies on its skilled workforce, who are considered as the backbone of the organization. In order to foster long-term loyalty and engagement, the company is offering Employee Stock Ownership Plans (ESOPs) to its employees. As the company achieves its earnings targets, shares will vest, granting employees ownership in the company. JayZee Ltd. grants 100 shares to each of its 500 employees on 1st April, 2023. The employees should remain in service during the vesting period. Annexure 1 containing Terms and Conditions of Employee Stock Option Plan has been approved by the shareholders of JayZee Ltd. passing a special resolution.

JayZee Ltd.'s success is attributed to its strong leadership team, employee-friendly policies, continuous training programs, and a culture that fosters innovation. The company provides competitive compensation, growth opportunities, and a positive work-life balance, resulting in high employee satisfaction and low attrition rates. Despite challenges like increased competition, fluctuating raw material prices, and regulatory changes, JayZee Ltd. has maintained a steady growth trajectory with consistent profitability and a strong balance sheet.

Guided by Raj Malhotra's principles and the financial expertise of his sons, Arjun and Karan, JayZee Ltd. Ltd thrived under the directors' unwavering dedication and the collective efforts of its team. As JayZee Ltd. looked towards the future, the directors' global vision and local roots served as a powerful combination, propelling the company's success in the competitive automotive spare parts industry.

JayZee Ltd. is focused on enhancing its manufacturing processes and assessing the efficiency of its operations in relation to their full potential, while also identifying areas of loss. The company has a state-of-the-art production facility that operates in two shifts of 9 hours each, for 6 days a week. Under the leadership of Raj Malhotra, the founder, and his sons Arjun and Karan, the company emphasizes efficiency and productivity in its operations. One of JayZee Ltd.'s critical production lines, responsible for manufacturing essential spare parts, has been closely monitored by the team. Over the last 4 weeks, the following details have been collected for one of their important equipment: Lunch break is 30 mins and other miscellaneous breaks add up to 15 minutes; Hours for Planned Preventive Maintenance is 15 minutes per shift; For Breakdown Maintenance is 6 hours total; Set up Changes require 14 hours in total; Power Failure is 4 hours in total; Standard Cycle Time per piece is 3 minutes; No of Parts Produced per shift are 140; and Parts Accepted per shift are 131.

Year Ended Mar 2024

In an effort to build long-term loyalty and enhance employee engagement, the company introduced Employee Stock Ownership Plans (ESOPs) in 2023. The ESOPs were designed to provide employees with a direct stake in the company's growth and success. By offering employees the opportunity to become shareholders, the company aims to foster a culture of ownership, where every team member has a vested interest in the organization's performance and outcomes. One year has now elapsed since the implementation of the ESOPs. The program has proven to be an effective way to show appreciation for the hard work of employees and to build stronger ties between the workforce and the company.

At the end of FY 2023-24, earnings is 11%, and 29 employees left the organisation. The company expects that the shares will vest at the end of March 2025 subject to earnings target achieve. The company also expects that an additional 31 employees will leave the organisation in the FY 2024-25 and that 440 employees will receive their shares at the end of the FY 2024-25.

JayZee Ltd., has always been proactive in capitalising on strategic opportunities for growth and diversification. Under the astute leadership of Raj Malhotra, the founder, and his sons, Arjun and Karan, the company has consistently made sound investment decisions to strengthen its position in the market.

JayZee Ltd. acquired a building from Moon Ltd, another reputed manufacturing company, for a cost of ₹10 million on 1st April, 2020. The building, which Moon Ltd had previously used as a factory, was accounted for under the cost model. At the time of acquisition, JayZee Ltd.'s management, guided by their financial advisors, estimated the building's expected useful life to be 10 years.

Initially, JayZee Ltd. had plans to repurpose the building and integrate it into their expanding operations. However, a few years down the line, the company faced a significant decline in demand for one of its product lines. As a result, the need for an additional factory became redundant. Recognizing the opportunity to generate alternative revenue streams, Arjun and Karan, known for their strategic foresight, proposed renting out the building to a third party. On 1st April, 2024, after conducting a thorough market analysis and obtaining necessary approvals, JayZee Ltd. successfully leased (in an operating lease agreement) the building to a reputable tenant, ABC Industries.

At the time of leasing, JayZee Ltd.'s valuation experts assessed the fair value of the building to be ₹8 million, reflecting the current market conditions and the building's condition. In accordance with the company's accounting policies, JayZee Ltd. adheres to the cost model for recognizing its owned investment properties.

With Arjun and Karan's strategic guidance, JayZee Ltd. is well-positioned to capitalise on emerging trends and maintain its leadership in the automotive spare parts industry. At the helm of JayZee Ltd. were three dynamic directors - Mr. Rajesh Sharma, Mr. Anil Gupta, and Ms. Priya Mehta. These directors were globetrotters, frequently travelling abroad to develop and secure sustainable business opportunities for JayZee Ltd. From exploring new markets to forging strategic partnerships, they left no stone unturned in their pursuit of growth. Despite their global pursuits, the directors remained deeply rooted in Gurgaon, understanding the importance of maintaining a strong presence at the company's registered office for legal compliance and organizational stability.

Mr. Raj Malhotra, is dedicated to developing and securing sustainable business opportunities while exploring new markets and forging strategic partnerships. His recent business tour took him to North America, where he visited the USA and Canada to identify potential business ventures. After 4 months, Mr. Raj is now preparing to return to India. During his stay abroad, he acquired various items and, being a responsible citizen, he is mindful of the customs regulations. He sent an email (Annexure 2) to Mr. Sanjay, Finance and Taxation head to sought guidance his guidance, who is well-versed in legal and financial matters.

Year Ended Mar 2025

Gumber & Associates has been appointed as Statutory Auditor for JayZee Ltd. for the financial year 2024-25. With a strong track record of excellence, Gumber & Associates has experience in auditing and tax advisory services, ensuring the highest standards of financial oversight and compliance. The firm has earned a stellar reputation for its meticulous attention to detail, in-depth knowledge of regulatory frameworks, and a proactive approach to addressing complex financial and tax matters.

It has already been two years lapsed since the launch of ESOP 2023. At the end of FY 2024-25, the company's earnings is 19%. Therefore, the shares did not vest, only 29 employees left the organisation during second year. Company believes that additional 23 employees will leave during the third year and earnings will further increase so that the performance target will be achieved in FY 2025-26.

Additionally, it's important to note that JayZee Ltd. has consistently maintained high standards of corporate governance and regulatory compliance, as overseen by Arjun and Karan. The company's financial statements are audited annually by a reputed firm, ensuring transparency and adherence to accounting principles. In a significant strategic move, JayZee Ltd. was considering expanding its market reach through acquisition of BM Autos Ltd., a company renowned for its strong foothold in the global automotive sector. Arjun and Karan, with their financial expertise, meticulously analysed the acquisition's potential benefits. They anticipated that the combined resources and expanded market reach would significantly bolster JayZee Ltd.'s position in the industry. This strategic acquisition was not just about expanding market presence but also about integrating innovative technologies and best practices from BM Autos Ltd. into JayZee Ltd.'s operations. JayZee Ltd.'s shares are currently traded at ₹ 20. The company has 25,00,000 shares outstanding and its earnings after taxes (EAT) amounted to ₹ 50,00,000. On the other hand, BM Autos Ltd. had 12,50,000 shares outstanding, with a current market price of ₹ 10. Its EAT was ₹ 12,50,000.

After extensive deliberation, BM Autos Ltd. agreed to be get acquired under which JayZee Ltd. would offer the current market value of BM Autos Ltd.'s shares in a stock swap exchange. This acquisition was seen as a strategic fit, enabling JayZee Ltd. to leverage BM Autos Ltd.'s robust market presence and enhance its competitive edge. The acquisition promised to enhance shareholder value, improve operational efficiencies, and foster a more resilient business model, well-equipped to navigate the complexities of the global automotive market.

JayZee Ltd. places a strong emphasis on its employees as key assets to the company, understanding that their well-being and professional growth directly contribute to the organization's achievements. For many years, JayZee Ltd. has consistently paid bonuses to its employees, recognizing the constructive obligation to reward their hard work and dedication.

JayZee Ltd. discovered that a provision for constructive obligation for payment of bonus to selected employees in the corporate office (material in amount), which was required to be recognized in the annual financial statements for the year ended 31st March, 2023, was not recognized due to oversight of facts. The bonus was paid during the financial year ended 31st March, 2024 and was recognized as an expense in the annual financial statements for the year 2024-25.

JayZee Ltd. has significantly expanded its global presence by acquiring a major stake in a Singapore-based company. During the financial year 2022-23, JayZee Ltd. acquired a 54% stake in SYD Pte Ltd. (SPL), marking its first subsidiary company. This move underscored JayZee Ltd.'s commitment to international presence and leveraging new market opportunities.

Mr. Rajesh Sharma, one of the dynamic directors at JayZee Ltd., was instrumental in this acquisition. His vision strengthening its for international expansion aligned perfectly with the company's growth strategy. Moreover, in the financial year 2024-25, his daughter, Sunita, who has been residing in Singapore for the past six years, was appointed as a director in SPL. Sunita's extensive experience in the region made her a valuable asset to SPL. She was appointed at a monthly remuneration of SGD 5082. (SGD 1 = INR 59). Sunita's appointment was a strategic decision aimed at ensuring strong leadership and effective governance at SPL. Her presence in Singapore facilitated smoother operations and stronger ties between JayZee Ltd. and its first international subsidiary. This expansion into Singapore not only broadened JayZee Ltd.'s market reach but also reinforced its position as a formidable player in the global automotive spare parts industry.

Gumber & Associates has worked with a wide range of industries, providing tailored auditing services that align with the unique needs of each client, and has a long history of successfully navigating intricate tax laws to deliver optimal solutions. The firm's commitment to quality is reflected in its robust internal processes and a team of highly skilled professionals who continually update their expertise to stay ahead of industry trends. CA. Krish, engagement partner, is concerned about the non-verification of physical inventory.

Management of JayZee Ltd. has not undertaken the physical verification of inventories at regular intervals. Inventories constitute 30% of the total assets of the company. Due to non-maintenance of adequate inventory records at the factory, audit team could not undertake the physical verification of inventory. Hence value of inventory as on 31st March, 2025 could not be verified.

Annexure: 1

JayZee Ltd.

(Regd. Office: JayZee tower, Gurgaon, Haryana)

JZ

Employees Stock Option Plan 2023

(Plan as approved by the Shareholders through Special Resolution)

1. **Name, Objective and Term of plan**

   1.1 This Employee Stock Option Plan shall be called Employee Stock Option Plan 2023 (“ESOP 2023” / “Plan”).

   1.2 The objective of ESOP 2023 is to reward employees for association, dedication and contribution to the goals of the Company.

   1.3 ESOP 2023 is applicable with effect from 1st April, 2023 on which the shareholders have approved the Plan by way of a special resolution and shall continue to be in force until earlier of:

   i. 31st March, 2026; or

   ii. The date all the options reserved under the Plan are granted and exercised; or

   iii. The date of termination, if any, of the Plan.

2. **Grant and Acceptance of Grant**

   2.1 **Grant of Options**: Each grant under this ESOP 2023 shall be made in writing by the Company to the eligible employees fulfilling the eligibility criteria in a Letter of Grant as may be approved under the ESOP 2023 from time to time.

   2.2 **Acceptance of the Grant**: Any employee who wishes to accept the Grant made under ESOP 2023 must deliver to the Company a duly signed acceptance of the Letter of Grant on or before the date (Closing Date) which shall not be more than 60 (Sixty) days from the date of the grant, as specified in the letter of Grant.

3. Vesting Schedule and Vesting Conditions:

Options granted under ESOP 2023 would vest as the company achieves its targets. The shares will vest at the end of

- First year- if the company's earnings is 15%;
- Second year- if the company's earnings is 23% over the two-year period;
- Third year- if the entity's earnings is 29% over the three-year period.

4. Fair value of option: The fair value per share at the grant date is ₹ 122.

Annexure: 2

Raj Malhotra/ Managing Director / JayZee Ltd.

From:	"Raj Malhotra" < rajmalhotra@jayzee.com >
Sent:	15th April 2024 10:00
To:	"Sanjay Kumar" < sanjay@jayzee.com >
Cc:	"Manik Paul" < paul@jayzee.com >
Subject:	Custom baggage's related
Attachments:	

CA. Sanjay,

Trust you are doing well!

