Mock Test Paper - Series II: April 2025

Date of Paper: 14th April, 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

Daily Mart, ₹ 99 Store

The country of India whose functional currency is Rupees is home to a large chain of fixed-price discount stores called Daily Mart, which sells ambient goods at a fixed price of ₹ 99. Fixed-price discount chain focus on unbranded commodity goods that they purchase from a number of small suppliers (apart from almonds which they import from California, US), of which these Daily Mart Stores are the most important customers. The products they sell have low profit margins and minimal overheads, and their target price is set. The products are typically functional, standardised, and undifferentiated.

Daily Mart in order to minimise the overhead cost (in light of target price, to push the margins) working on efficiency and effectiveness. To achieve this, the company has strategically invested in automation and advanced technology. It has recently imported 4 advance level machines for printing and labelling on items or packing thereof from Japan which were directly entered for home consumption. These state-of-the-art machines are designed to enhance the speed and precision of printing and labeling on various items and packaging materials. By integrating these advanced machines into its operations, Daily Mart aims to streamline production processes, reduce labour dependency, and minimize wastage, ultimately leading to improved cost efficiency.

Daily Mart has imported four high-tech printing and labeling machines from Japan and the cost structure for these machines includes various components. The price of raw materials amounts to 1,500 thousand Japanese Yen. In addition, processing charges incurred for these machines stand at 300 thousand Japanese Yen. Other expenses associated with the import are estimated at 90 thousand Japanese Yen. Furthermore, the usual profit margin considered in the cost structure is 150 thousand Japanese Yen. The cost of transport for bringing these machines to their destination is 60 thousand Japanese Yen. However, the cost of insurance for the machines is not ascertainable at this stage. The exchange rates applicable for conversion can be referred to in Annexure 1.

As mentioned earlier, Daily Mart is striving towards effectiveness and efficiency; for this they are working on sync of system, strategy, staff, skill etc. The Management Accountant of Daily Mart had experience of using 7S framework and exited to apply the same framework at Daily Mart to support the drive for efficiency and effectiveness. She made a presentation to C-suite. CEO is convinced with utility that 7S framework is capable to produce, but has queries regarding the application of Mckinsey 7S; moreover, skeptic about; how Daily Mart going to get maximum out of 7S; MD of Daily Mart who is Operation Engineer by education qualification expressed his contentions about 7S in response.

As a result of a prolonged economic downturn in the neighbour country Bangladesh, **'Everything at 99'** bargain stores also have grown therein; which Daily Mart is aware of. At present, there are four major retail chains operating under the ₹ 99 pricing model. These include Retail 99, Club Basket 99, Daily Shopee 99, and Quick Buy 99, each catering to budget-conscious consumers seeking affordable shopping options. Quick Buy 99 out of four stated above started its operations back in April 2023, while other three has been operating for more than 5 years, Retail 99 is oldest one.

Year wise total revenue (converted using appropriate exchange rate in ₹ Lacs) of all four main discount fixed-price chains operating in Country Bangladesh is calculated. For the financial year 2024-25, the combined revenue of these chains reached ₹ 2,260 lakhs. In the F.Y. 2023-24, the total revenue stood at ₹ 2,100 lakhs, reflecting steady expansion in the market. Meanwhile, in F.Y. 2022-23, the revenue was recorded at ₹ 1,450 lakhs, indicating a substantial increase in subsequent years.

These four chains' stores are typically located on the main streets of cities and villages with high rates of economic distress. There are vacant stores in many of these cities and towns that may be rented for a reasonable price. These stores can now be rented for a relatively short fixed-term lease from landlords who previously demanded hefty rents and asking for lengthy leases. These 'Everything at 99 store chains' in Bangladesh promote their expansion intentions through various means. Only a few weeks pass before one of the businesses announces intentions to open many new stores around the nation.

Given the rise of fixed-price discount stores in Bangladesh, Daily Mart is thinking about getting into this/market. Therefore, a brand awareness survey in Bangladesh was recently commissioned by Daily Mart. According to the survey's findings, respondents who work in the retail consumer products industry had a fair amount of knowledge about Daily Mart. The majority of these respondents accurately recognised the business as a major player in the Country India and a discount fixed-price enterprise. However, only 10% of respondents had heard of Daily Mart among ordinary consumers. On the other hand, over 85% of the respondents knew either or all the four fixed-price ‘Everything at 99’ discount shops that are now operating in Country Bangladesh.

The Daily Mart generates ₹ 24 crores in income in F.Y. 2024-25. Because of its cash reserves, it might be able to lease a sizable number of stores in Country Bangladesh and build a solid reputation in the marketplace. Competencies in efficient supplier management and selection, backed by efficient procurement procedures, have been acknowledged. One of the company's main advantages is its logistical systems and procedures.

The success of Daily Mart can be attributed to its diversified and dedicated management team, whose collective expertise and strategic vision have been instrumental in driving the company forward. With vast experience across various domains such as retail operations, supply chain management, finance, marketing, and technology integration, the leadership team has successfully navigated market challenges while capitalizing on emerging opportunities. One of the key strengths of Daily Mart’s management is its proactive approach to innovation and cost optimization. By continuously analyzing consumer trends, implementing advanced technology, and refining operational efficiencies, the team ensures that the company remains competitive in the dynamic retail landscape. Their hands-on decision-making, customer-centric strategies, and focus on sustainable growth have enabled Daily Mart to maintain a strong foothold in the market.

Additionally, the management fosters a culture of adaptability and teamwork, ensuring that employees at all levels are aligned with the company’s vision. This collaborative and forward-thinking approach has played a pivotal role in expanding the business, strengthening supplier relationships, and enhancing customer satisfaction, further solidifying Daily Mart’s position as a market leader.

Ms. Ambika recently appointed as additional director. Mr. Dehra, who is also Director on board of Daily Mart went to abroad for 6 months for attending a short-term executive course on business management, in his place Mr. Dun is appointed as alternate director in the manner as specified in Articles of Association. Mr. Dehra is going to retire at 22nd AGM i.e. the upcoming AGM. Mr. Dehra returned back to India after his course.

In Bangladesh, there are also a lot of traditional grocery stores. The biggest of these generates ₹ 8.50 crores in revenue annually (translated using the relevant currency rate). Out-of-town locations are becoming more and more popular among Bangladesh supermarkets since they enable the establishments to stock a greater variety and volume of goods. There is enough of parking for customers, and it is not too difficult for delivery cars to get to these locations. Most supermarkets carry a large variety of ambient goods in addition to nonambient items, frequently with competing brands available. Nevertheless, the cost of these items varies, and no supermarkets have yet to implement the fixed-price discount sales strategy. The big grocery chains generally compete with one another and don't give the ‘everything at 99’ discount stores much thought. Many supermarkets also offer online home ordering platforms, which allow consumers who are unable or unable to visit the store to have their orders delivered (generally for a fair delivery charge ranging ₹ 25-50 per order).

Daily Mart also sells the retail packing (of 100 grams, at ₹ 99) of almonds, which they import from California, US. Daily Mart owes a California based almond trader/exporter $10,000 due in 3 months' time. The spot exchange rate is (₹ / $) 85.7812 - 85.9345.

Mr. Krishnan who is MD of Daily mart during the year executed certain transactions involving foreign exchange beyond the limits permitted, therefore recently received an order along with penalty notice under the Foreign Exchange Management Act, 1999 which he failed to pay.

Daily Mart has recently introduced a newly developed product line featuring innovative designs and intricate handcrafting techniques. It enters into a contract to sell a product to Max Retail for a total consideration of ₹ 1,21,000, which is payable 24 months after the date of delivery. Max Retail obtains control of the product at contract inception. The contract permits Max Retail to return the product within 90 days. The product being sold is entirely new to the market, which presents a significant challenge in terms of estimating potential returns. Daily Mart has no prior sales history for this particular product, nor does it have access to comparable industry data or market benchmarks that could help forecast the return behavior of customers. In the absence of such data, the entity is unable to make a reliable estimate of the expected returns.

The cash selling price of the product is ₹ 1,00,000 which represents the amount that the customer would pay upon delivery for the same product sold under otherwise identical terms and conditions as at contract inception. The entity's cost of the product is ₹ 80,000. The contract includes an implicit interest rate of 10 per cent (i.e. the interest rate that over 24 months discounts the promised consideration of ₹ 1,21,000 to the cash selling price of ₹ 1,00,000).

Annexure 1 – The exchange rate between Rupees and Japanese Yen (₹ / ¥):

Notified by	On the date of filing of Bill of Entry	On the date of arrival of vessel
RBI (FBIL)	56.75	55.20
CBIC	57.05	55.50

Annexure 2 - Currently prevailing interest rate per annum in India and US are as follows:

	Borrowing	Deposit
India	8%	6%
US	4%	3.2%

Note - Ambient goods include things like stationery, small plastic items, cleaning supplies and specially packed consumables, which can be kept at room temperature and don't require any special storage facility.

Multiple Choice Questions

1. What is the assessable value of 4 advance level machines for printing and labelling in JPY (¥)?

   (a) ¥ 21,64,950

   (b) ¥ 21,22,950

   (c) ¥ 21,65,625

   (d) ¥ 21,23,625

2. How much Daily Mart need to pay in three months' time in ₹ to settle $10,000 payment to the supplier of almonds based in California, if Daily Mart decided to hedge the exposure using Money Market Hedge (round-off calculation to the nearest full unit of currency)?

   (a) ₹ 8,68,056

   (b) ₹ 8,99,321

   (c) ₹ 8,69,607

   (d) ₹ 8,32,705

3. Which of the exchange rates shall be used to calculate assessable value of 4 advance level machines for printing and labelling in ₹ ?

   (a) ₹ / ¥ 56.75

   (b) ₹ / ¥ 55.20

   (c) ₹ / ¥ 57.05

   (d) ₹ / ¥ 55.50

4. Presuming AGM of BPL took place within the time in which it shall be conducted, you are required to check validity of following statements:

   I. Mr. Dun shall hold office till conclusion of 22nd AGM i.e. the upcoming AGM

   II. Ms. Ambika shall hold office till upcoming AGM

   Options

   (a) Statement I is correct but statement II is incorrect

   (b) Statement II is correct but statement I is incorrect

   (c) Both I and II are correct

(d) Both I and II are incorrect

5. Regarding failure to make payment of the penalty imposed under the Foreign Exchange Management Act, 1999, which of the following statements are/is incorrect;

   I. Adjudicating Authority may, by order in writing, authorise an officer of Enforcement not below the rank of Assistant Director to recover any arrears of penalty

   II. Order of recovery shall be issued if the person upon whom penalty is imposed failed to make full payment within a period of sixty days from the date on which the notice for payment of such penalty is served on him.

   IIII. Such authorised officer of enforcement has all the like power which are conferred on the land revenue collector.

   Options

   (a) II only

   (b) III only

   (c) I and III

   (d) II and III **(5 x 2 = 10 Marks)**

Descriptive Question

6. Using appropriate model to Assess the attractiveness, to Daily Mart, of entering the discount fixed-price retail market in Bangladesh. **(4 Marks)**

7. The MD at Daily Mart is of opinion, that Strategy is one among the 7 elements of 7S framework that is core to all remaining elements of 7S and Hard S elements have more important than Soft S elements; therefore, need to more focused upon. Evaluate the validity of his 3 contentions and Advice. **(2 Marks)**

8. Analyse the transaction between Daily Mart and Max Retail with respect to the recognition of revenue and financing component. **(9 Marks)**

CASE STUDY 2

HomeInn Limited is a well established company that runs chains of hotels and resorts across different locations in India.

“HomeInn Budget” hotels

The hotels operate as budget hotels and operate under the brand “HomeInn Budget”. It provides accommodation for cost-conscious travellers visiting the city for short stay lasting a day or two. Typically a room in “HomeInn Budget” hotels would provide comfortable beds, high speed internet connection, air conditioning facility, coffee machine, fridge and free television service. Food service based on a limited menu is provided on the premises. It has few conference rooms that provide space for guests to hold business meetings. This saves them precious time otherwise wasted in travelling on congested city roads. The hotel provides free shuttle service to and from the airport at specific times during the entire day. Proximity to the airport, the free shuttle service and convenience of conducting work at the conference rooms have been marketed to attract guests to stay here. The guests also comprise of people who are in transit between airports. Also when there are long-duration delays in flight operations due to which passengers need to be provided overnight accommodation, few airline operators host their guests here. Like all other guests, these airline operators are also interested in for its location and low-cost room rental.

In all, HomeInn Limited has 15 hotel properties spread over 15 cities. All of them function under the “HomeInn Budget” brand catering to cost-conscious travellers. In all these establishments, since the location of the hotel is near the city airport, the real estate cost, both for ownership and rental is very high. Hence, instead of having an in-house establishment for cleaning and food service, the company has outsourced these services to specialized vendors. This will reduce the additional space requirement needed to maintain the facilities to provide these services. This will help to keep its costs of operations within control. Since the hotel property is in the city, there is ample availability of vendors providing this service. Cleaning service includes cleaning of kitchen crockery, bedding, laundry and housekeeping of premises. Similarly, the entire set of activities related to preparation of food has been outsourced. Vendor service has been satisfactory, barring few instances where guests have complained of unhygienic rooms or non-palatable food service. However, due to high guest volume and quick turnover of guests due to short stay periods, this has never been a hindrance to business.

This business model has been profitable since its establishment. HomeInn Limited has a sizeable market share in this segment. Competition has increased in the recent past. Price wars have put pressure on profit margins of the budget hotel segment. Room rates are increasingly being determined by the prevailing market rates in the respective locations.

“HomeInn Comfort” Resorts

The management plans to continue to operate in the budget hotel to maintain its market presence. At the same time, to sustain business in the long term, the management of HomeInn Limited has forayed into developing properties for luxury resorts under a separate new brand called “HomeInn Comfort”. Target guest segment are vacationing tourists interested in a enjoying a laid-back time in scenic places. These guests would not mind paying premium for availing good quality service. Maintaining cleanliness of premises and food service are critical activities in the operation of luxury hotels. Unlike cities, the location of these resorts is in more sparsely populated areas. While there are vendors providing cleaning and food services, there are limited options to choose from.

Customer satisfaction is paramount to sustain and grow business in the luxury resort segment. With the ability to post reviews online on booking portals, any negative review (whether justified or not) can reach very easily to a large number of potential guests. This can negatively impact future business.

HomeInn Limited is developing a “HomeInn Comfort” property in Goa. The construction involves several key expenditures essential for acquiring land, preparing the site, procuring materials, labor costs, safety measures, and other associated expenses. The company has invested ₹ 15 crores in land acquisition and ₹ 2 crores for site preparation, including dismantling existing structures. The cost of direct materials amounts to ₹ 8 crores, while labour expenses total ₹ 3 crores, including ₹20 lakh paid during a labour strike. Structural safety testing has been conducted at ₹ 0.5 crores, and legal and architectural consultation fees stand at ₹ 1.5 crores. Additionally, ₹ 0.10 crores has been spent on relocating the resort manager from Mangalore to Goa, and ₹ 0.50 crores has been allocated for administrative and overhead costs. These expenses collectively contribute to the successful development of the HomeInn Comfort resort, ensuring quality construction and operational efficiency.

