

Mock Test Paper - Series II: October, 2024

Date of Paper: 7th October, 2024

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

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

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

Each Case Study carries 25 Marks.

Time Allowed – 4 Hours

Maximum Marks – 100

CASE STUDY 1



The hospitality industry is a dynamic and multifaceted sector that plays a pivotal role in the global economy, encompassing a wide range of services including lodging, food and beverage, tourism, and event management. Known for its emphasis on customer service and experience, the industry thrives on creating memorable and personalized experiences for guests, whether through luxurious accommodations, exceptional dining, or unique recreational offerings. Despite challenges like high job mobility and evolving consumer preferences, the hospitality industry continues to innovate through advancements in technology, sustainability practices, and the adoption of ESG (Environmental, Social, and Governance) principles.

SarTaj Hotels Limited, the country's largest listed hospitality company, continues to demonstrate industry-leading growth with consistency and conviction. This is reflected in its exceptional financial and non-financial performance, including portfolio expansion and the scaling of new businesses. The company achieved this while aligning with its sustainability commitment and ESG initiative. These attributes accentuate its remarkable journey and the ways it creates value for all stakeholders. SarTaj's consistency stems from its conviction in values and commitment to excellence.

With over 120 years of leadership in the industry, SarTaj Hotels is renowned for its exclusive properties, flawless service, and distinctive brands. These, all embodying the cherished notion of 'SarTajness,' create unforgettable experiences for guests. The company's deeply rooted values and rich legacy provide the confidence to re-imagine the future, enabling SarTaj to grow its ecosystem with greater speed, synergy, and success, bringing delight to its customers and driving enhanced value for all stakeholders. The company has evolved from a branded house into a House of Brands, offering a portfolio that includes luxury, upscale, lean luxe segments, and budget stays. This hospitality ecosystem is further strengthened by innovation and service excellence.

Hotel food service has historically been an integral part of the hotel business. Food service provide guests with food for consumption, business related functions, entertainment and celebrating events, and for some hotels food acts as an attraction in its own right.

Food service production

Food service production in hotels is primarily based on fresh produce. The perishable nature of this produce poses a challenge for hotels, further complicated by the presence of multiple food outlets and supply chain activities within each hotel. Additionally, hotel food is not designed to be stored for extended periods. Once prepared, it is expected to be consumed immediately or soon thereafter. The production of fresh food varies depending on the type of food services offered by individual hotels.

In terms of food sourcing, two main groups of food production are prevalent: 'push production' and 'pull production.'

Push production refers to services that have not been paid for in advance. These food services are available in restaurants, bars, guest rooms, or any other outlets where food can be ordered on demand. The number of these outlets varies depending on the hotel's designated food outlets and other areas where food may be served. Pull production caters to services such as functions, conferences, and other events that have been reserved in advance, with specific details provided (e.g., number of attendees, types of food required, and the venue). Payments for pull production services are typically made in advance, either partially or in full.

When it comes to food sourcing, push and pull productions have different conditions. Push production presents a greater challenge due to demand uncertainties. The data indicates that push production often involves a 'guessing game.' Accurately forecasting demand is considered difficult, and incorrect forecasts can result in either insufficient food to sell or excessive food wastage. In contrast, pull production is a more straightforward task in terms of planning for both the type and quantity of food to source.

Head chef as creator, memory and processor

The head chef plays a crucial role in hotel food service supply chains, being involved from the initial stage of product development through to the production stage. The extent to which the head chef influences supply chain activities depends on the configuration of the hotel's food service supply chain, which is shaped by the hotel's organizational characteristics. Head chefs are valuable resources of expertise and knowledge necessary for the smooth operation of the "production plant"—the kitchen—and all related activities. They function as creators, memory keepers, and processors who oversee production. Additionally, head chefs are responsible for key management areas beyond production, such as purchasing and inventory management.

The role of the head chef as a creator, stems from their responsibility for writing the menu. Menu writing is a form of product development, and in hotel food service, this development often appears to be intuitive. Several concepts emerged from the data that characterize the product development process. Menus not only serve as product offerings but also function as a tool to achieve target gross profit. Chefs

view menu writing as more than just a job requirement; they think about it even outside working hours and see it as a creative task. Menus were frequently changed, with some chefs updating their menus daily. These changes were not only based on inventory availability or the chef's imagination but were also adjusted according to the price of raw materials. The frequency of menu changes is based on the chef's judgment rather than following a fixed schedule, as is common in many hotel companies.

Another critical management area, inventory management, is often referred to as a "guessing game." The head chef's knowledge and experience are crucial for managing the hotel's food supply. The head chef is the person who holds the information regarding inventory management. Common practices in hotels include maintaining a minimum stock level, also known as "reserve" or safety stock, and using a "run out and replace" strategy, which involves replenishing stock when it runs low. Hotels that offer food service around the clock, such as restaurants, bars, and room service, must always have food in stock. If raw materials are unavailable in the market or deliveries are delayed, the hotels need to maintain a certain amount of food to ensure production continuity. Once the inventory drops below the level "guessed" by the head chef, an order is placed to restock to the minimum level. While some hotels can afford to use a "lean" strategy, which involves running out of stock and then ordering more, this approach is found in only a few hotels; most maintain a minimum stock level at all times.

Collaboration with suppliers

Suppliers not only play a crucial role in providing raw materials, but some SarTaj hotels also use their suppliers in menus and brochures to add value and differentiate their product offerings from competitors. It's interesting to note that SarTaj hotels maintain both traditional arm's-length relationships and long-term cooperative relationships with their suppliers.

SarTaj's foodservice outlets leveraged fresh produce and their supplier partnerships as key selling points. The company highlighted collaborations with local suppliers and producers, as well as those offering specialty, high-quality ingredients, to showcase the uniqueness of its offerings. The strong relationships between chefs and suppliers were communicated effectively to customers, reinforcing SarTaj's commitment to sourcing excellence and supporting local communities.

While lower raw material costs were constantly pursued, mainly for dry goods, prices were compared across various suppliers, with the cheapest options often being selected. SarTaj used a spreadsheet to track prices and select the best deals from different suppliers, which was seen as an advantage as the hotel was able to buy products at the lowest price.

In addition to making suppliers compete on price, SarTaj employed a "two-supplier strategy" to ensure the quality and price of certain products remained consistent. For instance, SarTaj had two suppliers for certain goods and alternated between them, as suppliers often raised prices or failed to maintain quality.

Use of technology

The exploitation of information technology in SarTaj group hotels is minimal, with a high degree of manual-based supply chain activities. Pen and paper are the primary tools used for product planning. Although some SarTaj hotels use electronic data interchange with their suppliers, it is limited to basic operational tasks, such as placing orders. The hotels rarely retain their point-of-sale data, and sharing such information with suppliers is almost non-existent. Demand forecasting for business volume may be supported by computer programs, but forecasting demand variants remains a "guessing game".

Additionally, stock checking for raw materials is manually performed by physically counting inventory items. While some larger hotels utilize online ordering channels, most rely on telephone communication for placing orders. The widespread use of telephone ordering in the hotel sector is attributed to the shorter ordering time, suppliers' lead times, and the fact that telephoning offers two-way communication, allowing for discussion of product availability.

Even though some hotels employ computer-generated demand forecasting, it only helps estimate the overall volume of food required by hotel guests and other markets related to push production. However, uncertainty remains regarding demand for restaurant food, which is further complicated by variations in food requirements.

In house activities

While in-house production facilities offer many benefits, they also require significant investment in infrastructure, equipment, and skilled labour. Having a captive model makes it easier to implement design changes and customize products according to specific customer requirements. As a result, the company is less reliant on external suppliers and manufacturers, reducing risks associated with supply chain disruptions. Additionally, the company uses in-house teams of highly trained hotel staff for food preparation, which is a time- and labour-intensive process. However, rising staff costs and the increasing cost of high-volume food items are putting pressure on margins.

Several years ago, SarTaj appointed Mr. Ramakrishnan as the company secretary, recognizing his extensive experience in the hotel industry and expertise in handling regulatory compliance. At the time of his appointment, the company promised him an annual salary hike ranging between 15% and 25% of his total compensation package (CTC). Over the past few years, Mr. Ramakrishnan's performance has been exceptional, consistently exceeding expectations and contributing significantly to the company's operational success, particularly in navigating complex compliance matters. His expertise has been instrumental in managing regulatory challenges and addressing cost pressures associated with labour.

During the audit planning meeting, the auditor was informed that the entity generates a substantial portion of its revenue through cash sales, with annual revenue amounting to ₹ 1,000 crores. Key managerial personnel and senior management often face intense pressure to meet or exceed financial targets set by investors or analysts, and their remuneration is based on achieving these performance targets. The internal auditor assessed the internal control system and did not observe any deficiencies in the revenue recognition process. Based on this

assessment, the auditor concluded that revenue is not susceptible to fraud risk and, accordingly, did not associate any fraud risk with revenue in the audit strategy.

SarTaj has a policy of providing loans to employees at a 5% annual interest rate, with the loan amount to be repaid in five equal annual installments. The market rate of interest (not a Level 1 input) for comparable loans is 10% p.a. On April 1, 2024, an employee took out a loan of ₹ 10 lakhs from SarTaj, with an annual EMI of ₹ 2.31 lakhs. SarTaj recognized the financial asset at ₹ 10 lakhs on April 1, 2024, accrued interest at 5% for the year, and received the EMI payment. The auditor raised concerns about the accounting treatment adopted by the entity for recognizing the financial assets.

The auditor also plans to communicate with the Audit Committee for several important reasons. Regular and open communication fosters a culture of transparency and builds trust between auditors and those charged with governance. This trust is crucial for the auditor to perform their duties without obstruction and for governance to have confidence in the audit process.

SarTaj has an overseas subsidiary, Black Pearl LLC. Under the FEMA (Overseas Investment) Regulations, 2022, SarTaj is required to file an Annual Performance Report (APR) with the Reserve Bank of India (RBI). The APR is part of the compliance framework to ensure that investments made by Indian entities abroad are monitored and reported accurately.

By adhering to these regulations and maintaining open communication with the Audit Committee, SarTaj Hotels fosters a culture of transparency, building trust between auditors and those charged with governance. This trust is essential for the smooth functioning of the audit process and ensures confidence in the financial oversight of the company.

ANNEXURE

Brand Portfolio of SarTaj

 Kings Korner India's strongest across sector, spacious suites with premium furnishings and state-of-the-art technology ₹936 crores of revenue 110 hotels 17,000 keys	 Hocus Pokus Exclusive, agile upscale hotels ₹195 crores of revenue 96 hotels 11,200 keys	 Stories Simply better! Simple and functional design, focusing on practicality ₹48 crores of revenue 91 hotels 9,000 keys	 Silverline Exclusive wellness experiences such as organic spa treatments or nature immersion activities ₹90 crores of revenue 8 hotels 3,000 keys
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PARTICULARS OF EMPLOYEES

Information under Section 197 of the Companies Act, 2013 read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

- a. The ratio of the Remuneration of each Director to the median Remuneration of the employees of the Company for the financial year and percentage increase in Remuneration of each Director, Chief Executive Officer, Chief Financial Officer, or Manager, if any, in the financial year:

Name	% Increase of Remuneration in 2024 as compared to 2023	Ratio to median Remuneration
Non-Executive Directors		
Mr. Chandrasekaran T. @	-	-
Mr. Krishna Gupta	17%	21.95
Mr. Srinath Mehta	16%	18.96
Ms. Angel Gupta	15%	20.33
Mr. Sharad Aggarwal *	***	***
Mr. Ravi Gupta	32%	18.59
Executive Director		
Mr. Puneet Jaiswal – MD & CEO	28%	570.0
Chief Financial Officer		
Mr. Giridhar Krishnan – EVP & CFO	6%	-

@As a policy, Mr. Chandrasekaran T., Chairman, has abstained from receiving commission from the Company.
 *Retired as Director w.e.f. May 22, 2023. ***Since the remuneration is only for part of the year (either in CY or PY), percentage increase in remuneration and the ratio of their remuneration to median remuneration is not comparable and hence not stated.

- b. The percentage increase in the median remuneration of employees in the past 6 months was 5.5%.
- c. The number of employees as on March 31, 2024 was 5,756.
- d. Average Percentile increase already made in the salaries of employees other than the Managerial Personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration:
- During FY 2023-24, the average percentage increase / (decrease) in salary of the Company's employees, excluding Key Managerial Personnel ('KMP') was 8.8%.
 - During FY 2023-24, the average percentage increase / (decrease) in salary of the KMP was 42%.
- e. It is affirmed that the Remuneration is as per the Remuneration policy for Directors, Key Managerial Personnel, and other employees adopted by the Company.

