Mock Test Paper - Series I: July, 2025

Date of Paper: 26th July, 2025

Time of Paper: 2 P.M. – 6 P.M.

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

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

Each Case Study carries 25 Marks.

Time Allowed – 4 Hours **Maximum Marks – 100**

CASE STUDY 1

The Elites Hotels Limited

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.

The Elites 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. The Elites's consistency stems from its conviction in values and commitment to excellence.

With over 120 years of leadership in the industry, The Elites Hotels is renowned for its exclusive properties, flawless service, and distinctive brands. These, all embodying the cherished notion of 'The Elitesness,' create unforgettable experiences for guests. The company's deeply rooted values and rich legacy provide the confidence to re-imagine the future, enabling The Elites 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 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.

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.

Suppliers not only play a crucial role in providing raw materials, but some The Elites 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 The Elites hotels maintain both traditional arm's-length relationships and long-term cooperative relationships with their suppliers.

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

The exploitation of information technology in The Elites 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 The Elites 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.

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, The Elites 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.

The Elites 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, 2025, an employee took out a loan of ₹10 lakhs from The Elites, with an annual EMI of ₹2.31 lakhs. The Elites recognized the financial asset at ₹ 10 lakhs on April 1, 2025, 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.

The Elites has an overseas subsidiary, Black Pearl LLC. Under the FEMA (Overseas Investment) Regulations, 2022, The Elites 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, The Elites 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.

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

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

ANNEXURE

Brand Portfolio of The Elites

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

The Elites Hotels Limited

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 2025 as compared to 2024	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, 2024. ***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, 2025 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 2024-25, the average percentage increase / (decrease) in salary of the Company's employees, excluding Key Managerial Personnel ('KMP') was 8.8%.
- During FY 2024-25, 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.

Multiple Choice Questions

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.

2. Should The Elites 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 unaudited 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 The Elites.

3. Whether giving of loans to employees is in accordance with the requirements of section 185 and section 186 of the Companies Act, 2013?

   (a) The Company should have obtained special resolution before giving loans since section 185 of the Companies Act, 2013 requires 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 does 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.

   (c) Section 185 of the Companies Act, 2013 does not cover loans to employees (not being managing or whole-time director). Section 186 of the Companies Act, 2013 does not cover loans to any employees (director or otherwise).

   (d) The Company should have obtained special resolution before giving loans since section 185 of the Companies Act, 2013 requires special resolution before giving loan to any person including employees. Charging interest at concessional rate is specifically prohibited under Section 186 of the Companies Act, 2013.

4. Why has The Elites 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

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, 2025

   (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 ×2 = 10 Marks)**

Descriptive Questions

6. RECOMMEND the correct accounting treatment (initial and subsequent) as per Ind AS 109 of the loans given to employees at concessional rate. **(4 Marks)**

7. EVALUATE the supply chain of The Elites, identifying its current weaknesses and recommendations to overcome them. **(7 Marks)**

8. EVALUATE The Elites Hotels Limited's financial performance based on the given data. **(4 Marks)**

CASE STUDY 2

Radiant Industries Limited (RIL)

Radiant Industries Limited (RIL) a multi-sector Indian corporation based in Chennai, has steadily grown over the past 20 years in fields ranging from textiles and specialty chemicals to IT services and health insurance. Led by Ms. Rathod, the company recently shifted part of its strategic focus toward consumer-driven ventures by exploring new verticals beyond its legacy businesses.

RIL's Vision is "To become India's most trusted and affordable retail brand by expanding our footprint across the country, owning our infrastructure, and continuously innovating to meet evolving customer needs."

RIL's Mission is "To make shopping economical for everyone by consistently offering the lowest prices on essential goods without compromising on quality or service."

Rather than expanding through existing product lines, RIL began exploring the rapidly growing lifestyle and wellness centres in India, marked by changing urban lifestyles and increased health awareness. This opportunity led to discussions with Symphony Inc., a Canada based wellness brand known for its high-end boutique stores in countries like Spain, Vietnam, Chile, and the UAE. Though Symphony had no previous presence in India, it had been conducting product trials via third-party e-commerce platforms without establishing physical stores.

After months of negotiations, Symphony Inc. decided to start a partially owned subsidiary company with RIL. Accordingly, a new company, Radiant Symphony Private Limited (RSPL) is formed by Symphony Inc. as its largest shareholder holding 75% of the paid up share capital. RSPL will have its head office and registered office in Chennai (Tamil Nadu). This partnership was designed not as a market entry experiment for Symphony but as a scalable retail chain model across India.

Headquartered in Chennai, RSPL's first strategic move will be to develop an urban concept store in Chennai, chosen over traditional launch cities like Delhi or Mumbai to test tier-1 cities with slightly lower cost bases. All the arrangements are being made to ensure that first visit of the customer in its first store should be a memorable one. The company's commitment to ethical business conduct, as reflected in its operational decisions, is also evident in a recent development outlined in **ANNEXURE I**. To support its store operations, RSPL decided to implement a retail operations management system (ROMS) designed to integrate inventory tracking, customer data, sales analytics, and billing into one platform. The software aimed to enhance the customer experience by streamlining backend processes and improving staff efficiency and accordingly, new software has been purchased with the following details:

The company acquired software at a total cost of ₹ 7,50,000, with ₹ 5,00,000 payable immediately and the remaining ₹ 2,50,000 due after one year. In addition to the software cost, the company incurred related expenses including legal fees of ₹ 36,000 and consultancy fees for implementation amounting to ₹ 75,000. The cost of capital for the company is 10%.

The launch of the first center was successful and encouraging for the management. RSPL emerged as a one-stop lifestyle and wellness retailer, offering a wide range of health, fitness, and personal care products under one roof. Each RSPL center features a curated selection of wellness supplements, organic food products, skincare and beauty essentials, fitness equipment, and lifestyle accessories. The company also provides value-added services such as nutrition consultations, fitness assessments, and wellness workshops to complement its product offerings. These are all made available at competitive pricing that customers value and trust.

With its mission to be the lowest priced retailer in the regions it operates, RSPL business continues to grow with new locations planned in more cities. As per plans, three new stores were opened in Coimbatore, Ranchi, and Jodhpur. It was decided that RSPL will buy all the immovable properties and no rent expenditure will be incurred. Given the significant capital outlay required for opening new stores amounting to several crores, RSPL borrowed ₹17.5 crore from its holding company, Symphony Inc., at an interest rate of 8% per annum.

During the financial year 2024–25, RSPL successfully opened a total of 25 stores throughout India. For the same period, the company reported a net profit before tax of ₹3 crore, while the EBITDA stood at ₹4.5 crore. Interest paid/ payable to Symphony Inc. on the borrowed funds amounted to ₹1.40 crore. For the same period Profit after tax was ₹ 2.25 Crore (Tax Rate 25%).

RSPL has decided to open a new store in Pune in April 2025. Land was purchased and establishment work was completed. Separate GST registration for Pune was taken in April 2025 and stock purchase for new store has also been done.

As per management projections, the new store at Pune will achieve good sales and accordingly it was decided to transfer some part of GST credit outstanding in electronic credit ledger of Chennai to electronic credit ledger of separate Pune registration. Further details regarding the company's assets and the accumulated Input Tax Credit (ITC) in the electronic credit ledger have been obtained from the GST portal and are presented in the form of a bar chart in Annexure II.

Accounts department has drafted a letter stating that credit of ₹ 1.25 Crore (on the basis of ratio of current assets) can be transferred to Pune registration.

Further, Accounts department of RSPL is also filing GSTR 3B for the month of September 2024 wherein total Taxable supplies reported are ₹ 25 Crore with output GST liability of ₹ 3.125 Crores. Input tax available in electronic credit ledger is ₹ 3.75 Crore and balance in electronic cash ledger is ₹ 37.5 Lakh.

Total current assets of RSPL as at 31.03.2025 were ₹ 250 Crore which included inventories amounting to ₹ 150 Crore. The carrying amount of inventories is after considering allowances for inventory shrinkages of ₹ 7.25 Crore. These inventories are held at the stores and distribution centres of the Company. Allowance for inventory shrinkage was an audit focus area since inventory counts were carried out at periodical intervals during the year and further judgmental factors are involved in identifying the amount of provision for shrinkages. Audit team of the company addressed the issue by obtaining an understanding, evaluating the design and testing the operating effectiveness of controls that the company has in relation to allowance for inventory shrinkage.

In order to improve its profitability, RSPL is looking to buy securities of MNC Limited which is near bankruptcy. When the proposal came up for discussion in the meeting of board of directors, they unanimously decided to seek professional consultancy on investment in such securities. The appointed consultant did agree that such transactions can be profitable provided the strategy of investment followed involves the proper allocation of amount to be invested between debt and equity securities.

ANNEXURE I

DAILY NEWS

RIL Drops Major Client to Safeguard Employee Well-Being, Reinforces Ethical Business Values

Chennai, June 21**:** Radiant Industries Limited (RIL), a diversified company with interests in textile manufacturing, specialty chemicals, IT services, and health insurance, has ended its business relationship with a major client that accounted for approximately 30% of the revenue in its textile division.

According to statements issued by the company, the decision was based on operational challenges arising from the client's frequent placement of last-minute bulk orders with tight delivery deadlines, forcing extended shifts and weekend operations on RIL's factory floor.

“They treated our production lines like an on-demand switch,” said Ms. Rathod, Chairperson of RIL. “We value our clients, but we value our people more. No order is worth exhausting our workforce.”

The company acknowledged the revenue impact but noted that it had taken steps to adjust operations and onboard new clients with what it described as “more structured engagements.”