The property is being acquired from an unrelated party at arm’s length transaction value. Five out of the six directors were present at the Board Meeting to consider and pass the resolution to acquire the property.

The operations at the Goa resort started as per the expected timeline. It is in its 3rd year of operations. In a recent management meeting, key financial data was reviewed. The resort reported a Net Operating Profit Before Interest and Tax (NOPBIT) of ₹ 5 crores, with a depreciation expense of ₹ 3 crores. The change in working capital amounted to ₹ 4 crores, while capital expenditure stood at ₹ 5 crores. The total invested capital in the resort is ₹ 20 crores, with a Weighted Average Cost of Capital (WACC) of 8% and a tax rate of 30%.

HomeInn is a renowned hospitality chain with a nationwide presence, providing top-tier accommodations in key metropolitan cities. With a commitment to providing a seamless and comfortable stay experience, HomeInn operates a diverse portfolio of hotels that cater to both business and leisure travellers. One of the key offerings of HomeInn is its combined stay package, which allows guests to book accommodations in multiple locations under a single consolidated plan. This package is particularly beneficial for travellers with multi-city itineraries, such as business professionals, tourists, and corporate delegations. By bundling stays across its hotels in different states, HomeInn provides convenience, cost-effectiveness, and a hassle-free booking experience. Mr. Vikash Kwatra, a businessman from Mumbai, undertakes a business trip and chooses HomeInn for his accommodation. HomeInn charges a consolidated sum of ₹ 60,000 from Mr. Vikash Kwatra for stay in its two hotels in Delhi and Jaipur, where the stay in Delhi is for 4 nights and the stay in Jaipur is for 2 nights.

Multiple Choice Questions

1. For the "HomeInn Budget" properties, identify the listed activities to the five primary activities of Michael Porter's value chain model.

Sr. No.	Listed Activity	Sr. No.	Primary activity as per value chain model
A	Storing vendor delivered freshly laundered crockery, bedding and laundry for future use as per guest requirements	I	Operations
B	Ensuring cleanliness and safety of rooms, working order of facilities offered like TV and internet service, coffee machines.	II	Marketing and Sales
C	The review of food items to remove the ones past expiry to ensure customer satisfaction and safety	III	Inbound Logistics
D	Free shuttle service to attract guests to stay at the hotel	IV	Service
E	Front desk activities handling complaints, customer support	V	Outbound Logistics

Options

(a) A – I, B – III, C – IV, D – II, E – V

(b) A – III, B – I, C – V, D – II, E – IV

(c) A – I, B – IV, C – V, D – II, E – IV

(d) A – III, B – I, C – II, D – IV, E – V

2. As regards “HomeInn Comfort” resorts, the parameters relating to high quality cleanliness and food service can be classified under which attribute of the following under the Kano Model?

   (a) Performance attribute

   (b) Delight attribute

   (c) Threshold attribute

   (d) Indifferent attribute

3. Which of the following statements is true as regards to the resolution taken at the Board Meeting to acquire the property in Goa?

   (a) When all five directors of HomeInn Limited attending the meeting consent to the acquisition of property

   (b) When any four directors of HomeInn Limited out of the five attending the meeting consent to the acquisition of property

   (c) When any three directors of HomeInn Limited out of the five attending the meeting consent to the acquisition of property

   (d) When all six directors, representing the total strength of directors at HomeInn Limited should consent to the acquisition of property

4. Calculate the Economic Value Added (EVA) of the “HomeInn Comfort” Goa.

   (a) ₹ 1.60 crores

   (b) ₹ 4.60 crores

   (c) ₹ 0.40 crores

   (d) ₹ 1.90 crores

5. Which of the following statements would most likely to be true?

   (a) HomeInn Limited should outsource all its cleaning and food service operations in all its properties ignoring the risks of outsourcing, if the cost of outsourcing is less than the cost of providing this service in-house. This is because the Economic Value Added (EVA) of the company will be positively impacted despite the risk of outsourcing.

(b) HomeInn Limited make an absolute comparison of Economic Value Added (EVA) of one property with that of another irrespective of the difference in scale of their respective operations.

(c) HomeInn Limited should reconsider the feasibility of operating properties irrespective the Economic Value Added (EVA).

(d) Economic Value Added (EVA) as a measure takes into account the current purchasing power and adjusts for inflationary trends. Hence, it is a more appropriate measure to track as compared to book profit. **(5 x 2 = 10 Marks)**

Descriptive Questions

6. (a) Explain the risks of outsourcing cleaning and food services for the "HomeInn Comfort" luxury resort properties.

   (b) What would your suggestion be, if the management of HomeInn Limited determines that guests experience (primarily influenced by cleanliness of facilities and food service) is a very important critical success factor (CSF)?

   (c) How is this risk different from outsourcing cleaning and food services for the "HomeInn Budget" hotel properties with that for "HomeInn Comfort" resorts?

   (d) What benefit does HomeInn Limited derive by operating different properties under two separate brands? **(4 Marks)**

7. Identify the total costs to be capitalized under Ind AS 16, Property, Plant and Equipment for the "HomeInn Comfort" resort being developed in Goa. **(5 Marks)**

8. Determine the place of supply and value of supply in respect of accommodation provided to Mr. Vikash under the GST provisions. **(6 Marks)**

CASE STUDY 3

YayIn Airlines Limited (YIAL)

YayIn Airlines Limited (YIAL) is an Indian airline, headquartered in Mumbai. Until the year 2024 YIAL was full service airline offering full service (premium) flying experience to its guests. It primarily focussed on tourist travel to exotic locations. Premium flying required YIAL to focus on connectivity between tourist destinations like Srinagar, Gangtok, Lakshadweep Islands, Andaman and Nicobar Islands and Darjeeling. The number of routes were limited, primarily originating from Mumbai or Delhi. Passengers were mainly luxury travel guests, who could afford exotic travel vacations but have limited time therefore preferring to fly to these destinations. Premium flying service allowed YIAL the ability to charge premium (higher than economy class market rates) to passengers.

Increased margin pressures – full service model

In the recent years, the number of players in the aviation sector has increased, thereby increasing the competition including that on the routes to the destinations mentioned above. Most of the rivals are offering economy seat travel. While there is a difference in the service offering, high inflationary conditions in the country has lead air travel passengers to become more price sensitive. Therefore, aircraft capacity was not getting utilized fully due to this price sensitivity combined with intense competition. Profit margins were getting squeezed.

Route viability assessment

The network route development team, headed by Mr. Jithendra Singh develops route network and assesses its financial and operational viability. The team collaborates with the finance analysis team of YIAL, headed by CA Gopal Verma, to determine the financial viability of the route. Both Jithendra Singh and Gopal Verma then present their analysis to the Mr. Ravi Mehta, Director- Flight Operations, YIAL. Once a route is approved, the flight starts operating on that route after due regulatory approval. Every 6 months, a detailed analysis is done to look into the operational issues related to that route as well as consider whether the route should continue to be operated on based on its financial viability.

In an effort to improve the company's performance, consideration is being given to cancel flight routes that appear unprofitable. YayIn airlines has the flexibility to cancel flight operations on particular routes after following due operational and regulatory procedures. The forthcoming meeting between Jithendra Singh, Gopal Verma and Ravi Mehta is scheduled to be held next week. The agenda is to decide whether to continue operations of Flight 7J6622 between Mumbai and Srinagar. YIAL has the data to compute the income statement for each flight that it operates. Please refer Annexure 1 for the income statement of flight 7J6622 operating on the Mumbai-Srinagar route. CA Gopal Verma would use this in the discussions next week.

Change in business model into a low cost airline

Due to increased margin pressures, the management realized that growth opportunities in the full service premium flying segment catering to tourist destinations alone, was not a sustainable business model. Increased competition due to rivals offering newer routes to passengers combined with price sensitive travellers, forced the senior management to rethink its strategy.

Therefore, in March 2024, the senior management of the company took the decision to become a low cost airline instead. The flying experience would be similar to economy class travelled that is popular and being offered by other players in the market. The strategy to sustain profits was to build cost efficiencies into the operations along with expanding market reach. Mumbai and Delhi would serve as the main hub of operations, but there would be many more routes developed to cover other cities, not just to tourist destinations. This will result in Increase fleet size and expand the network of routes offered. The fleet will be of single type of aircraft to reduce maintenance and operational costs. Any future acquisition of planes will be leased rather than bought outright. In current market conditions, leasing was working out cheaper. Airfare will be charged at market competitive rates, attracting enough customers to ensure that flight capacity is fully utilized. In flight entertainment, food and beverage will be charged extra and not included in the ticket cost. Digitalize processes to make them efficient, error free and cost effective. Encouraging online booking and check in is one such process. Premium flying will be phased out completely.

Operations as a low cost airline: New vision and mission of YIAL, increased scale of operation

With the change in business model, the company had a new Vision and Mission statement as outlined below.

Vision: “Yay! In for better connectivity at affordable rates!”

Mission: “Our large fleet will fly guests across to destinations, new and old, on time, in comfort and at industry best fares.”

YIAL has based its success on three parameters using which it wishes to build a loyal customer base – (1) affordable rates, (2) on time performance and (3) courteous and hassle free service. These are reassurances that YIAL provides its customers (guests).

In April 2024, YIAL executed a 12 year lease agreement with Airway Inc. for the lease of 5 aircrafts. Refer to terms of the lease in Annexure 2. With increase in fleet size and corresponding increase in passenger traffic, the scale of operations is slated to increase manifold. The entire project of change in business model was completed in September 2024.

Hub-spoke model versus point to point model

YayIn now works on a hub-spoke model, where flights on different routes pass through either Mumbai or Delhi and then onward to their destination. The passengers have to disembark from their original flight when it reaches the hub and then reboard the next fight that will take them to their final destination. The idea was to club together passengers travelling to a final destination from different origins, to group together at the hub that will take them to their final destination in a different aircraft. This will maximize the capacity utilization of the aircraft. Fixed costs form a major portion of the cost structure of this business. Hence, if capacity utilization is better, it enable YIAL to offer competitive ticket price to the passengers. Therefore, the price sensitive passengers are satisfied due to cheaper airfare. On the other hand, the hub-spoke travel model explained above increased the travel time by at least twice as compared to a point-to-point model. This model results in longer queues at the check-in counter, security check and results in a crowded airport. However, the price sensitive passenger is willing to bear the wait and hassle since the ticket is available at a more affordable rate. The hub-spoke model attracts huge crowd, due to which there is enormous pressure on the limited infrastructure and staff resources at each of these airports (check-in-counter staff, CISF security staff, ground crew handling luggage etc).

The point-to-point model involves the aircraft flying non-stop (directly) from its origin to its destination. Many business travellers and some passengers who prefer hassle free travel, prefer this model. Recently the feedback taken from such type of passengers showed that they were dis-satisfied with inordinately long travel time under the hub-spoke model. With increasing wealth and booming business environment, the chunk of such travellers in slowly increasing. However, operating a point-to-point model from Mumbai or Delhi works out costlier.

Streamlining operations:

Ever since the low cost airline operations have begun, Mr. Ravi Mehta has been insisting on building cost efficiencies into the company's operations. He has encouraged employees to imbibe lean thinking strategies as part of their roles. He has approached the network route development team and the financial analysis team to find a solution to the above problem.

Jithendra's network development team has suggested that efficient management of queue management at the check-in counter and boarding gates at the airport by allowing for online web-check in. Bring uniformity to the size and type of luggage that can be carried by the passengers. With proper regulatory approval from the authorities like DGCA, passengers must carry check-in and hand luggage of specified dimensions. Else, the passengers have to bear an extra cost for handling non-uniform luggage. Start point-to-point travel for travellers who prefer convenient and faster travel. Since their numbers are smaller, use smaller aircrafts so that (a) capacity utilization is faster and (b) the aircraft turnaround time due to maintenance and repair work by the ground staff can be done faster. Due to lesser passengers the queues will be shorter and there will be minimum disruption to travel time.

The team led by CA Gopal Verma has proposed that to have different pricing structures for hub-spoke model travellers and the point-to-point model travellers. To maintain profitability in operations resort periodic to across-the-board reduction of staff of ground staff in order to reduce costs of operations.

Mr. Prem Chabbra, a director of YIAL was appointed as its Managing Director on 1st April 2023. One of the terms of appointment was that in the absence of adequacy of profits or if the company has no profits in a particular year, he will be paid remuneration in accordance with the provisions contained in the Companies Act, 2013. As per the financial results for FY 2024-25, YIAL has incurred a heavy loss of ₹55 crores. However, these losses are primarily due to the extensive change in business model that was undertaken during the year. The company was not in a position to pay any remuneration to Mr. Chabbra but he was paid ₹2 crore for the year. This payment was approved by a special resolution passed by the shareholders. The effective capital of the company is ₹215 crores.

Tax Deduction at Source (TDS) on passenger service fee (PSF):

Passenger service fee (PSF) is a charge that airlines collect from passengers to cover the cost of airport security and passenger facilities. Facilities include security, baggage trolleys, escalators, air-conditioning etc. All these contribute towards enhancing passenger experience and makes flying comfortable and secure. The airport operators at Mumbai and Delhi, who manage the airports and their infrastructure would collect this fee from the airline.

Mayank Saxena has joined the vendor payment team of the accounting department at YIAL recently. He is making his very first payment to the airport operators at Mumbai and Delhi for PSF. These payments are made along with rental payments to the airport operators that YIAL pays for use of the airport space for operating its business. He is confused whether tax has to be deducted for payments made for PSF to airport operators under the relevant sections of the Income Tax Act, 1961.

Pursuing two business models simultaneously

YIAL has been successfully operating as a low cost airline for the past few years now. In the recent years, the tourism travel industry has been promoting many locations within India as vacation spots. Hence, YIAL's original operating routes like Srinagar, Gangtok, Lakshadweep Islands, Andaman and Nicobar Islands and Darjeeling are gradually becoming popular again. Again, there are different customer segments, some preferring affordable travel while others preferring comfortable premium experience.

Mr. Chabbra has been working with YIAL for the past 25 years. From his experience, he feels that YIAL can re-start its full service premium flying to these locations again. The rest of the management team is not convinced about this proposal. Their primary concern is that YIAL has switched to low-cost, affordable travel model in the recent years. By restarting premium flying, YIAL will be catering to different customer segments at the same time. While price sensitive travel flyers will not be willing to pay higher ticket fare, the prospective premium flying passengers will not be happy to experience the economy class flight experience (affordable, but reduced service travel offering). Hence, there will be a lot of confusion about YIAL's brand offering. They feel that a single model namely the low cost affordable travel model that YIAL is currently following should be maintained, there is no confusion in the minds of passengers about the service to expect.

YayIn acquired an aircraft from Boeing (Boeing 767) on 1st April, 2019 for ₹400 crore. Over a period of four years, the aircraft was used in operations and depreciated accordingly. By the end of this four-year period, the aircraft had a carrying amount of ₹255 crore, which reflected its estimated value in use. This value was arrived at after charging cumulative depreciation of ₹110 crore and an impairment loss of ₹35 crore.

