

Mock Test Paper - Series II: August, 2025

Date of Paper: 11th August, 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

Unnati Fertilizers Limited

Headquartered in Baruch, Gujarat, Unnati Fertilizers Limited (UFL) started out as a small fertilizer trading company in 1965 that has now grown into a well established producer of fertilizers in the country. The company operates three urea plants at its manufacturing complex at Baruch, with a capacity of 3.4 million metric ton per annum (MTPA).

The primary business vertical of the company is the fertilizer unit. Fertilizers require ammonium nitrate, which is formed by combining ammonia and nitric acid. Recent supply chain disruptions due to geo-political tensions and price fluctuations in the price of raw materials highlighted the need for UFL's management to develop risk mitigation strategies. As part of this strategy, in April 2024, UFL acquired Baruch Chemicals Private Limited (BCPL), which specializes in manufacturing ammonium nitrate. BCPL is located in close vicinity to UFL's manufacturing complex at Baruch.

Background of BCPL

On acquisition, UFL operated BCPL as a wholly owned subsidiary, as a separate entity from itself. Refer to Annexure 1, for the change in shareholding pattern at BCPL.

The company had remained profitable until FY 2021-22. However, the COVID pandemic along with disruptions to supply chain due to geo-political events led to the company incurring losses in the year FY 2022-23. For Income Tax purpose, the business loss that was carried forward loss as per the return filed for AY 2023-24 was ₹ 5 crores while unabsorbed depreciation was ₹ 1 crore. This has been duly accepted by the income tax authorities.

Issue raised by Assessing Officer for BCPL's return filed for AY 2024-25

BCPL filed the income tax return for AY 2024-25 within the due date. This year, under the management of Ramesh and Hitesh, the company had made a profit of ₹ 10 crores (before

adjusting for the brought forward loss of ₹ 5 crores and unabsorbed depreciation of ₹ 1 crore from AY 2023-24). BCPL had set-off losses brought forward and unabsorbed depreciation from AY 2023-24 against the profit earned during AY 2024-25.

For AY 2024-25, the Assessing Officer disallowed BCPL from setting off brought forward losses of ₹ 5 crores and unabsorbed depreciation of ₹ 1 crore from AY 2023-24.

UFL's acquisition of Baruch Chemical Private Limited (BCPL) in April 2024.

Ramesh Shah, after obtaining 50% stake of Mahesh Shah in BCPL, has successfully turned the company profitable again. However, he wanted to concentrate only on the technical operations of the company. Hitesh Shah, who originally held the rest 50% shareholding, was unable to keep up the entire management of the company with him.

The management of UFL saw the opportunity to unlock value in the supply chain through backward integration by acquiring 100% stake in BCPL. Hence, when UFL made an offer to acquire the company, Ramesh and Hitesh found it a good opportunity to reduce their business interests in BCPL. Therefore, on April 1, 2024 UFL acquired 100% stake in BCPL.

Operations of BCPL, wholly owned subsidiary of UFL from financial year 2024-25 onwards.

Internal transfer pricing policy and performance assessment of Ramesh Shah, unit head.

Post acquisition, the entire production of ammonium nitrate at BCPL is being transferred to UFL for manufacture of fertilizers. Since the management of UFL found a valuable resource in Ramesh Shah to handle the technical aspects of running chemical operations of manufacturing ammonium nitrate, they decided to retain him as an employee, heading the BCPL unit.

The annual production capacity at BCPL is 240,000 tons per annum of ammonium nitrate. Production details are as below:

Financial Year	2024-25	2025-26 onwards
Capacity of the plant	240,000 tons	240,000 tons
Actual Capacity utilized	200,000 tons	240,000 tons
External demand for ammonium nitrate	NIL	50,000 tons
Variable cost of production of 1 ton of ammonium nitrate	₹ 30,000	₹ 30,000
Fixed cost of production of 1 ton of ammonium nitrate	₹ 80,000	₹ 100,000

During a senior management meeting in April 2024, it was decided that BCPL would charge its total cost of production per ton to UFL along with a 15% mark up on total cost. This was acceptable to the Income Tax authorities as well. As shown above, the total cost of production

for the year FY 2024-25 was ₹ 110,000 per ton while FY 2025-26 onwards it was ₹ 130,000 per ton. Accordingly, the internal transfer price charged by BCPL to UFL would be ₹ 126,500 per ton for FY 2024–25, and ₹ 149,500 per ton from FY 2025–26 onwards, reflecting a net increase of ₹ 23,000 per ton over the previous year.