After a productive 4 months business tour in the USA, I am now preparing to return to India. During my stay abroad, I have acquired a few personal items, and as a responsible citizen, I want to ensure that I comply with all customs regulations upon my arrival.

The following are the items I will be bringing back with me:

- Personal Effects items: ₹59,000
- 13-Inch Laptop: ₹37,000
- Jewellery (15 grams, purchased in the USA): ₹67,000
- Music System: ₹1,25,000

I would appreciate it if you could kindly guide me on the proper procedures and any applicable customs duties or exemptions, I should be aware of regarding these items.

Your expertise in finance and taxation matters would be greatly helpful in ensuring everything is in order for a smooth entry into India.

Thank you for your time and assistance. Looking forward to hearing from you soon.

Best regards,

Raj Malhotra

Multiple Choice Questions

1. JayZee Ltd. has previously intended to use the building for its business operations. However, due to changes in the business environment, the company leased the property to ABC Industries. Determine the value at which the investment property should be recognized and calculate the gain or loss to be recognised from the reclassification of the asset on 1st April, 2024.

   (a) ₹10 million and no gain or loss

   (b) ₹8 million and gain of 2 million

   (c) ₹4 million and loss of 2 million

   (d) ₹6 million and no gain or loss

2. You are required to compute the customs duty payable by Mr. Raj Malhotra with reference to the Baggage Rules, 2016, Assuming if the effective rate of customs duty is 38.50% inclusive of social welfare surcharge, while ignoring the Agriculture Infrastructure and Development cess.

   (a) ₹ 67,875

   (b) ₹ 43,320

   (c) ₹ 38,500

   (d) ₹ 54,670

3. Determine the amount of expenses to be recognized in the Statement of Profit and Loss at the end of second year in respect of options granted to employees under "ESOP plan 2023" as approved by the shareholders of JayZee Ltd.

   (a) ₹ 6,78,750

   (b) ₹ 7,23,867

   (c) ₹ 8,94,667

   (d) ₹ 7,46,703

4. JayZee Ltd aims to enhance its manufacturing efficiency and productivity by reducing breakdown losses and defective products. To achieve this, management seeks to assess Overall Equipment Effectiveness (OEE), a key metric for evaluating the performance of the manufacturing process. You are required to calculate 'OEE'.

   (a) 83.65%

   (b) 81.03%

(c) 81.87%

(d) 83.14%

5. Whether JayZee Ltd. was required to pass resolution with respect to appointment of Mrs. Sunita in SPL considering it to be a related party transaction?

   (a) No, as such appointment did not amount to appointment of Mrs. Sunita to an office or place of profit in SPL.

   (b) Yes, as Mrs. Sunita was a related party to JayZee Ltd. and she would be drawing a monthly remuneration exceeding ₹2.5 lakhs in its subsidiary company.

   (c) No, as even though Mrs. Sunita was a related party to JayZee Ltd., she would be drawing remuneration from SPL, its subsidiary company and not JayZee Ltd., itself.

   (d) No, as such provisions with respect to related party are not applicable in relation to a foreign subsidiary company. **(5 x 2 = 10 Marks)**

Descriptive Questions

6. You are required to analyse whether the situation relating to constructive obligation for payment of bonus is an error requiring retrospective restatement of comparatives, considering that the amount is material. **(4 Marks)**

7. (A) Referring to the merger transaction with BM Autos Ltd. in the case study, answer the following questions:

   (i) Determine the number of shares of JayZee Ltd, will be issued to the shareholders of BM Auto Ltd. as per the arrangement entered.

   (ii) Suppose if BM Autos Ltd.'s P/E ratio is 6.4, then what will be its current market price and what will be exchange ratio on this basis. Also determine JayZee Ltd.'s post-acquisition EPS.

   (iii) What should be the exchange ratio if JayZee Ltd.'s shareholders desire that pre-acquisition and post-acquisition EPS should remain the same?

   Note: - Round off your calculations upto 2 decimal points.

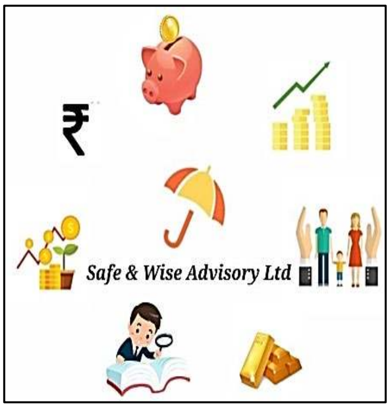
   (B) What is take over by reverse bid? **(5 Marks)**

8. How should auditors deal with the issues in the audit report of JayZee Ltd.? **(6 Marks)**

CASE STUDY 5

Safe and Wise Advisory Limited

Safe and Wise Advisory Limited (SWAL) is well established financial planning & risk advisory firm of the country with nation-wide presence. SWAL is engaged in selling third party products be it financial products or insurance products (life assurance only). Financial advisory business of SWAL is doing well and contributing to the half of gross revenue of group and two-third of overall group's bottom line, but insurance brokerage business is not performing as per expectation. 'Independent and impartial advice' to client is unique selling point of SWAL.



SWAL was established by Mr. Ravi Verma around two decade ago (when life-assurance business goes private), at then it was one division business i.e. assurance brokerage business. Mr. Ravi Verma is dynamic leader and presently leading the company as CEO, apart from being major shareholder of the company.

SWAL is widely acknowledged in market for two distinct features, first being presence wide across the nation, in form of 'sub-agency offices' equipped with professionally trained sale staff headed by financial planner or advisor, where customer can take advise and discuss opinion prior to investing/ buying any insurance or financial product. SWAL has 'sub-agency offices' in 580 cities, towns and blocks. Locations are semi-commercial in nature but prominent. SWAL has practice to sign 30-year lease, when so ever taking and 'sub-agency office' on lease in order to reduce the lease cost and bring stability.

Secondly, SWAL sold product of all third parties, hence provide a range of products to its client to choose from. In 2010, SWAL signed a 15 year's agency agreement with all 23 life insurance companies recognised then. SWAL's tagline is also depicting the same 'we are ethically committed to understand and deliver your needs'. SWAL believes in organic growth and listed on stock market 3 years back to float additional capital to fund more 'sub-agency offices'.

22 out of these 23 life assurance companies are private and registered themselves with regulatory between the year 2000-2009 for a period of 25 years. Considering the default by few insurance firms and increasing customer complaints, regulator of insurance business in country tighten the registration criteria and harden the norms.

Typically each of ‘sub-agency office’ comprises three regular and one contractual employee. One being financial planner/ advisor, 2 sales and relationship officer and contractual worker in role of support staff and vested with miscellaneous clerical responsibilities. The on-roll number of employees engaged in assurance brokerage business has been increased to 1,564 from 720 five year ago (up-till 3 year ago number was 845 but since expansion of ‘sub-agency’ office division it is around 1,500).

Market trend is changing, since the SWAL commence the business. Each of such insurance company, now has their own network of branch offices to sale their insurance product directly; that too at more prominent locations. SWAL counter this step by highlighting its ‘independence and impartial advice’ practice, although SWAL managed to retain the revenue at same level, but this result in low profitability of ‘sub-agency office’ business. Now these insurance companies are not authorising any new agent.

Safe and Wise Advisory Limited (SWAL), a service-oriented company, sought to expand its market reach. To achieve this, SWAL established a dedicated 'E-platform' division, 'Policy at Your Click,' staffed by 50 professionals. Giganet is a service provider offering broadband and voice call services. SWAL intends to obtain broadband connectivity from Giganet to support the operational needs of its E-platform. For data security reasons, SWAL also wants to retain the right to procure the modem from any vendor of its choice at any time. So, SWAL has entered into an agreement (Annexure1) with Giganet for Broadband Services and for Modem procurement on 15th June 2024.

SWAL Ltd. requires a robust data management software to store, manage, and secure its valuable data against unauthorized access and malware threats. In pursuit of a reliable solution, SWAL engaged with DBMS Ltd., a renowned and experienced leader in data security solutions. After extensive negotiations spanning over a month, both parties have reached an agreement under which DBMS Ltd. shall provide SWAL with a license to use its proprietary data management software ("Software"). DBMS Ltd. is the sole owner and developer of the Software and agrees to grant SWAL a license under the terms and conditions set forth in Annexure 2.

SWAL’s **‘E-platform’** enables the seamless online sale of life insurance policies, strategically compensating for losses incurred by its sub-agency network. The insurance company has introduced multiple life insurance plans, all of which are available for purchase through SWAL’s E-platform. Acting as an intermediary, SWAL facilitates the sale of these policies and earns a commission from the insurance company on each policy sold through its platform. This commission-based model ensures a sustainable revenue stream for SWAL while streamlining the insurance purchasing process for customers.

The insurance company offers a range of life insurance plans, each with distinct premium structures and allocations for investment or savings components. Below is a detailed description of these plans:- **Investment-Linked Policy** – This policy requires an annual premium payment of ₹1,00,000. A portion of ₹60,000 is explicitly allocated towards investment or savings, which is clearly communicated to the policyholder at the time of service supply. The remaining amount covers risk protection and other associated costs. **Single Premium Annuity** – This plan involves a one-time premium payment of ₹5,00,000. Unlike investment-linked policies, this plan does not have a separate investment or savings component. The entire premium is utilized to provide annuity benefits, ensuring a steady stream of income for the policyholder. **Regular Life Insurance** – Under this policy, the policyholder pays an annual premium of ₹80,000. However, there is no explicit allocation for investment or savings, meaning the distribution of funds between risk coverage and any potential savings component is not clearly defined. **Pure Risk-Cover Policy** – This policy is designed solely for risk coverage, with an annual premium of ₹50,000. The entire premium is dedicated to providing financial protection against life risks, without any portion being allocated for investment or savings. These plans cater to different financial and coverage needs, offering flexibility based on the policyholder's preferences and risk appetite.

JS & Associates are at a crossroads regarding their audit approach for SWAL for the financial year ending March 31st, 2025. Historically, they have identified management override of controls and revenue recognition as significant risks. However, their audits in the past 2 financial years yielded clean reports with no issues detected in these areas.

This absence of recent red flags presents a dilemma. On one hand, maintaining a conservative approach suggests continuing to assess these areas as significant risks. This ensures a thorough examination and mitigates the chance of missing potential issues that could arise due to unforeseen circumstances or changes within SWAL.

On the other hand, consistently clean reports raise the question of continued significance. JS & Associates might consider performing a more focused assessment or reducing the emphasis on these risks while still acknowledging their potential impact. This could streamline the audit process without compromising effectiveness. As part of a risk-based audit approach, JS & Associates focus on areas with a higher likelihood of material misstatement.

Supported by revenue figures given below (in '000 Crores), analysts reach to conclusion that growth in the assurance brokerage business is slowing down both for SWAL and industry overall–

Market Size/Year	2024-25	2023-24	2022-23	2021-22	2020-21
SWAL's assurance brokerage business	326	320	312	298	280
Total market size of life assurance	2,240	2,198	2,122	2,004	1,960

Revenue earned by each division of assurance brokerage business (in term of age of the client), is shown in table below for F.Y. 2024-25–

Division/Age	20-30	30-40	40-50	50-60	60+	Total
'Sub-agency office' division	2	25	38	164	51	280
'E-platform' division	8	28	8	2	0	46
Total Business of SWAL						326

Since the profitability of 'sub-agency office' division is declining, hence the strategic review committee of board of directors are concerned about the company's declining profitability due to poor performance of 'sub-agency office' division and suggest that the 'sub-agency office' division should be sold off and that SWAL shall re-position its assurance business as an online solution.

Extract from financial statement for agency office division only (figures in '000 Crores) –

Particulars/Year	2024-25	2023-24	2022-23
Revenue	280	272	250
Profit before interest and tax	18	16	31
Shareholder's' Equity	156	150	150
8% Long term debt	78	64	50
Current Liabilities	455	437	395
Current Assets	605	565	540

Applicable tax rate is 22%. The nature of cost incurred by 'sub-agency office' division is more or less balanced between the variable and fixed. Fixed costs are largely committed in nature.

But the CEO does not agree to the suggestion made by strategic planning committee, because CEO is of belief that SWAL's USP or original business model is 'sub-agency offices' through which they ensure 'independence and impartial advice' to their clients.