I. Multiple Choice Questions

- 1.1 Whether the engagement partner is correct in claiming the presumptive risk of revenue recognition?
- (a) No. Risk of fraud risk exists in revenue. Remuneration based on achievement of performance targets can incentivize employees to manipulate revenue. Greater risks of fraud exist where a substantial portion of revenues are through cash sales.
 - (b) Yes. Risk of fraud risk does not exist since revenue is more than SEBI prescribed limit of ₹ 500 crores.
 - (c) Yes. Risk of fraud risk does not exist in revenue. Performance based service conditions are common in Indian industries. It does not necessarily lead to a fraud in revenue.
 - (d) Yes. Risk of fraud risk does not exist in revenue. Performance based service conditions and concentration of cash sales are common in hotel industries. These conditions do not necessarily lead to a fraud in revenue.
- 1.2 Should SarTaj obtain audited financial statements of Black Pearl LLC while filing its Annual Performance Report under FEMA (Overseas Investment) Regulations, 2022? Which is the MOST appropriate answer?
- (a) Filing of Annual Performance Report can be based only on audited financial statements of the Black Pearl.
 - (b) Filing of Annual Performance Report can be based only on reviewed financial statements of the Black Pearl.
 - (c) Filing of Annual Performance Report should be based on unaudited financial statements since the laws of the host country do not provide for mandatory audit.
 - (d) Filing of Annual Performance Report should be based on audited financial statements of the Black Pearl since Black Pearl is controlled by SarTaj.
- 1.3 Whether giving of loans to employees is in accordance with the requirements of the Companies Act, 2013?
- (a) The Company should have obtained special resolution before giving loans since section 185 of the Companies Act, 2013 require special resolution before giving loan to any person including employees. Section 186 of the Companies Act, 2013 permits charging concessional rate of interest for loans given to employees.
 - (b) Section 185 of the Companies Act, 2013 do not cover loans to employees (not being directors). Section 186 of the Companies Act, 2013 permits charging concessional rate of interest for loans given to employees. Accordingly, the employee loans are in accordance with the requirements of Companies Act, 2013.
 - (c) Section 185 of the Companies Act, 2013 do not cover loans to employees (not being managing or whole-time director). Section 186 of the Companies Act, 2013 do not cover loans to any employees (director

or otherwise). Accordingly, the employee loans are in accordance with the requirements of the Companies Act, 2013.

- (d) The Company should have obtained special resolution before giving loans since section 185 of the Companies Act, 2013 require special resolution before giving loan to any person including employees. Charging of interest at concessional rate is specifically prohibited under Section 186 of the Companies Act, 2013.
- 1.4 Why has SarTaj Hotels opted for different brands such as Kings Korner, Hocus Pokus, Stories, and Silverline within its portfolio?
- (a) To increase operational efficiency by standardizing services across all hotel brands
- (b) To focus solely on high-end customers and luxury travellers
- (c) To minimize investment in the food and hospitality sector
- (d) To target different customer segments by offering a variety of experiences ranging from luxury to budget accommodations
- 1.5 Which of the following information is NOT in line as required under Section 197 of the Companies Act, 2013, read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014? Refer with the extract.
- (i) The number of employees as on March 31, 2024
- (ii) The percentage increase in the median remuneration of employees
- (iii) The percentage increase in remuneration of each Director, if any, in the financial year
- (iv) The percentage increase in remuneration of Company Secretary, if any, in the financial year
- (v) The ratio of the remuneration of CFO to the median remuneration of the employees of the company for the financial year
- (vi) Affirmation that the remuneration is as per the remuneration policy

Options

- (a) i, ii, iii
- (b) i, ii, iv
- (c) ii, iii, iv
- (d) iii, iv, vi

(5 x 2 = 10 Marks)

II. Descriptive Questions

- 1.7 RECOMMEND the correct accounting treatment (initial and subsequent) as per Ind AS 109 of the loans given to employees at concessional rate.
- (5 Marks)**
- 1.8 EVALUATE the supply chain of SarTaj, identifying its current weaknesses and recommendations to overcome them.
- (10 Marks)**

CASE STUDY 2

As a sunrise sector, India's skill-based online gaming industry could play a crucial role in making India a US\$5 trillion economy by 2025. Online games may be categorized into two broad categories basis the involvement of element of skill and chance – skill-based games (i.e. where the outcome is mostly dependent upon player's skills, knowledge, training, etc. with less/minimal dependence on chance factor) and chance-based games (i.e. games where the outcome is primarily dependent upon chance and wherein player's skills, knowledge, etc. have limited influence over the same). The online skill-based gaming industry in India may be categorised into real money games (RMG) (a game where a user makes a deposit in cash or kind with the aim of earning winnings on the deposit) and non-real money games (non-RMG). Skill based games are played in one of the following formats, namely – casual games, card games, fantasy sports, etc.

The online game industry has undergone a significant evolution from its humble beginnings of pixelated arcade games in the 1970s to ~US\$ 200 billion industry with cutting-edge graphics, immersive gameplay, and an ever-expanding audience. With an estimated 3 billion active players worldwide, the gaming industry has a massive and growing audience. In fact, approximately 50% of these active players are also active buyers of in-game assets, such as virtual goods. This highlights the significant economic potential of the gaming industry and its ability to generate substantial revenue through in-game purchases and other related transactions. Gaming is rapidly emerging as the future of entertainment, with its market size already surpassing that of the global music and movie industries. In fact, the gaming industry is currently 7 times larger than the global music industry and 5 times larger than the global movie industry, making it a major player in the entertainment landscape.

India's online gaming segment is experiencing remarkable growth, indicating substantial economic potential. With a robust gaming community consisting of approximately 42.5 crore gamers—second globally after China – the sector has potential to accelerate Foreign Direct Investment inflows, job creation, and investments across various sectors. For the segment to truly thrive, a stable regulatory and legal framework is imperative. Uncertainties can impede the realization of its full potential and hinder rapid scalability. Over the past three years, the online gaming industry has grown at a CAGR of 28%, reaching ₹ 16,000 crore in F.Y.2023-24 and is likely to reach ₹ 32,000 crore by F.Y.2027-28. This boost is largely attributed to factors like widespread smartphone penetration, improved internet connectivity, a growing youth population, and the development of local gaming content. Over the course of time as younger generations become the key customers, the spending patterns and the market is expected to shift to become a core gaming market. Additionally, the pandemic played a significant role in driving up mobile game downloads as people sought digital entertainment. India continues to be a 'mobile first' market, with 94% of its gamer base engaging

in mobile gaming. Despite the rapid increase in game consumption, India's online gaming revenue is still merely 1.1% of global online gaming revenue.

As online gaming continues to catalyse ancillary sectors like fintech, cloud services, data analytics, and cybersecurity, India takes a significant leap in its digital economy landscape. The growth of this segment poses an enabling environment for future investments and potential economic development. Guidelines by the Ministry of Electronics and Information Technology have been instrumental in removing ambiguity, bolstering investor sentiment, attracting funding, and encouraging innovations in India's digital economy, while prioritising user safety. India is witnessing increasing financial and digital inclusion boosting the growth of the gaming industry. The growth mainly is driven by the following factors:

- India, with the highest population in the world at 1.4 billion also boasts of one of the largest markets for smartphones. This increased digital penetration catalysed by the affordability of mobile data and accessibility of smartphones is further supporting the expansion of the skill-based online gaming industry in India. Another pertinent development is the burgeoning production of smartphones in India that has led to the availability of advanced specifications of smartphones at an affordable rate.
- As 5G services are rolled out throughout the country, it may unlock a new era of cloud gaming, super-fast downloads, high-quality live streams, and seamless multiplayer online gaming. 5G may also enable more realistic Extended Reality (XR) and empower large-scale, platform-agnostic events and social experiences with seamless interactions between users.
- In absolute numbers, India may have a working-age population of more than a billion by 2030. With the largest youth population in the world, the median age in the country is just 28 years. A young demographic means an increasing inclination towards various types of gaming products and services available in the market.

Fastest Finger Limited (FFL) founded by Mr. Viper Armstrong has embarked on the mission to enhance India's footing in the global landscape. With innovation and adaptability at core, FFL is positioned to not only match the pace of change in the gaming world but to take the lead as it undergoes a massive transformation. FFL is a diversified gaming and sports media platform headquartered in Bangalore, with a presence in both developing and developed global markets such as Africa and North America. FFL is confident in shaping the future and expanding its leadership, both in India and globally, with operational efficiencies and industry-leading mindset. Refer annexure for details on FFL's popular games.

F.Y. 2023-24 has proven to be another year of progress for the company, FFL continue to rank among the popular companies worldwide. While FFL faced certain challenges that tested its resilience, FFL emerged triumphant but delivered muted results.

FFL's existing business strategy comprise the following:

Segment	Organic growth	Inorganic growth
Gaming 	Focus on driving organic growth through strategic investments in user acquisition with a strong emphasis on sustainable unit economics. Consistently update product features and content to improve user retention, engagement, and satisfaction, fostering long-term customer loyalty.	Expand the gaming vertical by acquiring games with valuable intellectual properties (IPs) that demonstrate high growth potential and the ability to deliver a 20% EBITDA margin. Leverage existing expertise in user acquisition and analytics to maximize the post-acquisition performance and accelerate market presence.
eSport 	Fuel non-linear EBITDA growth by enhancing internal capabilities, expanding the local ecosystem, and consolidating leadership in the Indian market. Strengthen brand positioning through internal innovation, community engagement, and organic market penetration.	Develop a comprehensive 360-degree eSports ecosystem by exploring acquisitions of specialized brands or capabilities, particularly in the US sports sector. These strategic acquisitions will help diversify FFL's portfolio and expand its market reach globally.

Mr. Viper Armstrong, the CEO, is concerned about FFL's prospects for the future. FFL is suffering from strategic drift and has no clear vision about its purpose or direction. It is active in the domestic and international markets but is consistently losing its dominant presence. There are no plans to put more investment into promoting foreign revenue.

A particular concern is a long-term contract to provide Teen Patti (i.e., premium online new games) facilities to a major theme park in India. This five-year contract is due to end next year, and although it may be renewed, the CEO suspects that the customer may switch its business to a larger competitor. Loss of this contract would have a serious impact on FFL's business, reducing annual profit by as much as 10% and almost certainly leading to some redundancies among the work force.

The CEO is aware from lengthy discussions with the product development team that FFL could invest in developing a more engaging and revamped type of premium online gaming experience for the domestic market. Developing this new gaming experience would, however, require a substantial capital investment. It would also mean having to resort to from external designers/ resources. It would also mean having to appoint some experienced personnel to research and development unit, because FFL does not currently have resources with sufficient knowledge of the new technology.

The product development team are all in favour of the new investment, and the CEO believes that such investing will give FFL a much clearer strategic vision of what it should be trying to achieve. Some colleagues disagree strongly. The Operations Director sees no need to change the offering that FFL has been making successfully and the Sales and Marketing Director believes that the contract with the major customer will be renewed next year. Human Resources relations are also not good in FFL, following strike action last year in support of a claim for a pay rise and against planned redundancies amongst the staff. No one seems to understand the need for a new product, or the reason for change.

The achievement of the above objectives would entail significant funding. Considering the quantum of investment required FFL decided to list its shares on the recognised Indian stock exchanges. The Initial Public Offer would comprise of fresh issue of equity shares, aggregating up to ₹ 500 crores. FFL would utilize the Net Proceeds towards funding the following objects:

- The business is working capital-intensive, and FFL funds its working capital requirements in the ordinary course of business from internal accruals and financing from various banks and financial institutions. As of 31 December 2023, FFL had a total sanctioned limit of working capital facilities of ₹ 350 crores on a consolidated basis, including fund based and non-fund based sub-limits, and had an aggregated outstanding borrowing of ₹ 215 crores on a consolidated basis. FFL proposes to utilize an amount of up to ₹ 100 crores of Net Proceeds, towards working capital requirements of FFL in F.Y.2024-25 and F.Y. 2025-26.
- FFL seeks to continue expanding its offerings to include emerging areas such as Metaverse leveraging artificial intelligence, and ancillary services. FFL intends to expand into these new verticals through strategic partnerships and acquisitions. By diversifying into new related verticals, FFL seeks to be able to attract more users to its platforms, increase user engagement and serve as a comprehensive 'one-stop' solution. In addition to growing business organically, FFL have in the past and may continue to pursue targeted acquisitions or investments that complement its service offerings, strengthen or establish presence in target market or help in gaining access to new markets, technology and teams. FFL expects to utilize the remaining of the Net Proceeds towards funding inorganic growth segment through unidentified acquisitions and other strategic initiatives and general corporate purposes.

Since FFL is in the process of being listed, Companies Act, 2013 would require it to prepare its financial statements under Ind AS. The first set of financial statements under Ind AS which comprise the balance sheet as at the end of the financial year, statement of profit and loss, statement of cash flow for the financial year; statement of changes in equity; and any explanatory note annexed to. The first set of Ind AS financial statements would also include three balance sheets i.e., balance sheets as at 31stMarch 2024, 31stMarch 2023 and 1stApril 2022.

First time implementation of Ind AS posed many challenges including determination of comparative information including opening balance sheet and reconciliations as at the transition date. Accordingly, CFO was given the responsibilities to identify the GAAP differences and suggest the transition options. The CFO suggested as follows:

- Elected the deemed cost exemption in accordance with the relevant Ind AS which permits to continue with the carrying value for all of its property, plant and equipment as per the previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.
- Entity, being the first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind ASs).

The CFO also mentioned that FFL had made certain investments in Dream Play Limited's convertible debt instruments. The conversion rights are substantive rights and would provide FFL with a controlling stake over Dream Play. FFL has evaluated that Dream Play Limited would be treated as its subsidiary under Ind AS and, hence, would require consolidation in its Ind AS based consolidated financial statements. Dream Play Limited was not considered as a subsidiary, associate or a joint venture under previous GAAP.

Under the latest GST norms, the CFO's snapshot of amount received towards online money is as follows:

- The total amount received from online bets is ₹ 35 crores after 1st October, 2023. After accounting for refunds amounting to ₹ 1 crore and unused or returned amounts totaling ₹ 4 crores, the amount utilized for the purpose of placing online bets is ₹ 30 crores.
- FFL also received a demand cum show cause notice from the GST department alleging that non-payment of GST of ₹ 50 crores in the previous years. FFL filed an appeal by 31st March 2024 against the demand notice.