Since BCPL unit is a captive manufacturing unit, the performance measurement of Ramesh Shah, the unit head is based on technical and non-financial parameters rather than financial parameters like the profit generated by the unit. This suited Ramesh Shah fine until he realized that the rest of the management at UFL were able to make a better case for their annual increment and bonus based on financial parameters like the profit generated by their respective units. Hence, Ramesh Shah felt stifled by the current transfer pricing policy that allowed his unit to reflect only the 15% mark-up as BCPL's profit.

Customer base for ammonium nitrate manufactured by BCPL

Pre-acquisition, under the management of Mahesh, Hitesh and Ramesh Shah, the customers for ammonium nitrate produced by BCPL comprised of mining and infrastructure companies. Ammonium nitrate was used to make commercial grade explosives that were required within these industries. Similarly, there were pharmaceutical and chemical companies that needed this compound to manufacture their products.

Post acquisition, BCPL was being operated as a fully captive unit, its entire production transferred to UFL. Hence, the erstwhile customers of BCPL found alternate suppliers to provide ammonium nitrate. However, given quality considerations many still wanted BCPL as their preferred supplier of ammonium nitrate. In due course of time from FY 2025-26 onwards, Ramesh Shah started receiving inquiries from erstwhile customers to resume supply of ammonium nitrate.

Relook at the internal transfer pricing policy and Ramesh Shah's performance assessment.

During the quarterly senior management meeting in July 2025. The meeting was attended by Mr. Pradeep Seth, CEO of UFL, Mr. Roshan Lal, director of operations at UFL and Ramesh Shah among others. Ramesh brought up this issue:

Ramesh Shah: "We have received numerous enquiries for the supply of ammonium nitrate from our erstwhile customers. This external demand indicates that my unit BCPL has the potential to generate value to UFL's overall business.

I understand, that the main objective for acquisition of BCPL had been to operate as a captive unit that supports UFL's fertilizer production. While we continue this strategy, I request the management to have a relook at the internal transfer pricing policy. Instead of merely charging 15% mark-up on total cost, my unit should be allowed to charge UFL the market rate for ammonium nitrate. The average quote price from external inquires is approximately ₹ 180,000

per ton of ammonium nitrate. Therefore, I propose that BCPL charge UFL the market rate of ₹ 180,000 per ton, which will reflect the true value of my unit's business. By being a profit center like all other units, my performance evaluation can also be done on important financial parameters."

Mr. Roshan Lal countered this proposal "No doubt, BCPL is an important part of our company as it guarantees regular and uninterrupted supply of critical raw material. However, we are already bearing an increased transfer price charge of ₹ 23,000 per ton compared with FY 2024-25. In the interest of goal congruence for the company, I did not protest this increase. However, just like BCPL there are other suppliers who are ready to supply a similar grade ammonium nitrate at ₹ 170,000 per ton. By accepting a rate higher than the market rate, the profitability of my unit and consequently my performance assessment will be impacted".

After a little deliberation, Mr. Pradeep Seth observes "I agree with Mr. Ramesh Shah, the ammonium nitrate manufacturing unit has the potential to increase the revenue and profits for our business. Hence, his proposal to charge the external market rate is justified. At the same time, I do concur with Mr. Roshan Lal that a price above ₹ 170,000 per ton of ammonium nitrate, which is the external market procurement rate for the same grade of ammonium nitrate is unjustified. We need to rethink our strategy as regards the ammonium nitrate production plant."

Repositioning BCPL to unlock business value

Taking cognizance of the opportunity to earn extra revenue and profits, Mr. Pradeep Seth and other members of the company's board of directors, decide to increase the capacity of the ammonium nitrate manufacturing plant. The capacity will now be increased to 400,000 tons per annum, that is an increase of 160,000 tons per annum from the current capacity. Out of the total capacity, UFL will get a committed supply of 240,000 tons per annum, as originally planned at the time of acquisition. The balance 160,000 tons per annum can be used to meet external demand. If UFL requires additional supply beyond the committed supply, BCPL is required to first cater to the internal captive demand before catering to the external market.