On 20/04/2025 – a board meeting of directors was held to discuss on continuance or sale of the 'Sub-Agency Office' division and few other matters, the minutes of which are given in Annexure 3.

Annexure 1

AGREEMENT FOR BROADBAND SERVICES AND MODEM PROCUREMENT

This Agreement is made and entered into on this 15th day of June, 2024, by and between:

First party i.e. **Safe and Wise Advisory Limited (SWAL),** a company duly incorporated and having its registered office at New Delhi, hereinafter referred to as "SWAL"; and Second party i.e. **Giganet Ltd.,** a company duly incorporated and having its registered office at Chandigarh, hereinafter referred to as "Giganet."

Terms of Agreement shall be as follows:

1) Scope of Services

Giganet shall provide broadband and voice call services to SWAL in accordance with the selected service plan for a period agreed as per terms. Additionally, SWAL also reserves the right to opt for any single plan individually, i.e. voice call or broadband services at any time. Giganet offers various plans, including broadband services, voice call services, and a combination of both to its customers.

2) Modem Procurement

Giganet shall provide the Modem device to SWAL. But also, SWAL reserves the right to procure the modem independently from any vendor, and this Agreement shall not impose any restriction in this regard.

3) Term and Termination

The term of this Agreement shall be for a period of three (3) years from the effective date. Upon expiration, the Agreement may be renewed by mutual consent of both parties under terms and conditions agreed upon at the time of renewal.

4) Pricing

The modem shall be sold at a one-time cost of ₹ 10,000. The combined broadband and voice call service plan shall be provided at an annual pricing of ₹ 50,000.

5) Miscellaneous

- Any amendments or modifications to this Agreement shall be made in writing and duly signed by both parties.
- Any dispute arising out of or in connection with this Agreement shall be resolved amicably between the parties. If not resolved, it shall be subject to arbitration under the applicable laws.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

Signed for and on behalf	Signed for and on behalf
of Safe and Wise Advisory Limited (SWAL)	of Giganet Ltd.
Ravi Verma	*Mahesh Makhija*
(CEO, Safe and Wise Advisory Limited)	(Managing Director, Giganet Ltd.)

Annexure 2

SOFTWARE LICENSE AGREEMENT

This Software License Agreement ("Agreement") is made and entered into on this 20th day of June, 2024, by and between:

First party i.e. **Safe and Wise Advisory Limited (SWAL),** a company duly incorporated and having its registered office at New Delhi, hereinafter referred to as "SWAL"; and Second party i.e. **DBMS Ltd.,** a company duly incorporated and having its registered office at Bangalore, hereinafter referred to as "DBMS."

WHEREAS:

DBMS Ltd. is the owner and developer of a data management software ("Software"). DBMS Ltd. agrees to grant SWAL a license to use the Software under the terms and conditions set forth herein.

SWAL intends to utilize the Software for its business operations while maintaining operational stability.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the Parties agree as follows:

a) Grant of License

DBMS Ltd. hereby grants SWAL a non-exclusive, non-transferable license to use its Data Management Software for their internal business operations.

b) Updates and Upgrades

DBMS Ltd. shall provide updates and upgrades to the Software on a when-and-if-available basis. SWAL shall have sole discretion in determining whether to install such updates or upgrades.

c) Software Integrity

DBMS Ltd. shall not engage in any activity that alters the functionality of the Software without SWAL's prior written consent.

d) Term of contract

The term of this Agreement shall be for a period of two (2) years from the effective date.

e) Consideration

SWAL shall pay DBMS Ltd. an annual fee of ₹ 4,00,000 (inclusive of all taxes, surcharges and cess) for the licensed use of the Software.

f) Miscellaneous

- Any modifications or amendments to this Agreement must be made in writing and signed by both parties.
- Any disputes arising out of or related to this Agreement shall be resolved amicably between the parties. If unresolved, the matter shall be subject to arbitration as per applicable laws.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

Signed for and on behalf of SWA Ltd.	Signed for and on behalf of DBMS Ltd.
Ravi Verma	*Jay Soni*
(CEO, Safe and Wise Advisory Limited)	(Managing Director, DBMS Ltd.)

Annexure 3

SWAL

(Safe and Wise Advisory Limited, Reg Address. New Delhi)

Extract of Minutes of the 89th Meeting of the Board held on April 20,2025 at New Delhi

Item: To discuss the sale or continuance of sub agency division, managerial remuneration and several other matters.

Decision on the 'Sub-Agency Office' Division

The Board deliberated on the continuance or sale of the 'Sub-Agency Office' division. After discussions, it was decided that further evaluation of strategic options would be conducted before making a final decision.

Clarification on Maximum Remuneration

The Company Secretary, Mr. Amit Binoi, was asked about the maximum permissible remuneration for all Directors and the Manager in a financial year. He provided the necessary clarification, confirming that the company follows an annual remuneration structure while ensuring compliance with statutory limits. The Board noted that the company has Mrs. Jalpa Sen as the Whole-time Director (WTD) and recently appointed Mr. Keyur Valia as the Managing Director (MD). It was emphasized that remuneration must adhere to the prescribed statutory limits for the MD, WTD, and Manager collectively. During the scrutiny of accounts for the financial year 2024-25, it was observed that Mrs. Jalpa Sen, heading the Sub-Agency Office division, had inadvertently drawn remuneration exceeding the statutory limit in the previous financial year due to an oversight. The Board directed corrective action to be taken to ensure future compliance.

Risk Assessment of loan given to – Savya Ltd.

A resolution was passed approving a 10-year amortizing loan of ₹100 crore to Savya Ltd., from surplus funds. The Board reviewed the financial implications, considering:

Probability of Default (PoD): Estimated at 0.5% over the next 12 months at initial recognition.

Loss Given Default (LGD): Assessed at 25% of the balance outstanding.

Credit Risk Assessment: Changes in the 12-month PoD were considered a reasonable approximation for evaluating the lifetime PoD and determining any significant increase in credit risk.

Economic Outlook: Relevant economic factors and credit risk expectations were taken into account. The Board directed that ongoing monitoring of credit risk and financial exposure should be conducted to ensure effective risk management.

Conclusion: There being no further business, the meeting concluded with a vote of thanks to the Chair.

Signed:

Ravi Verma

(Chairperson and CEO)

Signed:

Amit Binoi

(Company Secretary)

25/04/2025

Multiple Choice Questions

1. What would have been told by Mr. Amit with respect to maximum remuneration that is allowed in a F.Y. to all such directors and manager taken together?

   (a) 3% of net profits.

   (b) 5% of net profits.

   (c) 10% of net profits.

   (d) 11% of net profits.

2. Mrs. Jalpa, one of the directors, had drawn remuneration in excess of the limit prescribed by the relevant provisions. As regards recovery of the excess remuneration drawn by him, which of the following options is applicable, if the company has defaulted in paying dues to BDS Bank?

   (a) The company shall not waive recovery of excess remuneration paid unless approved by BDS Bank before obtaining approval by a special resolution.

   (b) The company shall not waive recovery of excess remuneration paid unless approved by BDS Bank after obtaining approval by a special resolution.

   (c) The company shall not waive recovery of excess remuneration paid unless approved by a special resolution. Approval of BDS Bank for such purpose is not required

   (d) The company shall not waive recovery of excess remuneration paid unless approved by BDS Bank and if approved by the bank, then company's approval by ordinary resolution is only required.

3. How many Performance obligations are there under the Contract with Giganet ?

   (a) There are 2 separate Performance obligations.

   (b) There are 3 separate Performance obligations.

   (c) Only 1 Performance obligation is there which encompasses 3 sub contracts.

   (d) It depends on the company's choice as to how they want to treat it.

4. Which of the following statement is correct w.r.t nature of license as obtained from DBMS Ltd.?

   (a) The Software license doesn't provide a right to use the Intellectual Property as the underlying conditions are not satisfied as per the relevant IND-AS.

   (b) The Software license doesn't provide a right to use the Intellectual Property as the upgrades will change the functionality of the software.

   (c) There is no question of Intellectual Property rights over here in this situation.

   (d) The Software license provides a right to use the Intellectual Property that is satisfied at a point in time.

5. As part of a risk-based audit approach, JS & Associates focus on areas with a higher likelihood of material misstatement. Which of the following statements best describes the concept of significant auditor attention in the context of scenario given in the case study?

   (a) JS & Associates will spend an equal amount of time reviewing all sections of SWAL's financial statements

   (b) JS & Associates will prioritize audit procedures for areas with a lower risk of material misstatement.

   (c) JS & Associates will design the audit procedures based on their assessment of risks that could potentially cause errors in the financial statements of SWAL.

   (d) JS & Associates will rely solely on past audit results to determine the scope of their procedures. **(5 x 2 = 10 Marks)**

Descriptive Questions

6. (i) ASSESS the competitive environment of life-assurance business of SWAL (including 'sub-agency office' division). **[present only two appropriate points for each phase of assessing the environment]**

   (ii) EVALUATE the case for holding the 'sub-agency office' division, backed by financial viability among other criteria. **[present only two appropriate points for each monetary and the non-monetary issue]** **(6 Marks)**

7. Calculate the value of supply for GST purposes in each of the plans launched by Insurance company on the E platform of SWAL in the case study. **(5 Marks)**

8. Calculate loss allowance for the amortizing loan originated by Savya Ltd. **(4 Marks)**

Mock Test Paper - Series I: March 2025

Date of Paper: 21st March 2025

Time of Paper: 2 P.M. – 6 P.M.

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

SUGGESTED ANSWERS

ANSWERS TO THE CASE STUDY 1

Answers to the Multiple Choice Questions

1. **(a)** Low end disruption.

Reason: B3D is targeting low-income customer segment currently existing in the real estate market by offering them affordable homes using innovative 3D technology at highly attractive rates that cannot be matched by incumbents. Hence, it plans to enter the market at the lower priced product segment. Incumbents due to their inability to compete with the company, are expected to concentrate their business on higher end segments for middle income and luxury class segments.

Also, disruptive innovation is of two type low end disruption and new market disruption.

2. **(c)** Start up stage with product-market FIT stage

Reason: B3D is in the start up stage with product-market FIT stage. Getting regulator approvals, arranging for operational requirements in terms of men, machines and money, strategic tie-ups that will help its reach in the market, ongoing research and development activities to reduce costs of operations. All this indicates a commitment from B3D to get customer validation for the 3D affordable housing project that it wants to the market. Its offering will be tested in the market through its first project in Pune, where customer demand is expected to be generated and the value proposition starts generating cash flow, the company moves to the start – up stage with product-market FIT of its value proposition.

3. **(d)** Inventory to stock for construction materials like cement and steel while Just in Time purchasing for materials like bricks and glass.

Reason: Inventory to stock for construction materials like cement and steel. B3D wants the materials to be of specific quality grade. It also seems from the scenario, that the company may not be able to have sufficient negotiating power with the suppliers. Also, the lead time for procurement of material is uncertain. Hence, the ideal method would be the stock these inventories.

Just in Time purchasing will work well where the construction material like bricks and glass are very fragile and difficult to store. These materials can be procured only when needed in order to avoid loss due to storage due to their fragility. Loss will be incurred if the inventory is stocked and stored due to their fragility. It is given that These materials are widely available in the market with many suppliers and can be procured easily on demand. Hence, Just In Time purchasing requirements would be an ideal method for these inventories.

4. (b) ₹ 2.60 crores. Calculation as below

Reason:

PV of Cash Inflows =

$$\frac{(₹1\text{ crore})\times 0.95}{(1.03)^1}+\frac{(₹2\text{ crore})\times 0.90}{(1.03)^2}+\frac{(₹2\text{ crore})\times 0.85}{(1.03)^3}+\frac{(₹3\text{ crore})\times 0.80}{(1.03)^4}+\frac{(₹2\text{ crore})\times 0.75}{(1.03)^5}$$

= ₹ 92,23,301 + ₹ 1,69,66,726 + ₹ 1,55,57,408 + ₹ 2,13,23,689 + ₹ 1,29,39,132

= ₹ 7,60,10,256

NPV = PV of Cash Inflows – Initial Investment

= ₹ 7,60,10,256 - ₹ 5,00,00,000 = ₹ 2,60,10,256 that is ₹ 2.60 crores.