On 15th April, 2024, a Board Meeting was called to discuss the matters on hand. This included matter related to FFL's listing on 28th March, 2024 and approval of financial statements for the F.Y. 2023–24. Mr. Viper Armstrong, the CEO of FFL attended the Board Meeting through video conference. Other directors attended the Board Meeting physically.

ANNEXURE

Extract of Statement on Matters Specified in paragraphs 3 and 4 of the Companies (Auditors Report) Order, 2020 from the Independent Auditor's Report

vii) (a) According to the information and explanations given to us, and based on the audit procedures performed by us, in our opinion, amounts deducted/ accrued in the books of account in respect of undisputed statutory dues including Goods and Services Tax ('GST'), Provident fund, Employees' State Insurance, Income-Tax, Duty of Customs, Profession Tax, Cess and other statutory dues have been regularly deposited by the Company with the appropriate authorities wherever applicable, and there are no such outstanding dues as at March 31, 2024, for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us and on the basis of our examination of the records of the Company, statutory dues relating to Goods and Services Tax ('GST') which have not been deposited on account of any dispute are as follow:

Name of Statute	Nature of dues	Amount not deposited on account of demand (In crore)
Goods and Service Tax, 2017	GST	50.00

FFL's Popular Games

Chakde India 	Teen Patti 	Z Sports 	NOX-A 
- World's largest cricket simulation game with 1.5 million daily active users and 9 million monthly active users - Revenue grew by 7% (last year: 10%) - Shows reduced retention metrics with Day 1 retention of 46%, Day 7 retention of 18% and Day 30 retention of 7% in F.Y. 2023-24	- Classic card games. A Premium offering by FFL - Revenue grew by 8% (last year: 12.5%) - FFL is further strengthening its position in this sector	- Multi-sports destination. Dominant position in key markets - Revenue grew by 14% (last year: 25%) - Strong customer loyalty followed with high unique customer additions	- This innovative game is having a life cycle of less than one year - Currently, it is in the introduction stage of its life cycle and is generating significant unit profits - FFL adopted a market skimming pricing policy - FFL expects that other companies will try to join the market very soon

I. Multiple Choice Questions

- 2.1 Which of the following statements is correct with respect to the Ind AS transition option chosen by Fastest Finger Limited for the property, plant and equipment?
- Not a carve out – Like IFRS 1, Ind AS 101 also does not provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.
 - Carve out – Unlike IFRS 1, Ind AS 101 provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.
 - Carve out – Unlike IFRS 1, Ind AS 1 provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.
 - Not a carve out – IFRS 1 and Ind AS 101 are identical with no changes in any of the paragraphs and provisions.

- 2.2 Date of transition to Ind AS for Fastest Finger Limited is_____?
- (a) 31st March, 2024
 - (b) 1st April, 2023
 - (c) 31st March, 2023
 - (d) 1st April, 2022
- 2.3 In the Board Meeting, Mr. Viper Armstrong expressed his concern that approval of financial statements for the year ended 31stMarch,2024 cannot be approved through video conferencing. Do you agree?
- (a) Disagree. Since there is quorum in a meeting through physical presence of directors, Mr. Viper Armstrong can participate through video conferencing on the matters relating to approval for annual financial statements as permitted under section 173 to the Companies Act, 2013.
 - (b) Partially Agree. Since there is quorum in a meeting through physical presence of directors, Mr. Viper Armstrong can participate in discussion through video conferencing but cannot approve the annual financial statements as it is not permitted under section 173 to the Companies Act, 2013.
 - (c) Agree. Rule 4 of the Companies (Meetings of Board and its Powers) Rules,2014 prohibits approval of annual financial statements in a Board Meeting conducted through video conferencing.
 - (d) Disagree. Section 173 to the Companies Act, 2013 do not prohibit approval of annual financial statements in a Board Meeting conducted through video conferencing. Meeting quorum through physical presence of directors is not necessary.
- 2.4 The amount of GST liability in respect of the amount received from online bets is_____.
- (a) ₹ 5.81 crores
 - (b) ₹ 11.30 crore
 - (c) ₹ 9.80 crores
 - (d) ₹ 30.11 crores
- 2.5 With reference to Paragraph 3(vii)(b) of CARO 2020, Whether reporting under CARO is appropriate (refer Annexure):
- (a) Reporting is appropriate. The extract includes all the information prescribed under CARO, 2020.
 - (b) Reporting is appropriate. The extract includes all the information prescribed under CARO, 2020, to the extent considered material by the auditor.
 - (c) Reporting is inappropriate. CARO, 2020, requires the auditor to also report the period to which the amount relate and the forum where the dispute is pending.
 - (d) Reporting is inappropriate. CARO, 2020, requires the auditor to also report the forum where the dispute is pending. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

- 2.6 How should Dream Play Limited be consolidated on transition to Ind AS considering that Fastest Finger Limited has opted to avail the exemption from retrospective restatement of past business combinations as permitted under the relevant Ind AS? **(4 Marks)**
- 2.7 How can Fastest Finger Limited (FFL) realign its strategic direction and address internal conflicts APPLYING McKinsey's 7S Framework to drive innovation, enhance compliance, and secure its competitive position in the gaming industry? **(3 Marks)**
- 2.8 Briefly describe the relevant provisions that would have been considered for the conduct of Board meeting through video conference on 15th April, 2024 as Mr. Viper Armstrong attending it through such mode? **(4 Marks)**
- 2.9 ANALYSE, with reasons, the changes, if any, to the unit selling price and the unit production (development) cost that could occur when NOX-A moves from the previous stage into each of the following stages of its life cycle in the context of the online gaming industry:
- (i) Growth
 - (ii) Maturity
- (4 Marks)**

CASE STUDY 3

From humble beginnings as a small trading business in 1970s Mumbai, Aadhya Ltd. has emerged as one of India's most prominent and diversified conglomerates. What started as a family-run operation is today a professionally managed group with a multinational presence and over 5,000 employees. Headquartered in a towering glass edifice in Mumbai's business district, Aadhya Ltd.'s operations span multiple verticals – infrastructure, power, telecom, retail and financial services. The company takes immense pride in its stellar senior leadership drawn from India's premier institutes.

At the helm is Rajesh Sharma, who rose through the ranks to become the Chairman and Managing Director in 2016. Assisting him is a dynamic top management team that includes Chief Financial Officer Nisha Patel and Chief Operating Officer Rakesh Raghavan. ***"Our vision is to build a globally respected Indian conglomerate that creates sustainable value through ethical business practices, innovation and operational excellence,"*** Rajesh articulates the group's driving philosophy. This vision extends beyond just financial growth to include environmental sustainability and holistic societal impact.

The group's entrepreneurial culture and diversity & inclusion policies have made it a dream employer, consistently ranked among India's best companies to work for. At the heart of Aadhya Ltd.'s operations is its state-of-the-art digital transformation journey cutting across business verticals. From smart factories and intelligent supply chains to mobile-first retail offerings, the conglomerate has thoroughly embraced emerging technologies. Its in-house R&D and innovation labs are at the cutting edge of fields like AI, IoT, Blockchain and more. However, Aadhya Ltd.'s impact transcends just

business. The Aadhya Foundation runs skills training programs, schools, hospitals and disaster relief efforts that have uplifted lakhs of underprivileged lives across India. The group is a pioneer in corporate social responsibility, deploying both human and financial capital to drive sustainable development initiatives.

Aadhya Ltd. is gearing up for its next phase of global growth, led by forward-thinking leadership and a motivated workforce. As a homegrown giant, it's set to create a lasting legacy as a leading Indian multinational. Its remarkable success stands as a testament to the entrepreneurial spirit and ambition of India.

It was a crisp autumn morning in October 2020 when Rajesh Sharma, the MD of Aadhya Ltd., stepped into the boardroom to meet his leadership team including Nisha Patel, the CFO. *"We've identified an opportunity with Suraksha Constructions,"* Rajesh began. Nisha explained that *Suraksha was a stagnant mid-sized construction firm but integrating it could unlock potential synergies.* After extensive negotiations and due diligence, Aadhya Ltd. announced the acquisition in December. The fair value of Suraksha's total assets excluding liabilities was ₹ 3,060 crore on acquisition, with ₹ 48 crore estimated as costs to sell. The fair value of liabilities stood at ₹ 510 crore. The integration was challenging, but eventually, cost savings and efficiencies materialized. However, Rajesh and Nisha intended to turn around Suraksha and spin it off. By the time, as Aadhya Ltd. explored selling the former Suraksha unit, the fair value of its total assets excluding liabilities had changed to ₹ 3,000 crore, while costs to sell remained ₹ 48 crore and liabilities were valued at ₹ 528 crores. After weighing various offers, they struck a deal with a global private equity firm specialized in construction. While inking the final documents, Rajesh had a pleased expression. The divestment would unlock capital to focus on Aadhya Ltd.'s core competencies. More importantly, it was a learning experience that would shape their approach to future growth opportunities. Nisha too was satisfied with the outcome and looked forward to redeploying resources optimally to create long-term shareholder value.

The month of July 2021 marked a transition of leadership at Aadhya Ltd., one of India's leading conglomerates. Vihaan Mehta, a rising star within the company, was appointed as the new Managing Director, succeeding the long-serving Rajesh Sharma. The boardroom buzzed with excitement as Vihaan took charge, outlining his vision to propel Aadhya Ltd. to new heights through strategic initiatives and operational excellence. However, his remuneration package soon became a subject of debate among certain shareholders. The company had decided to pay Vihaan a competitive compensation suitable to his new role and responsibilities. Rajveer Bhatia, a minority shareholder actively tracking company, sought to inspect the contract detailing Vihaan's remuneration terms. But he was denied access by the company on the grounds that no written contract existed with the new Managing Director.

It was early 2023 when Aadhya Ltd., the prominent Indian conglomerate, found itself under the scanner from some minority shareholders. The company had expanded rapidly into new verticals under the leadership of its newly appointed Managing Director Vihaan Mehta. However, these shareholders raised concerns over certain transactions entered into by Aadhya Ltd. They alleged that these transactions were not fully compliant with the provisions of the Companies Act, 2013 and were potentially prejudicial to the company's interests. Worried by these developments, the

shareholders decided to invoke their statutory rights. They moved to make an application to the Central Government in late 2023, seeking appointment of an Inspector to investigate the affairs of Aadhya Ltd. The shareholders were determined to ensure that Aadhya Ltd.'s growth plans didn't come at the cost of governance lapses or violating the legal framework governing the company's operations. Furthermore, a group of members of Aadhya Ltd., holding 12% of the company's issued share capital, has filed a petition before the Tribunal alleging acts of oppression and mismanagement by the majority shareholders. During the petition's pendency, some members holding 5% of the share capital wish to withdraw. The majority shareholders, along with these withdrawing members, argue that the petition should be dismissed as non-maintainable.

During the last quarter of the financial year 2023-24, the Aadhya Group navigated several complex transactions, focusing on meticulous financial practices and strategic decisions. One notable deal involved Aadhya Ltd. supplying specialized machinery to XYZ Traders for ₹ 2,95,000, inclusive of GST at 18%. In conjunction, XYZ Traders provided materials valued at ₹ 10,000, exclusive of GST, as part of the consideration. Vihaan Mehta, the new MD, keenly monitored this transaction. He convened a meeting with CFO Nisha Patel and COO Rakesh Raghavan to review the details. *"We need to ensure every aspect of this deal is handled meticulously,"* Vihaan emphasized. Around the same time, Aadhya Enterprises Ltd., a subsidiary of Aadhya Ltd., supplied the same machinery to another unrelated party for ₹ 2,97,360, inclusive of GST at 18%. This prompted the finance team to discuss the valuation and pricing strategies. Nisha explained, *"For the machinery supplied to XYZ Traders, we must calculate the value before GST and add the value of the additional materials provided."* Rakesh noted, *"Comparing this to the transaction made by Aadhya Enterprises Ltd. will help ensure our pricing strategy is consistent and competitive."* After careful calculation, they concluded that the value of the goods supplied to XYZ Traders needed thorough documentation for accurate financial reporting. This exercise not only clarified the value but also reinforced Aadhya Ltd.'s commitment to meticulous financial practices. Vihaan, satisfied with the outcome, reflected on the importance of detailed evaluations in maintaining the company's reputation for excellence and integrity.

Simultaneously, Aadhya Enterprises Ltd. was also deliberating over two significant loan proposals as part of its strategic focus on employee retention and welfare. The first proposal concerned a substantial personal loan requested by K. Ahuja, one of the company's directors, aimed at financing the construction of his residential property. This loan was being considered in light of Ahuja's long-standing contributions to the company and the potential role such financial assistance could play in ensuring his continued engagement with Aadhya Enterprises Ltd. The second proposal pertained to a loan sought by Bharat Mehta, the company's Whole-Time Director, though the specific purpose for this loan has not been explicitly stated. Despite the lack of clarity on the loan's objective, the Board was weighing carefully the request, considering the importance of supporting Key Managerial Personnel within the organization.

In parallel, Aadhya Ltd. prepared for an important international trade operation, set to import goods worth USD 2 million from an overseas supplier. Typically, the company required 90 days to make the payment. The supplier offered a 60-day interest-free

credit period, along with an additional 30-day credit extension at an 8% per annum interest charge. Meanwhile, Aadhya Ltd.'s bankers presented a 30-day loan facility at a 10% per annum interest rate. The finance team, led by CFO Nisha Patel, evaluated these options against current foreign exchange rates: a spot rate of 1 USD = ₹ 83.50, a 60-day forward rate of ₹ 84.10, and a 90-day forward rate of ₹ 84.50, recognizing the potential impact on the company's financial position.