From the year 2026-27, the unit will operate like a profit center just like the rest of the units within UFL. This put in effect a strategic move of converting the ammonium nitrate manufacturing unit from being a non-competitive captive raw material supplier to a unit that has to compete with external sellers in order to generate both profit from both internal and external sales. Mr. Ramesh Shah is also agreeable to this since it gives the ammonium nitrate manufacturing unit an opportunity to contribute more towards the company's value chain.

For the year 2026-27, the variable expenses are expected to remain at the same level as previous years at ₹ 30,000 per ton. As regards fixed costs, increase in the capacity would result in increase the fixed cost by ₹ 70,000 for every additional 1 ton produced.

During many rounds of prolonged negotiations, Roshan Lal is trying to convince Ramesh Shah that ₹ 155,000 per ton of ammonium nitrate would be appropriate. External sales will be priced at ₹ 180,000 per ton. This includes additional delivery cost (variable) of ₹ 18,000 per ton of ammonium nitrate to external customers. The price also includes ₹ 2,000 per ton advertising expenses (variable). The rest of the cost structure remains the same for both internal and external supplies.

Govt Loan at concessional rate

Under the New Ammonium Nitrate Policy launched by the Ministry of Chemicals and Fertilizers, the Government of India has extended financial assistance to support domestic production and technological advancement in the sector. This policy aims to reduce import dependence, improve productivity, and ensure sustainable supply of ammonium nitrate, which is a critical input for fertilizers, explosives, and other chemical industries.

As part of the financial support extended under this policy, the government provides concessional loans to eligible manufacturers for the development, modernization, and expansion of ammonium nitrate production facilities. These loans are intended to facilitate capital investments in plant and machinery, adoption of energy-efficient and high-yield technologies, and overall capacity enhancement.

As part of this initiative, BCPL received from the government a loan of 5 crore @ 5% payable after 5 years in a bulleted payment. Interest is payable annually at the end of each financial year. The prevailing market rate of interest is 12%. This financial assistance has enabled BCPL to invest in critical infrastructure and machinery necessary to improve operational efficiency, reduce wastage, and increase the yield of ammonium nitrate production, thereby aligning with the national goal of strengthening the chemical manufacturing sector.

Purchase of machinery by BCPL from Mechanix GmbH

With a strategic vision to enhance production efficiency and incorporate advanced technology at BCPL, a decision was made to import state of the art machinery from Germany.

The machines were purchased from Mechanix GmbH for a total purchase value of USD 500,000 (that is approximately ₹4.25 crores in terms of Indian currency). Since BCPL had previously purchased many machines from Mechanix GmbH, it got a credit period of 3 months to settle the transaction. The machines were shipped on November 1, 2024 from Germany. BCPL enters into a contract with Complete Logistics, a licensed customs broker with its office in Surat (Gujarat) to meet all the legal formalities in getting the said machines cleared from the customs station at the Hazira Port. Apart from this BCPL authorizes Complete Logistics to incur on its behalf the expenses in relation to clearance of the imported machines from the customs station

and bringing the same to the manufacturing complex at Baruch, Gujarat. BCPL will reimburse Complete Logistics the expenses on actual basis in addition to agency charges. Please refer to Annexure 2 for the details of expenses made by Complete Logistics on behalf of BCPL, as shared via email by Mr. Sparsh Saddh (Manager Finance, Complete Logistics) to Mr. Sanjay Kumar (Accounts Head at BCPL).

On receiving the machines on November 30, 2024, the machines were found not to be as per the specifications as requested by BCPL. This resulted in a dispute between BCPL and Mechanix GmBh. The dispute remained unresolved as of March 31, 2025. An amount of USD 100,000 is yet to be paid. Mechanix GmBh has issued a notice whereby it has started charging an interest on the unpaid amount @ 18% p.a. effective February 1, 2025 (the end of the 3 month credit period starting date of shipment November 1, 2024).

CA Umakant Patel has been appointed as the statutory auditor of both UFL and BCPL for five years from FY 2024-25 onwards. On completion of the audit for consolidated results of Unnati Fertilizer Limited, he issued the Audit Report following the Guidance Note on The Companies (Auditor's Report) Order, 2020 (CARO). He has examined and performed audit procedures on the disputed claims, short term liabilities of UFL, including the corporate guarantee and unsecured loans to its subsidiaries and step subsidiaries.