5. (d) Lease component ₹ 5,60,000 per annum and non lease component ₹ 1,40,000 per annum

Reason: The stand alone price for the lease component represents 80% of the total estimated stand alone prices [₹ 8,00,000/₹ 10,00,000]. Therefore, B3D allocates the consideration in the contract i.e. ₹ 7,00,000 per annum as follows:

Lease component for 3D printer 80% × ₹ 7,00,000 per annum	₹ 5,60,000 per annum
Maintenance component for 3D printer 20% × ₹ 7,00,000 per annum	₹ 1,40,000 per annum
Total payment made to AK Enterprises	**₹ 7,00,000 per annum**

Answers to the Descriptive Questions

6. In the given case, **BharatTech3D (B3D)** (Indian company) took technical services of **Pathway Consulting GMBH** (German based company) of **₹ 25 lakhs** in December 2024.

It deducted the tax at source but failed to deposit to the Government. Later, it deposited the TDS with the Government in December 2025.

Disallowance of Expense under Section 40(a)(i):-

As per **Section 40(a)(i)** of the **Income Tax Act, 1961**, if an assessee deducted tax at source (TDS) on payment of fees for technical services to a non-resident but failed to pay the same on or before due date of filing return of income, then such expenditure shall be **disallowed** in the previous year. As per the **first proviso to Section 40(a)(i)**, if tax has been deducted during the previous year but paid after due date of filing return of income, then the expense will be **allowed** in the year in which such tax is paid.

In the given case, since BharatTech3D (B3D) deducted tax but did not deposit it on or before the due date, the fees for technical services of ₹25 lakhs will be disallowed while computing business income for the Financial Year 2024-25 (A.Y. 2025-26). Since tax is paid in December 2025, the expense of ₹25 lakhs will be allowed as a deduction in the Financial Year 2025-26 (A.Y. 2026-27).

Determination of TDS Amount :-

As per Section 195, any person responsible for paying interest (other than interest referred to in section 194LB or section 194LC) or any other sum chargeable to tax (other than salaries) to a non-corporate non-resident or to a foreign company is liable to deduct tax at source at the rates in force. Applicable rate of tax on such FTS is 20%. However, if DTAA provides for a rate lower than 20%, then, provisions of DTAA would apply.

The applicable TDS rate (assuming it qualifies as "fees for technical services" and DTAA benefit is considered) shall be 10% + surcharge (if applicable) + 4% cess.

TDS @10% on ₹25,00,000 = ₹2,50,000

HEC @4% on ₹2,50,000 = ₹10,000

So, the total TDS Amount shall be ₹2,60,000

Interest Calculation under Section 201(1A) :-

Section 201(1A) imposes interest on delayed TDS payment as follows:

Interest for Delay in Deposit (1.5% per month or part thereof)

TDS was deducted on 31st December 2024 but deposited in December 2025

Delay = 12 months

Interest = 1.5% per month × 12 months × ₹2,60,000

Interest = ₹46,800

7. Osterwalder's Business Model Canvas comprises of nine elements, wherein four elements pertain to cost (key partners, key activities, key resources and cost structure). These are connected to the other four elements pertaining to revenue (customer relationships, channels, customer segments and revenue streams). This link is established through the nineth segment, value proposition.

Key Partners:

B3D relies on several key partners to support its operations and growth in the construction industry. This includes ***suppliers of essential components*** such as 3D construction printing machines, specialized cement, and steel required for 3D printers, as well as other construction materials like bricks and glass. ***Suppliers of construction labour*** are also crucial partners in executing projects efficiently.

Furthermore, B3D has formed a ***strategic tie-up with banks like Smart Bank Ltd***. This partnership enhances market reach by facilitating easier access to financing for potential customers. Additionally, ***consulting firms providing technical insights*** on the latest developments in construction technology play a vital role in B3D's innovation and continuous improvement efforts.

Key Activities:

B3D engages in several key activities to drive its business and innovation in the construction industry. First and foremost, it meticulously follows ***advanced construction techniques, coordinating the necessary manpower, materials, and machinery*** to complete projects within a swift 6-month timeframe. This efficient project management ensures timely delivery and customer satisfaction.

Secondly, B3D places a strong emphasis on ensuring that construction materials meet the required specifications and quality standards necessary to support 3D printing technology. This ***commitment to quality*** enhances the durability and efficiency of its construction processes.

Additionally, B3D invests significantly in ***research and development activities to maintain a competitive edge***. These efforts focus on innovation in 3D printing technology and construction methodologies, enabling B3D to stay ahead in the market and continuously improve its offerings.

To facilitate quick inventory turnover and boost sales, B3D employs ***targeted advertisements and leverages its strategic partnership*** with Smart Bank Ltd. This collaboration not only expands its customer reach but also facilitates easy financing options for potential buyers, thereby accelerating sales and project timelines.

Moreover, B3D ***evaluates the creditworthiness of customers*** interested in outright purchases and actively encourages the use of home loans through Smart Bank Ltd. This approach ensures that financing solutions are accessible to a broader customer base, making homeownership more achievable for low-income segments.

Key Resources:

B3D relies on key resources essential for its operations and innovation in the construction sector. At the core of its technological advancement are ***3D construction printers***, which enable efficient and precise construction of residential units. These printers are pivotal in realizing B3D's goal of delivering high-quality, affordable housing using advanced technology.

Another critical resource for B3D is its ***team of employees specialized in engineering and architecture***. These professionals bring expertise in designing and overseeing the implementation of 3D printing technology in construction projects. Their skills and knowledge are crucial for maintaining operational excellence and driving continuous improvement.

In addition to tangible resources like 3D printers and skilled personnel, B3D leverages ***intangible assets*** such as patents and process improvements generated through its research and development activities. These intangible assets not only protect B3D's innovations but also provide a competitive edge in the market by enhancing efficiency, reducing costs, and improving the quality of its construction projects.

Value Proposition of B3D:

B3D addresses the pressing customer problem of the ***lack of good quality, affordable housing facilities*** in urban cities in India. By leveraging 3D construction printing technology and other innovative technological solutions, B3D ***provides secure and affordable housing facilities***, revolutionizing the construction industry and meeting the urgent needs of low-income customers in these urban centers.

Customer Relationships:

B3D maintains customer relationships by managing a mass customer base through sales offices at each project site. These ***offices conduct site tours and handle queries*** about the novel 3D construction project, ensuring that potential buyers are well-informed and engaged throughout the purchasing process.

Channels:

B3D utilizes multiple channels to reach its customers effectively. ***Sales offices are established at each project site*** to directly engage with potential buyers. Additionally, B3D ***leverages its tie-up with Smart Bank Ltd.***, which publicizes the projects through digital marketing activities and direct selling agents, ensuring wide reach and visibility among potential customers.

Customer Segments:

B3D targets lower-income customers in urban cities across India who are in need of affordable housing facilities. The customer base consists of two types: those making ***outright purchases*** and those ***requiring financial assistance*** for home purchases.

Revenue Streams:

B3D's primary revenue stream comes from the ***sale of residential units***, with a uniform selling price of ₹ 10 lakh per single bedroom flat and ₹ 12 lakh per double bedroom flat to popularize the scheme. There is flexibility to adjust prices upward based on cost considerations for each project across multiple cities, with a target profitability of 8% of the sale price of each flat.

In addition to direct sales revenue, B3D ***generates ancillary income through commissions*** from its partnership with Smart Bank Ltd. This collaboration facilitates loan approvals for customers, enhancing affordability and enabling quicker sales turnover.

This dual revenue model ensures that B3D not only meets the housing needs of lower-income segments but also maximizes its financial performance through strategic pricing and financial partnerships.

Cost Structure:

B3D's cost structure involves various management opportunities and challenges. On the ***opportunity side***, utilizing 3D construction technology yields higher quality construction while reducing waste, errors, and time due to automated processes. This efficiency allows for better inventory management of materials like cement, steel, bricks, and glass, and decreases construction time, lowering labor costs by almost 40% and reducing overhead expenses. However, B3D ***faces several challenges***, including high land acquisition costs, significant expenses for 3D printing machines, and the need for higher remuneration for skilled employees such as engineers and architects. Additionally, the specialized materials required for 3D printing are costly, inflation impacts other construction costs, and financing costs remain high.

8. Ind AS 38 'Intangible Assets' requires an intangible asset to be recognized if, and only if, certain criteria are met.

- Intention to complete the asset is apparent as it is a major project with full support from board
- Finance is available as resources are focused on project
- Costs can be reliably measured
- Benefits are expected to exceed costs – (in 3 years)
- Regulatory approval which was received on June 1, 2023

Regulatory approval for the project was received on June 1, 2023. The project was completed on April 30, 2024. Costs of ₹ 24,00,000 incurred until March 31, 2024 have been recognized as an intangible asset. This is incorrect.

Expenses incurred prior to June 1, 2023 should be expensed out. Assuming that ₹24,00,000 has been incurred evenly from 1st April 2023, ₹ 4,00,000 has been charged to Profit and Loss account. Retrospective recognition of expense as an asset is not allowed.

Expenses incurred between June 1, 2023 and March 31, 2024 should be capitalized: ₹ 24,00,000×10/12 = ₹ 20,00,000

Ind AS 36 'Impairment of assets' requires an intangible asset not yet available for use to be tested for impairment annually. As of March 31, 2024 the asset is not yet available for use, hence it has to be tested for impairment. Cash flow of ₹ 19,00,000 in perpetuity would clearly have a present value in excess of ₹ 19,00,000 and hence there would be no impairment. However, the research head Mrs. Sinha is technically qualified, so impairment tests should be based on her estimate of a five-year remaining life and so present value of the future cost savings of ₹ 18,00,000 should be considered in that case. ₹ 18,00,000 is greater than the offer received (fair value less cost to sell) of ₹ 17,00,000 and so ₹ 18,00,000 should be used as the recoverable amount.

The carrying amount should be consequently reduced to ₹ 18,00,000.

Calculation of Impairment loss of intangible asset under development:

Particulars	**Amount (₹)**
Carrying amount of intangible asset as of March 31,2024	20,00,000
Less Recoverable amount	(18,00,000)
Impairment loss	**2,00,000**

Impairment loss of ₹ 2,00,000 is to be recognized in the profit and loss for the year 2023-24.

Necessary adjusting entry to correct books of account will be:

Particulars		**₹**	**₹**
Operating expenditure – Development expenditure	Dr	4,00,000	
Operating expenses – Impairment loss	Dr	2,00,000	
To Intangible asset under development			6,00,000

ANSWERS TO THE CASE STUDY 2

Answers to the Multiple Choice Questions

1. **(c)** Funding by angel investors

Reason: Angel investors typically use their own money. Often, they are among an entrepreneur's family and friends. They generally invest in small-start-ups and are attached to the idea of the business floated by start-up. However, venture capitalists take care of pooled money from other investors and place them in a strategically managed fund. Bootstrapping is an attempt to build the company from personal finances or from operating revenues of the company. Factoring is a method of bootstrapping.

2. **(b)** Company is eligible to deduction @ 100% of its profits from eligible business for any 3 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by Inter-Ministerial Board for Certification.

Reason: Under section 80-IAC (1) of Income tax act, 1961, where the gross total income of an assessee, being an eligible start- up, includes any profits and gains derived from eligible business, there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction of an amount equal to one hundred per cent of the profits and gains derived from such business for three consecutive assessment years.

The deduction may at the option of the assessee, be claimed by him for any three consecutive assessment years out of ten years beginning from the year in which the eligible start-up is incorporated.

Further, explanation to section 80-IAC also defines eligible start-up which fulfils the following conditions namely: -

(a) it is incorporated on or after the 1st day of April, 2016 but before the 1st day of April, 2024

(b) the total turnover of its business does not exceed one hundred crore rupees in the previous year relevant to the assessment year for which deduction under sub-section (1) is claimed and

(c) it holds a certificate of eligible business from the Inter-Ministerial Board of Certification as notified in the Official Gazette by the Central Government

3. **(c)** The company is an eligible start-up holding certificate of eligible business. However, such start-up is allowed to defer withholding tax when option is exercised and shares are allotted to Mr. X. It is deducted in required manner after expiry of certain timelines and/ or happening of certain events

Reason: Under section 192(1C), a person, being an eligible start-up referred to in section 80-IAC, responsible for paying any income to the assessee being perquisite of the nature specified in sub clause (*vi*) of sub-section (2) of section 17 in any previous year relevant to the assessment year, shall deduct or pay, as the case may be, tax on such income within fourteen days—

(*i*) after the expiry of forty-eight months from the end of the relevant assessment year or

(*ii*) from the date of the sale of such specified security or sweat equity share by the assessee or

(*iii*) from the date of the assessee ceasing to be the employee of the person

whichever is the earliest, on the basis of rates in force for the financial year in which the said specified security or sweat equity share is allotted or transferred.