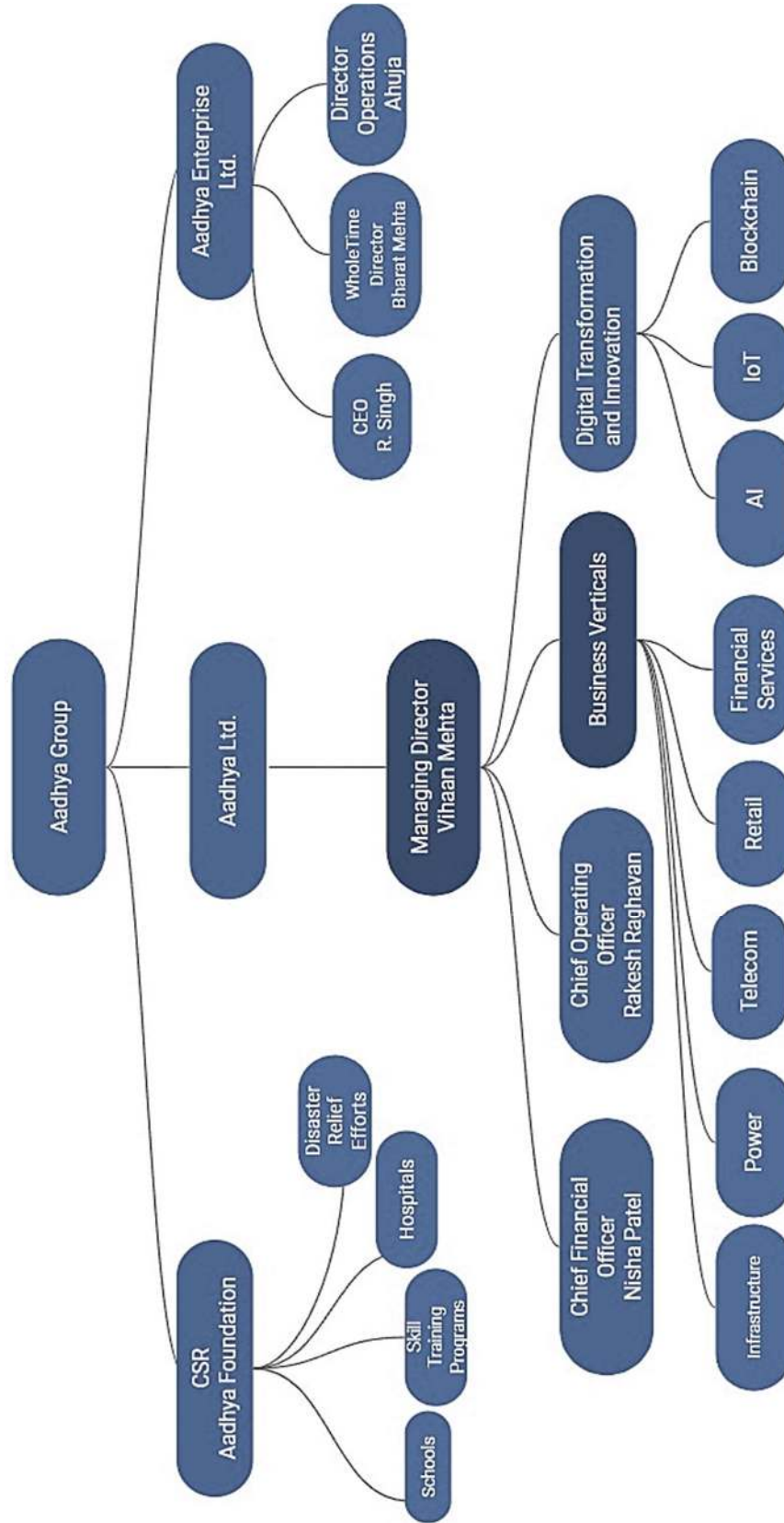
While addressing these corporate developments, Vihaan also led discussions about the Aadhya Foundation, emphasizing the importance of aligning social responsibility programs with core values and actively engaging with local communities. *"We must adapt our strategies based on their feedback to ensure that our foundation uplifts communities and fosters a lasting legacy,"* he stated.

As the financial year 2023-24 near to close, Aadhya Ltd. was gearing up for its annual audit process. Nisha Patel, the Chief Financial Officer, had the accounts payable break-up ready for scrutiny. DRT & Co. were appointed to conduct Aadhya Ltd.'s audit for the year. As they reviewed the accounts payable, one particular vendor – M/s Builders Corp. with a sizable ₹ 14.56 Lakhs payable – caught their attention.

In May 2024, an important financial issue arose that required immediate attention. DRT & Co., the auditors of Aadhya Ltd. for the year ended on 31/03/2024, had signed the audit report on 04/05/2024. The Annual General Meeting was scheduled for August 2024. On 06/05/2024, the company received a communication from the Central Government that an amount of ₹ 20 crore, kept pending on account of incentives pertaining to the financial year 2023-24, had been approved and would be paid before the end of May 2024. When asked about this by the management, Chief Financial Officer Nisha Patel informed them that this amount had not been recognized in the audited financial statements due to uncertainty of receipt before the financial year end. Now, having received confirmation of the amount, the management wished to include it in the financial statements for the year ended 31/03/2024. On 08/05/2024, the management amended the accounts and approved the same. During the intervening period between 04/05/2024 and 08/05/2024, the audited financial statements and audit report were not issued to anybody. The management requested the auditor to consider the situation and issue a fresh audit report on the financial statements for the year ended 31/03/2024.

Aadhya Ltd. recently declared and paid an annual dividend of ₹ 5 per share for the most recent financial year, reflecting its commitment to returning value to shareholders. According to management's guidance, the dividend is expected to experience a robust growth rate of 18% per annum over the next two years, signaling confidence in the company's near-term financial performance and expansion potential. Beyond this period, the growth rate is projected to moderate to a more sustainable 8% per annum indefinitely. With the required rate of return for equity investors in Aadhya Ltd. set at 14%, the company's dividend strategy plays a crucial role in shaping investor expectations and valuation considerations, providing a balanced outlook between short-term growth and long-term stability.

Aadhya Ltd. Organizational Structure



I. Multiple Choice Questions

- 3.1 Aadhya Foundation is applying the Value for Money (VFM) framework to enhance its programs. Which of the following actions best balances the principles of effectiveness, efficiency, and economy?
- (a) The Foundation implements AI to automate patient record-keeping and optimize hospital workflows, resulting in improved care delivery. It also continuously tracks patient recovery rates and uses this data to adjust its healthcare strategies. In addition, the Foundation ensures that it secures quality supplies at competitive rates after comparing several vendors.
 - (b) The Foundation partners with Aadhya Ltd.'s R&D team to deploy IoT-enabled tracking systems in its disaster relief supply chains. These systems improve real-time monitoring of resource usage and minimize wastage, while data-driven insights are used to enhance service delivery efficiency, even if it involves higher initial investment.
 - (c) Aadhya Ltd. launches a new blockchain-powered solution to manage the Foundation's financial aid programs, prioritizing faster transaction times, but without adequately monitored for potential errors in fund distribution.
 - (d) The Foundation expands its skills training programs by focusing on providing courses in emerging technologies like Blockchain, increasing the number of participants, while delaying the introduction of performance metrics to track how many trainees benefited in the long run.
- 3.2 Based on the transaction described in the case study, what should be the value of the goods supplied by Aadhya Ltd. to XYZ Traders?
- (a) ₹ 2,52,000
 - (b) ₹ 2,95,000
 - (c) ₹ 2,97,360
 - (d) ₹ 2,50,000
- 3.3 The intrinsic value of Aadhya Ltd.'s equity shares using the two-stage dividend growth model shall be approximately _____.
- Note: Use PVF up to 4 decimal points.
- (a) ₹ 106.98
 - (b) ₹ 105.57
 - (c) ₹ 107.34
 - (d) ₹ 104.98
- 3.4 Evaluate the status of petition filed by the group of members of Aadhya Ltd., holding 12% of the company's issued share capital in contention in light of the Companies Act, 2013.

- (a) The petition must be dismissed as the petitioners no longer meet the minimum shareholding requirement.
 - (b) The proceedings shall continue irrespective of the withdrawal of consent by some petitioners.
 - (c) The Tribunal must consider the current shareholding percentage of the petitioners before making a decision.
 - (d) The petitioners must file a new petition reflecting the current shareholding situation.
- 3.5 DRT & Co. knew they had to thoroughly validate the existence and valuation of the significant liability (M/s Builders Corp.) as on March 31, 2024. But which audit procedure would yield the most reliable evidence?
- (a) Inspect each and every journal entry passed in Aadhya Ltd.'s books
 - (b) Ask Aadhya Ltd. to provide the details of payments made to vendors during the year
 - (c) Inspect the invoices issued by M/s Builders Corp. and the related payments made
 - (d) Interrogate Aadhya Ltd.'s cash management team **(5 x 2 = 10 Marks)**

II. Descriptive Questions

- 3.6 RECOMMEND how the discontinued operation pertaining to Suraksha Constructions was measured and presented in Aadhya Ltd.'s consolidated financial statements:
- 1. On the **acquisition date**.
 - 2. On the **reporting date** of the divestment. **(4 Marks)**
- 3.7. (a) In light of the tenets of corporate governance and shareholder rights enshrined in the Companies Act, 2013, evaluate whether Aadhya Ltd.'s decision to deny Rajveer access to Vihaan's contract was justified. Substantiate your answer with relevant provisions of the Act and principles of transparency and disclosure that a company like Aadhya Ltd. should uphold. **(2 Marks)**
- (b) In the context of the two loan proposals by K. Ahuja and Bharat Mehta, analyze the legal permissibility and conditions under the Companies Act, 2013 for a company to grant such loans to its directors. **(2 Marks)**
- 3.8. With reference to the information given in the case study, analyze the issues involved and give your views as to whether or not the auditor, DRT & Co., could accept the request of the management. **(3 Marks)**
- 3.9 Considering the import transaction, what would have been the most likely recommendation made by the finance team to Vihaan Mehta during the meeting? (Assume 360 days in a year) **(4 Marks)**

CASE STUDY 4

CA. Radhika Sharma is an audit partner in L & V 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. Radhika was waiting at the Mumbai office to meet CA. Archana Kumari, a Fellow Chartered Accountant. CA. Archana 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 2023, conducted by L & V 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. Radhika about the arrival of CA. Archana. Both of them exchanged pleasantries and CA. Archana was guided into a pre-booked meeting room. CA. Archana requested for the audit files for initiating audit inspection. CA. Radhika 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. Archana 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. Archana: *Can you tell me about the service offerings of the firm? Does it also provide advisory services?*

CA. Radhika: *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.

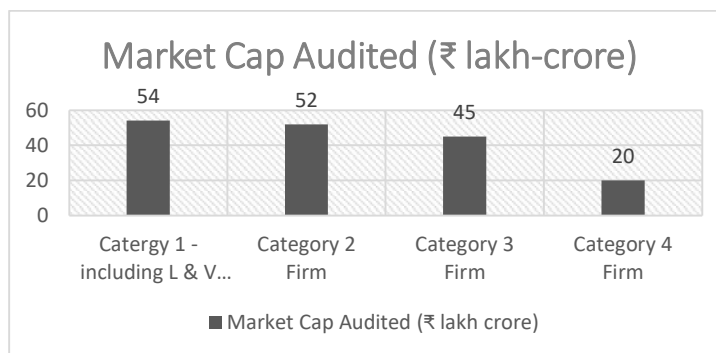
The firm provide consistent audits by assembling the right multidisciplinary teams to address the most complex issues, using a proven audit methodology and deploying the latest, high-quality auditing tools and technologies. The Firm understands that to achieve the desired potential a tailored assurance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



Tax services



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

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

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

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

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

CA. Radhika: *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. Archana continued to review the electronic file till next week. Multiple rounds of discussions were held between CA. Radhika and CA. Archana. On the last working day, CA. Archana 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—L & V 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, L & V 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 L & V LLP faces is the uneven pricing structure among local advisory firms. Although L & V 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-wide 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 2023. 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 2023. 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's 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 rationale 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.

I. Multiple Choice Questions

- 4.1 Do you agree with CA. Archana'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.
- 4.2 In accordance with SQC 1 and SA 230, the audit firm should have completed the assembly of final audit files by-
- (a) **13 August 2023** – 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 2023** – 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 2023** – 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 2023** – 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.

- 4.3 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.
- 4.4 Considering non-availability of audit evidence, CA. Radhika 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
- 4.5 Do you agree with CA. Radhika'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)

II. Descriptive Questions

- 4.6 When should revenue from the Customer P be recognised by the Company?
(3 Marks)
- 4.7 RECOMMEND the strategic measures L & V 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.
(4 Marks)
- 4.8 In light of the Ms. Archana's observation RE-DRAFT a policy to identify and evaluate possible threats to independence considering SQC 1? **(8 Marks)**

CASE STUDY 5

Mr. Aditya: From Corporate Professional to Entrepreneur

Before founding Sprinter Private Limited, Mr. Aditya P. had a distinguished career in the textile industry, working for over two decades in a leading multinational corporation. Starting as an entry-level employee, he rose through the ranks due to his expertise in manufacturing, international trade, and operational management. His experience gave him deep insights into the textile market, both domestically and globally. With a vision to build a brand of his own and tap into the booming textile exports market, Mr. Aditya ventured into entrepreneurship. He brought with him not just years of industry knowledge but also an entrepreneurial spirit, leading to the incorporation of Sprinter Private Limited in May 2023.