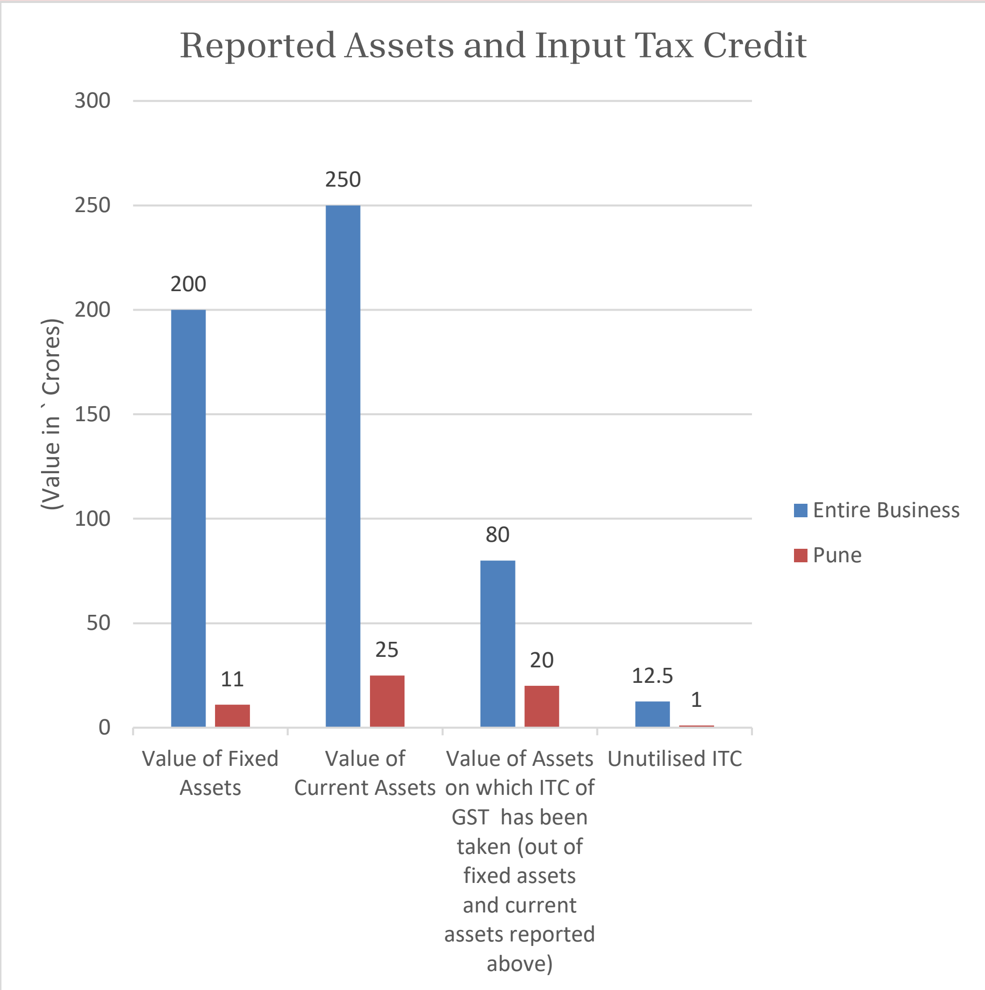
“Sustainable partnerships are built on respect, not pressure,” Ms. Rathod emphasized. “This was a tough call, but it reaffirmed who we are as an organization.”

Subsequent to the termination, RIL stated that the former client has returned with two new project proposals under fairer and more structured terms. Industry analysts have noted the development as part of a broader conversation around operational practices and business-client dynamics but have not issued any consensus on its long-term implications.

ANNEXURE II

Summary report on RSPL's Assets and Input Tax credit

This is a summarized report outlining the details of the company's assets and the accumulated Input Tax Credit (ITC) balance, on the date of Pune Store's GST registration, both at the entity level and specifically for the Pune Store. The report has been prepared by the Accounts Department with the purpose to determining the quantum of ITC to be transferred to the Pune Store in accordance with the applicable provisions of the GST laws. It is intended to serve as a reference document to facilitate compliance and ensure accurate allocation of credit between the company's units.



Multiple Choice Questions

1. Will RSPL be able to claim deduction of full amount of interest paid to Symphony Inc. under the provisions of Income-tax Act, 1961? If not, what will be the amount of disallowance as deduction during A.Y. 2025-26?

   (a) No, amount of ₹ 0.05 cr. will be disallowed as deduction on account of excess interest

   (b) No, amount of ₹ 0.20 cr. will be disallowed as deduction on account of excess interest

   (c) No, amount of ₹ 0.90cr. will be disallowed as deduction on account of excess interest

   (d) No, amount of ₹ 0.08 cr. will be disallowed as deduction on account of excess interest

2 What strategy should be followed by RSPL Management to ensure that proposed investment in securities MNC Ltd is profitable?

   (a) Taking Short Position in Debt and Short Position in Equity

   (b) Taking Long Position in Debt and Short Position in Equity

   (c) Taking Long Position in Equity and Short Position in Debt

   (d) Taking Long Position in Debt and Long Position in Equity

3 At what amount software purchased for ROMS should be capitalised initially using the principles of concerned Ind AS?

   (a) Total Cost to be capitalised is ₹ 8,61,000

   (b) Total Cost to be capitalised is ₹ 7,63,273

   (c) Total Cost to be capitalised is ₹ 8,02,273

   (d) Total Cost to be capitalised is ₹ 8,38,273

4. How the shrinkage in inventories should be reported in audit report, in case RSPL was the listed company?

   (a) The auditor should report the issue of shrinkages in inventories in 'Key Audit matter paragraph' and also state how the matter has been dealt with by audit team

(b) The auditor should report the issue of shrinkages in inventories in 'Emphasis of matter paragraph' and also state how the matter has been dealt with by audit team

(c) The auditor should report the issue of shrinkages in inventories in 'Other matter paragraph' and also state how the matter has been dealt with by audit team

(d) The auditor should report the issue of shrinkages in inventories in 'Other matter paragraph'

5. What will be your comments on draft letter of accounts department stating that GST input credit of ₹ 1.25 Crores can be transferred to Pune registration?

    (a) The amount calculated is correct as output liability will arise on sales and stock is a part of current assets

    (b) The amount calculated is incorrect as the amount which can be transferred to Pune registration is ₹ 0.6875 Crores

    (c) The amount calculated is incorrect as the amount which can be transferred to Pune registration is ₹ 1 Crores

    (d) The amount calculated is incorrect as the amount which can be transferred to Pune registration is ₹ 3.125 Crores **(5 ×2 = 10 Marks)**

Descriptive Questions

6. ANALYSE whether RSPL is mandatorily required to utilize the balance in the electronic cash ledger while paying GST liability for the month of September 2024? Also DISCUSS the nature of documents on the basis of which ITC would have been taken by RSPL.

    (2 Marks)

7. DISCUSS how RSPL will be able to earn profit by taking position in debt and equity securities of MNC Limited? **(5 Marks)**

8. DISCUSS the reasons behind dropping of a profitable client by RIL. **(3 Marks)**

9. RSPL is having intangible assets (including software purchased for ROMS). GUIDE the accounts department about the general disclosures to be made in financial statements relating to such intangible assets. Also DISCUSS the conditions, if any, for derecognition of intangible assets. **(5 Marks)**

CASE STUDY 3

Eco Solution Ltd.

Eco Solution Ltd. (ESL), headquartered in Bengaluru, operates in the manufacturing and export of energy-efficient electrical components. Founded in August 2010, ESL was born out of a strategic collaboration between Jaynam and Ritik, who first crossed paths during an international sustainability summit hosted by the Confederation of Indian Industry (CII). Their discussions led to a shared realization: India's energy infrastructure required not just innovation, but a commercially viable green-tech backbone. This meeting of minds became the catalyst for the formation of ESL. The company's vision is to "enable a greener tomorrow through responsible innovation," and its mission is to "design and deliver energy solutions that enhance efficiency, reduce carbon dependency, and empower industry transitions to clean power."

With a technology-driven business model grounded in engineering and automation, ESL strategically aligned itself with Government of India's growing thrust on green energy. The firm began developing smart grid components and hybrid energy storage solutions-areas identified as critical to reducing the environmental footprint of conventional coal-based power generation.

ESL's product portfolio offers scalable support to firms migrating to renewable power, enabling reliable and cost-effective long-term energy storage. However, the company's business cycle remains relatively long. The time period between the purchase of raw materials and completion of final product to make the buyers ready for power storage would take 12 months for ESL. Customers purchased them immediately once they were ready for installation but the payment was made with a credit period of 6 months. The company took a long-term loan from Dena Ltd. for managing capital expenditure pertaining to new project. However, the installments due in the financial year 2024-2025 could not be paid on time and as a consequence the loan became repayable on demand on 31st day of March 2025. In June 2025, ESL engaged in renegotiations with Dena Ltd. Following a review of ESL's growth potential and consistent managerial commitment- well documented and appreciated across industry platforms and media (refer **ANNEXURE I**) - the lender agreed not to invoke the repayment-on-demand clause. It was decided between the borrower and the lender before approval of audited financial statements of ESL, such that the lender Dena Ltd. will not demand repayment of loan in spite of the breach of repayment terms by ESL.

Faced with short-term liquidity challenges, the management at ESL began evaluating strategic funding options that would align with their long-term growth vision. After internal deliberations

and consulting with financial advisors, they opted to raise capital through External Commercial borrowing (INR denominated) by issuing Non-Convertible Debentures with maturity period of 7 years. The foreign investors who will be subscribing to the said debentures requested for interim financial report (to be prepared as per IND AS). ESL's Chief Financial Officer (CFO) was tasked with overseeing the preparation of this report and coordinating its internal review before submission. Upon reviewing the interim financial report, Merbin, a senior member of the corporate accounting team, identified several discrepancies in its treatment and disclosures, which he believes are not in compliance with the guidelines prescribed under IND AS. Specifically, he noted that: (I) One item of extraordinary nature has not been shown (II) Reversal of impairment loss recognized in a previous interim period in respect of goodwill (III) disclosure of only basic earnings per share has been made. (IV) Insignificant changes in contingent liabilities has not been disclosed.