Therefore, section 192(IC) provides for deferment of withholding tax in case of eligible start-ups.

4. **(c)** It involves giving notice of proposed scheme to Registrar and Official Liquidators and approval of scheme by both the companies. After approval of scheme by creditors, the scheme is filed with Regional Director, Registrar and Official Liquidators. The scheme is finally registered by Regional Director.

Reason: In case of merger between small companies/ start-ups, fast track procedure for merger has been prescribed under section 233 of Companies Act, 2013. It does not require filing of application with NCLT. The notices are to be given to registrar, official liquidator and Central Govt (powers delegated to Regional Director). After considering objections of registrar and official liquidator, the scheme is finally registered by Regional Director.

5. **(a)** Past performance indicators

Reason: In valuation of a start-up like Agrofine, there is no historical data on basis of which future projections can be drawn. Valuation of a start-up entirely rests on its future growth potential. The assessments of future growth are dependent upon competence and drive of persons running the business.

Answers to the Descriptive Questions

6. Value as on 31st March, 2023

Original cost	₹ 3,00,000
Less: Amortisation (3,00,000 x 1/5)	(₹ 60,000)
Net Value	₹ 2,40,000

Value as on 31st March, 2024

On 1st April, 2023, the downward revaluation is recorded by writing down the asset to the estimated value of ₹ 1,50,000, which necessitates a ₹ 90,000 charge to profit & loss (carrying value, ₹ 2,40,000 less fair value ₹ 1,50,000).

Amortisation provided for the financial year 2023-2024 is ₹ 75,000 (₹ 1,50,000 / 2)

Net value is = ₹ 1,50,000 – ₹ 75,000 = ₹ 75,000.

Value as on 31st March, 2025

As of 1st April, 2024, the carrying value of the patent is ₹ 75,000. Revalued amount of patent is ₹ 3,00,000.

Out of total revaluation gain of ₹ 2,25,000, ₹ 90,000 will be charged to profit & loss and balance amount of ₹ 1,35,000 (₹ 2,25,000 – ₹ 90,000) will be credited to revaluation reserve in OCI.

Amortisation provided for the financial year 2024-2025 is ₹ 75,000 (₹3,00,000 / 4)

Net value as on 31st March, 2025 = ₹ 3,00,000 – ₹ 75,000 = ₹ 2,25,000.

7. Start-up Agrofine, like many early-stage businesses, can seek funding from venture capital (VC) firms to meet its business requirements. Venture capital funding typically progresses through the following stages:-

Seed Money is the initial funding required to support the development of a concept, idea, or research and development (R&D) for product creation. At this stage, the risk is extreme, as the business is still in its conceptual phase, making the likelihood of failure very high. Investors typically commit funds for a long-term horizon of 7 to 10 years.

Start-Up Funding is provided to early-stage businesses that need financial support to develop prototypes, initiate operations, and begin marketing efforts. The risk remains very high since the business has yet to establish market acceptance or generate revenue. Investment at this stage usually spans 5 to 9 years.

First-Round Funding is directed toward businesses that have started commercial production and marketing but require additional financial support to sustain operations. The risk is still high as the company is in its early revenue-generating phase but has not yet achieved financial stability. Investments at this stage generally range from 3 to 7 years.

Second-Round Funding is intended for companies looking to expand their market reach, meet growing operational needs, and scale their business, although they have not yet achieved profitability. The risk at this stage is sufficiently high, as the company is generating revenue but has not yet reached a break-even point. Investors typically commit funds for a period of 3 to 5 years.

Third-Round Funding (Mezzanine Financing) is used for market expansion, acquisitions, or product development in companies that have started generating profits. The risk level at this stage is moderate, as the business model has been proven, but financial support is still required for large-scale growth. The investment horizon for this round is usually between 1 and 3 years.

Fourth-Round Funding (Bridge Financing) is designed to help companies transition to the public market by financing their Initial Public Offering (IPO) preparations. At this stage, the risk is relatively low, as the company is already established, generating profits, and preparing to go public. Investments in this phase generally last between 1 and 3 years.

Each funding stage carries a different level of risk, with the highest uncertainty in the seed and start-up phases, gradually decreasing as the company matures and moves toward an IPO.

Alternative Solution:

Stages of funding for VC

1. **Seed Money**: Low level financing needed to prove a new idea.
2. **Start-up**: Early-stage firms that need funding for expenses associated with marketing and product development.
3. **First-Round**: Early sales and manufacturing funds.
4. **Second-Round**: Working capital for early stage companies that are selling product, but not yet turning in a profit.
5. **Third Round**: Also called Mezzanine financing, this is expansion money for a newly profitable company.
6. **Fourth-Round**: Also called bridge financing, it is intended to finance the "going public" process.

Risk in different stages is given below:

Financial Stage	Period (Funds locked in years)	Risk Perception	Activity to be financed
Seed Money	7-10	Extreme	For supporting a concept or idea or R&D for product development and involves low level of financing.
Start Up	5-9	Very High	Initializing prototypes operations or developing products and its marketing.
First Stage	3-7	High	Started commercial production and marketing.
Second Stage	3-5	Sufficiently high	Expanding market and growing working capital needs though not earning profit.
Third Stage	1-3	Medium	Market expansion, acquisition & product development for a profit making company. Also called Mezzanine Financing.

Fourth Stage	1-3	Low	Facilitating public issue i.e. going public. Also called Bridge Financing.

8. (i) Calculation of total labour cost :-

Cumulative Average Time for 256 equipments = 48.43 hrs. [112.50 × (0.908)]

Total Time for 256 equipments = 12,398.08 hrs. [48.43 hrs.× 256 equipments]

Total Labour Cost of 256 equipments = 2,47,961.60 [12,398.08 hrs.× 20]

(ii) Calculation of revised labour cost at zero profit and cumulative average time (revised) :-

Revised Labour Cost for zero profit = 3,22,961.60 [2,47,961.60 + 75,000]

Total Time for 256 equipments (Revised) = 16,148.08 hrs. [3,22,961.60 / 20]

Cumulative Average Time for 256 equipments (Revised) = 63.08 hrs. [16,148.08 / 256]

ANSWERS TO THE CASE STUDY 3

Answers to the Multiple Choice Questions

1. (a) **Statements (i) and (iii) are true.**

Reason: Statement (i) the successful marketing campaign by SAL that reached out directly to customers had resulted in a higher than anticipated sales volume. This would have put pressure on procurement and production systems to cater to this demand immediately. Due to JIT systems, they do not hold any stock to meet sudden spike in demand. Statement (iii) where the production department has to plan the annual production schedule based on demand forecasts. This will allow them to co-ordinate with procurement suppliers who provide raw material in order to operate smoothly. Any unexpected seasonal demand spike due cannot be foreseen, in which case JIT production system may not be suitable.

Statement (ii) is incorrect as Mr. Ray is in charge on only sale of the 3 grades of fertilizers and is not in charge of any other function or operation in the manufacturing process. Hence, he cannot be held accountable for the sudden increase in raw material prices which has led to decrease in actual contribution.

Statement (iv) is incorrect as JIT procurement and production system can function independent of each other. Raw material can be stocked while production can follow JIT system. Similarly, raw material can be procured on a JIT system while production can be made to stock.

2. (c) **(i) and (iii)**

Reason: Statements (i) and (iii) are considerations that the auditors of SAL and PAL need to consider for their audits of financial statements.

Statements (ii): Incorrect. Even if explicitly banned, the auditor's responsibility for considering compliance remains.

Statement (iv): Incorrect. While evaluating the implications of non-compliance is important, it's not the primary responsibility of the auditor in this specific context.

3. (d) **Grade 1 only as that is the only product that is both price sensitive as well as has the capability of yielding positive contribution due to high margins.**

Reason: Grade 1 only as the increase in volume was 25% for a 10% discount offered on the price and it contributed positively as the net contribution is ₹ 130. As a high margin product, it could buffer any unexpected cost escalation.

	Grade 1	Grade 2	Grade 3
Reduction in selling price per kg	50	20	20
Reduction in selling price %	10%	7%	10%
Increase in sales (in kgs)	500	100	400
Increase in sales in %	25.00%	3.33%	8.00%
Net contribution per kg (actual)	130	60	-

While Grade 3 can be considered as price sensitive using the 5% threshold limit, the actual net contribution per kg was nil. Hence, it might not be prudent to offer much discount for Grade 3, being a lower margin product. Similarly, Grade 2 is also less price sensitive using the 5% threshold limit. Here a 7% discount in selling price resulted in only a 3.33% increase in sales volume. Hence, Grade 2 sales will not necessarily increase much by price discounts alone.

4. (b) The takeover of UUL by SAL is invalid as even after the Tribunal dismissed the application made by the dissenting shareholders, UUL acquired the shares of only 5% out of the total 8% dissenting shareholders.

Reason: In the given case, since the application made by the dissenting shareholders has been dismissed by the Tribunal, SAL was bound to acquire all the shares of the dissenting shareholders i.e. the entire 8% shareholding. Since SAL acquired only 5% shareholding of the dissenting shareholders, this is in contravention to Section 235 of the Companies Act, 2013. Hence the takeover of UUL by SAL is invalid.

5. (c) The income does not qualify as agricultural income and is taxable as business income under "Profits and Gains of Business or Profession," despite acquiring agricultural land.

Reason: Under Section 2(1A) of the Income Tax Act, 1961, Agricultural income in India primarily encompasses earnings derived from activities related to farming. This includes income generated from renting out agricultural land, cultivating and selling crops, processing agricultural produce for market (such as drying, cleaning, or simple processing), and income earned from farm buildings essential for agricultural operations.

Merely acquiring land to promote awareness or conduct demonstrations does not convert income from fertilizer sales into agricultural income. Land acquired by SAL is being used to promote awareness and conduct demonstrations about their applications of customized micronutrient mixture fertilizer. Farmers attending such promotional events purchase fertilizers that are customized for the crop that it is required for. Sale of such fertilizers is not derived directly from any agricultural activities on the land. Further, the case clearly mentions that no actual agricultural production occurs on this land. Therefore, SAL's sales from such fertilizers are taxable as business income under "Profits and Gains of Business or Profession".

Answers to the Descriptive Questions

6 Accounting treatment as per IND AS 20, Accounting for Government Grants and Disclosure of Government Assistance:

1. First Grant of ₹ 5 crore – research on “Soil degradation due to misuse of fertilizers”

   The first grant for “Soil degradation due to misuse of fertilizers” involving research into effects of excessive use of fertilizers on soil quality (acidification, hardening and pollution) based on a specific area from a predominantly agricultural belt in Punjab. Since, the grant is unconditional and no details regarding its refund have been mentioned. Even though research has not started, nor major steps have been completed by SAL to commence the research, yet the grant will be immediately recognized in the profit and loss for the year ended March 31, 2025.

2. Second Grant of ₹ 5 crore - relates to the commercial development of crop-specific nutrition solution that will provide each crop variety with specific nutrients that it will need to grow. As per the information given in the case study, these solutions will be available in the market by April 2026. Hence, by that time, grant relates to the development of new technological solution (which is an asset) and should be initially recognized as deferred income. The deferred income should be recognized as income on a systematic and rational basis over the useful life of this new technology.