Sprinter Private Limited's Journey

Incorporated in May 2023, Sprinter Private Limited has quickly made significant strides in the textile industry. Headquartered in New Delhi, the company embarked on the construction of a state-of-the-art factory building in NOIDA using prefabricated structure, which is common and prevalent in modern times. The building, comprising about 1,00,000 square ft. of covered area, was ready to use by the end of July 2023 at a cost of ₹ 6.50 crores. The company also obtained GST registration the state of Uttar Pradesh in May 2023.

In anticipation of launching production quickly, the company had placed advance orders for new textile machinery from South Korea, costing ₹ 8.65 crores. Additionally, it planned to install previously used indigenous machinery valued at ₹ 2.00 crores. By the first week of August 2023, both imported and indigenous machinery were brought at the NOIDA premises, enabling Sprinter to kick-start commercial production of textile made-ups by September 1, 2023.

The early success of Sprinter's made-up textiles became evident when they quickly gathered attention in the U.S. market. Operating under the "Sprinter" brand, the company skillfully leveraged digital and online marketing platforms to secure export orders, effectively competing with and surpassing Chinese rivals in terms of quality and innovation. The company's strategic focus on digital outreach helped it capture a significant chunk of the export market, further fueling its rapid growth.

To further optimize its operational efficiency, in February 2024, Sprinter outsourced 20% of its production to factories in countries with lower operational costs. These factories cater exclusively to Sprinter's procurement demands but operate independently, with no direct involvement from Sprinter. Products from these suppliers are stored at Sprinter's distribution centers and dispatched for sales as needed.

The company's rapid production ramp-up, combined with Managing Director Mr. Aditya's strategic vision, and its successful penetration of international markets, led to significant profitability during the financial year 2023-24. This success reflects Sprinter's ability to swiftly scale operations, utilize cost-effective solutions, and establish a strong foothold in the global market.

Sprinter Private Limited's **mission** is to *become a globally recognized textile brand by delivering innovative, high-quality products, while maintaining integrity and*

*placing sustainability at the forefront of its operations. The company's **vision** is to lead the global textile industry by setting new standards in quality, innovation, and ethical practices, ensuring sustainable growth and contributing positively to the community. Sprinter's **long-term goals** include achieving global market leadership by expanding into key international markets, sustaining 20% annual growth while maintaining operational excellence, investing in cutting-edge technology and research for continuous innovation, and ensuring ethical supply chain practices by maintaining transparency across operations.*

GST Compliance Challenges

During the fiscal year ended March 31, 2024, Sprinter achieved an impressive export turnover of ₹ 50 crores. The company opted to export with the payment of IGST and benefited from duty drawbacks, amounting to ₹ 2.00 crores, credited to its statement of profit and loss. By the end of the year, Sprinter's financial statements reflected a net profit before tax of ₹ 7.50 crores. Additionally, the company invested ₹ 10 lakhs in research and development, further strengthening its innovative edge in the market.

Despite its commercial success, the company's in-house GST team faced challenges in navigating GST liability on IGST payments and refunds, particularly concerning the export sales that began in Oct 2023. The made-ups valuing ₹5 crores were exported during Oct 2023, carrying a GST rate of 5%. The break-up of ITC for month of Oct 2023 is as under:

Eligible ITC on inputs	0.15 crores
Eligible ITC on capital goods	0.03 crores
Eligible ITC in input services	0.02 crores

There were divergent opinions among team members pertaining to discharge of tax liability and refund issues given below before they could approach their tax consultant.

Opinion I - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 2023 is ₹ 0.25 crores and it would be discharged by the company by availing ITC on inputs of ₹ 0.15 crores and balance of ₹ 0.10 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said amount of ₹ 0.25 crore would be refunded/refundable directly by customs in bank account of company.

Opinion II - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 2023 is ₹ 0.25 crores and it would be discharged by the company by availing ITC on inputs of ₹ 0.15 crores, ITC on capital goods of ₹ 0.03 crore and ITC on services of ₹ 0.02 crores and balance of ₹ 0.05 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said amount of ₹ 0.25 crore would be refunded /refundable directly by customs in bank account of the company.

Opinion III - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 23 is ₹ 0.25 crores and it would be discharged by the company by availing ITC on inputs of ₹ 0.15 crores, ITC on capital goods of ₹ 0.03 crore and ITC on services of ₹ 0.02 crores and balance of ₹ 0.05 crore would be

discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B, GSTR-1, and GSTR-9, the above said amount of ₹ 0.25 crore would be refunded/refundable directly by customs in bank account of the company.

Opinion IV - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 2023 is ₹ 0.25 crores and it would be discharged by the company by availing ITC on inputs of ₹ 0.15 crores, ITC on capital goods of ₹ 0.03 crores and ITC on services of ₹ 0.02 crores and balance of ₹ 0.05 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said ITC amounting to ₹ 0.20 crore would be refunded/refundable directly by customs in bank account of the company.

The GST team's uncertainty highlighted the complexities of navigating export-related tax laws.

Capital Investments and Other Costs

The company imported machinery worth ₹ 8.65 crores from South Korea, with the cost being CIF at Mundra port. However, the company incurred ₹ 2.36 lakhs as clearing charges paid to DK Services Private Limited (including ₹ 0.36 lakhs on account of IGST) for availing services for getting consignments cleared from port.

Further, the company incurred ₹ 3.00 lakhs for freight services, paid to D Transport Services, a proprietary concern that is not registered under GST and owning 15 goods carriage. As a result, the company deposited ₹ 0.15 lakhs in IGST under the reverse charge mechanism.

Moreover, the company paid ₹1.77 crores to another company providing building construction services during the financial year 2023-24, which included ₹ 27 lakhs of IGST.

Rapid Growth and Strategic Leadership Under Mr. Aditya

Under the visionary leadership of Mr. Aditya, Sprinter Private Limited has rapidly established itself as a competitive force in the textile industry. The company's early success in penetrating the U.S. market, combined with its strategic investments in modern infrastructure, innovative marketing approaches, and capital expansion, has paved the way for sustained growth. Despite facing some challenges in GST compliance, Sprinter's strong performance and rapid export expansion reflect Mr. Aditya's entrepreneurial acumen, strategic foresight, and unwavering determination to drive the company forward.

ANNEXURE



The Time

The New Age Sprinter Faces Scrutiny Over Child Labour and Unethical Practices in Overseas Supply Chain

Recent reports from several Third World countries have uncovered alarming instances of child labor within factories linked to global supply chains, including those associated with Sprinter, a leading global apparel brand. Despite child labor being illegal in these nations, it has been reported that factories outsource work to contractors who, in turn, illegally hire children, bypassing local law enforcement.



Although Sprinter itself has not directly engaged in these practices, acting only as a customer for these factories, its lack of initial intervention has drawn criticism. Working conditions in many of these factories are described as unhygienic and oppressive, with the exploitation of vulnerable workers being a widespread issue.

I. Multiple Choice Questions

- 5.1 Regarding tax liability of the said company for the month of Oct 2023 under provisions contained in GST laws and rules, which statement is correct?
- (a) Opinion II is correct.
 - (b) Opinion III is correct.
 - (c) Opinion I is correct.
 - (d) Opinion IV is correct.
- 5.2 In context of the information given in under “**Capital Investments and Other Costs**” of the case study, consider the following table of compliances under income tax law as well as under GST law:

<i>Nature of Compliances</i>	<i>Appropriate response of company in accordance with law</i>
(1) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(i) TDS of ₹ 3,07,000/- is deducted on account of above three transactions and company is availing ITC of ₹ 51,000/- in respect of these transactions
(2) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(ii) TDS of ₹ 2,30,250/- is deducted on account of above three transactions and company is availing ITC of ₹ 36,000/- in respect of these transactions
(3) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(iii) TDS of ₹ 2,30,250/- is deducted on account of above three transactions and company is availing ITC of ₹

	27,51,000/- in respect of these transactions
(4) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(iv) TDS of ₹ 3,07,000/- is deducted on account of above three transactions and company is availing ITC of ₹ 27,36,000/- in respect of these transactions

Which of the following forms appropriate response by the company in accordance with law?

- (a) Combination (1) and (i)
- (b) Combination (2) and (ii)
- (c) Combination (3) and (iii)
- (d) Combination (4) and (iv)

5.3 Given this scenario, in which stage of the product life cycle is Sprinter's made-up products most likely positioned?

- (a) Shakeout
- (b) Maturity
- (c) Growth
- (d) Introduction

5.4 Why should Sprinter address the issue of child labour in its supply chain? Select the **most appropriate** statements:

- i. Sprinter is directly responsible for any faulty practices of its suppliers.
- ii. Sprinter has a moral duty of care towards a broad range of stakeholders, even if they are not directly related to the company.
- iii. Sprinter has a responsibility to ensure the well-being of employees working within its supply chain. The issue involves child labour exploitation by subcontractors.
- iv. Sprinter has a responsibility to ensure the well-being of employees working within its factory only. The issue involves child labour exploitation by subcontractors.
- v. Even though Sprinter hasn't done anything illegal, it has a moral obligation to protect the rights of these children. Child labour is prohibited in most countries because children have a right to education.
- vi. Negative publicity regarding unethical production practices could damage Sprinter's business reputation.

Options

- (a) ii, iii
- (b) i, ii, iii, iv
- (c) ii, iii, v, vi
- (d) iii, iv, v, vi

5.5 Which of the following are the **most proactive steps** Sprinter can take to address the unethical practices in its supply chain?

- i. Sprinter can develop a Code of Conduct that details the acceptable standards for conducting business.
- ii. Sprinter can set up an audit team to regularly audit factories in both pre-sourcing and follow-up stages.
- iii. Sprinter can list location-wise suppliers on its website, from whom it procures its products.
- iv. The Board must take immediate action to address unethical practices in the supply chain by implementing strict measures to eliminate child labour and ensuring transparent communication of this commitment to all stakeholders.
- v. Close production in countries with unethical practices.
- vi. Play an active role in managing the business operations of its suppliers.

Options

- (a) ii, iv
- (b) i, ii, iii, iv
- (c) i, iii, iv, vi
- (d) i, ii, v, vi

(5 x 2 = 10 Marks)

II. Descriptive Questions

5.6 The promoters of the company are law compliant and do not want to be seen on the wrong side of law. However, they are also prudent minded and want to take tax benefits available legally and seek your advice.

Advise promoters of company of any such legally permissible benefits to lower its income tax liability for A.Y. 2024-25.

Ignore the adjustment on account of depreciation under the Income-tax Act, 1961.

(9 Marks)

5.7 The company has exported made ups of ₹ 50 crores on payment of IGST during year 2023-24 carrying a GST rate of 5%. Further, the company had availed ITC of ₹ 2.00 crore during year 2023-24. The details of same are as under:

Eligible ITC on inputs	₹ 1.50 crore
Eligible ITC on capital goods	₹ 0.36 crore
Eligible ITC on services	₹ 0.14 crore

DISCUSS whether there was any other legally permissible way to export its goods keeping in view provisions of GST law assuming that there are no domestic sales. Also make a cross comparison of export on payment of IGST vs. other legally compliant way in terms of financial burden/benefit and procedural requirements to the taxpayer company.

Make suitable assumptions.

(6 Marks)

Mock Test Paper - Series II: October, 2024

Date of Paper: 7th October, 2024

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

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

SUGGESTED ANSWERS

ANSWERS TO THE CASE STUDY 1

I. Answers to the Multiple Choice Questions

- 1.1 (a) No.** Risk of fraud risk exists in revenue. Remuneration based on achievement of performance targets can incentivize employees to manipulate revenue. Greater risks of fraud exist where a substantial portion of revenues are through cash sales.

Reason: Paragraph 26 of SA 240 provide a presumption that there are risks of fraud in revenue recognition. Further paragraph A29 of SA 240 provide that there may be pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition in the case of listed entities when, for example, performance is measured in terms of year-over-year revenue growth or profit. Similarly, for example, there may be greater risks of fraud in revenue recognition in the case of entities that generate a substantial portion of revenues through cash sales.

- 1.2 (d)** Filing of Annual Performance Report should be based on audited financial statements of the Black Pearl since Black Pearl is controlled by SarTaj.

Reason: The Annual Performance Report should be based on audited financial statement of Foreign Entity. Under Form APR relaxation is provided from audited financial statement if the Indian person does not have control and local laws of foreign entity do not require mandatory audit. Thus, it is important to note that audit shall be required where Indian resident has control even if host country does not mandate it.

- 1.3 (c)** Section 185 of the Companies Act, 2013 do not cover loans to employees (not being managing or whole-time director). Section 186 of the Companies Act, 2013 do not cover loans to any employees (director or otherwise). Accordingly, the employee loans are in accordance with the requirements of the Companies Act, 2013

Reason: Section 185 inter alia covers loans given to directors and loans to “any person in whom any of the director of the company is interested”. In the present case provisions of section 185 is not triggered since loans have neither been given to employees nor to “any person in whom any

of the director of the company is interested” - as employees are not covered within this expression.