On 1st April, 2023, the company decided to classify the aircraft as "held for sale" due to a proposed transition towards acquiring new-generation aircraft (Boeing 787 Dreamliner). At the time of classification, the carrying amount of the existing aircraft was ₹255 crore. However, the fair value less costs to sell was assessed at ₹250 crore, indicating a shortfall in recoverable value. At the next reporting date, 31st March, 2024, market conditions improved and the fair value less costs to sell of the aircraft was reassessed at ₹265 crore. By 1st October, 2024, the market for aircraft had continued to strengthen, and the fair value less costs to sell rose further to ₹300 crore.

Annexure 1:

Income statement of Flight 7J6622 operating from Mumbai to Srinagar (per flight)

Particulars	**₹**	**₹**
Ticket Revenue (200 seats * 40% occupancy * ₹ 22,500 ticket price)		18,00,000
Less:		
Variable expenses per person (200 Seats * 40% Occupancy * ₹15,000 Variable expense)		(12,00,000)
Contribution margin (Ticket revenue less variable expense)		6,00,000
Flight expenses:		
Salaries, Flight crew	2,00,000	
Salaries, Flight Assistants	80,000	
Baggage Loading and Flight Preparation	70,000	
Overnight costs for flight crew and assistants at destination	80,000	
Fuel for aircraft	2,50,000	
Depreciation of aircraft * Liability insurance	75,000 1,50,000	
Flight promotion	50,000	
Hanger parking fee for aircraft at destination	25,000	
Total flight expenses		(9,80,000)
Net Gain/ (Loss)		**(380,000)**
* Based on obsolescence		

The following additional information is available about flight 7J6622 from Mumbai to Srinagar.

1. Members of the flight crew are paid fixed annual salaries, whereas the flight assistants are paid by the flight.
2. The baggage loading and flight preparation expense is an allocation of ground crew's salaries and depreciation of ground equipment.
3. One third of the liability insurance is a special charge assessed against flight 7J6622 because in the opinion of insurance company, the destination of the flight is in a "high-risk" area.
4. Flight promotion expense is specific to the route, in this case relate only to flight 7J6622.
5. The hanger parking fee is a standard fee charged for aircraft at all airports.
6. If flight 7J6622 is dropped, YIAL Airlines has no authorization at present to replace it with another flight.

Annexure 2: Lease agreement terms for 5 aircrafts

Lease Agreement

This Lease Agreement is made and entered into as of 01/10/2024, by and between **YIAL** (YayIn Airlines Limited) and **Airway Inc.** for five aircrafts.

The following were the terms of the lease:

- Lease commencement date for each of the aircraft would be October 1,2024.
- YIAL must pay Airway Inc. the first monthly rental payment of ₹ 10 lakh per aircraft upon execution of the lease.
- Airway Inc. will pay YIAL ₹ 50 lakh per aircraft cash incentive to enter into lease payable upon execution.

YIAL incurs an initial direct cost of ₹ 1 lakh per aircraft, which is payable on October 1, 2024. YIAL has calculated the initial lease liability as the present value of the lease payments discounted using incremental borrowing rate because the rate implicit in the lease could not be readily determined. Thus, the initial lease liability is arrived at as ₹ 8.50 crores per aircraft.

YIAL has to undertake a planned check after every 100,000 flight hours for each aircraft. At the end of lease period, that is 12 years YIAL must have a check performed (or refund the costs to Airway Inc.), irrespective of the actual number of flight hours.

Multiple Choice Questions

1. What will be the carrying amount of an aircraft and gain or loss to be recognised on subsequent remeasurement as on 1st Oct 2024, for an aircraft purchased in Apr 2019, as per relevant Ind AS?

   (a) On subsequent remeasurement as on 1st Oct 2024, aircraft shall be carried at ₹ 300 crore and there will be gain of ₹ 35 crore to be recognised in the books as per Ind AS.

   (b) On subsequent remeasurement as on 1st Oct 2024, aircraft shall be carried at ₹ 290 crore and there will be gain of ₹ 25 crore to be recognised in the books as per Ind AS.

   (c) On subsequent remeasurement as on 1st Oct 2024, aircraft shall be carried at ₹ 265 crore and there will be loss of ₹ 15 crore to be recognised in the books as per Ind AS.

(d) On subsequent remeasurement as on 1st Oct 2024, aircraft shall be carried at ₹ 255 crore and there will be loss of ₹ 35 crore to be recognised in the books as per Ind AS.

2. Which of the following would reflect the spirt of employees adopting lean thinking while working for the organization?

(i) Efficient management of queue management at the check-in counter and boarding gates at the airport by allowing for online web-check in.

(ii) Across the board reduction of staff of ground staff in order to reduce costs of operations.

(iii) Streamlining processes to allow for faster baggage drop and pick up at the departure and arrival lounge by bringing uniformity in the luggage type and size.

(iv) Streamlining flight operations and use of smaller aircraft types to allow for minimum disruption of travel time.

Options

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

(b) (ii), (iii) and (iv)

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

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

3. YIAL is using the Kano Model to assess the impact switching to low-cost airline model have on customer satisfaction. Under which attribute of Kano Model would YIAL's ability to provide extensive connectivity at affordable rates fall under:

(a) Performance attribute

(b) Threshold attribute

(c) Delight attribute

(d) Questionable attribute

4. Referring to the provisions contained in the Companies Act, 2013, assess the validity of payment of ₹ 2 crore made to Mr. Chabbra for FY 2024-25:

(a) As per the provisions of Companies Act, 2013, Mr. Chabbra is not entitled to any remuneration since YIAL incurred heavy losses in FY 2024-25.

(b) As per the provisions of Companies Act, 2013, Mr. Chabbra is entitled to only ₹120 Lakh as remuneration in FY 2024-25 and it cannot be increased in any circumstances.

(c) As per the provisions of Companies Act, 2013, Mr. Chabbra is entitled to only ₹ 24 Lakh as remuneration in FY 2024-25.

(d) As per the provisions of Companies Act, 2013, Mr. Chabbra is entitled to ₹ 2 crores as remuneration in FY 2024-25.

5. Which of the following strategies can possibly support Mr.Chabbra's proposal to operate both affordable low cost model and the premium full service model simultaneously?

(a) Operate affordable low cost model and premium full service model under different brands of YIAL. Pricing of tickets can be differentiated based on which model that particular flight is offering, higher price for premium full service tickets and lower price for affordable tickets.

(b) Operate affordable low cost model and premium full service model under the a single brand of YIAL. Pricing of tickets can be differentiated based on which model that particular flight is offering, higher price for premium full service tickets and lower price for affordable tickets.

(c) Increase marketing and advertising spend to spread awareness of which route offers full service flying and which offers low cost affordable flying.

(d) It is not possible to operate both models simultaneously. **(5 x 2 = 10 Marks)**

Descriptive Questions

6. Prepare an ANALYSIS showing what impact dropping flight 7J6622 would have on the airline's profit. CA Gopal Verma would be using this analysis in his forthcoming meeting.

(3 Marks)

7. In respect of lease Agreement with Airway Inc. :

(i) How should YIAL record and measure the lease with Airway Inc.?

(ii) How should YIAL account for the cost of planned checks and check to be performed at the end of the lease term? **(6 Marks)**

8. ADVISE Mayank Saxena about whether tax has to be deducted for payment of PSF to airport operators in Mumbai and Delhi? **(6 Marks)**

CASE STUDY 4

CA. Manisha is an audit partner in BS & K LLP, a firm of Chartered Accountants. The Firm was founded by CA. Lata Subramanian in 1960. With a strong legacy of spanning over multiple decades and its humble origins in the steel city of Jamshedpur, the Firm has established offices across key cities in India. The firm caters to clients across diverse market segments including industrial markets, infrastructure, consumer products, financial services, technology and telecommunications.

CA. Manisha was waiting at the Mumbai office to meet CA. Jyoti Batra, a Fellow Chartered Accountant. CA. Jyoti Batra had been appointed by a competent authority to inspect and evaluate adherence to SQC-1 and review selected audit documentations in relation to statutory audit of the financial statements for the year ended 31 March 2024, conducted by BS & K LLP for a listed entity. The review focused on three significant audit areas—Revenue, Trade Receivables, and Investments—due to their inherent higher risk of material misstatement in the audit engagement.

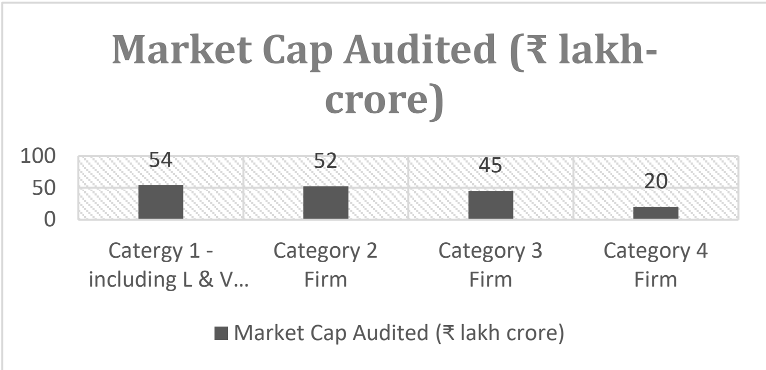
The receptionist informed CA. Manisha about the arrival of CA. Jyoti. Both of them exchanged pleasantries and CA. Jyoti was guided into a pre-booked meeting room. CA. Jyoti requested for the audit files for initiating audit inspection. CA. Manisha explained that the audit documents are maintained electronically. For ease of review, the archived version of the audit file has been hosted on the laptop of the firm. CA. Jyoti explained that she would need some time to understand the policies of L & V and discuss her initial observations. At the end of the day, following discussions took place:

CA. Jyoti: *Can you tell me about the service offerings of the firm? Does it also provide advisory services?*

CA. Manisha: *We are a multidisciplinary firm providing a wide array of services. Our service offerings can be bifurcated between:*

 ***Audit and Assurance***	*Audits are the fundamental building blocks of effective capital markets. Auditors use their knowledge, skills and experience to deliver high-quality audits with independence, integrity, objectivity and professional skepticism. In doing so, they help to support sustainable, long-term value creation. High-quality audits facilitate economic growth and enhance trust and confidence in business and the capital markets. More than 1,500 audit professionals support the delivery of data-driven audits, powered by leading-edge technology, including foundational audit technologies.*

The firm provide consistent audits by assembling the right multidisciplinary teams to address the most complex issues, using a proven audit methodology and deploying the latest, high-quality auditing tools and technologies. The Firm understands that to achieve the desired potential a tailored assurance service as much as a consistent methodology, clients benefit from sector and subject-matter knowledge is provided.



Tax services

The Firm's tax professionals offer services across all tax disciplines to help thrive in this era of rapid change. The coordinated tax professionals offer connected services across all tax disciplines to help the entities thrive in an era of rapid change. The Firm combine its exceptional knowledge and experience with the people and technology platforms that make us an ideal partner for tax-related needs. The Firm has competencies in business tax, international tax, transaction tax and tax-related issues, compliance and reporting as well as legal matters.

Complying with the tax laws and regulations that are constantly changing is a challenge. The Firm provides services from tax filing to tax planning. For global businesses, accurate tax compliance is an instrumental piece of the tax puzzle. Getting this piece right is increasingly complicated because of the rapid pace of legislative and regulatory change, and the increasing digitalization of revenue authorities. Additionally, staying current on tax developments at the local and national level, while meeting the demands needed for more transparency and financial information, strains the resources of tax departments and further complicates tax compliance.

Advisory services

Advisory at the Firm helps in realizing business transformation through the power of people, technology and innovation. Faced with an increasingly complex and uncertain operating environment, organizations — and the people within them — are under pressure to make decisions better, faster, and smarter. Yet, as stakeholder expectations shift, and as technology advances, new ways of working and regulatory change are making it harder for people to make the right decisions.

To further support clients, the Firm provides business strategy consulting, utilizing frameworks such as the Boston Consulting Group (BCG) Matrix and McKinsey's 7S model. Our diversified services in business strategy help organizations assess market positions, allocate resources efficiently, and devise competitive strategies for sustained growth. By leveraging strategic tools like these, the Firm enables businesses to build resilient, scalable models that adapt to changing environments while driving long-term value creation.

In addition, the firm offers bookkeeping service as well. Our bookkeeping services ensures the integrity of transactions and company data. Hence, it requires experienced and skilled professionals, who hold deep knowledge of the subject. Our services help businesses streamline activities, make better business decisions, decrease execution costs, reduce time spend, and manage budget whenever necessary.

CA. Jyoti: *That's interesting. But how do you ensure that no independence conflict arise while accepting/ performing an audit engagement? If there is an independence policy, can you please share a copy of such policy?*

CA. Manisha: *If you browse to the client acceptance section of the electronic audit file, we have documented our independence policy. In a nutshell, our independence policy is based on the requirements of SQC 1 as issued by the ICAI. As per SQC 1, the firm has established policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements, maintain independence where required by the ICAI's Code of Conduct. Accordingly, the firm is able to identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement. The Code also require us to consider the requirements of applicable laws and regulations e.g. the Companies Act, 2013.*

CA. Jyoti: *Great. I would go through the independence policy in detail. Was any breach of independence requirements were observed for the engagement under inspection?*

CA. Manisha: *No breach of independence was observed. We have a close relationship with the audit client. During the last year due to high level of attrition the client approached us to help in preparing the financial statements– which the Firm decided to support. A team (separate from the audit team) was formed to avoid any independence threat.*

CA. Jyoti: *Considering the engagement under discussion is in industrial equipment segment, did you involve an engagement control quality reviewer ('EQCR') for this engagement?*

CA. Manisha: *It is essential that the quality of our work is of the highest standard. One of the ways in which we seek to achieve this high standard is through engagement quality control reviews. The objective of such review is to provide an objective evaluation, on or before the date of the engagement report, of the significant judgments the engagement team made, and the conclusions reached thereon. Pursuant to our quality management and risk management policies, we have appointed Mr. Qureshi as the EQCR for this engagement.*

CA. Jyoti: *I am not too sure about the skill and experience of the EQCR. Could you please elaborate about his experience?*

CA. Manisha: *Please be rest assured, the EQCR involved in this engagement is very experienced in accounting and audit. He leads the banking and financial services audit practice. He is a member of the ICAI and have over 30 years of experience in statutory audits, financial accounting advisory and accounting due diligence services relating to financial service sector. We have extensively leveraged his vast experience in all aspects of audit. He has also made decisions for the engagement team.*

CA. Jyoti: *Could you please elaborate about the revenue recognition policy of the entity under discussion?*

CA. Manisha: *Revenue is recognised as per the relevant Ind AS when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. For example, revenue from sale of equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. The company has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer. The normal credit term is 30 to 90 days upon delivery. The company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of equipment, the company considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).*

CA. Jyoti: *I was inclined to ask you about the revenue transaction with Customer P. I could see you concluded that the revenue recognition was appropriate, but it required exercise of significant judgement. Please explain this transaction.*

CA. Manisha: *The company had a Customer P which was undergoing restructuring due to issues related to liquidity. The company has decided not to do any further business with Customer P. The customer has informed that it will provide Letter of Credit from a nationalised bank against which the company can despatch goods. Company has manufactured the goods exclusively for Customer P, but the Letter of Credit was not yet arranged because it was in process till the date of our audit report. However, basis the past experience of no default by Customer P, the company recognised revenue.*

CA. Jyoti: *A qualified audit opinion was issued in the current year due to the inability to comment recoverability of the company's investment in subsidiaries. Could you please explain the rational for the same?*

CA. Manisha: *The qualification was limited only to the investments of the company in one subsidiary. It does not have an impact on the recoverability of the outstanding loans given to the subsidiary. Since the undetected misstatements were limited to specific investments, in absence of sufficient appropriate audit evidence, there is no pervasive impact as per the requirements of the SA 705 and accordingly a qualified opinion was appropriate.*

CA. Jyoti: *In how many days was the electronic audit file assembled?*

CA. Manisha: *The firm has established policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. In the case of an audit the time limit is ordinarily not more than 65 days after the date of the auditor's report.*

Post completion of discussion, CA. Jyoti continued to review the electronic file till next week. Multiple rounds of discussions were held between CA. Manisha and CA. Jyoti. On the last working day, CA. Jyoti set up a meeting to discuss the findings of the draft inspection report. **Excerpt of the draft inspection report is enclosed as Annexure**.