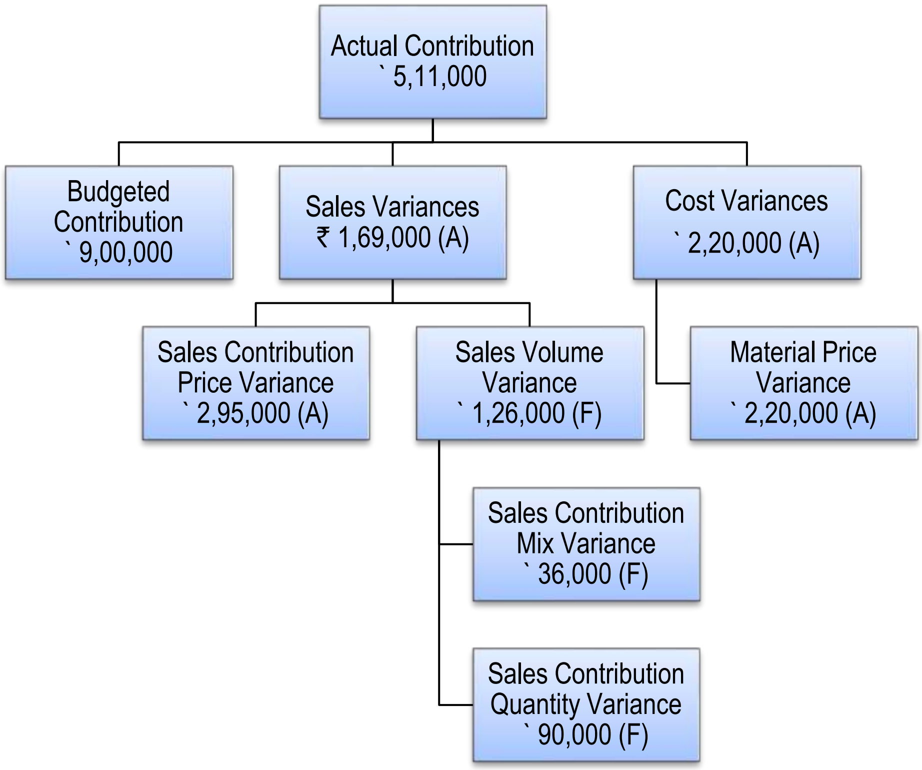
   For the grant received of ₹ 5 crores, SAL should recognize a liability in the balance sheet as of March 31, 2025, and March 31,2026. Once the technology is used in the commercial development of crop-specific nutrition, the deferred grant income of ₹ 5 crores should be recognized over the useful life of this new technology to compensate for depreciation costs.

   Alternatively, as per Ind AS 20 SAL would be permitted to offset the deferred income of ₹ 5 crores against the cost of development of this technology as at April 1, 2026.

3. Earthquake related compensation – SAL will be able to submit an application form only after May 31, 2025 i.e. in the F.Y. 2025-26. Although the earthquake happened in September 2024 relating to the financial year 2024-25, SAL should recognize the income from the government grant in the year the application is submitted and approved by the government for compensation.

Since in the F.Y. 2024-25, the application form could not be submitted due to adoption of financials with respect to sales figure before earthquake occurred, SAL should not recognize the grant income as it has not become receivable as at March 31, 2025.

7. Reconciliation



Budgeted vs. Actual Contribution

Referring to working notes, the total budgeted contribution for the year 2024-25 was ₹ 9,00,000 while the actual contribution was ₹ 5,11,000. There is hence an adverse variance in terms of contribution = budgeted contribution – actual contribution = ₹ 9,00,000 - ₹ 511,000 = ₹ 389,000 (Adverse).

The actual contribution for all three grades of fertilizers is lower than the budgeted contribution. This is because of 2 reasons: Discount policy (b) Raw material procurement cost. Now let us analyse the variances in detail.

Sales variances (in terms of contribution)

Sales variances in terms of contribution can be classified as sales contribution price variance and sales contribution volume variance.

Sales contribution price variance is calculated as ₹ 2,95,000 (Adverse).

Sr. No.	Sales Contribution Price Variance	Grade 1	Grade 2	Grade 3	Total
1	Actual Contribution (per kg) * *Based on standard cost*	150 [450-300*]	80 [280-200*]	20 [180-160*]	-
2	Standard Contribution (per kg)	200	100	40	-
3	Actual Quantity (kg)	2,500	3,100	5,400	11,000
4	Sales Contribution Price Variance = (Actual Contribution – Standard Contribution) × Actual Quantity [(1 - 2) × 3]	(1,25,000)	(62,000)	(1,08,000)	**(2,95,000)**

SAL's sales and marketing campaign allowed for slightly higher discounts were given on bulk purchases beyond a certain limit. This policy for additional discount was not factored in the standard price (budget), resulting in a difference between actual and budgeted contribution.

Sales contribution volume variance is calculated as ₹ 1,26,000 (Fav).

Sr. No.	Sales Contribution Volume Variance	Grade 1	Grade 2	Grade 3	Total
1	Actual Quantity (kg)	2,500	3,100	5,400	11,000
2	Budget Quantity (kg)	2,000	3,000	5,000	10,000
3	Standard Contribution (per kg)	200	100	40	-
4	Sales Contribution Volume Variance = (Actual Quantity - Budget Quantity) × Standard Contribution [(1 - 2) × 3]	1,00,000	10,000	16,000	**1,26,000**

This is another fundamental metric to assess sales performance. By comparing the actual sales with the budget sales, the company can understand (a) market conditions in which it operates (b) success of any sales and marketing campaigns or even (c) the reasonableness of the company's forecasting capabilities.

In the case of SAL, for the year 2024-25 the actual sales volume of 11,000 units has been higher than the budgeted sales of 10,000 units. A possible reason for this could be the spurt in demand due to its successful sales and marketing campaign for the three new grades that were introduced. This resulted in a favourable variance of ₹ 1,26,000 for the year.

Sales variance in terms of contribution = Sales contribution price variance ₹ 2,95,000 (Adverse) + Sales contribution volume variance ₹ 1,26,000 (Favourable) = ₹ 1,69,000 (Adverse).

This tallies with the overall results as explained above. It can be concluded that while volumes helped buffer the fall, SAL may have given deeper discounts that eventually impacted its profitability. For example, Grade 3 fertilizer, where the actual contribution is nil. Although SAL sold 400 units more than budget of Grade 3 fertilizer, the contribution towards actual profits was nil. This is equally due to discounts that were given as part of the sales and marketing campaign (the impact of material price discussed later). SAL's sales team should realize that such discounts may be unfeasible in the long run. Price sensitivity analysis of how the selling price of each grade impact demand is an exercise the SAL's team can undertake to understand how much discount to give in future.

Analysing sales contribution volume variance in depth

To analyse sales contribution volume variance better, it can be further split up as sales contribution mix variance and sales contribution quantity variance.

Sales contribution mix variance is ₹ 36,000 Favourable.

Products	Actual Quantity (AQ)	Actual Sales in Budgeted Proportion (RAQ)	Difference AQ - RAQ	Standard Contribution per kg	Mix Variance Difference × Standard Contribution
Grade 1	2,500	2,200	300	200	60,000
Grade 2	3,100	3,300	(200)	100	(20,000)
Grade 3	5,400	5,500	(100)	40	(4,000)
Total	**11,000**	**11,000**	**-**		**36,000**

Sales mix variance helps identify which product or product lines are performing well. As per the budget proportion sales volume composition was Grade 1: 20%, Grade 2: 30%

and Grade 3: 50%. When applied to actual volume of 11,000 units, the distribution appears in the column RAQ – Revised Actual Quantity. The difference between actual quantity sold and the RAQ shows the variation in the mix / proportion of actual sales as compared to the budgeted proportion.

Accordingly, Grade 1 has sold 300 units more, having a higher proportion in the mix. It also has the highest contribution of ₹ 200 per kg as compared to the other 2 grades. This swings the variance to a favourable side. On the contrary, Grade 2 and Grade 3 have a lower proportion in the sales mix, contributing adversely to the sales mix ratio. Overall, the sales mix is positive because SAL sold more of Grade 1 fertilizer which also has a higher contribution as compared to the other 2 grades. Hence, it can be concluded the Grade 1 trends better than the other grades and contributes better towards the profitability of the business.

Sales contribution quantity variance is ₹ 90,000 Favourable.

Products	**Budget Quantity (BQ)**	**Actual Quantity in Budgeted Proportion (RAQ)**	**Difference RAQ - BQ**	**Standard Contribution per kg**	**Quantity Variance Difference × Standard Contribution**
Grade 1	2,000	2,200	200	200	40,000
Grade 2	3,000	3,300	300	100	30,000
Grade 3	5,000	5,500	500	40	20,000
Total	**10,000**	**11,000**	**1,000**	**-**	**90,000**

A favourable sales contribution quantity variance indicates by how much the contribution has risen exclusively on account of actual sales in a predetermined proportion (i.e. budgeted) being higher than expectations as per budget. This does not consider any impact on account of variation in sale price and hence is measured with relation to standard contribution.

The actual sales are redistributed in proportion of their budget estimates to get a revised actual quantity (RAQ) mix. Hence, had the budget sales been 11,000 units, what would have been the proportion of sales of each of these grades of fertilizers? This is shown in the RAQ column. When compared with the original budget estimate of 10,000 units, it can show the impact on standard contribution due to change in the proportion of quantity of units sold.

A rise in the demand side for each grade of fertilizer resulted in positively contributing to the profitability of the company.

Sales contribution volume variance = Sales contribution mix variance is ₹ 36,000 Favourable + Sales contribution quantity variance is ₹ 90,000 Favourable = ₹ 1,26,000 (Favourable)

Higher sales due to spurt in demand (indicated from favourable sales contribution quantity variance of ₹ 90,000) combined with a higher proportion of these sales coming from the profitable Grade 1 fertilizer (indicated from favourable sales mix variance of ₹ 36,000), resulted in a favourable sales contribution volume variance of ₹ 1,26,000.

Cost variances

Increase in costs due to unplanned material procurement at higher rates also adversely contributed.

Material Price variance is ₹ 2,20,000 Adverse.

Sr. No.	Material Price Variance	Grade 1	Grade 2	Grade 3	Total
1	Standard Price (per kg)	150	100	75	-
2	Actual Price (per kg)	170	120	95	-
3	Actual Quantity (kg)	2,500	3,100	5,400	11,000
4	Material Price Variance = (Standard Price - Actual Price) × Actual Quantity [(1) - (2) × 3]	(50,000)	(62,000)	(1,08,000)	**(2,20,000)**

The material procurement cost for all the grades was higher than standard. There have been times when there is a sudden spike in demand for a particular grade of fertilizer combined with a successful sales and marketing campaign that spurred sales volume. Higher procurement cost from the open market than that agreed with the JIT supplier partners resulted in an adverse impact on actual contribution.

Working Notes

Budget Contribution for the year 2024-25

Sr. No.	Particulars	Grade 1	Grade 2	Grade 3	Total
1	Budget Quantity (kg)	2,000	3,000	5,000	10,000
2	Average Selling Price (per kg)	500	300	200	-
3	Direct Material Cost (per kg)	150	100	75	-
4	Direct Labour Cost (per kg)	100	60	75	-

5	Variable Overhead Cost (per kg)	50	40	10	-
6	Standard Contribution (per kg) [2-(3+4+5)]	200	100	40	-
7	Budgeted Contribution [1 ×6]	4,00,000	3,00,000	2,00,000	**9,00,000**

Actual Contribution for the year 2024-25

Sr. No.	Particulars	Grade 1	Grade 2	Grade 3	Total
1	Actual Quantity (kg)	2,500	3,100	5,400	11,000
2	Average Selling Price (per kg)	450	280	180	-
3	Direct Material Cost (per kg)	170	120	95	-
4	Direct Labour Cost (per kg)	100	60	75	-
5	Variable Overhead Cost (per kg)	50	40	10	-
6	Actual Contribution (per kg) [2-(3+4+5)]	130	60	40	-
7	Actual Contribution [1 ×6]	3,25,000	1,86,000	-	**5,11,000**

8. Evaluation of SAL's Financial Performance

The benchmark WACC that SAL's management wants to maintain is below 10%. The company's actual WACC is 7.636%. SAL has managed to maintain its WACC below the required benchmark primarily on account of its capital structure. Long term debt of ₹16 crores, which is the cheaper source of capital, makes up more than half of the total capital employed of ₹ 25 crores.

SAL's financial performance reflects a strong operational foundation, though its capital structure presents certain financial risks that require careful management.

With 64% of its capital sourced from debt financing, SAL carries a significant financial obligation in the form of ₹1.12 crores in interest payments. While leverage can enhance returns, it also increases financial risk, making strong cash flow management essential for ensuring timely debt repayment and mitigating the risk of financial distress.