Despite these Issues, ESL submitted the same interim financial report to investors and proceeded with the issuance of External Commercial Borrowings (ECB).

Proceeds from issue (INR 8 Crores) will be used for repayment of outstanding balance of Loan of Dena Ltd. (INR 5 Crores and working capital purposes INR 3 Crores). ESL however did not hedge the exposure of ECBs (principal as well as the coupon) and used the exchange rate prevailing on the date of settlement (01.06.2025) for conversion to rupee as against the exchange rate on the date of agreement (20.05.2025).

ESL has been actively exploring ways to enhance its operational efficiency in response to increasing competition in the green technology market. One of its flagship offerings, the "TBU" unit, initially gained significant traction due to its novel design and alignment with sustainability trends. Over time, however, the entry of similar products by competitors in both domestic and international markets created pricing pressures, limiting ESL's ability to raise prices despite rising input costs. To sustain profitability and retain market share, ESL adopted change in technology resulting in a 25% increase in standard labour efficiency. While implementing new technology, ESL availed the technical services of Click Ltd., UK on 20th December, 2024. ESL raised the self invoice for ₹ 2,00,000 on 28th December, 2024 in respect of such technical services. ESL made payment on 22nd January, 2025.

After achieving improved production efficiency and cost optimization for its product "TBU," ESL began actively bidding for public sector tenders across various states. The company aimed to expand its institutional customer base and leverage economies of scale by targeting large-volume contracts. As part of this effort, ESL participated in a competitive bidding process initiated by the Tamil Nadu Electricity Board (TNEB) for the supply of product “TBU”. After completing the technical evaluation and pricing scrutiny, ESL's proposal was shortlisted, and the company was awarded a contract for the supply of 20 lakh units of "TBU" at a total contract value of ₹ 25 Crores. ESL supplied the product as per terms and conditions of

the purchase order and that too before the deadline. TNEB withheld ₹ 2.5 Crores which is payable after 12 months and paid the balance after deducting TDS under the Income-tax Act and under GST. ESL earned net profit of ₹ 4 Crores from this supply.

Despite being fully immersed in ESL’s operational responsibilities, Jaynam began exploring alternate avenues to diversify the company’s financial strategies. During a business leadership seminar, he participated in a roundtable discussion on strategic asset allocation for companies with surplus cash flow. Inspired by insights from global CFOs, he decided to apply some of those principles to ESL's own finances.

Around the same time, ESL had generated substantial profits from various contracts, and the finance team had been exploring how to deploy surplus funds without compromising liquidity. Seeing an opportunity to blend risk-managed investing with return maximization, Jaynam began to personally experiment with stock and commodity transactions on recognized exchanges during the financial year 2024–25, as detailed in ANNEXURE II.

However, after getting some experience of stock and commodity market, Jaynam formed a view that professionals only could handle the investments and there is no point in wasting the hard earned money through unprofessional techniques. Accordingly, He discussed the idea with Ritik and suggested that a portfolio could be created using the reserve funds from the profits earned by ESL through its supplies to TNEB. He also proposed that CA Kailash, an expert in managing such portfolios, should be appointed to handle it. All legal and other formalities have been duly fulfilled by ESL related to Portfolio management business. The terms of his remuneration will be that CA. Kailash is eligible for 0.20% of portfolio as fee. Also, he will be paid for a fee incentive @ 1% which will be linked to gross return in excess of the portfolio maximum value since its inception. The Maximum value of the portfolio reached ₹ 4.40 Crores in last 6 months.

ANNEXURE I

DAILY NEWS

ESL Leads the Way in Green Energy Innovation Aligned with Government's Sustainability Push

Bengaluru, April 2024 - As India progresses toward its long-term clean energy targets, Energy Solutions Limited (ESL), a Bengaluru-based company, continues to expand its presence in the renewable technology space. Founded in August 2010 by Jaynam and Ritik, ESL operates in areas such as hybrid energy storage systems and smart grid components—segments that are gaining attention in line with national sustainability policies.

Began the manufacturing of smart grid components and hybrid energy storage solutions, even before any legislative compulsion. Commenting on this early move, co-founder Jaynam stated, "We didn't wait for a law to tell us what's right. We believe in creating a cleaner, smarter future and business should lead the way."

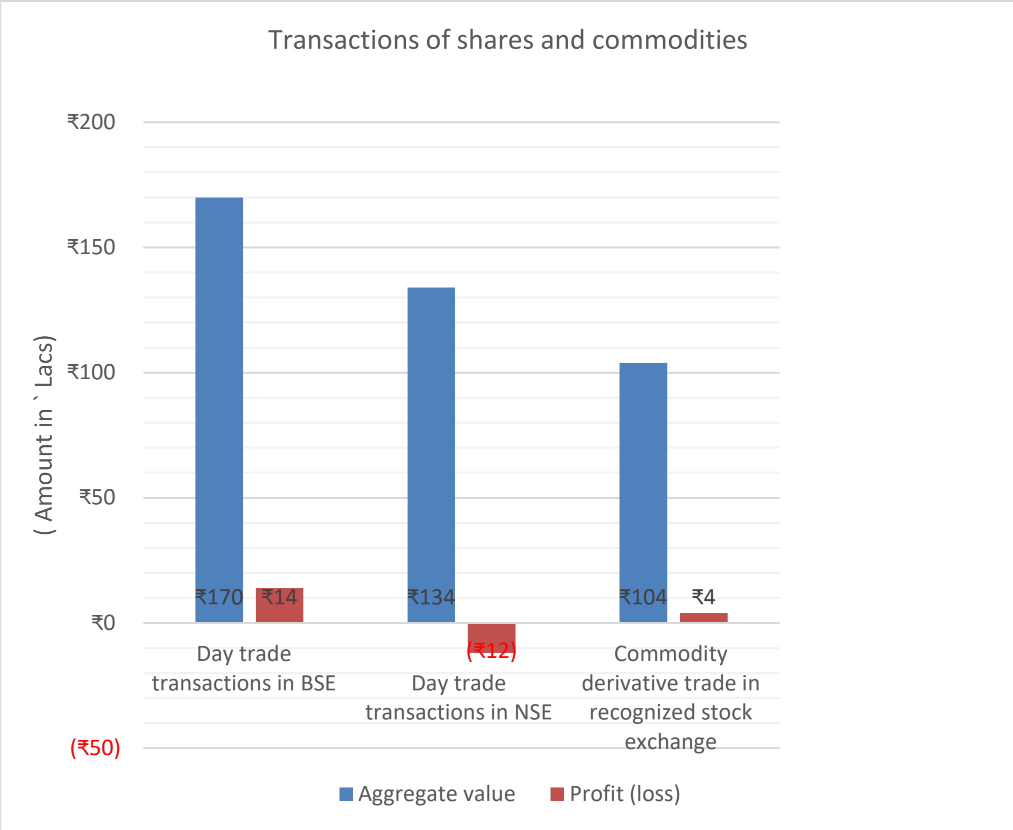
ESL also reports environmental data annually to the Ministry of Environment and Forests, including figures related to collection, recovery, and recycling of packaging waste, target fulfillment, and tax declarations. These reports form part of the statutory requirements for companies engaged in product manufacturing and distribution.

Internally, ESL has launched an energy efficiency initiative branded "Go Eco," which, according to the company, resulted in a 20% reduction in its energy usage and cost savings of approximately ₹35 lakh. Co-founder Ritik noted, "We wanted to walk the talk, not just produce for a greener world but also operate like one. Clean energy is not just ethical, it's efficient."

As India's energy landscape continues to diversify, ESL represents one of several private sector firms adapting to a policy environment increasingly focused on sustainability, energy efficiency, and reduced carbon dependency.

Annexure II

A personalized report detailing transactions in shares and commodities for FY 2024–25 was downloaded from Jaynam's Demat account using his credentials.



Multiple Choice Questions

1. Which of the following statements is/are correct in relation to ECBs raised by ESL?

   I. Use of ECB proceeds for repayment of Loan of Dena Ltd. is not permitted.

   II. Use of ECBs proceeds for working capital is not permitted.

   III. ESL has not followed the guidelines by not hedging the ECB exposure.

   IV. Exchange rate as on 20.05.2025 should have been used for conversion.

   Options

   (a) Statement I, II and IV

(b) Only Statement I

(c) Statement I and III

(d) Only Statement II

2. How income of Jaynam from day trade in shares and commodity derivatives trade is liable to tax under the Income-tax Act, 1961?

   (a) Non-speculation business income from day trade in shares ₹ 2,00,000 and business income being speculation income from commodities derivative ₹ 4,00,000

   (b) Regular business income (non-speculation income) ₹ 6,00,000

   (c) Business income (non-speculation) from commodities derivative ₹ 4,00,000 and speculation business income from day trade in share ₹ 2,00,000

   (d) ₹ 6,00,000 being speculation income consisting of both day trade in shares and commodities derivative trade

3. If returns on the portfolio for the specified period is 20%, how much fee is payable by ESL to CA. Kailash?

   (a) ₹ 1,72,000

   (b) ₹ 1,20,000

   (c) ₹ 4,08,000

   (d) ₹ 1,36,000

4. Whether the issues raised by Merbin on interim financials submitted were valid and required changes in such interim report?