Simultaneously, a business review meeting was held by the firm's partners to evaluate the firm's operations and to assess the potential implications if the firm were to cease providing bookkeeping services, given the concerns highlighted in the draft inspection report. The bookkeeping division (under advisory services), launched in November 2014, initially expanded rapidly, growing to about 50 locations within three years, primarily in metro cities. However, this rapid expansion exposed weaknesses in the division's systems and infrastructure, which were unable to support such growth. As a result, the Firm encountered operational difficulties.

The bookkeeping services offer low-margin services while facing high operational costs, including rent and payroll. These challenges were further exacerbated by issues like high staff attrition, supply-chain inefficiencies, and infrastructure limitations. Consequently, the division was forced to close nearly 10 offices within two years of its launch. In response to these challenges, the bookkeeping division has since standardized its operations, streamlined processes, and centralized its supply chain to improve efficiency.

Despite providing a comprehensive range of boutique services under one roof—offering a broader portfolio than many local advisory firms—BS & K LLP struggles to compete effectively with smaller, politically connected local advisory firms – who are not a firm of Chartered Accountants. These local advisory firms often offer limited but highly competitive services, particularly in terms of pricing. In 2016, BS & K LLP faced significant setbacks when it was forced out of several profitable regions due to intense opposition from small, locally connected firms, highlighting the challenges posed by local competition.

One of the key issues BS & K LLP faces is the uneven pricing structure among local advisory firms. Although BS & K LLP offers its services at comparable prices, and provides a superior quality of service, local businesses frequently prefer to work with local firms, valuing proximity and political ties over service quality.

Moreover, the bookkeeping division requires continuous investment, yet it lacks strategic synergy with the firm's broader activities. The division continues to incur losses despite the improvements in operations. For the firm to achieve its expansion goals and maintain profitability across all offices, it must rethink its strategy. The aim is to ensure that every office not only sustains itself but also contributes to the overall profitability of the firm, which is crucial for scaling the business in a sustainable way. The firm is contemplating various strategic measures including establishment of a Centre of Excellence.

ANNEXURE

Excerpt of the Draft Inspection Report

Review of Firm-vide Audit Quality Control System

- The firm has formulated an EQCR policy which inter-alia requires EQCR in audit of listed entities. Such review was conducted in a timely manner at appropriate stages during the engagement so that significant matters may be promptly resolved to the reviewer's satisfaction before the report is issued. However, the firm's policies and procedures on appointment of engagement quality control reviewers and their eligibility conditions are not in line with SQC 1. In the extant case, EQCR has experience in audit of banking and financial services entities and did not possess experience in the sector where the entity belongs (i.e. industrial equipment sector). Also, the EQCR's involvement in making decisions for the engagement team is also not in line with SQC 1.
- The firm has established policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. The audit report was signed on 15 May 2024. At present the assembly period is maximum of 65 days from the date of the audit report and accordingly the electronic audit file was assembled on 19 July 2024. The extant archival policy of the firm is not aligned with the requirements of SQC 1.

Independence threat

- The firm's independence policy does not restrict rendition of non-audit services that are prohibited under ICAI's Code of Ethics. For instance, the independence policy of the firm does not prohibit the rendering of bookkeeping services to the audit client. We observe that the firm has prepared the financial statements of the audit client by forming a separate team of professionals (other than the audit team professional). This tantamount to providing bookkeeping services to the listed company. However, such service cannot be provided to the listed company as per ICAI' Code of Ethics. The firm is advised to create a negative list, which should, at a minimum, cover the services prohibited under the ICAI's Code of Ethics, and appoint an Independence and Ethics Partner.

Failure to consider 'Material and Pervasive' impacts of misstatements while expressing audit opinion on the financial statements

- The firm expressed a qualified audit opinion due to its inability to comment upon recoverability of the company's investments in the subsidiary. However, the audit firm did not consider other financial exposures - which were in the form of the loans. It is quite obvious that a doubt on recoverability of investment equally creates doubt on recovery of loans given to subsidiary. Accordingly, the basic premise of focusing solely on investments and not considering the total financial exposure to the subsidiary is fundamentally flawed. The total financial exposure, including investments in the subsidiary, represented 60% of the company's total net worth at the year-end. A very high-level estimate performed indicated a possible reduction in profit before tax by 70% as impairment indicators exist as at the year end.
- The rational documented by the engagement partner is inappropriate since the engagement partner failed to consider the total exposure of the company in its subsidiary, while evaluating the possible effects of undetected misstatements on the financial statements. There is no explanation for how the engagement concluded that there was no impact on the recoverability of the loans given to the subsidiary. The firm's contention that since such undetected misstatements were limited to specific investments, there is no pervasive impact (as per the requirements of SA 705), is not satisfactory.

Unapproved related party transactions not considered while forming the audit opinion

During the year the listed company purchased goods amounting to ₹150 crores from related parties as defined under the Companies Act, 2013. Turnover for the year amount to ₹1,300 crores. Under Section 188 of the Companies Act, 2013, shareholders' approval is required if purchases of goods from related party exceeds 10% of the turnover of the year – in the extant case it amounts to 12%. The electronic audit file simply states that the transactions are at arm's length and in the ordinary course of business. No detailed assessment is included. Considering non-compliance of the Companies Act, 2013, the audit opinion should have been modified in respect of this matter.

Multiple Choice Questions

1. Do you agree with CA. Jyoti's findings related to the EQCR? Choose the correct statement.

   (a) **No.** The observation is incorrect, as an EQCR is not required to be assigned for audits of listed entities unless specifically mandated by the engagement's complexity or regulatory body.

   (b) **Yes.** Mr. Qureshi does not possess the necessary sectoral experience and knowledge to perform the EQCR role effectively, and under SQC 1, he cannot make decisions for the engagement team.

   (c) **Yes.** Mr. Qureshi does not possess sectoral experience and technical knowledge, which disqualifies him from being an EQCR as per SQC 1, but he may still support the engagement in a limited capacity.

   (d) **No.** An individual can be appointed as an EQCR for multiple audit engagements, even in cases where they do not possess specific sectoral knowledge, as long as they fulfil other technical qualifications under SQC 1.

2. In accordance with SQC 1 and SA 230, the audit firm should have completed the assembly of final audit files by-

   (a) **13 August 2024 –** The firm is allowed total 90 days from the audit report date (including extended time (of 30 days) to accommodate additional reviews and documentation for complex audits, in line with regulatory flexibility for listed entities as permitted under SQC 1.

   (b) **24 July 2024 –** SQC 1 and SA 230 set a standard time limit of 60 days but allow for a flexibility of up to 10 additional days for firms auditing multiple subsidiaries, provided that sufficient documentation justifies the extension.

   (c) **3 August 2024 –** Certain international regulatory frameworks permit an additional 20 days beyond the standard time limit of 60 days prescribed under SQC 1 to address complexities arising from cross-border audit engagements.

   (d) **14 July 2024 –** SQC 1 requires audit firms to establish policies for the timely completion of audit files, and as per SA 230, this should ordinarily be no more than 60 days after the auditor's report date.

3. The threat to auditors independence identified in the inspection report represents_______.

   (a) **Self-review threat.** The Firm will not appropriately evaluate the results of an activity performed by an individual within the firm as part of a non-audit service on which the audit team will rely when forming a judgment as part of an audit.

   (b) **Self-interest threat.** Financial interest will inappropriately influence auditor's judgment or behaviour.

(c) **Advocacy threat.** Auditor will promote the Company's position to the point that his/ her objectivity is compromised.

(d) **Familiarity threat.** Due to a long or close relationship with the Company, the auditor will be too sympathetic to their interests or too accepting of their work.

4. Considering non-availability of audit evidence, CA. Manisha should have issued ________________?

   (a) Adverse audit opinion

   (b) Disclaimer of audit opinion

   (c) Unmodified audit opinion with an emphasis of matter paragraph

   (d) Adverse audit opinion on the investment and disclaimer of audit opinion on the remaining portion of the financial statements

5. Do you agree with CA. Manisha's observation relating to related party transactions?

   (a) **No**. Companies Act, 2013 requirements do not apply to an listed entity if they are conflict with SEBI Listing Regulations. SEBI Listing Regulations do not mandate shareholder approval.

   (b) **No.** Section 188 do not cover routine transactions like purchase of goods

   (c) **No.** Shareholders' approval under section 188 is not triggered if the transaction is at arm's length.

   (d) **No.** Shareholders' approval under section 188 is not required if the transaction is at arm's length and at ordinary course of business. **(5 x 2 = 10 Marks)**

Descriptive Questions

6. When should revenue from the Customer P be recognised by the Company? **(5 Marks)**

7. RECOMMEND the strategic measures BS & K LLP can implement to enhance the profitability and competitiveness of its bookkeeping division, considering internal inefficiencies, external market challenges, and the establishment of a Centre of Excellence. (Any two points) **(2 Marks)**

8 In light of the Ms. Jyoti's observation RE-DRAFT a policy to identify and evaluate possible threats to independence considering SQC 1? **(8 Marks)**

CASE STUDY 5

Agriculture and allied industries have been one of the vital sectors of the Indian economy. The crop protection industry refers to companies that manufacture fertilizers, pesticides, fungicides etc. This has a direct connection with agriculture. Allied industries of the agricultural sector include the animal husbandry industry, which is a branch of agriculture. It includes dairy farming, poultry farming, apiculture, aquaculture among others.

Mr. Karnal Singh, the founder of VEN Private Limited, founded the company in Hoshiarpur, Punjab in the year 1965. During the 1960s, the "Green Revolution" development program in India enhanced the productivity of crops. VEN Private Limited became one of the many companies manufacturing crop protection solutions. It focused on the manufacture of pesticides and insecticides.

During 1970s, "White Revolution", another landmark development program, transformed India from a milk deficient nation into the world's largest producer of milk. This popular movement prompted Mr. Karnal Singh to branch out into dairy farming, focusing on milk production and other dairy products. The crop protection business and dairy farm business turned out to be profitable ventures. Over the years, the need for animal feed products especially for livestock increased multifold. Animal feed refers to fodder like compressed and pelleted feed, grains and legumes made specifically to feed livestock cattle. Seeking this opportunity, Mr. Karnal Singh established the animal feed business in the 1990s.

Thus, VEN Private Limited became a diversified agri-business company having three different business verticals - Dairy, Animal Feed and Crop Protection.

Their vision statement reads: ***"Providing sustained value that nourish people and the planet"***

Over the years, each of these divisions has operated with the above vision in mind, aligned with what the company aspires to achieve. Although operations have been wholly contained within Punjab, the business has thrived and become profitable over the years. Management of the company in recent years has been handled by the family members, headed by Mr. Karnal Singh's son Mr. Kunal Singh.

The current management is exploring various opportunities to expand its business across different verticals. As a first step, it intends to assess the performance of each of its divisions as they currently stand in FY 2024–25 within Hoshiarpur, Punjab.

Divisional performance evaluation (Hoshiarpur, Punjab):

At VEN, the performance of each division is assessed independently, and staff members are rewarded based on the division's outcomes. For the financial year ending 31st March 2025, the financial performance of each division is as follows:

- The Dairy Division (DD) reported revenue of ₹ 6,80,00,000 and a profit before interest and tax (PBIT) of ₹ 60,10,000. The netbook value of plant and equipment stood at ₹ 5,65,25,000, and net current assets amounted to ₹ 1,04,75,000.

- The Animal Feed Division (AFD) achieved the highest revenue of ₹ 10,62,50,000 and the highest PBIT of ₹63,77,500. The netbook value of its plant and equipment was ₹ 7,43,75,000, and net current assets totaled ₹ 1,51,25,000.
- The Crop Protection Division (CPD) generated revenue of ₹ ,00,00,000, with a PBIT of ₹ 57,66,000. The netbook value of plant and equipment stood at ₹ 2,62,50,000, while the net current assets were ₹60,00,000.

It is noted that the PBIT for each division includes a deduction for head office expenses, which have been allocated 2% of the respective division's revenue. The company's cost of capital is 9% per annum, and depreciation on plant and equipment is charged at 15% per annum on cost.

VEN evaluates divisional performance using both Return on Investment (ROI) and Residual Income (RI), calculated based on the controllable profits and using the net book value of plant and equipment at the reporting date as the investment base. These metrics also serve as the basis for the company's performance-linked reward system. In this context, the manager of the Animal Feed Division has claimed that his division is the best-performing unit in the company.

It is proposed to expand the operations of the Dairy Division by venturing into the manufacturing of frozen desserts, as part of the strategic growth initiatives led by the management. For further details, refer to Annexure 1.

Operational efficiency and integration of supply chain management

In its effort to enhance operational efficiency and integrate supply chain management across its verticals, VEN has obtained consultancy services from an entity based in the USA. These consultancy services are aimed at developing a customised enterprise resource planning (ERP) software solution to optimise procurement, production, logistics, and distribution processes. The service is expected to be completed within three months from now. The consideration of USD 1,000,000 for such consultancy services is required to be paid in foreign currency. It is anticipated that the exchange rate will decline by 4% over the three months period and in order to protect the dollar payments after three months, finance manager has decided to hedge the risk involved in foreign currency transaction. He is looking forward to two options to hedge the transaction risk i.e. either Forward cover or Money market cover. The relevant spot and forward rates are:

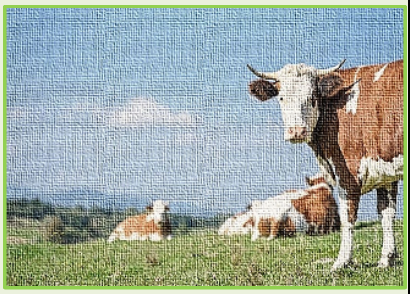
	Spot	**3 Month's Forward**
₹/ $	85.60/ 85.90	87.60/ 87.90

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

This ERP implementation has also supported the Crop Protection Division in resolving its warehousing and shipping constraints and enabled integration with Reachme, the e-commerce platform, as further explained in the Annexure 2.