Section 186 inter alia provide that no loan should be given to any ‘person’ at a rate of interest lower than the prevailing yield of 1-year, 3-year, 5-year or 10-year Government Security closest to the tenor of the loan. Explanation to Section 186(2) specify that the expression “person” does not include any individual who is in the employment of the company. Thus, giving of loans to these employees are not covered under section 186 of the Companies Act, 2013.

- 1.4 (d)** To target different customer segments by offering a variety of experiences ranging from luxury to budget accommodations.

Reason: To target different **customer segments** by offering a variety of experiences ranging from luxury to budget accommodations.

SarTaj Hotels has opted for different brands within its portfolio—such as Kings Korner, Hocus Pokus, Stories, and Silverline—to target **varied customer segments**. Each brand caters to a distinct market:

- **Kings Korner** focuses on a premium, upscale experience with a large hotel network
- **Hocus Pokus** targets agile, upscale hotel experiences for mid-range travellers
- **Stories** provides budget-friendly yet quality stays
- **Silverline** offers an exclusive, high-performance experience with fewer hotels and a niche market

By diversifying its brand portfolio, SarTaj can cater to a wider range of customers, from luxury travellers to budget-conscious guests, ensuring broader market coverage and maximizing business growth opportunities. This aligns with **Customer Segments** in the Business Model Canvas, where different brands serve distinct customer needs and preferences.

- 1.5 (b)** i ,ii, iv

Reason:

- i. The number of **permanent** employees, not all employees, on the rolls of the company as of March 31, 20X4 should be disclosed.
- ii. The percentage increase in the median remuneration of employees should be provided for the entire **financial year**, not just based on 6 months.
- iii. The percentage increase in remuneration of each Director is correctly disclosed.
- iv. The percentage increase in remuneration of the **Company Secretary** should also be disclosed.

- v. The ratio of the remuneration of the CFO to the median remuneration of employees is **not required** to be disclosed. Only the ratio of each Director's remuneration to the median remuneration of employees is required.
- vi. Affirmation that the remuneration is in line with the remuneration policy is correctly disclosed.

The above explanation aligns with the disclosure requirements under Section 197 and Rule 5(1).

II. Answers to the Descriptive Questions

- 1.6** In the given case, SarTaj has provided loan at 5% p.a. whereas market rate of interest is 10% p.a. This represents that the loan is provided at off-market terms. Hence, the loan will be recognized at a fair value. Transaction price of providing a loan is ₹ 10 lakhs. However, the fair value of loan is ₹ 8.76 lakhs as shown in table below:

Year	Cash flow - ₹	PV @ 10%	PV - ₹
2024-2025	2.31	0.909	2.10
2025-2026	2.31	0.826	1.91
2026-2027	2.31	0.751	1.74
2027-2028	2.31	0.683	1.58
2028-2029	2.31	0.621	1.43
Total	11.55		8.76

The difference between transaction price and fair value is ₹ 1.24 lakhs (₹ 10 lakhs – ₹ 8.76 lakhs).

In the stated case, SarTaj has provided a loan of ₹10 lakhs having fair value of ₹ 8.76 lakhs, it reflects the benefit provided to employees. Also, SarTaj Ltd has to pay ₹ 1.24 lakhs excess amount which will be amortized over the period of loan.

In view of Para B5.1.2A of Ind AS 109, accounting treatment should be as follows:

Initial Recognition:

- Financial Asset at fair value of ₹ 8.76 lakhs
- Prepaid Staff Expenses ₹ 1.24 lakhs

Subsequent Recognition:

- Interest @10% p.a. will be accrued on the outstanding balance of financial asset every year till completion of the loan account.
- Prepaid staff expense to be amortized in Statement of Profit and Loss over the tenure of the loan.

1.7 Current Weaknesses in SarTaj Hotels' Supply Chain

Demand Forecasting and Knowledge Reliance on Head Chefs

The supply chain's heavy reliance on the head chef for demand forecasting presents significant risks. Demand forecasting, especially with respect to product variants and business volume, is not data-driven but relies on the chef's "common sense" and guesses based on factors such as the business cycle, location, and clientele.

Due to the lack of formal data tracking, there is an absence of historical trends or customer usage information to inform accurate forecasting.

High Job Mobility of Head Chefs and Knowledge Retention Issues

Head chefs tend to change jobs frequently, leading to a loss of key operational knowledge. This results in inefficiency when new chefs join and have to begin from scratch, employing trial and error to gauge inventory requirements, leading to inconsistencies and inefficiencies in food production.

Low Technology Adoption

Despite basic use of technology, such as the Internet in product planning, overall supply chain processes rely heavily on manual activities. Demand forecasting remains a guessing game, with little integration of technology to predict demand variants and optimize supply chain processes.

Manual inventory checks further hinder efficiency, as stock counts are done by physically counting items, which is prone to errors and inefficiencies.

Time-Consuming and Costly In-House Food Preparation

The in-house food preparation process requires significant time, labour, and capital investment. While it allows for customized food offerings, the high labour costs and fluctuating raw material prices put pressure on margins and overall profitability.

Recommendations to Overcome Challenges

Data-Driven Forecasting

SarTaj Hotels should implement a data-driven approach to demand forecasting. This can be achieved by collecting and storing information on past product offerings, sales history, customer preferences, and inventory levels at each hotel. Utilizing this data will enable the company to move from a "guessing game" approach to data-backed decision-making.

By analyzing historical trends and customer demand patterns, SarTaj can better align its inventory management practices with actual demand, reducing both food wastage and stockouts.

Improving Knowledge Retention

A *formalized knowledge management system* should be implemented to capture the operational knowledge of head chefs, including their approach to menu development, inventory management, and customer preferences. This

will ensure that when a new chef is appointed, they can build on previous knowledge rather than starting from scratch.

This system could include standardized documentation of food supply chain procedures, customer preferences, and sales data that new chefs can easily access and use.

Increased Use of Technology in Supply Chain Processes

SarTaj should digitize its supply chain processes, *introducing an integrated platform* for data sharing between hotels and suppliers. This platform would facilitate online ordering, real-time inventory tracking, and automated demand forecasting.

By sharing data with suppliers, SarTaj can reduce lead times and ensure better coordination between supply and demand. This can also help implement a jointly managed inventory system, reducing the overall cost of inventory management throughout the supply chain.

Transitioning to digital tools for inventory checks, menu planning, and ordering will streamline operations and allow head chefs to focus more on creative aspects of their role, rather than manual administrative tasks.

Outsourcing Part of Food Preparation

SarTaj Hotels could consider *outsourcing certain aspects of food preparation, particularly for high-volume, standardized food items* such as bread, desserts, or frozen goods. This would allow SarTaj to reduce in-house labour costs and invest more in creating a distinctive, high-quality dining experience for items that require bespoke preparation.

By outsourcing routine or labour-intensive processes, the hotels can reduce costs, improve efficiency, and focus on enhancing the unique elements of their menu that differentiate their brand.

Supplier Collaboration and Dual-Sourcing Strategy

SarTaj should maintain strong, cooperative relationships with its suppliers, especially for perishable items. Dual-sourcing strategies should continue to be employed, as they allow SarTaj to manage supplier risks, ensuring both quality and cost efficiency.

Engaging suppliers in a more collaborative partnership, including integrating their expertise into menu development and allowing for joint planning of inventory, will strengthen supply chain resilience and add value to the hotel's offerings.

Increasing Efficiency with Outsourced or Hybrid Models

SarTaj could consider adopting a hybrid approach by combining in-house production for signature items with outsourced options for more standardized offerings. This model will allow for efficiency in operations while maintaining the brand's focus on delivering unique customer experiences.

Outsourcing routine tasks, such as bulk food preparation for events and conferences, can free up resources and staff time, allowing hotels to *focus on delivering exceptional service in high-impact areas*.

Conclusion

The SarTaj Hotels' supply chain has significant potential for improvement, especially in leveraging data for demand forecasting, increasing the use of technology, and optimizing labor costs through outsourcing. By addressing these weaknesses, SarTaj can enhance its supply chain efficiency, reduce operational costs, and continue to deliver high-quality service, further strengthening its position as a leader in the hospitality industry.

ANSWERS TO THE CASE STUDY 2

I. Answers to the Multiple Choice Questions

- 2.1 (b)** Carve out – Unlike IFRS 1, Ind AS 101 provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.

Reason: Paragraph D7AA of Ind AS 101 has been added to provide for transitional relief from the retrospective application of Ind AS 16: Property, Plant and Equipment. Paragraph D7AA, provides an entity option to use carrying values of all such assets as on the date of transition to Ind ASs, in accordance with previous GAAP as an acceptable starting point under Ind AS.

- 2.2 (d)** 1stApril,2022

Reason: The date of transition will be 1st April, 2022 being the beginning of the earliest comparative period presented. To explain it further, Fastest Finger Limited is required to adopt Ind AS for F.Y.2023-24, and it will provide comparatives for F.Y.2022-23. Accordingly, the beginning of the comparative period i.e. 1stApril,2022 will be considered as date of transition.

- 2.3 (a)** Disagree. Since there is quorum in a meeting through physical presence of directors, Mr. Viper Armstrong can participate through video conferencing on the matters relating to approval for annual financial statements as permitted under section 173 to the Companies Act, 2013.

Reason: The participation of Directors in a meeting of the Board may be either in person or through video conferencing or other audio visual means, as may be prescribed, which are capable of recording and recognising the participation of the Directors and of recording and storing the proceedings of such meetings along with date and time.

- 2.4 (c)** ₹ 9.80 crores

Reason: Under Rule 31B of the CGST Rules, 2017 any amount returned or refunded by the supplier to the player for any reasons whatsoever,

including player not using the amount paid or deposited with the supplier for participating in any event, should not be deductible from the value of supply of online money gaming. Accordingly, GST @28% is payable on the entire amount of ₹ 35 crores.

- 2.5 (c)** Reporting is inappropriate. CARO, 2020, requires the auditor to also report the period to which the amount relate and the forum where the dispute is pending.

Reason: Where statutory dues have not been deposited on account of any dispute, then the name of statute, nature of dues, amount not deposited, period and the forum where dispute is pending should be mentioned in auditor's report under CARO. [Paragraph 3(vii)(b) of CARO 2020]. The auditor has not disclosed the period and forum where the dispute is pending.

II. Answers to the Descriptive Questions

- 2.6** Appendix C to Ind AS 101 prescribes an optional exemption from retrospective restatement in relation to past business combinations. Paragraph C(4)(j) of Appendix C to Ind AS 101 prescribes that when the past business combinations are not restated and a parent entity had not consolidated an entity as a subsidiary in accordance with its previous GAAP (either because it was not regarded as a subsidiary or no consolidated financial statements were required under previous GAAP), then the subsidiary's assets and liabilities would be included in the parent's opening consolidated financial statements at such values as would appear in the subsidiary's separate financial statements if the subsidiary were to adopt the Ind AS as at the parent's date of transition.

It may be noted here that the above exemption is available only under those circumstances where the parent, in accordance with the previous GAAP, has not presented consolidated financial statements for the previous year; or where the consolidated financial statements were prepared in accordance with the previous GAAP, but the entity was not treated as a subsidiary, associate or joint venture under the previous GAAP. As such, if the consolidated financial statements were required to be prepared and there is a change in classification of the entity from subsidiary to associate or vice versa in accordance with Ind AS, then the above exemption does not apply.

In the present case, the subsidiary's separate financial statements would be prepared as if it was a first-time adopter of Ind AS i.e. after availing relevant first-time adoption mandatory exceptions and voluntary exemptions. The parent will adjust the carrying amount of the subsidiary's assets and liabilities to the amounts that Ind ASs would require in the subsidiary's balance sheet.

The deemed cost of goodwill equals the difference at the date of transition between:

- (a) the parent's interest in those adjusted carrying amounts; and
- (b) the cost in the parent's separate financial statements of its investment in the subsidiary.

The measurement of non-controlling interest and deferred tax follows from the measurement of other assets and liabilities.

2.7 Applying McKinsey's 7S Framework to **Fastest Finger Limited (FFL)** highlights several areas where improvement is necessary for achieving strategic success.

Strategy: FFL is experiencing strategic drift, with unclear direction and resistance to new initiatives. To address this, the strategy must be communicated effectively to all managers and employees involved. The current approach, combining organic and inorganic growth, needs refinement, particularly in innovation and managing risks associated with the **Teen Patti** contract. A clearer focus on product development and enhancing the premium online gaming experience will help restore FFL's competitive edge.

Structure: FFL operates in domestic and international markets with a structure that supports diverse gaming and e-Sports segments. However, misalignment across functional units threatens the success of the change program. To support its growth and innovation objectives, FFL must streamline its structure to promote cross-functional collaboration and align with its strategic goals.

Systems: The company is transitioning to **Ind AS** and dealing with **GST compliance** issues, both of which are critical for managing growth and regulatory requirements. FFL needs robust financial systems to handle these complexities, and addressing compliance issues will be essential for maintaining investor confidence.

Shared Values: There is a lack of consensus on the need for new product development and strategic direction. This disconnects between leadership and staff underscores the importance of shared values. The CEO's concerns about the company's future have not been communicated clearly, leaving employees uncertain. Fostering a culture of innovation and ensuring alignment on strategic goals across the organization will help overcome resistance to change and drive growth.

Skills: FFL lacks expertise in new gaming technologies, which is critical for developing new products and maintaining competitiveness. The company must invest in hiring senior resources for research and development and possibly engage external designers. Strengthening its technical capabilities will be essential for supporting innovation and future product development.