   (a) Only Issue (I) have been validly raised and required changes in interim financial report

   (b) Only Issue (I) and (IV) have been validly raised and required changes in interim financial report

   (c) All the issues raised were valid and the effect of all four issues required changes in interim financial report

   (d) Only Issue (II) and Issue (III) have been validly raised and required changes in interim financial report

5. ESL is now considering appointing CA Kailash as its statutory auditor. Which of the following is the most appropriate course of action?

   (a) CA Kailash can perform both roles as long as the portfolio management services are not rendered to any holding or subsidiary of ESL.

   (b) CA Kailash may accept the audit, provided he discloses the portfolio management services in the engagement letter and obtains consent from ESL's Board.

   (c) CA Kailash can accept the audit engagement only if he discontinues the portfolio management services.

   (d) CA Kailash may accept the audit, provided he appropriately discloses the dual role in the audit report. **(5 ×2 = 10 Marks)**

Descriptive Questions

6. ANALYSE whether the transaction between ESL and Click Ltd. attracts any GST under Goods and Service Tax law? If Yes, then who is liable to pay GST and in which month? If no, state the relevant legal provision for the same. **(3 Marks)**

7. EVALUATE:

   (i) Will you classify the inventory and trade receivables of ESL as current assets?

   (ii) Would your answer be different if the production time is 15 months and the credit period allowed to the customers is 17 months?

   (iii) How would you classify the liability due to Dena Ltd. as on 31st March, 2025 in spite of the default in repayment of installment of loan? **(5 Marks)**

8. ANALYSE

   (i) Why did ESL engage in the business of manufacturing smart grid components and hybrid energy storage solutions despite there being no government mandate?

   (ii) The risk exposure of ESL.

   (iii) How does focusing on environmental sustainability provide an opportunity to ESL for reducing costs? **(5 Marks)**

9. How much of the amount would have been deducted by TNEB as TDS under Income-tax Act and under the applicable GST law? **(2 Marks)**

CASE STUDY 4

Founded in 1993 by Mr. Prakash Das, Bengali Brew Ltd. (BBL) operates as an unlisted public company out of Siliguri, West Bengal. Mr. Das initiated BBL, recognizing both the growing market for premium coffee and tea across India and the strategic benefits of Siliguri's location within a prominent tea-growing region.

The Early Years and Vision

Mr. Prakash Das envisioned a company that would not only supply premium beverages but also elevate the daily coffee and tea experience for Indian consumers. He recognized the rich heritage of tea cultivation in West Bengal, particularly in and around Siliguri, which has a long history dating back centuries. While coffee was less prevalent in the region's historical agricultural landscape, Mr. Das saw an opportunity to introduce and popularize high-quality coffee products alongside the well-established tea market.

BBL was established with a clear and inspiring vision, To be the most cherished and widely recognized purveyor of exceptional coffee and tea experiences, enriching lives across India and beyond. This vision guided the company from its earliest days, emphasizing quality, customer satisfaction, and a commitment to expand beyond regional boundaries.

Foundational Principles and Growth

The company's Mission was defined as, to meticulously source the finest coffee beans and tea leaves globally, craft premium quality products through innovative processes, and deliver unparalleled taste and satisfaction to our customers, while fostering sustainable practices and expanding our reach.

From its foundation, BBL placed immense pride in its state-of-the-art processing and packaging facility. Mr. Das ensured that the company meticulously selected the finest coffee beans and tea leaves from around the world, prioritizing quality and freshness above all else. This rigorous production process, adhering to stringent quality control measures, was a cornerstone of BBL's initial success, quickly earning customer trust and loyalty. This unwavering commitment to quality enabled BBL to establish itself as a leading brand in the competitive Indian coffee and tea industry.

Understanding evolving customer preferences, BBL, under Mr. Das's guidance, developed a comprehensive range of coffee and tea products from the outset. This portfolio included classic instant coffee blends, aromatic loose leaf teas, and a delightful selection of flavored varieties, catering to diverse palates and brewing preferences. The emphasis on continuous innovation and expansion of offerings allowed BBL to keep pace with current trends and consumer demands.

BBL pursued national expansion by building strong distribution ties with top retailers and exploring global trade partnerships. The media (Annexure 1) has widely covered this strategic growth. Its long-standing sourcing expertise ensured high-quality products at competitive costs, reinforcing its market position.

However, Mr. Das was also acutely aware of buyer bargaining power. Despite BBL's reputation for exceptional taste and diverse products, he recognized that buyers wield influence, especially with alternative suppliers. Therefore, BBL consistently balanced its pricing strategies and value propositions to maintain customer loyalty while safeguarding profitability. By continuously monitoring and adapting to changes in supplier and buyer dynamics, BBL aimed to optimize its supply chain relationships and enhance its competitive edge.

In the competitive coffee and tea industry, Bengali Brew Ltd. (BBL) faced significant rivalry from both local and international players from its very beginning. Mr. Das understood that with numerous competitors vying for market share, the intensity of competition would be palpable. Established brands and emerging players constantly strive to differentiate themselves through product innovation, pricing strategies, and marketing initiatives. BBL's strong brand reputation, diverse product range, and commitment to quality, all built upon its foundational principles, positioned it well amidst this competitive environment. The awareness of potential price wars and aggressive marketing tactics ensured that BBL leveraged its strengths, such as its advanced processing facility and customer-centric approach, to continuously enhance its offerings and brand value, staying attuned to market trends, consumer preferences, and competitor actions to proactively adapt its strategies and sustain its competitive advantage.

On July 1st, 2024, BBL imported a consignment of coffee beans from Brazil, through establishing contact with such coffee bean supplier situated in Brazil and negotiating the purchase agreement, including price, quality specifications, and delivery terms. Both parties prepared necessary documents, such as a commercial invoice, packing list, bill of lading (ocean freight), and certificate of origin.

BBL has a customs broker, Mr. Hardik Kali, to handle the clearance process in India, ensuring compliance with import regulations and duties. The bill of entry for warehousing of goods was presented on 5th July,2024 and the goods were duly warehoused. The goods were subject to duty @ 50% ad valorem.

In the meanwhile, on 1st August,2024, an exemption notification was issued reducing the effecting customs duty @ 30%, ad valorem. Mr. Hardik on behalf of BBL filed bill of entry for home consumption on 1st September,2024 claiming duty @ 30% ad valorem. However, Customs Department charged duty @ 50% ad valorem being the rate on the date of clearance into the warehouse. Also the proper officer raised some queries on the accuracy of the declared value.

Further, the cost of insurance was not ascertainable from the documents submitted before the customs authorities by Mr. Hardik on behalf of BBL relevant for determining the CIF price of the imported goods which is obtained by making certain additions to the value of imported goods as prescribed.

BBL is an Ind AS compliant company. It has a paid-up capital of ₹ 5 crores and turnover of ₹ 400 crores. It presents financial results for three years (i.e., one for current year and two comparative years) internally for the purpose of management information every year in addition to the general-purpose financial statements. The aforesaid financial results are presented without furnishing the related notes because these are not required by the management for internal purposes.

During the current year, management thought why not they should present third year statement of profit and loss also in the general-purpose financial statements. It will save time and will be available easily whenever management needs this in future.

BBL is required to file its financial statements through XBRL which enables producers and consumers of financial data to switch resources away from costly manual processes, typically involving time-consuming comparison, assembly and re-entry of data, making the data readable, with the help of two documents: Taxonomy & Instance Document.

The management of BBL on analysis of such additional information, inter-alia, observed that there were variances which arise because of inaccurate or faulty standards, not in control of management, and they should not be held responsible for it.

Further on analysis of such third year statement of profit and loss pertaining to F.Y. 2022-23, it was observed that BBL had issued debentures in the previous year 2022-23, which were to be matured at the end of 5 years. The debenture holder was given an option of one time upfront payment of ₹ 50 per debenture on account of interest which was to be immediately paid by the company. As per the option exercised by the debenture holders, company paid interest upfront to them in the first year itself and the same was claimed as deduction in the return of the company.

However, the company's accounts treated this interest as deferred expenditure, to be written off over the debentures' five-year term. During the assessment for the previous year 2022-23, the Assessing Officer (AO) concurred with this accounting treatment, allowing only one-fifth of the upfront interest paid as a deduction. This order was issued on May 20, 2024.

DRC & Co., are the Auditors of BBL, for the year ended on 31st March, 2025. The Audit Report for that year was signed by the Auditors on 4th May, 2025. The Annual General Meeting was decided to be held during the month of August 2025. On 6th May, 2025, the Company had received a communication from the Central Government that an amount of ₹ 300 crore kept pending on account of incentives pertaining to Financial Year 2024-25 had been approved and the amount would be paid to the Company before the end of May 2025.

To a query to Chief Financial officer of the Company, Mr. Sarabjeet Singh, by the management, it was informed that this amount had not been recognised in the Audited Financial Statements in view of the same not being released before the close of the Financial Year and due to uncertainty of receipt. Now, having received the amount, the management wished to include this amount in the Financial Statements of the Company for the Financial Year ended on 31st March, 2025.

On 8th May, 2025, the management amended the accounts, approved the same and requested the auditor to consider this event and issue a fresh Audit Report on the Financial Statements for the year ended on 31st March, 2025.

Additionally, the auditor had also identified a potential non-compliance with GST regulations concerning sitting fees paid to a director. The information provided herein has been gathered based on the minutes of the board meeting, as documented in the attached Annexure II.

Annexure I

The Biz Outlook

BBL EXPANDS NATIONAL FOOTPRINT AND EYES GLOBAL MARKET WITH STRATEGIC PARTNERSHIPS AND PREMIUM

Kolkata, May 11, 2024: With a strategic vision for national expansion, BBL actively started growing its distribution network early on. Forging partnerships with leading retailers and supermarkets was crucial in making their products accessible to a wider customer base nation-wide.