Annexure 1

Diversification Strategy: The Dairy Farm operations for FY 2025–26 at Dhagwar, Kangra district, Himachal Pradesh



VEN perceives that there is an opportunity to grow in the premium milk and dairy product segment. For this it wants to follow a different business operating model than the current one at Hoshiarpur. At Hoshiarpur, raw milk is procured from farmers, which is then used to produce different dairy products. The quality of milk that is used cannot be directly controlled by VEN. The dairy products at the Hoshiarpur unit caters to the wide strata of customers ranging from those preferring economy range products to those wanting premium range products. For premium range products, VEN wants to have complete control over the quality of milk that is the main ingredient of its diary operations. For this reason, it wants to own the breed of cows from which the milk will be procured that will be used to make premium range products. In order to have access to open pastures, where the required conditions can be given to the cows. VEN plans to start a new unit of dairy farm operations at Dhagwar town in Kangra district, Himachal Pradesh. VEN wants to procure high milk-yielding breeds of cows that will provide high quality milk to be used to make premium range products. They will be bred, raised, fed and managed in order to produce milk and other dairy products. Cows will be milked every day. Milk thus obtained will be stored in cold storage and sold to retail distributors on a weekly basis. The milk will be fresh milk and concentrated or sweetened or otherwise altered in any way. Milk production will be the primary focus of this newly developed milk farm. Work for this new dairy farm began in FY 2025-26.

On April 1st, 2025, VEN purchased land for ₹3 crores at Dhagwar town for this new dairy farm. On this day, it also purchased 100 cows which had an average age of 3 years. VEN received a non-refundable grant of ₹10,00,000 for the acquisition of the cows.

During the financial year 2025-26, VEN incurred the following costs:

(i) ₹12,00,000 to raise and feed the animals in terms of taking care of their foods requirements and managing their upkeep to maintain them in healthy condition.

(ii) ₹5,00,000 as breeding fee to a local farmer.

On 1st October 2025, 20 calves were born. There were no other changes in the number of animals during the year ended 31st March 2026.

On March 31st, 2026, VEN had 10,000 litres of milk in cold storage, which had not been sold to retail distributors. The milk was sold shortly after the year end at the same market price, which had not changed since the year end.

Information relating to fair value

As of April 1st, 2025, the fair value less cost to sell of the land was ₹3 crores. Over the next two valuation dates, the value appreciated to ₹3.10 crores on October 1st, 2025, and further to ₹3.15 crores by March 31st, 2026. For milk, the fair value per litre stood at ₹40 on April 1st, 2025, increasing to ₹42 by October 1st, 2025, and further to ₹45 as of March 31st, 2026. Regarding livestock, the fair value of a newborn calf rose from ₹30,000 per calf on April 1st, 2025, to ₹35,000 on October 1st, 2025, and reached ₹40,000 by March 31st, 2026. A 6-month-old calf was valued at ₹32,000 on April 1st, 2025, ₹38,000 on October 1st, 2025, and ₹44,000 by March 31st, 2026. The fair value of a 3-year-old cow increased from ₹42,000 per cow on April 1st, 2025, to ₹47,000 on October 1st, 2025, and reached ₹50,000 by the end of the financial year. Similarly, a 4-year-old cow was valued at ₹42,000 per cow on April 1st, 2025, ₹48,000 on October 1st, 2025, and ₹52,000 on March 31st, 2026.

Product Development Strategy: Introduction of frozen dessert products at Hoshiarpur, Punjab within the Dairy Division

It has been proposed to expand the business of Dairy Division at Hoshiarpur, Punjab by venturing into manufacture of frozen desserts. This would require additional investment in plant and equipment of ₹1,75,00,000 which will generate a contribution of ₹95,00,000 per annum. The annual fixed cost of the division will increase by ₹8,50,000 (excluding depreciation). Net current assets of this division will increase by ₹25,00,000 due to the acceptance of this proposal.

Annexure 2: Expansion plans for Crop Protection Division for FY 2025-26

Crop Protection Division primarily sells pesticides and insecticides. The main market for the company has been Punjab. Recently, Mrs. Gunjan Wadhwa, the head of the CPD informed the management at VEN that there is a growing demand for these products from the nearby states of Haryana and Uttar Pradesh. These are from small pockets of rural towns, comprising farmers who have small landholdings and do not have direct access to VEN's distributors in Punjab. Therefore, they buy these products from agents, who charge a hefty commission, which reduces their profit margins. The CPD in the meantime is looking to expand its market presence outside Punjab. Mrs. Wadhwa sees an opportunity to expand in rural towns rather than in larger semi-urban cities where competition is stiff. An additional hurdle that the company faces is the lack of warehousing and shipping facilities, since VEN has had its operations only within Punjab. While VEN's newly implemented ERP system has significantly improved internal efficiencies across procurement, production, logistics, and distribution, it does not substitute for the physical infrastructure and external network required to penetrate new rural markets. Since the project is still at a nascent stage, Mrs. Wadhwa does not recommend investing in warehousing and shipping facilities in these newer markets yet. Hence, she approaches Reachme, an e-commerce company who are willing to connect sellers like VEN with buyers like small farmers in rural areas. The company earns a seller fee for the sales made through the website. Buyers pay a yearly subscription fee in order to access the website services. Further the company is willing to provide VEN warehousing and shipping services for an additional fee.

Multiple Choice Questions

1. The land on which VEN has its dairy farm operations at Dhagwar, Himachal Pradesh is classified as agricultural land. Which of the following statements is true?

   (a) Income from dairy farming can be considered agricultural income and is therefore exempt from tax.

   (b) Income from dairy farming can be considered agricultural income as like traditional agricultural activities, it is related to agricultural land.

   (c) Income from dairy farming can be considered business income and is non-agricultural income

   (d) Income from dairy farming performed on agricultural land can be apportioned between business income and agricultural income based on certain pre-defined ratios.

2. The Animal Feed Division, at Hoshiarpur is headed by Gurwinder Singh. He wants to improve the division's Economic Value Added (EVA). Which of the following can help the division achieve this?

   (a) Operating profits can be improved without investing more capital

   (b) Choose projects where an additional infusion of capital gives a return that is less than the cost of obtaining this additional capital

   (c) Discontinue projects where the return on investments yields more than the cost of capital

   (d) Change the cost of capital to reflect EVA that is favourable

3. What type of business model does Reachme follow?

   (a) Hypermarket model

   (b) Digital Platform model

   (c) Freemium model

   (d) Service Ecosystem model

4. Suppose if after 3 months ₹/ $ Spot Rate happens to be 89.00/ 89.34 the expected loss of…………….is likely to be avoided by company if it takes forward cover.

   (a) ₹ 11,00,000

   (b) ₹ 14,00,000

   (c) ₹ 14,40,000

   (d) ₹ 17,40,000

   Note: Consider all calculations **up to 2 decimal points** for accuracy.

5. The compliance officer of VEN Private Limited, Mrs. Nikita, is unsure whether prior RBI approval is applicable for the foreign exchange remittance for the purpose of obtaining such consultancy services from abroad.

   Advise Mrs. Nikita on whether prior approval from the Reserve Bank of India (RBI) is required for remitting foreign exchange:

   (a) Yes, prior RBI approval is required because the amount exceeds the permissible limit under FEMA regulations.

   (b) No, prior RBI approval is not required because the amount is within the permissible limit under FEMA regulations.

(c) Yes, RBI approval is mandatory for all payments to foreign entities irrespective of the amount involved.

(d) No, prior RBI approval is not required since the company is engaged in agricultural activities. **(5 x 2 = 10 Marks)**

Descriptive Question

6. To EVALUATE divisional performance and support strategic decisions on expansion and performance measurement, answer the following:

   (i) **Compute** the Return on Investment (ROI) and Residual Income (RI) for each division. **Assess** the validity of the claim made by the manager of the Animal Feed Division based on these performance measures.

   (ii) **Evaluate** the proposal to expand the Dairy Division for a one-year period. Based on ROI and RI analysis, **advise** management on whether the project should be accepted.

   (iii) **Analyse**, with the help of **calculations** from the Dairy Division's proposal, how ROI can improve over time with the aging of assets.

   (iv) Recognizing the limitations of purely financial metrics, the management of VEN Ltd. intends to incorporate Non-Financial Performance Indicators (NFPIs) for the following functional areas:

   (a) Human Resource Management

   (b) Product and Service Quality

   (c) Brand Awareness and Company Profile

   Explain the relevance and scope of NFPIs in evaluating performance in each of these areas.

   Note- Compute ROI and RI by considering "Net Current Assets" along with "Net Book Value of Plant and Equipment". **(4 Marks)**

7. Hari Singh, the head of the Dairy Division at Dhagwar, Himachal Pradesh. He has done his masters in dairy farming (specialization). Financial performance will be one of the metrics that is used to assess his performance for the year. Since he does not have a background in finance or commerce, he wishes to understand the impact of the above

transactions on the financial reports that are being prepared for his division for the year 2025-26.

As the Chief Accountant, guide him about how the above information has been accounted for in the financial reports prepared as per Indian Accounting Standards for the year ended March 31st, 2026.

PREPARE an extract of the profit and loss account and the Balance Sheet to show how these transactions will be reflected for FY 2025-26.

Note: VEN uses the cost model to account for land acquisitions. **(5 Marks)**

8. Advise the VEN whether it should adopt Forward Cover or Money Market Cover? Consider all calculations up to 2 decimal points for accuracy. **(6 Marks)**

Mock Test Paper - Series II: April 2025

Date of Paper: 14th April 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. (b) ¥ 21,22,950

Reason: As per Rule 8 (computed value) read with Rule 3 and Rule 10 of Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, value of imported goods shall be based on a computed value, which shall consist of the sum of the cost or value of materials and fabrication or other processing employed in producing the imported goods; an amount for profit and general expenses equal to that usually reflected in sales of goods of the same class or kind as the goods being valued which are made by producers in the country of exportation for export to India; and the cost or value of all other expenses under sub-rule (2) of rule 10.

So, FOB value (in '000) shall be ¥ 2,040 (i.e.1,500 + 300 + 90 + 150)

Transport Cost given is ¥ 60

Cost of Insurance to the place of Import, since not ascertainable, hence 1.125% of FOB value i.e. 1.125% of 2,040 is equal to ¥ 22.95

Hence, Assessable Value (in '000) shall be 2040 + 60 + 22.95 = 2122.95 or **¥ 21,22,950**

2. (c) ₹ 8,69,607

Reason: Liability in $ to be paid in 3 months' time = $10000

Deposit such number of dollars in the US, that it will become $10000 in three months' time = $10000 / (1+0.8%*) = $ 9921

* 3.2% is annual rate, to calculate quarterly rate simply divide it by 4.

To deposit $9921, Daily Mart must have to borrow in ₹ to convert same in $ (but transaction for $) at spot market exchange rate i.e. ₹ 85.9345 per $ (because market will sell at higher). Daily Mart have to borrow ₹ 8,52,556 @8%p.a. for three months.

Daily Mart have to pay back the ₹ borrowing in three months' time i.e. 8,52,556+2% i.e. ₹ 869607.

(**Note:** All calculation round-off to nearest full unit of currency.)

3. (c) ₹ / ¥ 57.05

Reason: For imported goods, the conversion to ₹ shall be done with reference to rate of exchange prevalent on the **date of filling of bill of entry** under section 46 of the Customs Act, 1962.

For custom valuation the rate of exchange means rate of exchange determined by the board or ascertain in such manner as the board may direct.

Note for better understanding of students: The exchange rates of 22 currencies is published online in advance for ease of all importers and exporters. These exchange rates would be made available on the ICEGATE website twice a month i.e., on the evening of the first and third Thursdays of the month and would be effective from midnight of the following day. Detailed procedural modality has been explained in the ***Circular 07/2024-Customs dated 25.06.2024.***

4. (b) Statement II is correct but statement I is incorrect

Reason: Second proviso to section 161 (2) of the Companies Act 2013, provides that an **alternate director shall not hold office** for a period longer than that permissible to the director in whose place he has been appointed and shall vacate the office if and **when the director in whose place he has been appointed returns to India;** hence first statement is **incorrect.**

Further, second statement is **correct,** because as per section 161(1) of the Companies Act 2013, the articles of a company may confer on its Board of Directors the power to appoint any person, other than a person who fails to get appointed as a director in a general meeting, as an **additional director** at any time who shall hold office up to the **date of the next annual general meeting or the last date on which the annual general meeting should have been held, whichever is earlier.**

5. (d) II and III

Reason: As per sub-section 1 to section 14A of the Foreign Exchange Management Act, 1999, the Adjudicating Authority may, by **order in writing, authorise an officer of Enforcement not below the rank of Assistant Director** to recover any arrears of penalty from any person who fails to make full payment of the penalty imposed on him under section 13 within the period of ninety days from the date on which the notice for payment of such penalty is served on him.

Further, sub-section 2 provides that the officer referred to in sub-section (1) shall exercise all the like powers which are conferred on the income-tax authority in relation to recovery of tax under the Income-tax Act, 1961 (43 of 1961) and the procedure laid down under the Second Schedule to the said Act shall mutatis mutandis apply in relation to recovery of arrears of penalty under this Act.

Answers to the Descriptive Questions

6. One of the most often used business strategy tools for organisations to have a better understanding of the primary competitive forces operating in their market is Porter's Five Forces model.

Michael Porter, a professor at Harvard Business School, developed the Five Forces Model, which was initially released in 1979. Porter's Five Forces are competitive rivalry, supplier power, buyer power, threat of substitution, and threat of new entry.

When evaluating strategy, the model advises firms to take into account external factors rather than only their direct rivals. Organisations can strengthen and improve their competitive position in the market by redefining their strategy, identifying areas for improvement, and making better judgements by comprehending these influences.

Assessment

Force 1 - Existing competitive rivalry

There are currently four competitors on the market, and it seems like there is fierce competition. These businesses would probably oppose a newcomer to the market, especially a big, global competitor like Daily Mart. This would most likely be accomplished by tightening supplier contracts, expanding stores quickly, and increasing marketing.

Nevertheless, despite the recession, the scenario's data indicates that the "everything at 99" shop market sector is still expanding. This would imply that rivals may enhance their outcomes by just keeping up with industry performance. Because other geographic areas that aren't yet fully supplied by the current competitors can be exploited, the market may even gain legitimacy and continue to grow as a result of Daily Mart's entry.

Moreover, Daily Mart is making income (bottom line) of 24 crores in existing country; which more than total revenue (top line) of all four ‘everything at 99’ stores taken together i.e. 22.60 crores; hence size of operation is a plus for Daily Mart.

Force 2 - Bargaining power of suppliers

The bargaining strength of Daily Mart's suppliers is minimal. Daily Mart Stores are the primary clients of several small suppliers, with the exception of the almond provider. Due of the lack of differentiation in the items, Daily Mart can easily switch suppliers. It is improbable that any of these vendors could use forward integration to compete with their present clients.