Unnati Fertilizers Limited supplies its products to a wide network of dealers and retailers across the country. As, UFL is leading manufacturer and distributor of agricultural fertilizers, Given the seasonal nature of demand and the credit-based sales model, managing cash flow is critical to the company's operations. To maintain healthy liquidity and minimize credit risk, In Mar 2025, Management has set an internal target of collecting 95% of accounts receivable within 60 days from the date of sale. This benchmark aligns with the company's working capital requirements and industry standards. This performance benchmark is actively monitored by the finance department through a structured receivables management system that includes weekly aging reports, customer-specific credit limits, and a disciplined follow-up mechanism involving reminder emails, calls, and field visits. To incentivize timely payments, the company offers early payment discounts and enforces strict credit terms.

The management committee of UFL has issued right shares to all its shareholders which include employees of the company. Furthermore, UFL issues its own shares to a charity without any consideration to an NGO which is working for promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward group.

Annexure 1

Background at a glance

BCPL was originally founded by Mahesh Shah and his son Hitesh Shah in 1978. Over time, they could not keep up with the rapidly changing landscape of the chemical industry. They were not very well versed with modern business environment and as well as the latest production technology. Ramesh Shah joined the company in 2018 after his graduation as a chemical engineer. Ramesh brought in changes that helped the company remain profitable until FY 2021-22.

The shareholding pattern of BCPL is as below:

Shareholder name	Upto FY 2022-23	FY 2023-24	FY 2024-25 onwards
Mahesh Shah	50%	NIL	NIL
Hitesh Shah	50%	50%	NIL
Ramesh Shah	NIL	50%	NIL
Unnati Fertilizer Limited (UFL)	NIL	NIL	100%

Due to advancing age, Mahesh Shah wanted to reduce his business commitments. Therefore, during FY 2023-24, Mahesh Shah sold his 50% shareholding to Ramesh Shah, an unrelated person to Mahesh Shah. Later in FY 2024-25, UFL acquired 100% of the stake in BCPL from Hitesh Shah and Ramesh Shah.

Annexure 2

Details related to Reimbursement of expenses made by Complete Logistics for customs clearance and transfer of machinery to BCPL.

Sanjay Kumar/ Accounts Head / bcpl

From: "Sparsh Saddh" <Sparshsaddh@clogistic.com >
Sent: 25th November 2024 10:00
To: "Sanjay Kumar" <sanjay@bcpl.com >
Cc: "MD Office" <mdoffice@bcpl.com >
Subject: Regarding reimbursement of expenses
Attachments:
CA. Sanjay,
I hope this mail finds you well!

We are writing to kindly request reimbursement for expenses incurred and agency charges related to the customs clearance and inland logistics of imported machinery, undertaken on behalf of BCPL.

The following is a detailed summary of the costs incurred:

Sr. No.	Particulars	Amount (₹)
(i)	Agency charges	800,000
(ii)	Unloading machine at Hazira Port (Gujarat)	100,000
(iii)	Charges for transportation of machines from Hazira Port, Gujarat to godown of Complete Logistics in Surat, Gujarat	30,000
(iv)	Charges for transportation of machines from godown of Complete Logistics in Surat, Gujarat to manufacturing complex of BCPL, Baruch, Gujarat.	120,000
(v)	Prepared and submitted Bill of Entry and paid customs duty	300,000
(vi)	Dock dues paid	50,000
(vii)	Port charges paid	50,000
(viii)	Hotel expenses	20,000
(ix)	Travelling expenses	20,000
(x)	Telephone expenses	10,000
	Total	15,00,000

We have sent to you by post all relevant supporting documents, including invoices, payment receipts, and copies of the Bill of Entry for your reference and internal processing.

Thank you for your continued trust in our services. Looking forward to hearing from you soon.

Best regards,

Sparsh Saddh

Multiple choice question

- For the years FY 2024-25 and 2025-26, the performance assessment of Ramesh Shah, head of BCPL was based on other technical, non-financial parameters and not on profit generated by the unit. Which of the following is not true about non-financial parameters that are used as performance measures:
 - Non-financial involves calculations and numerical measurements of identified technical parameters for ammonium nitrate production at BCPL.