Despite this high debt level, SAL has demonstrated strong operational efficiency, achieving an PBIT of ₹ 9 crores. This indicates the company's ability to generate substantial earnings before financial obligations. Additionally, its EVA of ₹ 4.391 crores shows that SAL is earning returns above its cost of capital, confirming that it is creating value for shareholders rather than merely covering financing costs.

To sustain this positive path, SAL must carefully assess new investment opportunities, ensuring they generate returns exceeding its benchmark 10% WACC to drive long-term value creation. Moreover, effective risk management strategies—such as hedging against interest rate fluctuations, optimizing capital allocation, and maintaining a financial buffer—will be crucial in mitigating potential risks and ensuring financial stability.

Overall, SAL's strong operational performance and positive EVA highlight its ability to generate value. However, its high reliance on debt necessitates vigilant financial management. To ensure sustainable growth and maximize shareholder value, SAL should focus on prudent debt management, strategic investment in high-return projects, and robust risk mitigation strategies to navigate potential financial challenges effectively.

Workings

EVA	=	NOPAT – WACC × Capital Employed
	=	₹ 6.3 Cr. – 7.636% × ₹25 Cr.
	=	**₹ 4.391 Cr.**
Capital Employed	=	₹ 5 Cr. + ₹ 4 Cr. + ₹ 16 Cr.
	=	₹ 25 Cr.
WACC	=	(5 + 4)/25 × 12.5% + 16/25 × 4.9%
	=	7.636%
NOPAT	=	[PBIT- Interest - Tax] + Interest (net of tax)

	₹ in Cr.
PBIT	9.000
Less: Interest	(1.120)
PBT	7.880
Less: Tax @ 30%	(2.364)
PAT	5.516
Add: Interest (net of tax) [1.12 × (1 - 0.30)]	0.784
NOPAT	6.300

ANSWERS TO THE CASE STUDY 4

Answers to the Multiple Choice Questions

1. **(d)** ₹ 6 million and no gain or loss

Reason: As per Ind AS 40, Initial recognition of an owned investment property should be at cost only. As per para 59 of Ind AS 40, "Investment Property" Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. Hence if a property which was previously used for business operations, is subsequently reclassified as an investment property, and the company follows the cost model, the investment property should be recognized at its carrying amount at the date of reclassification.

In this case, the property was purchased for ₹ 10 million on April 1, 2020. After 4 years, the carrying amount is ₹ 6 million, after accounting for depreciation. Since as per Ind AS 40, the company has to follow the cost model, the fair value is relevant only for disclosure and not for the recognition of the asset in the balance sheet. Therefore, the investment property should be recognized at the carrying amount of ₹6 million, as that is the value at which it is currently held on the books and there will be no gain or loss on such reclassification.

2. **(d)** ₹ 54,670

Reason: Computation of customs duty payable by Mr. Raj Malhotra

Particulars	₹
Personal effects [Duty free clearance is allowed]	Nil
Laptop computer [One laptop computer is exempt when imported into India by a passenger ≥ 18 years of age]	Nil
Jewellery [Duty free jewellery allowance is not available to Mr. Raj since he did not reside abroad for more than 1 year]	67,000
Music system	1,25,000
Total value	1,92,000
Less: General duty-free baggage allowance of ₹ 50,000	50,000
Value of baggage liable to customs duty	1,42,000
Rate of Duty	38.50%
Customs duty @ 38.50% (including social welfare surcharge)	54,670

3. (b) ₹ 7,23,867

Reason: Expense for F.Y. 2023-24 = Expected number of employees at the end of the vesting period x Shares per employee x Fair value of a share x Proportionate vesting period

= 440 employees x 100 shares x ₹ 122 x 1/2 = ₹ 26,84,000

Expense for F.Y. 2024-25 = (Expected number of employees at the end of the vesting period x Shares per employee x Fair value of a share x Proportionate vesting period) - Expense recognized in the year 2023-2024

= (419 employees x 100 shares x ₹ 122 x 2/3) – ₹ 26,84,000

= ₹ 7,23,867

4. (c) 81.87%

Reason: Calculation of Shifts:

Total Shifts = Days per week × Shifts per week × Total Weeks

= 6 × 2 × 4 = 48 Shifts

Calculation of Un-Planned Downtime:

Un Planned Loss of minutes per shift = Total unplanned loss in minutes / Total shifts

=1440/48 = 30 mins

Total Loss = Breakdown Maintenance (in mins) + Set up Changes (in mins) + Power Failure (in mins)

= 360 + 840 + 240 = 1440 mins

Calculation of Planned Production time

Planned Production minutes per shift = Total Time – Planned Downtime

= 540 - 60 = 480 mins

Total Time = 9 hrs × 60 mins = 540 mins

Planned Downtime = Lunch Break + Miscellaneous Breaks + Preventive Maintenance

= 30 + 15 + 15 = 60

Availability Ratio = {(480 min-30 min)/480 min}= 93.75%

Actual Production = 140 units per shift

Standard time = 3 minutes

Standard Time Required

=140 units x 3 minutes

=420 minutes

Actual Time Taken

=480 mins - 30 mins.

=450 minutes

Performance Ratio

= (420 min/450 min) x 100

= 93.33%

Quality Ratio

= (131/140) x 100

= 93.57%

Thus, OEE 0.9375×0.9333×0.9357=81.87%

5. (a) No, as such appointment did not amount to appointment of Mrs. Sunita to an office or place of profit in SPL.

Section 188 of the Companies Act, 2013, along with Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014 contain provisions which regulate 'related party transactions'.

Further, Section 2(76) of the Act defines who is a 'related party. As per Section 2(76), 'related party', with reference to a company, means a director or his relative;

Where the transaction or transactions to be entered into as contract or arrangement is for appointment to any office or place of profit in the company, its subsidiary company or associate company at a monthly remuneration exceeding ₹ 2.5 lakh as mentioned in clause (f) of subsection (1) of Section 188, approval by an ordinary resolution is required.

The expression "office or place of profit" means any office or place −

(1) where such office or place is held by a director - if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

(2) where such office or place is held by an individual other than a director or by any firm, private company or other body corporate - if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise.

Mrs. Sunita, a relative of a JayZee Ltd.'s director, was appointed as a director in JayZee Ltd.'s subsidiary, SPL, for a monthly salary of ₹3 lakhs in the F.Y. 2024-25. This compensation, received as a related party holding a director position in SPL, constitutes her sole remuneration. Consequently, her appointment does not create an 'office or place of profit' with respect to JayZee Ltd. Therefore, JayZee Ltd. was not required to obtain shareholder approval via an ordinary resolution for her SPL directorship.

Descriptive Answer

6. As per paragraph 41 of Ind AS 8, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

As per paragraph 40A of Ind AS 1, an entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if, inter alia, retrospective restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

In the given case, expenses for the year ended 31st March, 2023 and liabilities as at 31st March, 2023 were understated because of non-recognition of bonus expense and related provision. Expenses for the year ended 31st March, 2024, on the other hand, were overstated to the same extent because of recognition of the aforesaid bonus as expense for the year. To correct the above errors in the annual financial statements for the year ended 31st March, 2025, the entity should:

(a) restate the comparative amounts (i.e., those for the year ended 31st March, 2024) in the statement of profit and loss; and

(b) present a third balance sheet as at the beginning of the preceding period (i.e., as at 1st April, 2023) wherein it should recognise the provision for bonus and restate the retained earnings.

7. (A) (i) No. of Shares to be issued to the shareholders of BM Auto:

(10/20) × 12,50,000 = 6,25,000

(ii) Revised P/E ratio of BM Autos Ltd.

EPS of BM Auto = ₹ 12,50,000/ 12,50,000 = ₹ 1

Market Price = EPS × P/E Ratio

Revised Market Price of BM Autos Ltd. = ₹ 1 × 6.4 = ₹ 6.40

Exchange Ratio

New Exchange Ratio = ₹ 6.40 / ₹ 20 = 0.32 or i.e 0.32 shares of JayZee Ltd. for one share of BM Autos Ltd.

Post-acquisition EPS of JayZee Ltd.

Post-acquisition EPS of JayZee Ltd.

= (₹ 50,00,000 + ₹ 12,50,000) / (25,00,000 + 12,50,000*0.32)

= ₹ 62,50,000/ 29,00,000 = ₹ 2.16

(iii) Desired Exchange Ratio

Post-acquisition total number of shares =

Post-Acquisition Earnings / Pre-Acquisition EPS of JayZee Ltd. =

₹ 62,50,000 / ₹ 2 = 31,25,000

Number of Shares Required to be Issued = 31,25,000 - 25,00,000 = 6,25,000

Thus, exchange ratio should be:

Exchange Ratio = 6,25,000 / 12,50,000 = 0.50

(B) In ordinary cases, the company taken over is the smaller company. The concept of takeover by reverse bid, or of reverse merger, is thus not the usual case of amalgamation of a sick unit which is non-viable with a healthy or prosperous unit. Instead, it is a case whereby the entire undertaking of the healthy and prosperous company is to be merged and vested in the sick company, which is non-viable. A company becomes a sick industrial company when there is erosion in its net worth. This alternative is also known as taking over by reverse bid. The three tests to be fulfilled before an arrangement can be termed as a reverse takeover are specified as follows:

1. The assets of the transferor company are greater than the transferee company.
2. Equity capital to be issued by the transferee company pursuant to the acquisition exceeds its original issued capital.
3. The change of control in the transferee company through the introduction of a minority holder or group of holders.

8. In the present case, auditors are **unable to obtain sufficient and appropriate audit evidence** with respect to inventory of the company, neither the physical verification has been done by the management nor adequate inventory records are being maintained by JayZee Ltd. The audit team is also unable to undertake the physical inventory count and as such the value of inventory could not be verified. Further, inventory constitutes **30%** of the total assets of JayZee Ltd., which is significant.

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

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

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

ANSWERS TO THE CASE STUDY 5

Answers to the Multiple Choice Questions

1. (c) **10% of net profits**

   Reason: Part (i) of the Second Proviso to Section 197(1), provides that except with the approval of the company in general meeting by a special resolution, the remuneration payable to any one managing director or whole time director or manager shall not exceed 5% of the net profits of the company and if there is more than one such director then remuneration shall not exceed 10% of the net profits to all such directors and manager taken together.

   Here, after the appointment of Mr. Keyur as Managing Director, since the company had both Whole-time Director as well as Managing Director, the company Mr. Amit, the company secretary would have told the maximum remuneration that is allowed in a Financial Year to all such directors and manager taken together is 10% of net profits, as per the aforesaid provision.

2. (a) **The company shall not waive recovery of excess remuneration paid unless approved by BDS Bank before obtaining approval by a special resolution.**

   Reason: Section 197 of the Companies Act, 2013, Where the company has defaulted in payment of dues to any bank or public financial institution or non-convertible debenture holders or any other secured creditor, the prior approval of such person respectively shall be obtained by the company before obtaining approval of such waiver by a special resolution.

   Hence, SWAL shall not waive recovery of excess remuneration paid unless approved by BDS Bank before obtaining approval by a special resolution.

3. (b) **There are 3 separate Performance obligations.**

   Reason: Promise to provide goods and services is distinct if

   - ❖ the company can benefit from the good or service either on its own or together with other resources that are readily available to the firm, and
   - ❖ its promise to transfer the good or service to the company is separately identifiable from other promises in the contract

   For broadband and voice call services -

   - ❖ Broadband and voice services are separately identifiable from other promises as company has various plans to provide the two services separately. These two services are not dependant or interrelated. Also the company can benefit on its own from the services received.

For sale of modem -

- ❖ Company can either buy product from Giganet or third party. No significant customisation or modification is required for selling product.

Based on the evaluation we can say that there are three separate performance obligations: -

- ❖ Broadband Service
- ❖ Voice Call services
- ❖ Modem

4. (d) The Software license provides a right to use the Intellectual Property that is satisfied at a point in time.

Reason: Based on the facts given in question, although the updates and upgrades will change the functionality of the software, they are not activities considered in determining the nature of the entity's promise in granting the licence. The activities of DBMS Ltd. to provide updates or upgrades are not considered because they transfer a promised good or service to the company – i.e. updates or upgrades are distinct from the licence. Therefore, the software licence provides a right to use the IP that is satisfied at a point in time.

5. (c) JS & Associates will design the audit procedures based on their assessment of risks that could potentially cause errors in the financial statements of SWAL.