The suppliers of Daily Mart don't have much negotiating power. Their primary clients are Daily Mart Stores, and there are several small suppliers (apart from the almond supplier). Additionally, the items lack differentiation, making it simple for Daily Mart to switch vendors. By using forward integration, none of these providers are likely to become rivals of their present clients.

Force 3 - Bargaining power of customers

Customers of Daily Mart have significant negotiating leverage. There are several reasons for this:

a. Customers looking for cheaper purchase costs are drawn to the products because of their low profit margin.

b. The buyer can easily move to a different supplier because Daily Mart provides unbranded commodity goods. As a result, switching costs are minimal.

c. Other suppliers can readily offer standard, undifferentiated products. In order to get the best terms of supply, customers can thus select which supplier to work with and pit the businesses against one another.

d. Because they are probably extremely price sensitive, customers will make significant efforts to secure the best terms of supply.

Force 4 - Threat of substitutes

The "everything at 99" stores could be replaced by traditional supermarkets since they provide a large selection of ambient goods, frequently with rival brands available. The prices varies, though, and no supermarket has yet to use the discount fixed-price sale strategy; instead, they prefer to set themselves apart with well-known brands. Since the supermarkets are out of town with plenty of parking and easy access by car, location is also a crucial factor. However, because Daily Mart is a well-known and significant participant in the fixed-price sector, supermarkets may change their strategy as a result of its entry into the Bangladesh countries.

Traditional supermarkets also provide home delivery and online shopping. The internet might also be viewed as a substitute channel because ambient items, like those sold at 'everything at 99' stores, are ideally suited to this strategy. However, considering how sensitive buyers are to pricing, the ₹ 25-50 delivery fee might lessen this threat.

Moreover, Daily Mart is making income (bottom line) of 24 crores in existing country; while the largest traditional supermarket player in county Bangladesh has revenue (top line) of 8.5 crores in F.Y. 2024-25; hence size of operation is a plus for Daily Mart or act a back-up to be there and overcome initial hard days in the country Bangladesh.

Force 5 - Potential entrants and barriers to entry

The substantial amount of capital needed to have a credible presence in this sector is a major barrier to entrance. This is not expected to be an issue for Daily Mart, though, since it has the funds on hand to lease a sizable number of stores in Bangladesh and build a respectable presence in the region.

Since many towns and cities now have empty stores that are reasonably priced to rent, the lower rental costs that are now available in Bangladesh also help to lower capital expenditures. Additionally, more and more landlords are agreeing to rent these establishments for a comparatively short fixed-term lease, whereas previously they demanded exorbitant prices and lengthy leases. As a result, this market's departure costs are decreased.

Brand awareness is one entry barrier that could pose a challenge for Daily Mart. The current competitors have more than 85% brand recognition rate, while only 10% of people are familiar with Daily Mart. If Daily Mart wants to succeed in this market, it could need to invest a lot of money in a big marketing campaign.

(Note – Answer is explanatory in nature, reasonable amount of explanation by students is also acceptable; provided they cover/consider all important facts/points)

7. All the elements of 7S framework have equal importance, while shared values are core to rest of elements. Hard and Soft S are different from each other only in respect to identification and influence that can be exercised by the management.

Strategy, Structure, and Systems are feasible and easy to identify. These can be found in strategy statements, corporate plans, organizational charts and other documentations. They are easier to change than the others. Therefore, called hard S elements.

While Skills, Staff, Style, and Shared Values are not change-feasible. These are harder to describe since capabilities, values and elements of corporate culture are continuously developing and changing. They are highly determined by the people at work in the organization. Hence these are harder to change directly, and typically take longer to do so. Therefore, called soft S elements.

Effective companies tend to pay equal attention to these soft S factors as much as they pay to the hard S's. Hence Daily Mart advised to focus on all the 7Ss.

8. As per Ind AS 115 "Revenue from contracts with customers", revenue is recognized when control of goods or services is transferred to the customer. The standard introduces a 5-step model for revenue recognition, centred around the core principle that revenue should reflect the transfer of promised goods or services in exchange for consideration expected. If a contract includes a significant financing component, the transaction price must be adjusted for the time value of money— as the timing of payments provides either the customer or the entity with a significant financing benefit. Under Ind AS 115, when goods are sold with the right of return, revenue is recognized only to the extent that it is highly probable that a significant reversal of revenue will not occur when the uncertainty is resolved. Recognize revenue for the portion of goods expected not to be returned. Refund liability is recognized for the amount expected to be refunded.

Daily Mart will recognize revenue when control of the goods is transferred to Max Retail and it becomes probable that no significant reversal will occur i.e., after the 90-day return period, as the product is new and the return history is unavailable. The contract also includes a significant financing component. This is evident from the difference between the amount of promised consideration of ₹ 1,21,000 and the cash selling price of ₹ 1,00,000 at the date that the goods are transferred to the customer.

The contract includes an implicit interest rate of 10 per cent (i.e. the interest rate that over 24 months discounts the promised consideration of ₹ 1,21,000 to the cash selling price of ₹ 1,00,000). The entity evaluates the rate and concludes that it is commensurate with the rate of interest that would be reflected in a separate financing transaction between the entity and its customer at contract inception.

At the time of delivery:

- A contract liability of ₹ 1,00,000 is recognized, deferring revenue recognition.
- After 90 days, when returns are no longer expected, the contract liability is reversed and revenue of ₹ 1,00,000 is to be recognized.

Financing component of ₹ 21,000 shall be recognized as interest income over the period of 2 years. Until the entity receives the cash payment from the customer, interest revenue would be recognized in accordance with Ind AS 109. In determining the effective interest rate in accordance with Ind AS 109, the entity would consider the remaining contractual term.

ANSWERS TO THE CASE STUDY 2

Answers to the Multiple Choice Questions

1. (b) **A – III, B – I, C – V, D – II, E – IV**

   Reason:

   A Storing vendor delivered freshly laundered crockery, bedding and laundry for future use as per guest requirements – Inbound Logistics as it relates to activities of receiving, handling of materials from the supplier and their storage until further use later in operations.

   B Ensuring cleanliness and safety of rooms, working order of facilities offered like TV and internet service, coffee machines – Operations as these are activities related to converting inputs into production of output or service.

   C The review of food items to remove the ones past expiry to ensure customer satisfaction and safety – Outbound Logistics as it relates to storage and movement of the end product from the production line to the customer.

   D Free shuttle service to attract guests to stay at the hotel – Marketing and sales as these are activities related to communicating, selling and delivering the product or service to the customer.

   E Front desk activities handling complaints, customer support – Service includes after sale service, handling customer complaints, customer support, training etc. It is one of the most important activities in their value chain model. Good service ensures happy guests.

2. (c) **Threshold attribute**

   Reason: Threshold attribute as this is feature that is taken for granted by the guests at the resort. However, if the required quality is not met it would cause dissatisfaction.

3. (a) **When all five directors of HomeInn Limited attending the meeting consent to the acquisition of property**

   Reason: the resolution will be taken as passed when all five directors of HomeInn Limited attending the meeting consent to the acquisition of property

4. (d) **₹ 1.90 crores. EVA = NOPAT less capital charge on invested capital**

Reason: Net Operating Profit After Tax (NOPAT) = Net Operating Profit before Interest and Tax Less Taxes

= ₹5 crores less 30% of ₹5 crores = ₹3.50 crores.

Capital charge on invested capital = WACC * Invested capital = 8% * ₹20 crores = ₹1.60 crores.

Therefore, EVA = ₹3.50 crores less ₹1.60 crores = ₹1.90 crores.

5. (a) **HomeInn Limited should outsource all its cleaning and food service operations in all its properties ignoring the risks of outsourcing, if the cost of outsourcing is less than the cost of providing this service in-house. This is because the Economic Value Added (EVA) of the company will be positively impacted despite the risk of outsourcing.**

Reason: HomeInn Limited should reconsider the feasibility of operating properties where the Economic Value Added (EVA) is negative. Negative EVA implies that the profits from the property does not cover the cost of invested capital.

Answers to the Descriptive Questions

6. (a) **Risks of outsourcing cleaning and food service under the luxury resort model:**

In the luxury resort business under the brand "HomeInn Comfort", the target guests are travellers on leisure. The primary feature of this model would be "good quality of service". Maintaining cleanliness of premises and food service are critical activities in the operation of luxury hotels. Therefore, customer satisfaction on these metrics is paramount to sustain and grow business. With the ability to post reviews online on booking portals, any negative review (whether justified or not) can reach very easily to a large number of potential guests. This can negatively impact future business. Hence, "HomeInn Comfort" brand has to deliver the quality of service that it provides in terms of cleanliness and food that should meet and beat the guests' expectation.

Outsourcing these services to well established vendors is advantageous since the focus can remain on improving guest experience. It may also be cost advantageous in many cases. However, there a number of risks in this model.

(1) The required quality of service for "HomeInn Comfort" resort properties should be delivered by these vendors. Detailed service level agreements need to drawn up to ensure this. HomeInn Limited should be able to

monitor the performance of these vendors. In cases of non-delivery of the required level of service, the agreement should provide for means of redressal. This could vary from compensation for any loss in business to immediate termination of service.

(2) HomeInn Limited should ensure that it can easily and economically switch service providers if required. For this it has to identify alternate vendors who can provide the same level of service as the current ones. At the same time, since the resorts are in locations where the number of vendors providing these services is limited, it increases the risk of outsourcing these services. The other risk in outsourcing could be of instances where well performing vendors could go bankrupt and shut shop. In such cases, resort operations could be immediately impacted since such services can no longer be availed from these vendors. Again, list of alternate service providers is a necessary back-up that the hotel should have.

(b) Where the management of HomeInn Limited determines that guests experience (primarily influenced by cleanliness of facilities and food service) is a very important critical success factor (CSF) it may choose not to outsource these activities to outside vendors. Quality control issues and poor customer service may wipe out any cost savings attributed to lower expenses from the outsourcing model. HomeInn Limited would then have to consider developing in-house departments that cater to cleanliness and food service. Control over factors such as input material used, the performance of service, equipment used, training of staff and other essential activities can ensure that the required service quality can be achieved. Better service enhances guest experience through these critical activities. Compared to outsourcing, this might be a costlier option. However, since the guests are ready to pay a premium for service quality, HomeInn Limited could choose to charge higher rates for its resort properties.

(c) The difference between the risk of outsourcing for "HomeInn Comfort" and "HomeInn Budget" driven by the difference in the focus and target customer segment of their respective business models. "HomeInn Budget" focuses on providing value for money to the cost conscious short stay guests while "HomeInn Comfort" focuses on customer experience through quality of service provided to the guests staying on longer vacations.

As regards "HomeInn Budget" due to high real estate cost, both for ownership and rental, the cleaning and food service has been outsourced. This enables HomeInn Hotels to keep the costs of operation low, which is very critical for the business model of "HomeInn Budget". Hence, instances of dis-satisfaction among guests as regards quality of cleaning and food service, within certain limits will not negatively impact business. These activities are non-core and hence can be considered for outsourcing. For "HomeInn Budget", the critical success factor (CSF) is low cost of operations in order to be able to offer guests rooms at reasonable rates.

As regards "HomeInn Comfort" where CSF is guests experience, which is primarily influenced by cleanliness of facilities and food service, these activities become core activities, hence the risks of outsourcing are higher. Therefore, there may need to be a consideration whether to outsource these activities at all. Pricing for rooms at these resorts can factor any additional costs to be incurred to ensure the delivery of the required quality of service in these resorts.

(d) Branding of properties under either "HomeInn Budget" and "HomeInn Comfort" makes helps potential customers determine their expectations from each of such properties. Based on these expectations the customer appeal can be distinctly determined for each of these properties. This will help them choose which property could potentially satisfy their expectations better. Thus by operating different properties under either "HomeInn Budget" or "HomeInn Comfort" brand, HomeInn Limited has created a brand strategy that can effectively communicate their product and service offering to potential customers.

7. Computation of total cost of construction of HomeInn Comfort" resort being developed in Goa as per Indian Accounting Standard 16, "Property, Plant and Equipment"

Particulars	Amount (₹)
Purchase of land	15 crores
Site preparation costs including cost of dismantling existing structures on site	2 crores
Direct Material costs	8 crores
Direct Labour costs (including ₹ 20 lakh that was incurred during a labour strike)	2.8 crores
Testing the safety of construction at the resort site	0.5 crores
Consultation fee (Legal and architect) related to construction of resort	1.5 crores
Total cost to be capitalized HomeInn Comfort" resort being developed in Goa as per Indian Accounting Standard 16.	29.80 crores

As per Para 20 (c) of Ind AS 16, "Property Plant and Equipment" recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Costs incurred in using or redeploying an item are not included in the carrying amount of that item. Therefore, Costs of relocating or reorganising part or all of an entity's operations are not included in the carrying amount of an item of property, plant and equipment.

Relocation expense of hotel manager from Mangalore to Goa and administrative and general overheads allocated to the project by corporate office are not capitalized under Indian Accounting Standard 16. Direct labour costs incurred during a labour strike is not attributable to construction of resort and hence not capitalized. All other costs are directly attributable to the construction of the resort.

8. As per Section 12(3) of the IGST Act, 2017, the place of supply of services by way of lodging accommodation service by a hotel, inn, guest house, home stay, club or campsite, by whatever name called, and including a house boat or any other vessel shall be the location at which the immovable property or boat or vessel, as the case may be, is located or intended to be located provided that if the location of the immovable property or boat or vessel is located or intended to be located outside India, the place of supply shall be the location of the recipient. In case Immovable property related service attributable to different States/ Union territories – where the immovable property/ boat/ vessel is located, value shall be proportionate in the ration of number of nights stayed in each such property.

The place of supply in this case is both in the Union territory of Delhi and in the State of Rajasthan and the service shall be deemed to have been provided in the Union territory of Delhi and in the State of Rajasthan in the ratio 4:2 respectively. The value of services provided will thus be apportioned as ₹ 40,000/- in the Union territory of Delhi and ₹ 20,000/- in the State of Rajasthan.

ANSWERS TO THE CASE STUDY 3

Answers to the Multiple Choice Questions

1. (b) **On subsequent remeasurement as on 1st Oct, 2024, aircraft shall be carried at ₹ 290 crore and there will be gain of ₹ 25 crore to be recognised in the books as per Ind AS.**

   Reason: As per Ind AS 105, An entity should measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. On 1st April, 2023, the fair value less costs to sell of the aircraft was determined to be ₹ 250 crore, which was lower than its carrying amount of ₹ 255 crore at that time. Accordingly, an impairment loss of ₹ 5 crore was recognised in the profit and loss account, and the aircraft was carried at ₹ 250 crore. Following classification as held for sale, no further depreciation is required to be recognised.

   On 31st March, 2024, fair value less costs to sell has been reassessed at ₹ 265 crore. Accordingly, there is gain of ₹ 15 crore, which is less than the cumulative impairment losses recognised to date (₹ 35 crore + ₹ 5 crore = ₹ 40 crore). Accordingly, it is credited in profit or loss and the property shall be carried at ₹ 265 crore.