Furthermore, Mr. Prak-ash Das, Chairman, always looked towards strategic collaborations and international trade opportunities to broaden BBL's

market reach and solidify its position as a prominent player in the global coffee and tea market.

BBL's ability to source the finest coffee beans and tea leaves globally, a strength cultivated since its foundation, granted it leverage in negotiating favourable terms with suppliers. This meticulous selection process further strengthened its bargaining position, enabling cost savings and consistent product quality.

As BBL continues to scale new heights, its commitment to quality, innovation, and strategic growth remains at the heart of its journey.

~ Dr. Jyoti Batra, Editor

Annexure: II

> **EXTRACT OF MINUTES OF THE BOARD OF DIRECTORS' MEETING OF BENGALI BREW LTD. (BBL)**
>
> Date: 15th January 2025 Time: 2:00 pm
> Venue: Siliguri
>
> **ITEM NO. [X]: INDEPENDENT DIRECTOR REMUNERATION**
>
> The Board noted that Mr. Ravish Soni, an Independent Director, was to be paid sitting fees of ₹ 34,000/- for meetings held in December, 2024. This payment adheres to the Companies Act, 2013, and company policy.
>
> RESOLVED THAT the Independent Director sitting fees, as noted, be approved.
>
> *Mr. Prakash Das*
>
> Chairman, Bengali Brew Ltd.

Multiple Choice Questions

1. In the coffee and tea industry, which factor represents the potential challenge of existing competitors intensifying their rivalry by innovating and differentiating their products, thereby posing a threat to Bengali Brew Ltd.'s (BBL) market share?

   (a) Bargaining Power of Suppliers

   (b) Competitive Rivalry

   (c) Bargaining Power of Buyers

   (d) Threat of New Entrants

2. Which of the following is the correct statement with respect to the GST liability in case of the fees paid to Mr. Ravish?

   (a) GST shall be payable by Mr. Ravish, an Independent director under the forward charge.

   (b) Sitting fees paid to the director of a company is exempt under GST, regardless of the nature of services provided.

   (c) Sitting fees paid to the director of a company is treated as salary paid to the director and is not chargeable to GST and is subject to deduction of TDS under section 192 of the Income Tax Act, 1961.

   (d) GST on the sitting fees paid to a director, who is not an employee of the company, shall be paid by the company (BBL) under the reverse charge mechanism.

3. Can BBL's management include a third statement of profit and loss as an extra comparative in its general-purpose financial statements?

   (a) Yes, but a company must provide comparative information from the start of the prior period in addition to the minimum required comparative financial statements.

   (b) No, a company is prohibited from presenting additional comparative information beyond the minimum financial statements stipulated by Ind AS.

   (c) Yes, a company is permitted to provide more comparative data than the minimum financial statements mandated by Ind AS, provided such data adheres to Ind AS. Nevertheless, the company must also furnish corresponding explanatory notes for these supplementary statements.

   (d) Yes, a company may include additional comparative information beyond the minimum financial statements required by Ind AS, as long as it complies with Ind AS. The company is not obligated to provide related explanatory notes for these extra statements.

4. Is BBL's management permitted to present only such a third statement of profit and loss as an additional comparative in the general-purpose financial statements, without providing other components (like balance sheet, statement of cash flows, statement of changes in equity) of the financial statements?

   (a) Yes, such comparative data can consist of one or more specified statements but does not necessarily have to be a complete set of financial statements.

   (b) No, in such a scenario, a full set of financial statements must be presented for that third statement of profit and loss, in addition to the minimum comparative financial statements mandated by Ind AS, provided the information complies with Ind AS. However, the entity is only required to present related note information for complete set of financial statements.

   (c) No, a company is initially not permitted to present only such comparative information in addition to the minimum comparative financial statements required by Ind AS. Therefore, the question of providing other components (like balance sheet, statement of cash flows, statement of changes in equity) of financial statements does not even come into consideration.

   (d) No, in such a case, a complete set of financial statements must be presented for that third statement of profit and loss, in addition to the minimum comparative financial statements required by Ind AS, as long as the information is prepared in accordance with Ind AS. However, the entity is only required to present related note information for that specific third statement of profit and loss.

5. In the case of BBL, amount of cost of insurance would be determined as:

(i) The actual cost of insurance as per the insurance policy or invoice, provided such cost is ascertainable and verifiable.

(ii) Where the actual cost of insurance is not ascertainable, and none of the values in (iii), (iv), (v), or (vi) below can be applied, and no other reasonable means of determination exist, then the cost of insurance shall be deemed to be nil or may be determined by the appropriate authority based on available information.

(iii) 20% of free on board value of imported goods

(iv) 1.125% of free on board value of imported goods

(v) Where free on board value is not ascertainable, but sum of free on board value and cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to place of importation is ascertainable; then 1.125% of such sum

(vi) Where free on board value is not ascertainable, but sum of free on board value and cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to place of importation is ascertainable; then 20% of such sum.

Options

(a) (ii) or (v)

(b) (i) or (iv)

(c) (iv) or (v)

(d) (iv) or (vi) **(5 ×2 = 10 Marks)**

Descriptive Questions

6. (i) DETERMINE the rate of duty applicable for clearance for home consumption.

(ii) Whether the rate of exchange on 1st September could be adopted for purpose of conversion of foreign currency into local currency?

(iii) EXPLAIN briefly the chief reasons on the basis of which the proper officer can raise doubts on the truth or accuracy of the declared value as happened in the case of BBL. **(3 Marks)**

7. ANALYSE the issues involved and give your views as to whether or not the auditor, DRC & Co., could accede to the request of the management. **(5 Marks)**

8. How do external market dynamics impact Bengali Brew Ltd.'s (BBL) strategic choices and competitive stance within the coffee and tea industry? Consider aspects such as the level of competition among industry players, the influence of suppliers and buyers on BBL's operations, the potential threat posed by new market entrants, and the availability of alternative products or substitutes. EVALUATE how these factors shape BBL's market positioning and strategic decisions in response to industry challenges and opportunities.

(2 Marks)

9. EXAMINE the correctness of the action of the Assessing Officer. **(5 Marks)**

CASE STUDY 5

Sparkle Private Limited

Mr. Pawan: From Corporate Professional to Entrepreneur

Before founding Sparkle Private Limited, Mr. Pawan 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. Pawan ventured into entrepreneurship. He brought with him not just years of industry knowledge but also an entrepreneurial spirit, leading to the incorporation of Sparkle Private Limited in May 2024.

Sparkle Private Limited's Journey

Incorporated in May 2024, Sparkle 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 2024 at a cost of ₹ 6.50 crores. The company also obtained GST registration the state of Uttar Pradesh in May 2024.

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 2024, both imported and indigenous machinery were brought at the NOIDA premises, enabling Sparkle to kick-start commercial production of textile made-ups by September 1, 2024.

The early success of Sparkle's made-up textiles became evident when they quickly gathered attention in the U.S. market. Operating under the "Sparkle" 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 2025, Sparkle outsourced 20% of its production to factories in countries with lower operational costs. These factories cater exclusively to Sparkle’s procurement demands but operate independently, with no direct involvement from Sparkle. Products from these suppliers are stored at Sparkle’s distribution centers and dispatched for sales as needed.

The company's rapid production ramp-up, combined with Managing Director Mr. Pawan’s strategic vision, and its successful penetration of international markets, led to significant profitability during the financial year 2024-25. This success reflects Sparkle's ability to swiftly scale operations, utilize cost-effective solutions, and establish a strong foothold in the global market.

Sparkle 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*. Sparkle’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, 2025, Sparkle 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, Sparkle'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 2024. The made-ups valuing ₹5 crores were exported during Oct 2024, carrying a GST rate of 5%. The break-up of Input Tax Credit (ITC) for the month of October 2024 is as follows, Eligible ITC on inputs amounts to ₹0.15 crores, eligible ITC on capital goods stands at ₹0.03 crores, and eligible ITC on input services is ₹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 2024 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 2024 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 2024 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 2024 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 2024-25, which included ₹ 27 lakhs of IGST.

Rapid Growth and Strategic Leadership Under Mr. Pawan

Under the visionary leadership of Mr. Pawan, Sparkle 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, Sparkle's strong performance and rapid export expansion reflect Mr. Pawan’s entrepreneurial acumen, strategic foresight, and unwavering determination to drive the company forward.

The Board of Directors of Sparkle Private Limited has decided to delegate the authority to borrow monies and to issue securities, including debentures, to the Managing Director. This delegation is intended to facilitate the smooth functioning of business operations and ensure timely decision-making in financial matters. By empowering the Managing Director with these responsibilities, the Board aims to enhance operational efficiency and support the company’s ongoing growth and funding requirements.

ANNEXURE

The Time

The New AgeSparkle 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 Sparkle, 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 Sparkle 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.

Multiple Choice Questions

1. Regarding tax liability of the said company for the month of Oct 2024 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.

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:

Nature of Compliances	***Appropriate response of company in accordance with law***
(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)

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

   (a) Shakeout

   (b) Maturity

   (c) Growth

   (d) Introduction

4. Why should Sparkle address the issue of child labour in its supply chain? Select the **most appropriate** statements:

   i. Sparkle is directly responsible for any faulty practices of its suppliers.

   ii. Sparkle has a moral duty of care towards a broad range of stakeholders, even if they are not directly related to the company.

   iii. Sparkle has a responsibility to ensure the well-being of employees working within its supply chain. The issue involves child labour exploitation by subcontractors.

   iv. Sparkle 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 Sparkle 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 Sparkle's business reputation.