Style: Internal disagreements over FFL's direction and investment strategies are causing friction. The CEO has not secured commitment from key managers, such as the operations and sales directors, who are skeptical about the need for technological advancements. To move forward, leadership must resolve these conflicts and create a collaborative environment that encourages innovation and adaptability.

Staff: FFL faces human resource issues, including potential redundancies and dissatisfaction among operations staff. The reliance on external resources and technical experts may be seen as a threat to existing employees. Additionally, the failure to coordinate the new program with the

sales team could undermine its success. Effective HR management, clear communication about strategic changes, and investment in talent acquisition and development are crucial to maintaining morale and productivity.

Conclusion

Fastest Finger Limited needs to realign its strategic direction by refining its growth strategy, revising its organizational structure, and investing in key skills and technologies. Clear communication and fostering a shared vision are essential to overcoming resistance to change. By resolving internal conflicts and creating a collaborative environment, FFL can drive innovation, ensure compliance, and secure its competitive position in the gaming industry.

- 2.8** Section 173(2) of Companies Act, 2013 read with Rule 3 of the Companies (Meetings of Board and its Powers) Rules, 2014, provide that participation of directors in a meeting of the Board may be either in person or through video conferencing or other audio-visual means as may be prescribed, which are capable of recording and recognizing the participation of the directors and of recording and storing the proceedings of such meetings along with date and time. Chairman of the Meeting and Company Secretary should safeguard the integrity of the meeting by ensuring sufficient security and identification procedures, ensure availability of proper video conferencing or other audio visual equipment or facilities for providing transmission of the communications for effective participation of the directors and other authorised participants at the Board meeting and other matters as prescribed in the above Rule.

The **notice of the meeting** shall be sent to all the directors 7 days in advance as per section 173 (3) of the Act and the notice shall inform the directors regarding the option available to them to participate through video conferencing mode or other audio-visual means and shall provide all the necessary information to enable the directors to participate through video conferencing mode or other audio-visual means.

Key points to be observed before/ during the meeting are as follows:

STEP 1: Roll Call

At the commencement of the meeting, a Roll Call should be taken by the Chairperson when every director participating through video conferencing or other audio-visual means shall state, for the record, the prescribe matters including name; location from where participating and that he has received the agenda and all the relevant material for the meeting

STEP 2: Considerations for the Chairman or Company Secretary

The Chairperson / Company Secretary would then read out the names of persons (other than the Directors who are present at the meeting) to assist/guide/witness the proceedings of the Meeting the Board. The **attendance register shall be deemed to have been signed by the directors** participating through electronic mode, if their attendance is recorded by the Chairman or FFL Secretary in the attendance register and the minutes of the meeting.

STEP 3: Requirement of Quorum

The Chairperson / Company Secretary should confirm that the **required quorum** is present throughout the meeting.

The statutory registers which are required to be placed in the Board meeting should be placed at the scheduled venue of the meeting.

STEP 4: Transaction during Meeting

Each item of business should be taken up one by one as per the agenda specified in the notice. If a motion is objected to and there is a need to put it to vote, the Chairperson shall call the roll that is to say that he shall first announce that he shall be doing the roll call and call out the name of each director who shall identify himself while casting his vote and the Chairperson shall then note the vote of each director. The Chairperson shall then **announce the summary of the decision** taken on such item along with names of the directors, if any, who dissented from the decision taken by majority.

2.9 (i) Growth

(ii) Maturity

Growth Stage

Compared to the introduction stage, the likely changes for NOX-A in the online gaming industry are as follows:

Unit Selling Prices (In-game purchases or subscriptions): The prices for in-game purchases or subscription fees may reduce for several reasons:

- *Competitors are likely to enter the market* with similar games, pushing NOX-A to reduce prices to stay competitive.
- To increase its user base and discourage new entrants, NOX-A might adopt *aggressive pricing strategies, offering discounts or promotions*.
- As the player base expands, lowering prices might make the game accessible to a wider audience, driving growth in terms of both revenue and user engagement.

Unit Production (Development) Costs: Development and operational costs are likely to decrease due to:

- Economies of scale: Larger player volumes lead to more efficient server utilization and *reduced per-user maintenance costs*.
- Improved efficiency in game updates: As the development team becomes more familiar with the game mechanics and platform, the *learning curve effect helps in streamlining production processes*.
- Bulk purchasing of cloud and IT services: With increased demand, NOX-A can negotiate better deals for cloud hosting, IT infrastructure, and other development resources, *reducing overhead costs*.

Maturity Stage

Compared to the growth stage, the changes in the maturity stage for NOX-A are as follows:

Unit Selling Prices (In-game purchases or subscriptions): At this stage, the game has likely captured a significant share of the market. Hence:

- *Prices are likely to stabilize* as NOX-A has now established itself in the online gaming community. There may be *occasional promotions or limited-time offers, but overall pricing remains consistent*.
- There might be less pressure to lower prices further as the *focus shifts to customer retention* rather than rapid expansion.

Unit Production (Development) Costs: Costs are likely to Stable or Slightly Increasing Costs due to:

- The efficiency gains from the learning curve and scale have plateaued, leading to more stable development costs.
- Direct development costs may remain constant but could also rise due to ongoing investment in keeping the game relevant with new features, content, and user experience improvements.
- As the game reaches a stable player base, additional resources might be needed for customer service, moderation, and security, particularly as user expectations evolve.

Conclusion

In conclusion, during the **growth stage**, the key trend for NOX-A is likely a reduction in both unit selling prices and production costs as it seeks to expand its user base and benefit from economies of scale. However, in the **maturity stage**, prices tend to stabilize while production costs could slightly increase or remain constant as the focus shifts to retaining players and maintaining the game's relevance through continuous development.

ANSWERS TO THE CASE STUDY 3

I. Answers to the Multiple Choice Questions

- 3.1 (a)** The Foundation implements AI to automate patient record-keeping and optimize hospital workflows, resulting in improved care delivery. It also continuously tracks patient recovery rates and uses this data to adjust its healthcare strategies. In addition, the Foundation ensures that it secures quality supplies at competitive rates after comparing several vendors.

Reason:

Option (a) illustrates a balanced approach to the VFM framework by addressing **effectiveness** through the use of AI for improved care delivery and patient tracking, ensuring the foundation meets its healthcare objectives. It also incorporates **efficiency** by optimizing

workflows and **economy** by securing quality supplies at competitive rates. In contrast, option (b) focuses on efficiency and effectiveness but involves higher costs without clear long-term economic benefits. Option (c) prioritizes speed but neglects monitoring, risking errors. Option (d) increases participation without assessing long-term effectiveness, compromising the foundational aim of sustainable outcomes.

3.2 (a) ₹ 2,52,000

Reason: In the given case, price is not the sole consideration for the supply. Apart from monetary consideration, the buyer has given some material to the supplier as consideration for such supply. Hence, the value of the supply cannot be determined on the basis of the transaction value in terms of section 15(1) of the CGST Act, 2017. Here, the value will be determined with the help of rule 27 of the CGST Rules, 2017 which specifies that where the consideration for a supply is not wholly in money, the value will be the open market value. Open market value of a supply means the full value in money, excluding the applicable GST, where the supplier and the recipient of the supply are not related and the price is the sole consideration, to obtain such supply at the same time when the supply being valued is made. Therefore, in the given case, the open market value of the goods supplied is ₹ 2,52,000 ($₹ 2,97,360 \times 100/118$) and is therefore, the value of such goods.

3.3 (a) ₹ 106.98

Reason:

$$\begin{aligned}
 D_0 &= ₹5 \\
 D_1 &= ₹5 (1.18) = ₹5.90 \\
 D_2 &= ₹5 (1.18)^2 = ₹6.96 \\
 D_3 &= ₹5 (1.18)^2 (1.08) = ₹7.52 \\
 P &= D_1/(1+k_e) + D_2/(1+k_e)^2 + TV/(1+k_e)^2 \\
 TV &= D_3/(k_e-g) \\
 &= 7.52/(0.14-0.8) \\
 &= 125.33 \\
 P &= 5.90/(1+0.14) + 6.96/(1+0.14)^2 + 125.33/(1+0.14)^2 \\
 &= 5.90 \times 0.8772 + 6.96 \times 0.7695 + 125.33 \times 0.7695 \\
 &= 5.18+5.36+96.44 \\
 &= 106.98
 \end{aligned}$$

3.4 (b) The proceedings shall continue irrespective of the withdrawal of consent by some petitioners.

Reason: The proceedings shall continue irrespective of withdrawal of consent by some petitioners. It has been held by the Supreme Court in Rajmundhry Electric Corporation vs. V. Nageswar Rao, AIR (1956) SC 213 that if some of the consenting members have subsequent to the

presentation of the petition withdraw their consent, it would not affect the right of the applicant to proceed with the petition. Thus, the validity of the petition must be judged on the facts as they were at the time of presentation. Neither the right of the applicants to proceed with the petition nor the jurisdiction of the Tribunal to dispose of it on its merits can be affected by events happening subsequent to the presentation of the petition.

- 3.5 (c)** Inspect the invoices issued by M/s Builders Corp and the related payments made.

Reason: By scrutinizing the original invoices and cross-verifying the payment trails, auditors could obtain direct evidence validating the existence and accurate valuation of this key accounts payable component in Aadhya Ltd.'s books as on the balance sheet date.

II. Answers to the Descriptive Questions

- 3.6 Guidance from standard:** Ind AS 105 defines a disposal group as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, alongwith liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 80-87 of Ind AS 36, Impairment of Assets, or if it is an operation within such a cash-generating unit.

Analysis and Conclusion: In the given case, Suraksha Constructions was acquired exclusively with a view to sell. Hence, it meets the criteria to be classified as a discontinued operation.

The discontinued operation would be measured in accordance with paragraphs 15 and 16 of Ind AS 105.

- As per para 15, an entity shall 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.
- As per para 16, if a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale (see paragraph 11), applying paragraph 15 will result in the asset (or disposal group) being measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Hence, if the asset (or disposal group) is acquired as part of a business combination, it shall be measured at fair value less costs to sell.

Therefore, **on acquisition date**, in line with paragraph 16, Aadhya Ltd. would have measured Suraksha Constructions as a disposal group at fair value less costs to sell which would have been calculated by Aadhya Ltd. as:

- Fair value of total assets excluding liabilities on acquisition – Costs to sell = ₹ 3,060 Crores - ₹ 48 Crores = ₹ 3,012 Crores.
- Fair value of liabilities on acquisition = ₹ 510 Crores.

At the reporting date, in line with paragraph 15, Aadhya Ltd. would have remeasured the disposal group at the lower of its cost and fair value less costs to sell, which would have been calculated by Aadhya Ltd. as:

- Fair value of total assets excluding liabilities on subsequent reporting date – Costs to sell = ₹ 3,000 Crores - ₹ 48 Crores = ₹ 2,952 Crores
- Fair value of liabilities on reporting date = ₹ 528 Crores.

At the reporting date, Aadhya Ltd. would have presented these assets and liabilities separately from other assets and liabilities in its consolidated financial statements.

In the statement of profit and loss, Aadhya Ltd. would have recognized loss on subsequent measurement to fair value less cost to sale of the disposal group i.e. Suraksha Constructions, which equals ₹ 60 crores (₹ 3,060 Crores - ₹ 3,000 Crores).

- 3.7 (a)** No, the company's decision to deny Rajveer Bhatia access to Vihaan's remuneration details was likely not justified.

Section 197(4) expressly requires that the remuneration payable to the directors of a company, including any managing or whole-time director or manager, shall be determined, in accordance with and subject to the provisions of Section 197 of the Companies Act, 2013. Determination of Remuneration can be made either by the articles or by a resolution or if the articles so require, by a special resolution passed by the company in general meeting. The remuneration so determined to be payable is required to be inclusive of the remuneration payable to him for the services rendered by any such director in any other capacity.

As per Section 171(1) of the Companies Act, 2013:

- (1) register of directors and key managerial personnel of the company
- (A) Shall be open for inspection during business hours and the members shall have a right to take extracts therefrom and copies thereof, on a request by the members, be provided to them free of cost within thirty days; and
 - (B) Shall also be kept open for inspection at every annual general meeting of the company and shall be made accessible to any person attending the meeting.

Even though a written contract might not exist, the company should still be able to provide details on Vihaan's remuneration package. This could include information like salary, benefits, stock options, and performance-based bonuses.

In conclusion, the company's decision to deny access without proper explanation is likely questionable. Transparency is crucial for maintaining good corporate governance, and shareholders have the right to be informed about such matters.

- (b) Section 185 of the Companies Act, 2013 contains provisions which impose restrictions on the loans, etc. being given to directors, etc. According to the provision:

As per sub-section (1), a company is not permitted to advance any loan, or to give any guarantee or provide any security in connection with any loan taken by, -

- (i) any director of company, or of a company which is its holding company or any partner or relative of any such director; or
- (ii) any firm in which any such director or relative is a partner.

Further sub-section (3) states that above provision shall not apply:

- (a) where any loan is given to a managing or whole-time director-
 - (i) as a part of the conditions of service extended by the company to all its employees; or
 - (ii) pursuant to any such scheme which is approved by the members by a special resolution.
- (b) where a company in the ordinary course of its business:
 - provides loans or gives guarantees or securities for the due repayment of any loan; and
 - In respect of such loans an interest is charged at a rate not less than the rate of prevailing yield of one year, three years, five years or ten years Government security closest to the tenor of the loan.