   Subsequently, on 1st Oct, 2024, the fair value less costs to sell further increased to ₹ 300 crore. There is further gain of ₹ 35 crore, however, Gain to be recognised on remeasurement is restricted to the cumulative impairment losses recognised to date (₹ 35 crore + ₹ 5 crore – ₹ 15 crore = ₹ 25 crore). Accordingly, a restricted gain of ₹ 25 crore is credited in profit or loss and the property shall be carried at ₹ 290 crore.

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

   Reason: The correct answer is (c). Lean thinking is an organized management philosophy to reduce waste. In the above case scenario (i), (iii) and (iv) represent reduction of waiting time for guests. Waiting time is a form of waste in a lean system. Across the board reduction of ground staff to reduce cost of operations on the other hand does not necessarily lead to reduction of waste. While cost efficiencies are important, indiscriminate across the board reduction of ground staff can cause inefficiencies in the process flow of operations. Since there is a lot of passenger volume, this rather increases the possibility of generating waste in the form of inefficient operations since there may be insufficient staff to handle the operations.

3. (a) Performance attribute

Reason: The answer is (a) Performance attribute. This one dimensional shows the linear relationship between YIAL's investment in providing extensive connectivity at affordable rates to that of customer satisfaction. Better the connectivity and better the affordability by the customer, better the customer satisfaction.

4. (d) As per the provisions of Companies Act, 2013, Mr. Chabbra is entitled to ₹ 2 crores as remuneration in FY 2024-25.

Reason: The correct answer is (d). Under Section II of Part II of Schedule V to the Companies Act, 2013, the remuneration payable to managerial personnel is linked to the effective capital of the company. Schedule V states that where in any financial year during the tenure of a managerial person or other director, a company has no profits or inadequate profits, it may pay remuneration to the managerial person not exceeding ₹ 120 Lakh (₹ 1.2 crores) in the year in case the effective capital of the company is between ₹ 100 crores and ₹ 250 crores. However, the remuneration in excess of ₹120 Lakh maybe paid if the resolution passed by the shareholders is a special resolution.

YIAL has an effective capital of ₹ 215 crores. From the foregoing provisions as contained in Schedule V, the payment of ₹ 2 crore in FY 2024-25 to Mr. Chabbra is more than ₹ 120 Lakh (₹ 1.2 crores) specified limit for companies with effective capital between ₹100 crores and ₹250 crores. However, the remuneration of ₹ 2 crores has been approved by a special resolution passed by the shareholders. Hence, Mr. Chabbra is entitled to ₹ 2 crores as remuneration in FY 2024-25.

5. (a) Operate affordable low cost model and premium full service model under different brands of YIAL. Pricing of tickets can be differentiated based on which model that particular flight is offering, higher price for premium full service tickets and lower price for affordable tickets.

Reason: The correct answer is (a). Operate affordable low cost model and premium full service model under different brands of YIAL. Pricing of tickets can be differentiated based on which model that particular flight is offering, higher price for premium full service tickets and lower price for affordable tickets.

This concept is based on multi-brand strategy with the goal of catering to different customer segments simultaneously. By operating under different brands for example, YIAL Express (for low cost affordable travel) and YIAL Comfort (for full service premium travel), the passengers can clearly understand the expected level of service offering from the flight. Pricing will also be accordingly charged based on the level of service. Hence, this will help avoid confusion about the service offering for the flight, enabling YIAL to operate both models simultaneously.

Answers to the Descriptive Questions

6. As per the statement given in the problem, Flight 7J6622 incurs a net loss of ₹380.000. This is the net result of revenue less costs. Revenue is entirely variable depending upon passenger occupancy. Costs are both variable and fixed nature. To analyze the impact of dropping Flight 7J6622, we need to re-compute net gain/ (loss) that YIAL earns when it operates the flight based on relevant costing principles.

Net Gain/ (Loss) = Revenue earned from flight operations less Variable costs of operation

Revenue earned is the ticket revenue earned from flight operations of 7J6622, this is entirely variable. Variable costs of flight operations are those expenses that would be incurred only when the flight is operated. These include variable expenses per passenger, salaries flight assistants, overnight costs for flight crew and assistants, fuel for aircraft, a third portion of flight insurance that is specifically related to this flight sector and flight promotion expense. These are expenses that will not be incurred if the flight is not operated. Hence, relevant for decision making.

Other expenses like salaries of flight crew and hanger parking fees for aircraft are fixed expenses that will be incurred even if the flight does not operate. Loading and flight preparation expense is an allocated cost that will continue to be incurred even if flight 7J6622 does not operate. Depreciation of aircraft and liability insurance expense (2/3rd portion not related to a specific flight sector) are sunk costs. These expenses have already been incurred and hence are irrelevant to decision making. Therefore, these fixed, allocated and sunk expenses are ignored while analyzing the decision whether to continue operating flight 7J6622.

Statement showing Net Gain / (loss) if flight operations continue	**₹**	**₹**
Contribution margin if flight operations continue		600,000
Less: Relevant costs if flight operations continue		
Salaries, Flight Assistants	80,000	
Fuel for Aircraft	250,000	
Liability Insurance (1/3 which is the special charge for high risk destinations)	50,000	
Flight Promotion	50,000	
Overnight Costs for Flight Crew and Assistants	80,000	
Total relevant costs if flight continues to operate		510,000
Net Gain / (Loss)		90,000

If YIAL discontinues flight 7J6622, profits will reduce by ₹ 90,000. The statement showing loss in operations of ₹ 380,000 is misleading for decision making purpose because it accounts for costs that are fixed and irrelevant. However, since flight 7J6622 yields a net gain of ₹ 90,000, flight operations should continue.

7. (i) **Initial measurement of right-of-use of each aircraft would be calculated as follows:**

Particulars	Amount (₹)
Initial measurement of lease liability for each aircraft	8,50,00,000
Initial lease payments made to Airway Inc. on 1st October, 2024, the lease commencement date (per aircraft)	10,00,000
Lease incentives received from Airway Inc. (per aircraft)	(50,00,000)
Initial direct cost per aircraft	1,00,000
Initial measurement of right-of-use of each aircraft	8,11,00,000

Right-of-use of each aircraft will be ₹ 8.11 crores. For 5 aircrafts, the total lease will be recognized at ₹ 40.55 crores.

(ii) YIAL is required to perform a planned check after every 1,00,000 hours of flight hours for each aircraft. This obligation is dependent on future circumstances. For example, YIAL may terminate the lease prematurely. Therefore, this does not lead to an obligation and therefore there is no need to make any provision for these checks. However, at the end of 12 years lease term, YIAL is obliged to carry out a final check irrespective of the number of hours actually flown by the aircraft. Hence, YIAL has to provide for these costs at the present value of expected costs. This provision has to be made at the beginning of the lease term i.e. in the FY 2024-25. The costs must be included in the cost of the right-of-use (ROU) asset pursuant to para 24 (d) of Ind AS 116.

8. Section 194-I requires deduction of tax at source at specified percentage on any income payable to a resident by way of rent. Explanation to this section defines the term "rent" as any payment, by whatever name called, under any lease, sub- lease, tenancy or any other agreement or arrangement for the use of any (a) land; or (b) building; or (c) land appurtenant to a building; or (d) machinery; or (e) plant; or (f) equipment; or (g) furniture; or (h) fitting, whether or not any or all of them are owned by the payee.

On the issue of whether payment of PSF by an airline to an Airport Operator qualifies as rent to attract TDS under section 194-I, the Bombay High Court relied on the Apex Court ruling in Japan Airlines and Singapore Airlines case, wherein it was observed that the primary requirement for any payment to qualify as rent is that the payment must be for the use of land and building and mere incidental/minor/insignificant use of the same while providing other facilities and service would not make it a payment for use of land and buildings so as to attract section 194-I. Accordingly, the Bombay High Court declined to admit the ground relating to the applicability of the provisions of section 194-I on PSF charges holding that no substantial question of law arises. The provisions of section 194-I shall not be applicable. Therefore, Mayank Saxena need not deduct TDS on the PSF payments made to airport operators at Delhi and Mumbai.

ANSWERS TO THE CASE STUDY 4

Answers to the Multiple Choice Questions

1. (b) **Yes. Mr. Qureshi does not possess the necessary sectoral experience and knowledge to perform the EQCR role effectively, and under SQC 1, he cannot make decisions for the engagement team.**

   Reason: Under paragraph 68 of SQC 1 the firm's policies and procedures should address the appointment of EQCRs and establish their eligibility through technical qualifications required to perform the role, including the necessary experience and authority. Also, as per paragraph 70 of SQC 1 an EQCR does not make decisions for the engagement team.

2. (d) **14 July 2024 – SQC 1 requires audit firms to establish policies for the timely completion of audit files, and as per SA 230, this should ordinarily be no more than 60 days after the auditor's report date.**

   Reason: SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files.

   As per paragraph A21 of SA 230, an appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.

3, (a) **Self-review threat. The Firm will not appropriately evaluate the results of an activity performed by an individual within the firm as part of a non-audit service on which the audit team will rely when forming a judgment as part of an audit.**

   Reason: Under ICAI's Code of Ethics providing accounting and bookkeeping services to an audit client create a self-review threat. As per the provisions of the Guidance Note on Independence of Auditors, it is not permitted to do the book keeping work of the auditee client.

4. (b) **Disclaimer of audit opinion**

   Reason: The implication arising due to non-availability of information relating to recovery of total financial exposure can possibly have a pervasive effect on the financial statements.

   SA 705 defines pervasiveness as follows:

   Pervasive – A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

(i) Are not confined to specific elements, accounts or items of the financial statements;

(ii) If so confined, represent or could represent a substantial proportion of the financial statements; or

(iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Since the total financial exposure, including investments in the subsidiary, represented 60% of the company's total net worth at the year-end and a possible reduction of 70% of profit before tax (basis high level estimate), the impact can be pervasive. Accordingly, as per SA 705, disclaimer of opinion should have been issued by CA. Manisha.

5. (d) No. Shareholders' approval under section 188 is not required if the transaction is at arm's length and at ordinary course of business.

Reason: First proviso to Section 188(1) of the Companies Act, 2013 interalia require companies to obtain shareholder approval if the prescribed threshold is met. However, fourth proviso to section 188(1) state that the requirements of section 188(1) including proviso do not apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.

Answers to the Descriptive Questions

6. As per paragraph 9 of Ind AS 115, "An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

(a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;

(b) the entity can identify each party's rights regarding the goods or services to be transferred;

(c) the entity can identify the payment terms for the goods or services to be transferred;

(d) the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and

(e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession".

Paragraph 9(e) above, requires that for revenue to be recognised, it should be probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

In the given case, as the customer has liquidity issues, the collection is not considered to be probable. Accordingly, till the time the Letter of Credit (LoC) is arranged from a nationalised bank, criterion as mentioned in paragraph 9(e) is not met. Hence, revenue recognition from sale to customer P should be deferred till receipt of LoC.

7. To enhance the profitability and competitiveness of the bookkeeping division at BS & K LLP, the firm must address both internal inefficiencies and external market challenges. Here are strategic recommendations based on the analysis provided: (Any two points).

Analyse the Value Chain

To enhance profitability and operational efficiency, the firm should analyse its value chain thoroughly. By *optimizing key activities* such as client engagement, service delivery, and reporting, the firm can improve the quality of its offerings. This could involve establishing *stronger communication and collaboration between departments* to ensure that resources are used effectively and aligned with client needs.

Addressing Buyer Power

Currently, local firms have an advantage because they allow clients to negotiate prices, whereas BS & K LLP offers fixed-price services.

To address this, the firm could offer customized pricing based on client size, volume of transactions, or complexity of work. For example, providing tiered pricing or discounted packages for long-term contracts could help attract *price-sensitive clients*.

In addition, highlight the superior quality of BS & K LLP's services in client communications, positioning the firm as a trusted advisor with more to offer than local firms. Educating clients about the long-term benefits of high-quality, error-free bookkeeping could justify a *premium price*.

Create a Centre of Excellence (CoE) and Leverage Local Talent

Establishing a Centre of Excellence would enable the firm to *create a pool of highly skilled professionals* focused on standardizing best practices, improving operational efficiency, and reducing costs across the organization. The CoE can implement standardized operating procedures, ensuring consistency and high-quality output throughout the bookkeeping division, minimizing errors and inefficiencies.

In conjunction with the CoE, the firm should actively participate in placement activities at local colleges to hire skilled but more affordable graduate-level employees for bookkeeping roles. This approach would not only lower staffing costs but also help increase profitability. By providing ongoing professional development, mentorship, and growth opportunities through the CoE, the firm can foster loyalty, reduce staff attrition, and create a sustainable talent pipeline that aligns with long-term organizational goals.

Market Differentiation and Competitive Positioning

While local clients may initially be drawn to the lower prices of local firms, BS & K LLP should focus on *communicating the long-term benefits* of working with a firm that provides higher-quality, more reliable service.

Moreover, rather than competing solely on price, the firm should work on *retaining existing clients by* building strong relationships, offering personalized services, and providing value-added solutions, such as financial reporting, advisory, or tax planning services in addition to bookkeeping.

Streamlined Expansion Strategy

Rather than expanding rapidly into new regions, the firm should focus on *strengthening operations in existing markets* and ensuring each office becomes profitable. Centralized support functions, such as IT and HR, could help standardize processes and reduce overhead costs.

The firm should consider *expanding in regions* where local competition is weaker, focusing on sectors or industries that require more complex, high-quality bookkeeping services. This would help the firm build a *niche presence* and avoid direct competition with local firms.

Conclusion

By addressing inefficiencies in its value chain, adopting more flexible pricing strategies, leveraging local talent, and enhancing its competitive positioning, BS & K LLP can improve the profitability of its bookkeeping division.

8. BS & K LLP establishes procedures to identify and evaluate possible threats to independence and objectivity, including the familiarity threat that may be created by using the same senior personnel on an audit or attest engagement over a long period of time, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards. Following is an illustrative independence policy that may be drafted by BS & K LLP considering the requirements of SQC 1:

- Requiring the **engagement partner to provide relevant information about client engagements**, including the scope of services, to enable him to evaluate the overall impact, if any, on independence requirements.
- **Providing training** to partners and professional staff on what constitutes threats to independence and the nature of safeguards that may be taken to eliminate or reduce the threats to an acceptable level. Such training should include ICAI's responses to matters dealing with ethical conduct.
- **Accumulating and communicating relevant information to appropriate personnel** so that the following can occur:
  - The firm, the engagement partner, firm personnel and *others, if any, can readily determine whether they satisfy independence requirements.*
  - *The firm can maintain and update information relating to independence.*
  - *The firm and the engagement partner can take appropriate action regarding identified threats to independence, in consultation with the independence and ethics partner.*
- Requiring personnel to **promptly report** circumstances and relationships that create a threat to independence and independence breaches of which they become aware to the independence and ethics partner so that appropriate action can be taken.
- Establishing criteria to determine the **need for safeguards for engagements** where the following have taken place:
  - The firm's monitoring procedures or peer review has identified weaknesses in previous years.
  - The same senior personnel have been used for five years or more on an audit or attestation engagement.
  - The client pressurizes the engagement partner to take a particular position or an accounting or auditing issue.