   Options

   (a) ii, iii

   (b) i, ii, iii, iv

   (c) ii, iii, v, vi

   (d) iii, iv, v, vi

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

   i. Sparkle can develop a Code of Conduct that details the acceptable standards for conducting business.

   ii. Sparkle can set up an audit team to regularly audit factories in both pre-sourcing and follow-up stages.

iii. Sparkle 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 ×2 = 10 Marks)**

Descriptive Questions

6. ADVISE whether delegation of powers of board to Managing Director is possible? Would your answer be different, if the delegation is made to the manager or any other principal officer including a branch officer of the company? **(7 Marks)**

7. The company has exported made ups of ₹ 50 crores on payment of IGST during year 2024-25 carrying a GST rate of 5%. Further, the company had availed ITC of ₹ 2.00 crore during year 2024-25. 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. **(8 Marks)**

Mock Test Paper - Series I: July 2025

Date of Paper: 26th July 2025

Time of Paper: 2 P.M. – 6 P.M.

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

SUGGESTED ANSWERS

ANSWERS TO THE CASE STUDY 1

Answers to the Multiple Choice Questions

1. (a) **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 provides a presumption that there are risks of fraud in revenue recognition. Further paragraph A29 of SA 240 provides 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.

2. (d) Filing of Annual Performance Report should be based on audited financial statements of the Black Pearl since Black Pearl is controlled by The Elites.

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.

3. (c) Section 185 of the Companies Act, 2013 does not cover loans to employees (not being managing or whole-time director). Section 186 of the Companies Act, 2013 does not cover loans to any employees (director or otherwise).

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 provides 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 is not covered under section 186 of the Companies Act, 2013.

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.

The Elites 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, The Elites 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.

5. **(b)** i , ii, iv

Reason: The number of **permanent** employees, not all employees, on the rolls of the company as of March 31, 2025 should be disclosed.

i. The percentage increase in the median remuneration of employees should be provided for the entire **financial year**, not just based on 6 months.

ii. The percentage increase in remuneration of each Director is correctly disclosed.

iii. The percentage increase in remuneration of the **Company Secretary** should also be disclosed.

iv. 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.

v. 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 of the Companies Act, 2013, read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.

Answers to the Descriptive Questions

6. In the given case, The Elites 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: *(₹ lakhs)*

Year	Cash flow (₹)	PV @ 10%	PV (₹)
2025-2026	2.31	0.909	2.10
2026-2027	2.31	0.826	1.91
2027-2028	2.31	0.751	1.74
2028-2029	2.31	0.683	1.58
2029-2030	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, The Elites has provided a loan of ₹10 lakhs having fair value of ₹ 8.76 lakhs, it reflects the benefit provided to employees. Also, The Elites Ltd has to pay ₹ 1.24 lakhs excess amount which has been 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.

7. Current Weaknesses in The Elites 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

The Elites 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, The Elites 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

The Elites 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, The Elites 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

The Elites 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 The Elites 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

The Elites should maintain strong, cooperative relationships with its suppliers, especially for perishable items. Dual-sourcing strategies should continue to be employed, as they allow The Elites 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

The Elites 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 Elites 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, The Elites 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.

8. Evaluation of The Elites Hotels Limited's Financial Performance

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

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

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

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

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

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

Workings

EVA = NOPAT – WACC × Capital Employed

= ₹ 6.3 Cr. – 7.636% × ₹ 25 Cr.

= ₹ 4.391 Cr.

Capital Employed = ₹ 5 Cr. + ₹4 Cr. + ₹16 Cr.

= ₹ 25 Cr.

WACC = (5 + 4)/25 × 12.5% + 16/25 × 4.9%

= 7.636%

NOPAT = [PBIT- Interest - Tax] + Interest (net of tax)

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

ANSWERS TO THE CASE STUDY 2

Answers to the Multiple Choice Questions

1. (a) No, amount of ₹ 0.05 cr. will be disallowed as deduction on account of excess interest

Reason: The EBITDA for the previous year 2024–25 is ₹4.5 crore. As per section 94B of the Income-tax Act, 1961, where an Indian company, or a permanent establishment of a foreign company in India, being the borrower, incurs any expenditure by way of interest or of similar nature exceeding ₹ 1 crore which is deductible in computing income chargeable under the head "Profits and gains of business or profession" in respect of any debt issued by a non-resident, being an associated enterprise of such borrower, then the maximum allowable interest deduction is 30% of EBITDA, which amounts to ₹1.35 crore (i.e., ₹4.5 crore × 30%) in present case. The actual interest paid/ payable to Symphony Inc. during the year was ₹1.40 crore.

Accordingly, ₹ 1.35 crore will be allowed as an interest deduction, while the excess amount of ₹ 0.05 crore will be disallowed under section 94B for the current year. However, this disallowed interest of ₹0.05 crore will be eligible for carry forward (in accordance with the provisions of the Act) upto eight assessment years immediately succeeding the assessment year for which the excess interest expenditure was first computed.

2. (b) Taking Long Position in Debt and Short Position in Equity

Reason: In a near-bankruptcy scenario, debt securities are prioritized over equity during liquidation, meaning debt holders are more likely to recover value before shareholders. If RSPL takes a long position in debt, it stands to benefit if the company recovers or during liquidation, as debt will be repaid first. At the same time, taking a short position in equity hedges the risk of further decline in share value, which is highly probable in a distressed firm. This strategy allows RSPL to benefit from the undervalued debt instruments while minimizing losses from potential equity collapse, thereby improving the chances of profitability.

3. (d) Total Cost to be capitalised is ₹ 8,38,273.

Reason: The software was acquired at a purchase price of ₹5,00,000, which was paid upfront and therefore included in the capitalised cost. An additional deferred payment of ₹2,50,000 is payable after one year. In accordance with Ind AS 38, this amount is discounted to its present value using the company's cost of capital at 10%, resulting in a present value of ₹2,27,273. Only this discounted amount will be capitalised. Further costs incurred include legal fees of ₹36,000 and consultancy fees for implementation amounting to ₹75,000. Accordingly, the total amount capitalised in the books is ₹8,38,273 (i.e. comprises of the upfront payment ₹5,00,000 + present value of the deferred payment ₹2,27,273 + legal fees ₹36,000 + consultancy charges ₹75,000).

4. (a) The auditor should report the issue of shrinkages in inventories in 'Key Audit matter paragraph' and also state how the matter has been dealt with by audit team

Reason: Since RSPL is a listed company and inventory shrinkage involves significant judgment and materiality, it qualifies as a Key Audit Matter (KAM). As per SA 701 – Communicating Key Audit Matters in the Independent Auditor's Report, matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period are reported as KAMs. Inventory shrinkage involves significant management judgment in estimation and materiality due to the scale of inventories held by RSPL (₹150 crore) and the amount of allowance recognized (₹7.25 crore)

5. (c) The amount calculated is incorrect as the amount which can be transferred to Pune registration is ₹ 1 Crores

Reason: Section 25 enables a taxpayer to obtain separate registrations for multiple places of business within a State/ Union territory. The registered person (transferor), having separate registrations for multiple places of business within a State/Union Territory, can transfer the unutilised ITC (wholly or partly) lying in his electronic credit ledger to any or all of the newly registered place(s) of business in the ratio of the value of assets held by them at the time of registration. Here, the 'value of assets' means the value of the entire assets of the business irrespective of whether ITC has been availed thereon or not.

Therefore, the amount which can be transferred to Pune registration is

= (25 + 11) / (200+250) * 12.5

= ₹ 1 Crores

Answers to the Descriptive Questions

6. Since value of taxable supply of RSPL for the month of September 2024 exceeds ₹ 50 lakh, rule 86B of the CGST Rules, 2017 is applicable to it.

Thus, as per rule 86B, amount available in the electronic credit ledger will be utilized only to the extent of 99% of the output tax liability while discharging such tax liability. Balance 1% of the output tax liability needs to be discharged from electronic cash ledger.

In terms of the restriction imposed by rule 86B, RSPL can discharge 99% of its output tax liability, i.e. ₹ 3.09375 crores (99% of ₹ 3.125 crores) from the amount available in electronic credit ledger. However, it has to mandatorily discharge the balance 1% of the output tax liability i.e. ₹ 3,12,500 (1% of ₹ 3.125 crores) through electronic cash ledger only.

The nature of documents on the basis of which ITC would have been taken by RSPL are:

(i) Invoice or revised invoice issued by the supplier of goods and/or services

(ii) Invoice issued by the recipient receiving goods and/or services from unregistered supplier in case of reverse charge, subject to payment of tax

(iii) Debit note issued by the supplier

(iv) Bill of entry or similar document prescribed under the Customs Act

(v) Document issued by input service distributor

7. An investor can earn profit from distressed securities by taking long position in Debt and Short position in equity.

Following are the examples of earning arbitrage profit:

(i) In case company's condition improves because of priority, the investor will get his interest payment which will be more than dividend on his short position in equity shares.

(ii) If company's condition further deteriorates the value of both share and debenture goes down. He will make good profit from his short position.

ALTERNATIVE

The RSPL will take long position in Debt and Short Position in Equity of MNC Ltd.

This strategy will be profitable because if MNC Ltd. go bankrupt though both Debt and Equity will lose value but since debt has a priority over Equity in repayment it will be a safe bet. However, if financial position of company improves any loss on account of short position in Equity will be compensated by gain in the Debt position.

8. With increasing completion, dynamic market changes, changing needs of customers, non-financial and ethical considerations have gained relevance in the decision-making process. A company may face the dilemma of meeting customers' needs while protecting employees' rights. While there are no clear-cut parameters to measure the impact of such decisions, they have a long-term impact on the company's operations that ensures profitability and sustainability of an organization.