Accordingly, following are the answers to the stated problems:

- (i) In the first case it would violate section 185(1) of the Companies Act, 2013. Aadhya Ltd. is not permitted to advance any loan, or to give any guarantee or provide any security in connection with any loan taken by K. Ahuja (director) of the company.
- (ii) In the second case, as per section 185(3), restrictions imposed in section 185(1), will not apply to giving of loan to Bharat Mehta, the whole-time director if it is given as a part of the conditions of service extended by the company to all its employees.

3.8 Facts which become known to the auditor after the date of the auditor's report but before the date the financial statements are issued:

As per SA 560, "Subsequent Events", the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

- (i) Discuss the matter with management and, where appropriate, those charged with governance.

- (ii) Determine whether the financial statements need amendment and, if so,
- (iii) Inquire how management intends to address the matter in the financial statements.

If management amends the financial statements, the auditor shall carry out the audit procedures necessary in the circumstances on the amendment. Further, the auditor shall extend the audit procedures and provide a new auditor's report on the amended financial statements. However, the new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

In the instant case, Aadhya Ltd. received an amount of ₹ 20 crore on account incentives pertaining to the year 2023-24 in the month of May 2024 i.e. after finalization of financial statements and signing of audit reports. The management of Aadhya Ltd. amended the accounts, approved the same and requested DRT & Co. (auditor) to consider this event and issue a fresh audit report on the financial statements for the year ended on 31.03.2024.

After applying the conditions given in SA 560, DRT & Co. can issue a new audit report subject to the date of audit report which should not be earlier than the date of approval of the amended financial statements.

3.9 Possible Options are as under:

- (i) Pay the supplier in 60 days

If the payment is made to supplier in 60 days, the applicable forward rate for 1 USD	₹ 84.10
Payment Due	USD 20,00,000
Outflow in Rupees (USD 2,000,000 × ₹ 84.10)	₹ 16,82,00,000
Add: Interest on loan for 30 days @10% p.a.	₹ 14,01,667
Total Outflow in ₹	₹ 16,96,01,667

- (ii) Availing supplier's offer of 90 days credit

Amount Payable	USD 20,00,000
Add: Interest on credit period for 30 days @8% p.a.	USD 13,333
Total Outflow in USD	USD 20,13,333
Applicable forward rate for 1 USD	₹ 84.50
Total Outflow in ₹ (USD 2,013,333 × ₹ 84.50)	₹ 17,01,26,639

Alternative 1 is better as it entails lower cash outflow.

ANSWERS TO THE CASE STUDY 4

I. Answers to the Multiple Choice Questions

- 4.1 (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.

- 4.2 (d) 14 July 2023** – 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.

- 4.3 (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.

- 4.4 (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. Radhika Sharma.

4.5 (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.

II. Answers to the Descriptive Questions

4.6 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.

- 4.7** To enhance the profitability and competitiveness of the bookkeeping division at L & V LLP, the firm must address both internal inefficiencies and external market challenges. Here are strategic recommendations based on the analysis provided:

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 L & V 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 L & V 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, L & V 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, L & V LLP can improve the profitability of its bookkeeping division.

- 4.8 L & V 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 L & V 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

I. Answers to the Multiple-Choice Questions

5.1 (a) Opinion II is correct.

Reason: The IGST liability of company pertaining to zero-rated supplies (export) in Oct 23 is 5% of ₹ 5crores i.e. ₹ 0.25 crore. It is discharged by setting off eligible ITC of ₹ 0.20 crore. It is immaterial whether ITC is availed on inputs, capital goods or input services. The export supplies are zero-rated supplies and IGST paid of ₹ 0.25 crore would be refunded/refundable directly in bank account of the company by customs upon monthly filing of GSTR-3B and GSTR-1 for each tax period. Further, filing of GSTR-9 is an annual affair and hence nothing to do with refund of IGST.

The refund by customs is system generated upon filing of GSTR-3B and GSTR-1 for each tax period. The invoices transmitted to customs via GST network are matched with shipping bills and others details which are also system driven and refund scroll is generated. After scroll generation, refund is credited in bank account of exporter.

5.2 (a) Combination (1) and (i).

Reason: The TDS amount to be deducted during financial year 2023-24 is as under -

TDS to be deducted on clearing charges of ₹ 2.00 lakhs u/s 194 C is 2% in case of payment to companies.

TDS to be deducted on freight paid of ₹ 3.00 lakhs u/s 194 C is 1% in case of payment to individuals.

TDS to be deducted on payment made to building contractor company of ₹ 1.50 crore u/s 194 C is 2% in case of payment to companies.

Hence, total TDS to be deducted by company comes to ₹ 3,07,000/- (4,000 + 3,000 + 3,00,000).

It is to be remembered that TDS is not to be deducted on GST amount included in payments made to above service contractors in accordance with provisions of CBDT circular number 23/2017 dated 19.7.2017. Hence, for calculation of TDS, pre-GST amounts have to be arrived at.

Further, company has correctly availed IGST on services amounting to ₹ 51,000/-. The company is eligible to avail ITC on services for import of machinery amounting to ₹ 36,000/-. Further, credit of IGST paid on reverse charge basis by the company on freight services amounting to ₹ 15,000/- is also available to the company. The IGST on building contractor services is not eligible as amount would be capitalised under building and the same is blocked under section 17(5) of CGST Act.

5.3 (c) Growth

Reason: Given the scenario, Sprinter made-ups have received a very good response, and they have captured a significant share of export

orders, indicating that the product is experiencing rapid market acceptance and sales growth.

5.4 (c) ii, iii, v, vi

Reason: Most appropriate statements are (ii) Sprinter has a responsibility to a *wide range of stakeholders*, including vulnerable children affected by its supply chain practices. (iii) Sprinter is accountable for ensuring the well-being of employees in its *supply chain*, especially regarding the exploitation of child labour by subcontractors. (v) Although Sprinter may not engage in illegal activities, it has a *moral obligation to protect children's rights*, as child labour is illegal in many countries and contradicts their right to education. (vi) Negative publicity surrounding unethical production practices can harm Sprinter's *brand reputation and customer trust*, which are critical for long-term success.

Statements (i) & (iv) are less appropriate.

(i) While Sprinter *may not be directly liable* for suppliers' actions, it is responsible for ensuring they adhere to ethical standards, highlighting the interconnectedness of its operations and supply chain. (iv) While the Sprinter does have a responsibility toward its factory employees, it must also extend this obligation to those working in its supply chain.

5.5 (b) i, ii, iii, iv

Reason: Sprinter can take several proactive steps to ensure ethical practices in its supply chain. These include developing a robust Code of Conduct (i), conducting regular audits to ensure compliance (ii), and publicly disclosing supplier information to enhance transparency (iii). Furthermore, the Board's commitment to eliminating child labour and communicating this effort (iv) strengthens the company's ethical stance. Closing production in certain countries (v) and directly managing supplier operations (vi) are less feasible and may not effectively address the root issues. Instead, enforcing strict standards and conducting audits will ensure compliance while maintaining supplier independence.

II. Answers to the Descriptive Questions

5.6 In a major tax policy initiative, section 115BAB has been inserted w.e.f. A.Y. 2020-21 to provide an option to new manufacturing or electricity generating domestic companies set up and registered on or after 1.10.2019 and commences manufacturing or generating electricity on or before 31.3.2024 for availing concessional income tax rates subject to fulfilment of certain conditions contained thereunder like non-availability of profit-linked deductions and investment-linked tax deduction under the Act, non-availability of deduction for contribution to research and development, additional depreciation etc.

Section 115BAB provides for concessional rate of tax @15% (plus surcharge@10% plus HEC@4%).

The option for section 115BAB has to be exercised in the **very first year** in which the **eligible company is set up**, failing which it cannot exercise such

option in the future years. However, once the company exercises such option under 115BAB, as the case may be, in a year, it would continue to be governed by the special provisions u/s 115BAB thereafter and cannot opt for regular provisions in any subsequent year.

It may be noted that companies exercising option under section 115BAB are not liable to minimum alternate tax under section 115JB.

The following are the conditions specified under section 115BAB:

(a) the company has been set-up and registered on or after the 1.10.2019, and has commenced manufacturing or production of an article or thing on or before the 31.3.2024 and, —

- (i) the business is not formed by splitting up, or the reconstruction, of a business already in existence:
- (ii) does not use any machinery or plant previously used for any purpose.

Any machinery or plant which was used outside India by any other person shall not be regarded as machinery or plant previously used for any purpose, if the following conditions are fulfilled -

- (A) such machinery or plant was not, at any time previous to the date of the installation used in India;
- (B) such machinery or plant is imported into India from any country outside India; and
- (C) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of this Act in computing the total income of any person for any period prior to the date of the installation of machinery or plant by the person.

Further, where in the case of a person, any machinery or plant or any part thereof previously used for any purpose is put to use by the company and the total value of the machinery or plant or part so transferred does not exceed 20% of the total value of the machinery or plant used by the company, then, the condition specified that the company does not use any machinery or plant previously used for any purpose would be deemed to have been complied with.

(b) the company is not engaged in any business other than the business of manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it.

The business of manufacture or production of any article or thing referred to in clause (b) shall not include business of,—

- (i) development of computer software in any form or in any media;
- (ii) mining;
- (iii) conversion of marble blocks or similar items into slabs;

- (iv) bottling of gas into cylinder;
 - (v) printing of books or production of cinematograph film; or
 - (vi) any other business as may be notified by the Central Government in this behalf; and
- (c) the total income of the company has to be computed -
- (i) without any deduction under the provisions of section 10AA or section 32(1)(ia) or section 33AB or section 33ABA or section 35(1)(ii)/(ia)/(iii) or section 35(2AA) or section 35(2AB) or section 35AD or section 35CCC or section 35CCD or under any provisions of Chapter VI-A other than the provisions of section 80JJAA or section 80M;
 - (ii) without set-off of any loss or allowance for unabsorbed depreciation deemed so under section 72A where such loss or depreciation is attributable to any of the deductions referred to in sub-clause (i).
 - (iii) by claiming the depreciation under the provision of section 32 determined in such manner as may be prescribed. However, additional depreciation u/s 32(1)(ia) cannot be claimed.

In the present case, company is eligible to opt for concessional tax rate of 15% (plus surcharge @ 10% plus HEC @ 4%), since it satisfies the following condition -

- (1) It is a company registered after 1.10.2019 and has started production on or before 31.3.2024.
- (2) Its business is not formed by splitting or reconstruction of business already in existence.
- (3) Although it has used plant and machinery previously used, it falls within overall cap of 20% stipulated u/s 115BAB. The total value of plant and machinery used by the company is ₹ 10.65 crores. However, value of machinery previously used is only ₹ 2.00 crore which is 18.78% of total value of plant and machinery. Hence, this newly set up domestic company satisfies this criterion also.
- (4) The company is engaged in business of manufacturing of an article or thing and research in relation to it.
- (4) The company's business does not fall into prohibited categories.
- (5) The company has not taken benefit of other beneficial provisions as listed out under section 115BAB.
- (6) The company has to exercise the option by filing Form 10-ID by due date of filing first return of income under section 139 for A.Y. 2024-25.

5.7 As per section 16(3) of the IGST Act, 2017, a registered person making zero rated supply may supply goods and/or services under bond or Letter of Undertaking (LUT) without payment of IGST and claim refund of unutilized ITC. Further, notified class of persons may make zero-rated supply or notified class of goods or services may be exported, on payment of IGST and refund

of such tax paid on goods and/or services supplied may be claimed. Accordingly, suppliers of textiles made-ups are permitted to export on payment of IGST and claim refund of such tax paid.

Rule 89(4) of the CGST Rules, 2017 stipulates that in the case of zero-rated supply of goods or services or both without payment of tax under bond/LUT in accordance with the provisions of section 16(3) of the IGST Act, 2017, refund of ITC shall be granted as per the following formula:

$$\text{Refund Amount} = \frac{(\text{Turnover of zero-rated supply of goods} + \text{Turnover of zero-rated supply of services})}{\text{Adjusted Total Turnover}} \times \text{Net ITC}$$

Here, Net ITC means ITC availed on inputs and input services during the relevant period other than the ITC availed for which refund is claimed under sub-rules (4A) or (4B) or both. Thus, refund of ITC on capital goods is not allowed.

However, in case of export on payment of IGST, entire IGST paid would be refunded and ITC on input, input services and capital goods can be utilized for making payment of IGST. Refund under both the cases will be computed as follows:

Export under LUT or bond

Tax liability	0
Refund of unutilized ITC	₹ 1.64 crore

Export on payment of IGST

Tax liability	₹ 2.50 crore
Set off by using ITC	₹ 2.00 crore
Set off by payment of cash	₹ 0.50 crore
Refund of IGST paid	₹ 2.50 crore

In export under bond/LUT, ITC of input and input services amounting to ₹ 1.64 crore is refundable. In case of export on payment of IGST, refund of IGST paid of ₹ 2.50 crore is available and IGST payable in cash is ₹ 0.50 crore.

In terms of procedural requirements, a separate refund application has to be filed electronically for exports under LUT. However, for exports on payment of IGST, refund is automatically granted by customs on valid filing of GSTR-3B and GSTR-1 and validation of tax invoice data with shipping bills and other information.

Further, in case of export under LUT, no tax is to be deposited by the company and refund of ITC has to be applied by way of separate application. Therefore, it does not involve any cash outflow at the time of export.

In case of export on payment of IGST, it involves cash outflow of ₹ 50.00 lakh which is refunded subsequently. Therefore, it involves temporary blockage of working capital for certain period of time. However, since refund process is system driven and automated as provided in rules under this route, it results in quicker refunds including refund of entire ITC and cash deposited.