- (b) Non-financial measures are independent of business performance and do not impact the bottom line of the company in any way.
 - (c) The nature of non-financial measure of BCPL may be different from that used to assess other units within UFL.
 - (d) Non-financial measures can be used to provide feedback to Ramesh Shah on how to manage the operations of the BCPL to correspond to the aims and objectives of UFL. They help to capture the strength and weakness the business.
2. The strategic decision taken by the management of UFL to convert BCPL from being merely a captive unit to a unit that functions as a profit center by catering to external customers has far reaching impact. Which of the following are potential outcomes of this strategic move:
- (i) BCPL becomes profit accountable, which is a key metric for performance evaluation. This increases the scope for UFL's overall profitability.
 - (ii) Motivates employees like Ramesh Shah to make BCPL competitive with respect to the external market. With appropriate performance evaluation and reward management systems in place this will improve employee performance and satisfaction.
 - (iii) Assessment of BCPL based on its profitability promotes goal congruence and enables other units to synchronize their operations to achieve UFL's overall strategic goals.
 - (iv) By functioning as a profit centre, the unit can help UFL manage its profitability to help optimize taxes.

Options

- (a) (i) and (ii)
 - (b) (i), (ii) and (iii)
 - (c) (ii), (iii) and (iv)
 - (d) (iii) and (iv)
3. What will be the approximate amount of deferred grant and loan amount to be initially recognised in the books as per Ind AS, w.r.t. loan received by BPCL from the government under the New Ammonium Nitrate Policy based on the discounting factor upto three decimals?
- (a) ₹ 5,00,00,000 as loan; ₹ Nil as deferred grant
 - (b) ₹ 3,73,65,000 as loan; ₹ 1,26,35,000 as deferred grant

- (c) ₹ 5,00,00,000 as loan; ₹ 1,26,35,000 as deferred grant
 - (d) ₹ 3,73,65,000 as loan; ₹ Nil as deferred grant
4. State in the context of Ind AS 102, Which of the following statements is true w.r.t. Stock options received by employees and the issuance of shares to a charity?
- (a) Ind AS 102 does not apply to the issuance of shares to a charity without consideration, as it is not a share based payment transaction.
 - (b) The issuance of shares to a charity without consideration is covered under Ind AS 102 as a share-based payment arrangement, while Stock Options received by employees in the capacity as shareholders are not covered under Ind AS 102.
 - (c) Stock Options are covered under Ind AS 102 regardless of whether employees receive shares in their capacity as shareholders, and the issuance of shares to a charity without consideration is not covered under Ind AS 102.
 - (d) Stock Options are covered under Ind AS 102 only if employees receive shares as part of their employment benefits, regardless they are shareholders.
5. UFL's target of collecting its accounts receivable within 60 days of sale is an example of which of the following?
- (a) A Mission
 - (b) A Critical Success Factor
 - (c) A Key Performance Indicator
 - (d) A Vision
- (5 × 2 = 10 Marks)**

Descriptive Question

6. (a) With respect to performance assessment of Ramesh Shah for the years 2024-25 and 2025-26, ANALYZE the potential problems of using the total cost of production per ton of ammonium nitrate as the transfer price for supply to UFL.
- (b) Post the decision to become a profit centre from the year 2026-27, SUGGEST an appropriate price range that can be explored in order to promote goal congruence between the unit heads at BCPL and UFL.
- (c) When there is extra demand from UFL beyond the agreed supply of 240,000 tons per annum, there is a diversion of supply of ammonium nitrate from external sales to transfer to UFL. This results in loss of contribution to BCPL. Using your suggestion in (b) above, DETERMINE whether the internal transfer price of ₹ 155,000 per ton of ammonium nitrate supplied as suggested by Roshan Lal will appropriately compensate this loss of contribution.

- (d) For the year 2026-27, CALCULATE the estimated net profit per annum of the BCPL, when it operates at full capacity, supplying 240,000 tons at ₹ 165,000 per ton to UFL and 160,000 tons at ₹ 180,000 per ton to external customers respectively. **(1 + 2 + 1 + 2 = 6 Marks)**
7. (a) Compute the value of supply made by Complete Logistics with the help of given information.
- (b) Would your answer be different if Complete Logistics has charged ₹ 15,00,000 as a lumpsum consideration for getting the imported machine cleared from the customs station and bringing the same to the manufacturing complex of BCPL in Baruch, Gujarat. **(6 + 3 = 9 Marks)**

CASE STUDY 2

MK & Associates

MK & Associates is a reputable firm of Chartered Accountants, with its headquarters situated in the vibrant city of Jaipur, Rajasthan. Founded by CA. Mohit and CA. Kuldeep, the firm has established itself as a trusted entity in the field of accounting and financial consultancy within the region. Led by the expertise and vision of its partners, MK & Associates offers a comprehensive range of professional services tailored to meet the diverse needs of its clients. From auditing and taxation to financial advisory and compliance, the firm prides itself on delivering reliable solutions that drive business success.