In the given scenario, a customer who contributes close to 30% of RIL's Profits has been making turnaround demands that are unreasonable for the company employees to meet. RIL has to decide whether to continue doing business with the customer based on the current terms or protecting the work environment of its employees. In the current scenario, it is in RIL's long term interests to protect its employees' rights (a non-financial consideration). Keeping this approach in mind, RIL decided to terminate business with the profitable client. While this had a significant impact on revenues in the short term, in the long run RIL was able to get business from new clients. Also, realizing the value of service provided, the dropped client came back with projects on equitable terms.

Therefore, even though it did not make financial sense in the short run, decisions based on non-financial metrics played an important role in ensuring RIL's long term sustainability.

9. **(i)** General disclosures w.r.t. intangible assets including acquisition of software:-

An entity should disclose the following for each class of intangible assets:

(a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;

(b) the amortisation methods used for intangible assets with finite useful lives;

(c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(d) the line item(s) of the statement of profit and loss in which any amortisation of intangible assets is included; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;

(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind As 105 and other disposals;

(iii) increases or decreases during the period resulting from revaluations and from impairment losses recognized or reversed in other comprehensive income;

(iv) impairment losses recognized in profit or loss during the period;

(v) impairment losses reversed in profit or loss during the period;

(vi) any amortisation recognized during the period;

(vii) net exchange differences arising on the transaction of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and

(viii) other changes in the carrying amount during the period.

(ii) Conditions for derecognition of intangible assets

An intangible asset should be derecognized:

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

The disposal of an intangible asset may occur in a variety of ways (e.g. by sale, by entering into a finance lease, or by donation).

ANSWERS TO THE CASE STUDY 3

Answers to the Multiple Choice Questions

1. (d) Only Statement II

Reason:ECB proceeds cannot be utilised for working capital purposes since it falls under the negative list.

2. (c) Business income (non-speculation) from commodities derivative ₹ 4,00,000 and speculation business income from day trade in share ₹ 2,00,000

Reason: Day trading (buying and selling equity shares on the same day without taking delivery) is treated as a speculative business under Section 43(5).

Trading in commodity derivatives through a recognized stock exchange is specifically.

excluded from the definition of speculative transaction

Speculation income = ₹ 14,00,000 (BSE) – ₹ 12,00,000 (NSE) = ₹ 2,00,000

Non-speculative business income = Profit = ₹ 4,00,000

3. (b) ₹ 1,20,000

Reason: Base fee = ₹ 4cr × 0.2% = ₹ 80,000

Incentive fee = ₹ (4.8 - 4.4) cr × 1% = ₹40,000

4. **(d)** Only Issue (II) and Issue (III) have been validly raised and required changes in interim financial report

Reason: Reversal of impairment loss on goodwill is prohibited under Ind AS 36.

Ind AS 33 requires both basic and diluted EPS to be disclosed.

5. **(c)** CA Kailash can accept the audit engagement only if he discontinues the portfolio management services.

Reason: Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor. An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely (i) accounting and book-keeping services; (ii) internal audit; (iii) design and implementation of any financial information system; (iv) actuarial services; (v) investment advisory services; (vi) investment banking services; (vii) rendering of outsourced financial services; (viii) management services; and (ix) any other kind of services as may be prescribed.

Answers to the Descriptive Questions

6. In the given case, since the service provider – Click Ltd. is outside India, and the service recipient – ESL is in India and given service viz. technical services, does not get covered under any of the specific provisions of section 13 of the IGST Act, 2017, place of supply will be governed by the default provision, i.e. location of recipient of service, which in this case is Bengaluru (India).

Further, the given case is import of service as the supplier of service is located outside India, the recipient of service is located in India and the place of supply of service is in India.

As per Notification No. 10/2017 ITI dated 28.06.2017, if a service is supplied by a person located in a non-taxable territory to a person located in the taxable territory, other than non-taxable online recipient, the tax is payable by the recipient of service under reverse charge.

Therefore, ESL Ltd. Will pay GST under reverse charge on ₹ 2,00,000 paid by it to Click Limited in UK.

The time of supply of services taxable under reverse charge is the earliest of the following:

(a) Date of payment

(b) 61st day from the date of issue of invoice, in cases where invoice is required to be issued by the supplier

(c) Date of issue of invoice by the recipient, in cases where invoice is to be issued by the recipient.

Thus, time of supply is 28th December, 2024.

Since tax liability arises in December, 2024, payment is to made in the month of January, 2025.

7. **(i)** Inventory and debtors need to be classified in accordance with the requirement of Ind AS 1, which provides that an asset shall be classified as current if an entity expects to realise the same or intends to sell or consume it in its normal operating cycle. In this case, time lag between the purchase of inventory and its realisation into cash is 18 months [12 months + 6 months]. Both inventory and the debtors would be classified as current if the entity expects to realise these assets in its normal operating cycle.

(ii) No, the answer will be the same as the classification of debtors and inventory depends on the expectation of the entity to realise the same in the normal operating cycle. In this case, time lag between the purchase of inventory and its realisation into cash is 32 months [15 months + 17 months]. Both inventory and debtors would be classified as current if the entity expects to realise these assets in the normal operating cycle.

(iii) As per para 74 of Ind AS 1, where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

In the given case, Dena Ltd. (the lender) agreed not to demand payment after the reporting date but before the financial statements were approved for issuance. Hence, the liability should be classified as non-current in the financial statement as at 31st March, 2025.

8. **(i)** Ever-increasing and demanding environmental regulation is forcing companies to change their practices. In many countries, numerous pieces of legislation cover areas such as air quality, climate change, hazardous substances, packaging, waste, and water quality. The trend is very much in the direction of increased and more stringent legislation. Environmental sustainability is not an issue that can be avoided by any organisation.

Organisations need to consider how environmental regulation will impact their operations and the cost of doing business. By engaging in the business of manufacturing of smart grid components and hybrid energy storage solutions even in the absence of any statutory compulsion, ESL gained advantages over its rivals. ESL's actions were integral to its own strategic success and instrumental in driving through the subsequent legislation from which the company later benefited. This also helps ESL improve its brand image among stakeholders as responsible corporate citizens.

(ii) Organisations increasingly have to demonstrate that they are managing all their risks systematically and responsibly. This includes environmental risks - risks that arise from the impacts of the organisation on the environment. By assessing the environmental risks associated with their activities, processes, products, and services, organisations can identify their potential legal and business exposure. Non-compliances can result in enormous financial impacts such as fines, penalties, legal costs, and damages.

Thus, ESL is exposed to environmental risks.

(iii) Focusing on environmental sustainability often provides opportunities for reducing costs. For example, reducing carbon emissions typically saves energy costs. Similarly, waste-reduction programmes improve environmental performance while lowering operating costs. Reducing environmental impacts can also reduce or eliminate fines, levies, and other compliance costs.

Focusing on environmental sustainability thereby making investments in developing clean technologies and more energy-efficient products and processes will not only save the organization money but could also be patented and/ or sold to other organizations, providing an additional source of income. ESL may have carbon credit for efficiency in reducing energy and selling on the open market, thereby actually generating revenue.

9. As per section 51 of CGST Act, 2017 read with section 20 of the IGST Act, 2017 and Notification No. 50/2018 CT 13.09.2018, Notified persons are required to deduct CGST @ 1% [Effective tax 2% (1% CGST + 1% SGST / UTGST)] or IGST @ 2% from the payment made/credited to the supplier (deductee) of taxable goods or services or both, where the total value of such supply, under a contract, exceeds ₹ 2,50,000.

As far as the answer to GST law is concerned, TDS is required to be deducted under GST law is ₹ 45 lakhs under the IGST Act. In respect of Income tax law, TNEB entered into a contract with ESL for the supply of 20 lakhs unit of product "TBU" with total value of ₹ 25 crores. There should be a work contract to deduct tax u/s 194C. However, in this case, since there is no information regarding usage of the raw material provided by TNEB for manufacturing the product, this contract is a contract for sale. Hence, tax u/s 194C would not be deducted. For purchase of goods, section 194Q cast a responsibility on any person, being a buyer who is responsible for paying any sum to any resident-seller for purchase of goods of the value or aggregate of such value exceeding ₹ 50 lakhs in a previous year, to deduct tax at source @0.1% of such sum exceeding ₹ 50 lakhs. In this case, TNEB is required to deduct tax at source u/s 194Q @0.1% on ₹ 24,50,00,000, being the sum exceeding ₹ 50 lakhs. Tax to be deducted is ₹ 2,45,000.

ANSWERS TO THE CASE STUDY 4

Answers to the Multiple Choice Questions

1. **(b)** Competitive Rivalry

Reason: The correct answer is D) Competitive Rivalry. While all factors in Porter's Five Forces framework are relevant to assessing BBL's competitive landscape, the factor of competitive rivalry specifically refers to the intensity of competition among existing industry players. In the case of BBL, established brands and emerging players constantly strive to differentiate themselves through product innovation, pricing strategies, and marketing initiatives. This intense competition poses a threat to BBL's market share and profitability as rivals vie for dominance. Therefore, competitive rivalry represents a crucial aspect influenced by Porter's Five Forces in understanding BBL's strategic challenges within the coffee and tea industry.

2. **(d)** GST on the sitting fees paid to a director, who is not an employee of the company, shall be paid by the company (BBL) under the reverse charge mechanism.

Reason: Sitting fee paid to director – As per reverse charge notification, tax on services supplied by a director of a company/ body corporate to the said company/ body corporate, located in the taxable territory, is payable under reverse charge. Hence, in the present case, the sitting fee amounting to ₹ 34,000, payable to Mr. Ravish by BBL, is liable to GST under reverse charge and thus, recipient of service BBL is liable to pay GST on the same.