- **Promptly communicating identified breaches of these policies and procedures**, and the required corrective actions, to the following personnel:
  - The engagement partner who, with the firm, needs to address the breach.
  - The independence and ethics partner who should report the breaches to the managing partner for necessary action.
  - Other relevant personnel in the Firm and those subject to the independence requirements who need to take appropriate action.
- Requiring the engagement partner and the other individuals referred to in the previous list to confirm to the firm that the required **corrective actions** have been taken.
- Having the independence and ethics partner, or an individual designated by him, periodically review unpaid fees from clients to ascertain whether any outstanding amounts impair the firm's independence.
- Establishing additional procedures that provide safeguards when the firm performs audit or other attest work for a) significant clients or b) clients at which partners or other senior personnel are offered key management positions or have accepted offers of employment.
- Documenting the threats and the safeguards applied to eliminate or reduce them to an acceptable level for each instance.

ANSWERS TO THE CASE STUDY 5

Answers to the Multiple Choice Questions

1. (c) **Income from dairy farming can be considered business income and is non-agricultural income**

   Reason: The correct answer is (c) Income from dairy farming can be considered business income and is non-agricultural income. Dairy farm operations are being performed on agricultural land, hence there is an indirect connection to agricultural land. However, it is not correct to classify income derived from dairy farm operations to agricultural income merely on account of this connection. In dairy farm operations, it is the livestock like cows, sheep and buffalo which are the main component.

2. (a) **Operating profits can be improved without investing more capital**

   Reason: The correct answer is (a) EVA can be improved when operating profits can be improved without investing more capital. This can be achieved if more efficiency is built into the business operations, revenue can be boosted by introducing more products or expanding market share, reducing costs etc.

   In statement (b), the return on capital infused should be more than the cost of additional capital. In statement (c), projects where return is less than cost of capital need to be discontinued. Statement (d) implies that the cost of capital should be manipulated to reflect a favourable EVA, which is not ethical.

3. (b) **Digital Platform model**

   Reason: The correct answer is (b) Digital Platform model.

   More specifically Reachme follows the Business to Consumer digital platform model. Reachme is a digital platform that connects business to retail consumers.

4. (c) **₹ 14,40,000**

   Reason: Correct Option C = ₹14,40,000

Do not take forward Cover	Take forward Cover
Present Cost: \$ 10,00,000 × ₹ 85.90 = ₹8,59,00,000 After three months \$10,00,000 × ₹89.34 = ₹ 8,93,40,000	Take forward Cover at 87.90: Expected Cost after three months: \$10,00,000 × ₹ 87.90 = ₹ 8,79,00,000
Difference in cost between two options = ₹8,93,40,000 - ₹8,79,00,000 = 14,40,000	

5. (b) **No, prior RBI approval is not required because the amount is within the permissible limit under FEMA regulations.**

Reason: Correct option is (b).

The following remittance by person other than individual shall require prior approval of the Reserve Bank of India:

Remittances **exceeding** USD 10,000,000 per project for any consultancy services in respect of infrastructure projects and USD 1,000,000 per project, for other consultancy services procured from outside India.

Answers to the Descriptive Questions

6. (i) **Calculation of ROI (Return on Investment)/ RI (Residual Income) for FY 2024-25 for the divisions at Hoshiarpur, Punjab (Amount in ₹)**

Particulars	Dairy Division	Animal Feed Division	Crop Protection Division
a. Profit before interest and tax	60,10,000	63,77,500	57,66,000
b. Revenue	6,80,00,000	10,62,50,000	6,00,00,000
c. Head office expenses [@2% of (b)]	13,60,000	21,25,000	12,00,000
d. Controllable operating profit (a)+(c)	73,70,000	85,02,500	69,66,000
e. Net book value of plant and equipment	5,65,25,000	7,43,75,000	2,62,50,000
f. Net current assets	1,04,75,000	1,51,25,000	60,00,000
g. Investment (e)+(f)	6,70,00,000	8,95,00,000	3,22,50,000
h. ROI [(d)/(g)×100]	11%	9.50%	21.6%
i. Required return [@9% of (g)]	60,30,000	80,55,000	29,02,500
j. RI [(d)-(i)]	13,40,000	4,47,500	40,63,500

The claim made by the manager of the Animal Feed Division is **invalid** because it registered worst performance among the three divisions under both the criteria. The ROI of Animal Feed Division is 9.50%, which is less than (11.00% and 21.60%) other two divisions, whereas RI is ₹ 4,47,500 which is also less than (₹ 13,40,000 and ₹ 40,63,500) both other divisions.

It is important to note that the Animal Feed Division earns the highest profit, however **since its investment is high** the ROI and RI are the lowest compared to the other divisions.

(ii) Evaluation of Expansion Proposal for frozen desserts – Dairy Division, Hoshiarpur, Punjab

ROI/ RI for proposed expansion (for first year)

Particulars	Amount in ₹
a. Additional investment in plant and equipment	1,75,00,000
b. Depreciation for first year on the above investment (15%)	26,25,000
c. Net book value of additional investment in plant and equipment at reporting date (a-b)	1,48,75,000
d. Additional net current assets	25,00,000
e. Total additional investment (c)+(d)	1,73,75,000
f. Additional contribution	95,00,000
g. Additional fixed cost	8,50,000
h. Net addition to earning (f)-(g)-(b)	60,25,000
i. ROI [(h)/(e)×100]	34.68%
j. Required return [9% of (e)]	15,63,750
k. RI [(h)-(j)]	44,61,250

Advise

ROI Criteria – Management of VEN private limited **must expand** the business of Dairy Division by venturing into manufacturing of frozen desserts, because the proposed expansion expected to generate ROI at rate of **34.68%, which is not only more than existing ROI of Dairy Division (11%) but also more than overall ROI as well** (because among the three division the maximum ROI generated by Crop Protection Division i.e., 21.6%).

RI Criteria – Management of VEN private limited **must expand** the business of Dairy Division by venturing into manufacturing of frozen desserts, because the proposed expansion expected to generate additional RI of **₹44,61,250**.

(iii) ROI improves with age of the assets

Since ROI is rate of earning as percentage of investment, hence while assets getting older the amount of investment reduced; resultantly **if same productivity or efficiency is maintained** then ROI improves. Same can be seen through calculations below that ROI improves from 34.68% in first year to 40.85%, and 49.69% respectively in second and third year.

ROI for proposed expansion over years (Amount in ₹, round off to nearest rupee)

Particulars		Second Year	Third Year
a.	Plant and equipment at beginning of year	1,48,75,000	1,22,50,000
b.	Depreciation for year on the above plant and equipment (15%)	26,25,000	26,25,000
c.	Net book value of plant and equipment at reporting date (a)-(b)	1,22,50,000	96,25,000
d.	Net current assets (assumed to be constant)	25,00,000	25,00,000
e.	Total relevant investment (c)+(d)	1,47,50,000	1,21,25,000
f.	Contribution (assumed to be constant)	95,00,000	95,00,000
g.	Fixed cost (assumed to be constant)	8,50,000	8,50,000
h.	Net addition to earning (f)-(g)-(b)	60,25,000	60,25,000
i.	ROI [(h)/(e)×100]	40.85%	49.69%

(iv) Non-Financial Performance Indicators (NFPIs) are sustainable action-based indicators. For example, employee training will increase the profit & let them feel empowered, putting effort in research and development will result in a high brand image & high intellectual property rights. Hence for being sustainable rather being only profitable an organisation needs to include NFPIs as part of performance matrix in addition to financial performance Indicators. Although the scope of NFPIs substantially depends upon width and depth of organisation's objective, operations and strategies, but generically VEN Private Limited can consider–

Human resources management

Superior performance comes from superior processes. Who actually devise and execute superior processes to build an organisation with competitive advantage? It is the people (human resources) and their efforts. Hence human resources are a significant element for success of any organisation. If they performance well, then entire organisation automatically performs well; hence measures such as staff turnover, absenteeism, job satisfaction, and offer letter accepted shall be part of performance metrics.

Product and service quality

What make any business **distinct from others**, what are the sources of competitive advantage? It is substantially the value which its products or services capable to create for the users; and quality is important determinant of value. Simply saying quality is conformance to need to user. Hence the following performance measures, owning to quality shall be part of performance metrics

1. What are the functions that product or service offers and how much value these are capable to generate?
2. Where do our product stand in market in comparison that of competitors, especially rivals?
3. Is product capable to generate further superior performance and scope of innovation?

Brand awareness and company profile (brand equity)

Non-financial performance measures consider the **brand equity (value of the brand)** as one of the significant performance measures. Brand value is largely based upon factors like **customer's awareness & loyalty** which includes consumer behaviour also perceived quality, stakeholder's expectation and organisation ability to meet them, and factors like patents and trademarks etc.

7. Extract from Balance Sheet

Non-Current Asset	Note Reference	Amount (₹)
Property, Plant and Equipment		
Land	Note C	3,00,00,000
Biological assets other than bearer plants		
Dairy Cows	Note A (iii)	52,00,000
Calves	Note B	8,80,000
Inventory		
Milk	Note E	4,50,000

Extract from the Statement of Profit & Loss

	Note Reference	Amount (₹)
Income		
Change in fair value of purchased dairy cow	Note (A) (iii)	10,00,000
Change in fair value of newly born calves	Note B	8,80,000
Grant received	Note D	10,00,000
Fair value of milk	Note E	4,50,000
Total Income		**33,30,000**
Expenses		
Maintenance	Note A (iv)	12,00,000
Breeding fee	Note A (iv)	5,00,000
Total Expense		**17,00,000**
Net Income		**16,30,000**

Working Note

The impact of various transactions mentioned in Annexture 1, as regards dairy operations at Dhagwar, Himachal Pradesh for FY 2025-26 in the financial reports, of FY 2025-26 are as below:

(A) **Acquisition of Dairy Cows:** The herd of cows are biological assets as per Ind AS 41 that covers reporting requirements for the agricultural sector. It mentions that agricultural activity includes the management of the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). Here dairy cows (animals) are used to produce dairy products like milk (harvested produce). Dairy cows, that represent the biological asset will be recorded as Separate line item "Biological Asset other than bearer plants" under non-current asset in the Balance Sheet using the fair value model laid down in Ind AS 41.

Accordingly, the 100 cows which had an average age of 3 years that were purchased on April 1st, 2025, had a fair value of ₹42,000 per cow. As of year end, there has been an increase in the value of this biological asset. This is on account of 2 factors:

(i) Increase in the price of a 3-year-old cow from ₹42,000 per cow to ₹50,000 per cow. This represents an increase of ₹8,00,000 on account of the increase in price (₹50,000 per cow - ₹42,000 per cow = ₹8,000 per cow ×

100 cows = ₹8,00,000). This will be recognized in the profit and loss account for FY 2025-26.

(ii) Physical change in cow, due to the passage of 1 year increases the average age of cows from 3 years to 4 years. On account of this on March 31st, 2026, while a 3-year-old cow is valued at ₹50,000 per cow; the cows that now have an average age of 4 years as of this date are valued at ₹52,000 per cow. Therefore, each cow has had its market value increase by ₹2,000 per cow as of March 31st, 2026. This increase in the value of the biological asset due to physical change works out to ₹ 2,00,000 (₹ 52,000 per cow - ₹50,000 per cow) ×100 cows). This will be recognized in the profit and loss account for FY 2025-26.

(iii) Accordingly, as of March 31st, 2026, the Balance Sheet will reflect ₹ 52,00,000 as the value of 100 cows with an average age of 4 years (100 cows × ₹ 52,000 per cow). The profit and loss account will show an income of ₹10,00,000 on account of (a) price increase in the value of biological asset ₹8,00,000 (refer point (i) above) and (b) increase in value due to physical change of the biological asset ₹ 2,00,000 (refer point (ii) above).

(iv) Corresponding expenses, of ₹ 5,00,000 breeding fees paid to the local farmer and ₹ 12,00,000 various herd maintenance expenses will be considered as expenses in the profit and loss account for the year.

(B) Calves born during FY 2025-26: These biological assets have been acquired on account of breeding the cows. It is not possible to calculate the "cost of acquisition" of such calves and hence they will be shown as an asset in the Balance Sheet valued at fair value as on March 31st 2026, and this value will be credited to the profit and loss as income for the year.

It is given that 20 calves were born on October 1st, 2025. Therefore, their age, as on March 31st 2026, will be 6 months. The fair value net of any cost to sell of these calves as on March 31st, 2026, is ₹ 44,000 per calf. Hence the value of 20 calves at the year end will be ₹ 8,80,000, in the balance sheet as well as considered as income in the profit and loss for the year.

(C) Land acquisition: The purchase of land is not covered under Ind AS 41. The relevant standard would be Ind AS 16 "Property, Plant and Equipment". According to it land would be considered as an asset, valued at cost in the Balance Sheet as of March 31st 2026. Since the useful economic life of the land is infinite, no depreciation can be charged against it. Therefore, the value of land as shown in the Balance Sheet as of March 31st 2026, will be at the cost of acquisition which is ₹ 3 crores. Any subsequent change in market value post-acquisition is ignored under the cost model. ***(Please note that the allowed alternative corresponding treatment under revaluation model permits the land to be revalued to market value with the revaluation surplus taken to other comprehensive income).***

(D) **Grant received:** VEN received a non-refundable grant of ₹10,00,000 for acquisition of cows. It is not subject to any conditions or requirements to be satisfied; hence it is an unconditional grant. As per Ind AS 20, this grant needs to be considered as income of the company and credited to the profit and loss account.

(E) **Inventory of milk:** Milk is an agricultural produce and will be measured on the same basis as biological assets. As of March 31st, 2026, VEN has 10,000 litres of milk in cold storage, the fair value of which is ₹ 45 per litre. Therefore, milk would be valued at ₹ 4,50,000. This will be reflected as part of Inventory in the Balance Sheet. This is regarded as "cost" for future application of Ind AS 2 to the unsold milk. The fair value of milk is also considered as income in the profit and loss account.

8. Forward Cover

Amount Payable under Forward Cover ($10,00,000 × ₹ 87.90) = ₹ 8,79,00,000

Money Market Hedge

To pay $ after 3 months' company shall require borrowing in ₹ and translate to $ and then deposit in $.

For payment of $10,00,000 in 3 months @ 4.00% interest p.a. the amount required to be deposited now ($10,00,000/1.01) = $9,90,099.01

With a spot rate of 85.90 the ₹ loan needed will be = ₹ 8,50,49,504.96

Loan repayable after 3 months @ 8.00% p.a. interest will be ₹8,50,49,504.96 (1.02) = ₹ 8,67,50,495.06

Advise

Since outflow of cash shall be least in case of Money Market Hedge hence it should be opted for.

The suggested answers provided in these Case Studies includes a variety of potential solutions/ alternative points where applicable. This is intended to assist students by offering multiple perspectives and approaches to problem-solving.