Reason: As per SA 701

The concept of significant auditor attention recognizes that an audit is risk-based and focuses on identifying and assessing the risks of material misstatement of the financial statements, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. Options (a), (b), and (d) do not accurately represent the emphasis on risk assessment in a significant auditor attention approach.

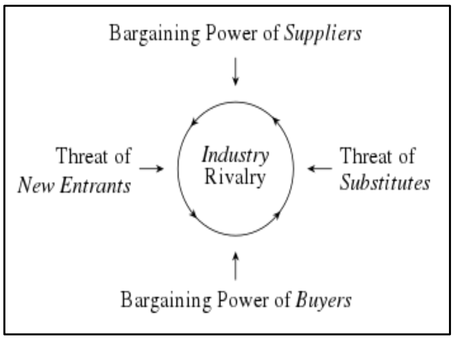
Answers to the Descriptive Questions

6. (i) Michael E Porter, in 1980 in his book "Competitive strategy: Techniques' for analysing industries and competitors" suggested **five force model** to assess the competitive environment of an industry. The five forces which are enumerated by this model are the bargaining power of suppliers; the bargaining power of customers (buyers); the threat of new entrants; threat of substitute products; and the level of rivalry among current competitors in the industry.

This model is also named as porter's five force analysis. Since each of these five forces affect the competitiveness of business, hence can be used to assess the potential of any organisation or entity; life-assurance business of SWAL (including 'sub-agency office' division) is not an exception to this. **(Any Two Points)**

The bargaining power of suppliers

Number of suppliers will decide the dominance they possess in term of bargaining power regarding the price of good and service they supply to business. In case of 'sub-agency office' division following factors will affect the suppliers' power–



Control over Value Chain – By adopting the strategy of forward integration the insurance companies them-selves getting into the direct sale through own network of branch offices in order to enhance their margin or reducing the margin earned by SWAL's 'sub-agency office' division. Since number of insurance companies are neither too less nor too much, hence bargaining power of insurance companies; in terms of percentage brokerage they offered to SWAL is moderate.

Importance of product – SWAL is also dealing in financial product's marketing and advisory, which contribute 50% of group sales and around 67% of group's profit; thus assurance business which is no doubt significant but only choice (business) available to SWAL. Hence, bargaining power of supplier is moderate.

Substitution among the brand – Life assurance product offers similar utility to client; hence easily substitutes among the brands, means if insurance company 1 charge lesser premium then insurance company 2, client will buy assurance of company 1. No doubt switching is less viable once policy subscribed. Since SWAL's 'sub-agency' division is offering the product from all 23 insurance companies, hence bargaining power of suppliers become low.

Supply of other factors – Other factor such 'sub-agency offices', which are largely on lease, has 30-year lease, this will reduce the lease cost as well as bargaining power of land-lord apart from bringing stability. **(Any Two Points)**

The bargaining power of customers

Whether seller is price taker or makes, this is outcome of bargaining power of customers (true sense competition). If the bargaining power is high seller will become price taker, else he is price maker. Following factors affect the bargaining power of customers of SWAL's 'sub-agency' division–

Number of buyers – In assurance industry the buyers are large (in comparison to few number of suppliers) and diversified, hence their bargaining power is low.

Standardised products – Since the life assurance is the product, which is standard from prospective of core functionality, hence buyers can easily substitute brands and can negotiate to reasonable extent.

Switching – Once policy subscribed can't be easily switched with another, hence due to high switching cost bargaining power reduced to some extent at-least.

(Any Two Points)

The threat of new entrants

Although entry of a new firm to the industry/ market depends upon the level of entry barriers, but if new entity enters into the industry; it will surely bring additional capacity which enhance the stiffness of competition; hence become a kind of threat. In case of 'sub-agency office' division, there are some major barriers to entry–

Less number of new life-assurance licenses by regulator due to tough regulations – As mentioned in the case that after considering the default by few insurance firms and increasing customer complaints, regulator of insurance business in country has tighten the registration criteria and harden the norms; hence this may act as entry barrier and reduce the threat of new entrants.

Less number of new insurance agent due to no new authorisation by insurance companies – As market is revamping, the agents is becoming competitor to the insurance companies and as mentioned insurance companies stopped authorising new insurance agents, hence this will act an entry barrier for new insurance agents, which is a great positive for SWAL's 'sub-agency office' division and intact the competitive advantage.

Learning curve and economies of scale – Since all the 23 insurance companies dealing in life assurance and SWAL are 10 to 20 years old organisations; hence learning curve and economies of scale (shared services for the 580 offices - presence in 580 cities) which they are enjoying may become entry barriers for new firm. Since new firms require huge capital to be at par to such learning curve and economies of scale. **(Any Two Points)**

Threat of substitution

Substitution means the product from some other industry which can render the same function which life assurance is rending. The threat of substitute product is quiet low.

Competitive rivalry

The level of competition among the players to acquire or retain the market share directly affects the profitability in an industry. Following factor is affecting the competitive rivalry–

Number of competitors and respective market size – Since there are good number of competitors, hence competition will be intense; may cut throat rivalry. Presently SWAL's insurance business represent 14.55% of market share (in 2024-25) in comparison to 14.29% of market share five year ago, without any major variation, hence possibility of gaining new market share is limited that too at high cost (in form of advertisement and more after sale services).

Lack of differentiation – Standardise product results in high rivalry, since the life assurance is standard product hence rivalry may be high on account of easy substitution effect among the different brands.

Slow market growth – If market is growing at high rate, rivalry may be stiffer or may be moderate; because everyone has reasonable opportunity to grow. The moment growth stagnated rivalry become stiffer because no one wish to lose market share. The industry life cycle curve is flatter here, because during last four years overall industry wide CAGR (compounded annual growth rate) of life assurance business is 3.39%, whereas year-on-year growth from 2023-24 to 2024-25 is 1.91%. Although potential is limited, but competition is still high.

Exit barriers – If the exit cost for player to move out of industry is high, it will have to be in industry and fight for survival, which may make competition tougher. Since agency agreement and lease agreement is already signed by SWAL hence, it becomes difficult to exit from the business, hence need to participate in competition to retain the share. **(Any Two Points)**

(ii) Case for holding the 'sub-agency office' division

The strategic review committee suggests that the SWAL's 'sub-agency office' division should be sold off and that SWAL shall re-position its assurance business as an online solution, but the same suggestion firstly needs to be evaluated in terms of financial perspective among the other criteria.

The growth in life assurance business is stagnated and industry is in maturity stage of industry life cycle. This is evident from industry size and growth in the same. During last four years overall industry wide CAGR (compound annual growth rate) of life assurance business is 3.39%, whereas year-on-year growth from 2023-24 to 2024-25 is 1.91%. The moment growth stagnated rivalry become stiffer because no one wish to lose market share. Hence, there is intense competition in market. In cases where market witnesses intense competition, operating efficiently is essential and reduction in cost become key success factor; in order to offer competitive deals to clients and retain market share.

Hence it becomes need of hour, that we review the operating processes followed at 'sub-agency offices' to check whether they are efficient or not, in order to ensure greater profitability rather thinking to sale off the entire 'sub-agency office' division.

Now, move to financial analysis, which suggests it is beneficial to hold back 'sub-agency' division.

Contribution to the group – Insurance business is contributing 50% of top-line of overall group revenue (and 1/3rd of bottom line), and around 86% (280/ 326) of this comes from 'sub-agency office' division and 'E-platform' division contribute only remaining 14%.

Profitability – Margins are positive. There are two major parameters to evaluate profitability further on–

- Operating profit (EBIT/ Revenue) – No doubt, operating profit shrink from 12.4% to 6.43% in three years' time frame. But as earlier quoted, margin is positive and secondly, there is sign of recovery as well. EBIT increased in absolute terms (from 16 to 18).
- Return on capital employed (ROCE) [EBIT / (Equity + Long Term Debt)] – No doubt, ROCE shrink from 15.5% to 7.69% in three years' time frame. But reduction in EBIT is not only a reason, another major reason for decline is also change in capital structure. Long term debt is increased in absolute terms (from 50 to 78).

Liquidity – Current ratio (Current Assets / Current Liabilities) being reasonable measure of liquidity indicates enough liquidity in 'sub-agency office' division to meets it obligation. There is minor decline from 1.367 times to 1.33 times. Component analysis of working capital can be performed for greater insight.

Gearing (Debt / Equity) – Gearing ratio depicts the financial leverage, a measure of risk. Gearing ratio no doubt increased as result of introduction of debt, from 1/3 to 1/2, but under control. **(Any Two Points)**

Some other quasi-finance and significant factors relevant to the decision of sale of 'sub-agency office' division and full focus on 'E-platform' division–

Client's demography – Clients from all age groups from 20 to 60+ are clients of SWAL's assurance brokerage business. 66.56% (217/326) of revenue coming from clients with 50+ years of age, and 99% (215/217) out of them are associated through 'sub-agency offices', hence holding of 'sub-agency' division become essential. Secondly, clients from all age group may not find it convenient to shift to 'E-platform' 'Policy at you click' and their resistance may result in losing business. Thirdly, they have easily available substitute, because competitors also have branch offices which will give them same feel.

Resistance from employees – Out of 1,564 on-roll employees of assurance brokerage business, only 50 are associated in 'E-platform' division- 'Policy at you click', rest all in 'sub-agency office' division. If SWAL re-structure itself fully as online solution for life assurance then also can't absorb all the employees, many of them need to be retrenched. Resistance will be there in both the cases, because transferred employee may not have requisite skill set, result in poor quality of service and no job satisfaction to employee. Whereas in case of retrenched workers redundancy cost will become additional financial burden. This can be seen as exit barrier.

Legal aspect in term of pre-closure of lease - SWAL has practice to sign 30-year lease, when so ever taking and 'sub-agency office' on lease in order to reduce the lease cost and bring stability. It started the business 2 decades ago and expanded it 3 years ago and many of leases are active right now, in case of pre-closure, it may be possible to bear additional financial burden as per terms of lease agreement.

Loosing USP – 'Independence and impartial advice' with presence wide across the nation, in form of 'sub-agency offices' equipped with professionally trained sale staff headed by financial planner or advisor, where customer can take advise and discuss opinion prior to investing/ buying any insurance or financial product is USP for SWAL's assurance brokerage business. By disposing the 'sub-agency office' division this central idea, with which SWAL was established may be washed out.

(Any Two Points)

In nutshell, the life assurance market has matured in recent years, and result in low growth potential and lower profitability but still yielding positive numbers. Hence, sale of 'sub-agency' division will adversely hit the revenue as well as profitability.

7. As per Rule 32(4) of the CGST Rules, 2017, the value of supply under GST for each of the plans would be as follows:

Plan 1: Investment-Linked Policy

Rule 32(4)(a): The gross premium is reduced by the amount allocated for investment/savings.

Gross premium: ₹ 1,00,000

Investment/savings allocation: ₹ 60,000

Value of supply: ₹ 1,00,000 - ₹ 60,000 = ₹ 40,000

Plan 2: Single Premium Annuity

Rule 32(4)(b): For single premium annuity policies, the value is 10% of the single premium.

Single premium: ₹ 5,00,000

Value of supply: 10% of ₹ 5,00,000 = ₹ 50,000

Plan 3: Regular Life Insurance

Rule 32(4)(c): For regular policies, the value is 25% of the premium in the first year and 12.5% of the premium charged from the policy holder in subsequent years.

First Year:

Premium: ₹ 80,000

Value of supply: 25% of ₹ 80,000 = ₹ 20,000

Second Year and onward:

Premium: 80,000

Value of supply: 12.5% of ₹ 80,000 = ₹ 10,000

Plan 4: Pure Risk-Cover Policy

Proviso to Rule 32(4): If the entire premium is for risk cover, the rule doesn't apply. The entire premium charged from the policy holder is the taxable value.

Premium: ₹ 50,000 (entirely for risk cover)

Value of supply: ₹ 50,000

8. At reporting date, no change in 12-month POD and entity assesses that there is no significant increase in credit risk since initial recognition – therefore lifetime ECL is not required to be recognised.

Particulars	**Details**
Loan	₹ 100,00,00,000 (A)
LGD	25% (B)
PoD – 12 months	0.5% (C)
Loss allowance (for 12-months ECL)	₹ 12,50,000 (A×B×C)