3. (c) Yes, a company is permitted to provide more comparative data than the minimum financial statements mandated by Ind AS, provided such data adheres to Ind AS. Nevertheless, the company must also furnish corresponding explanatory notes for these supplementary statements.

Reason: Yes as per Para 38C of Ind AS 1, an entity may present comparative information in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. This comparative information may consist of one or more statements referred to in paragraph 10 but need not comprise a complete set of financial statements. When this is the case, the entity shall present related note information for those additional statements.

4. (a) Yes, such comparative data can consist of one or more specified statements but does not necessarily have to be a complete set of financial statements

Reason: Yes, as per Para 38C of Ind AS 1, an entity may present comparative information in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. This comparative information may consist of one or more statements referred to in paragraph 10 but need not comprise a complete set of financial statements. When this is the case, the entity shall present related note information for those additional statements.

5. (c) (iv) or (v)

Reason: For determining the CIF price of the imported goods, certain additions have to be made to the value of imported goods under rule 10(2) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007. If cost of insurance is not ascertainable from the documents submitted before the customs authorities, then such amount is determined as follows:

(i) 1.125% of free on board value of imported goods;

(ii) Where free on board value is not ascertainable, but sum of free on board value and cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to place of importation is ascertainable; then 1.125% of such sum.

Answers to the Descriptive Questions

6. (i) Section 15(1)(b) of the Customs Act, 1962 provides that in the case of goods cleared from a warehouse, rate of duty applicable is the rate of duty in force on the date on which a bill of entry for home consumption in respect of such goods is presented.

In the given case, since BBL has filed the bill of entry for home consumption on 1st September, rate of duty is the rate prevalent on the said date viz. 30%.

(ii) Third proviso to section 14 of the Customs Act, 1962 provides that the rate of exchange notified by the CBIC as prevalent on the date of presentation of bill of entry for warehousing is the applicable rate of exchange for conversion of foreign currency into local currency.

Therefore, in the given case, rate of exchange that would be prevalent on date of presentation of bill of entry for warehousing i.e. 5th July and not the one prevalent on date of presentation of bill of entry for home consumption i.e., 1st September, would be adopted.

(iii) As per explanation to rule 12 of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, the chief reasons on the basis of which the proper officer can raise doubts on the truth or accuracy of the declared value may include:-

(a) the significantly higher value at which identical or similar goods imported at or about the same time in comparable quantities in a comparable commercial transaction were assessed;

(b) the sale involves an abnormal discount or abnormal reduction from the ordinary competitive price;

(c) the sale involves special discounts limited to exclusive agents;

(d) the misdeclaration of goods in parameters such as description, quality, quantity, country of origin, year of manufacture or production;

(e) the non-declaration of parameters such as brand, grade, specifications that have relevance to value;

(f) the fraudulent or manipulated documents.

7. 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, BBL received an amount of rupees ₹ 300 crore on account of incentives pertaining to F.Y. 2024-25 in the month of May 2025 i.e. after finalisation of financial statements and signing of audit report. The management of BBL amended the accounts, approved the same and requested DRC & Co. (auditor) to consider this event and issue a fresh audit report on the financial statements for the year ended on 31.03.2025.

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

8. External market dynamics play a pivotal role in shaping Bengali Brew Ltd.'s (BBL) strategic choices and competitive stance within the coffee and tea industry using Porter Five Forces. The same is discussed below:

(i) Bargaining Power of Buyers: The bargaining power of buyers in the coffee and tea industry is moderate. While BBL's commitment to quality and diverse product range attracts customers, buyers still wield influence, particularly if they have alternative suppliers. Price sensitivity and the availability of substitutes can also impact buyers' bargaining power. Therefore, BBL must balance pricing strategies with maintaining customer satisfaction to preserve market share and profitability.

(ii) Bargaining Power of Suppliers: BBL's bargaining power with suppliers is relatively high due to its ability to source the finest coffee beans and tea leaves globally. Their stringent selection process for quality and freshness strengthens their position, enabling them to negotiate favorable terms with suppliers. However, fluctuations in global commodity prices and dependence on specific suppliers could pose challenges and impact BBL's cost structure.

(iii) **Threat of Substitutes:** The threat of substitutes in the coffee and tea industry varies depending on consumer preferences and trends. While coffee and tea have enduring popularity, substitutes such as soft drinks, energy beverages, and health-focused alternatives pose a moderate threat. BBL can mitigate this threat by emphasizing the unique taste, quality, and experience offered by its products, as well as by innovating to meet changing consumer demands.

(iv) **Threat of New Entrants:** The coffee and tea industry presents a moderate threat of new entrants for Bengali Brew Ltd. (BBL). The market is relatively accessible due to the popularity of these beverages, BBL's established brand reputation, extensive distribution network, and investment in state-of-the-art processing facilities act as barriers to entry. However, innovative startups or established players from related industries could pose a potential threat by introducing new products or leveraging existing resources to penetrate the market.

(v) **Competitive Rivalry:** Competitive rivalry in the coffee and tea industry is intense, with numerous local and international players vying for market share. Established brands and emerging startups continuously innovate to differentiate themselves through product offerings, pricing strategies, and marketing initiatives. BBL's strong brand reputation, diverse product range, and commitment to quality position it well amidst this competition. However, price wars and aggressive marketing tactics remain potential challenges, requiring BBL to continuously adapt and innovate to maintain its competitive edge.

In summary, by understanding and strategically addressing each aspect of Porter's Five Forces, Bengali Brew Ltd. (BBL) can navigate the complexities of the coffee and tea industry, capitalize on opportunities, and mitigate threats to sustain its competitive advantage and drive long-term success.

9. The issue under consideration is whether, in a case where debentures are issued with maturity at the end of five years, and the debenture holders are given an option of upfront payment of interest in the first year itself, can the entire upfront interest paid, be claimed as deduction by the company in the first year or should the same be deferred over a period of five years; and would the treatment of such interest as deferred revenue expenditure in the books of account have any impact on the tax treatment.

The facts of the case are similar to the facts in *Taparia Tools Ltd. v. JC IT (2015) 372 ITR 605*, wherein the above issue came up before the Supreme Court. In that case, it was observed that under section 36(1)(iii), the amount of interest paid in respect of capital borrowed for the purposes of business or profession, is allowable as deduction.

The moment the option for upfront payment was exercised by the subscriber, the liability of BBL to make the payment in that year had arisen. Not only had the liability arisen in the previous year in question, it was even quantified and discharged as well in that very year.

As per the rationale of the Supreme Court ruling in *Taparia Tools Ltd.'s case*, when the deduction of entire upfront payment of interest is allowable as per the Income-tax Act, 1961, the fact that a different treatment was given in the books of account could not be a factor which would bar the company from claiming the entire expenditure as a deduction.

Accordingly, the action of the Assessing Officer in spreading the upfront interest paid over the five year term of debentures and restricting the deduction in the P.Y.2022-23 to one-fifth of the upfront interest paid is not correct. The company is eligible to claim the entire amount of interest paid upfront as deduction under section 36(1)(iii) in the P.Y.2022-23.

ANSWERS TO THE CASE STUDY 5

Answers to the Multiple Choice Questions

1. (a) Opinion II is correct.

Reason: The IGST liability of company pertaining to zero-rated supplies (export) in Oct 2024 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.

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

Reason: The TDS amount to be deducted during financial year 2024-25 is as under -

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

TDS to be deducted on freight paid of ₹ 3.00 lakhs u/s 194C 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 194C 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 contactor services is not eligible as amount would be capitalised under building and the same is blocked under section 17(5) of CGST Act.

3. **(c)** Growth

Reason: Given the scenario, Sparkle 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.

4. **(c)** ii, iii, v, vi

Reason: Most appropriate statements are (ii) Sparkle has a responsibility to a *wide range of stakeholders*, including vulnerable children affected by its supply chain practices. (iii) Sparkle is accountable for ensuring the well-being of employees in its *supply chain*, especially regarding the exploitation of child labour by subcontractors. (v) Although Sparkle 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 Sparkle's *brand reputation and customer trust*, which are critical for long-term success.

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

(i) While Sparkle *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 Sparkle does have a responsibility toward its factory employees, it must also extend this obligation to those working in its supply chain.

5. **(b)** i, ii, iii, iv

Reason: Sparkle 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.

Answers to the Descriptive Questions

6. Under section 179(3) of the Companies Act, 2013, the Board of Directors of a company shall exercise the following powers on behalf of the company by means of resolutions passed at meetings of the Board:

(a) To make calls on shareholders in respect of money unpaid on their shares,

(b) To authorise buy-back of securities under section 68;

(c) To issue securities, including debentures, whether in or outside India;

(d) To borrow monies:

(e) To invest the funds of the company;

(f) To grant loans or give guarantee or provide security in respect of loans:

(g) To approve financial statement and the Board's report;

(h) To diversify the business of the company;

(i) To approve amalgamation, merger or reconstruction;

(j) To take over a company or acquire a controlling or substantial stake in another company:

(k) Any other matter which may be prescribed.

Provided that the Board may, by a resolution passed at a meeting, delegate to any Committee of Directors, the Managing Director, the manager or any other principal officer of the company or in the case of a branch office of the company, the principal officer of the branch office, the powers specified in clauses (d) to (f) on such conditions as it may specify.

From the foregoing provisions, it is evident that the Board of Sparkle Private Limited is well within its rights to delegate the power to borrow monies, as permitted under clause (d) of Section 179(3), to the Managing Director, manager, or any other principal officer. However, the power to issue securities, including debentures, for the purpose of raising funds under clause (c) of Section 179(3), cannot be delegated and must be exercised solely by the Board itself.

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.