With a deep understanding of both local regulations and global market dynamics, MK & Associates serves a diverse clientele spanning across industries such as manufacturing, hospitality, retail, and more. Whether assisting startups in navigating regulatory frameworks or providing strategic insights to established enterprises, the firm's commitment to excellence remains unwavering. Beyond its professional endeavors, MK & Associates actively engages in initiatives aimed at contributing to the local community and promoting financial literacy. Through seminars, workshops, and pro bono services, the firm strives to empower individuals and businesses with the knowledge needed to make informed financial decisions.

MK & Associates get their website developed as www.MKassociates.com from Adarsh Tech Ltd. The colour of their website was very bright and attractive to run on a "push" technology. Names of the partners of the firm and the major clients were also displayed on the website without any disclosure obligation from any regulator.

In exchange of consideration of developing website by Adarsh Tech Ltd., CA. Mohit, accepted appointment as its tax auditor, for A.Y. 2025-26 and commenced the tax audit within four days of appointment since the client was in a hurry to file return of income before the due date.

After commencing the audit, CA. Mohit realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement.

Adarsh Tech Ltd. filed its income tax return for the A.Y. 2025-26 duly on September 30th, 2025. Income tax department processed the return and sent an intimation to Adarsh Tech Ltd. The return was selected for regular assessment for which the notice was served to the company within the time limit as well as the order was passed by the Assessing Officer (below the rank of Joint Commissioner). However, Adarsh Tech Ltd. was aggrieved by the amount of income assessed in the order passed under regular assessment.

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

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

Mr. Arsh wanted investment advisory services from MK & Associates for investing the surplus funds of Adarsh Tech Ltd. for which purpose he had invited Mr. Mohit for a meeting. In the meeting, Mr. Mohit explained the benefits of investing in mutual fund schemes along with its drawbacks and also recommended investing in xscheme Purnarth floated by HMKD Plus Mutual Fund managed by his own friend.

HMKD Plus Mutual Fund has published its half-yearly portfolio statement (Annexure 1) relating to their Purnarth Scheme on its official website as well as on the AMFI website, in compliance with the SEBI (Mutual Funds) Regulations. The statement provides detailed disclosures of the fund's investments in various equity instruments as of March 31, 2025.

The total number of units of Scheme Purnarth are 12 lakhs. The Scheme Purnarth has accrued expenses of ₹ 1,50,000 and other liabilities of ₹ 3,00,000. Further, Mr. Mohit, in his busy schedule, took some time to attend one another meeting, this time arranged by manager of RFIN Bank, Mr. Ravi, who wanted Mr. Yash's firm to perform an audit of the blockchain-based system, the details of which provided by Mr. Ravi to Mr. Mohit, in the said meeting, are as follows:

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

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

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

Mr. Ravi, the manager of RFIN Bank, gave an order to GM Stores Pvt. Ltd. (GMSPL) on 1st January, 2025 for 1,000 custom-made corporate gifts, to be provided to their prestigious corporate clients along with the information about the aforesaid blockchain-based system. On 3rd January, 2025 GMSPL purchased raw materials to be consumed in the production process for ₹ 6,50,000, including ₹ 50,000 refundable purchase taxes. The purchase price was funded by raising a loan of ₹ 6,55,000 (including ₹ 5,000 loan-raising fees). The loan is secured by the inventories.

During January, 2025 GMSPL designed the corporate gifts for the customer bank. The total design costs amounted to ₹ 10,000, which included ₹ 6,000 paid to an external designer and ₹ 4,000 towards in-house labour expenses.

During February, 2025, GMSPL's production team developed the manufacturing technique and made further modifications necessary to bring the inventories to the conditions specified in the agreement. During the testing phase, the company incurred various costs including ₹ 21,000 on materials (net of ₹ 3,000 recovered from the sale of scrapped output), ₹ 11,000 towards labour, and ₹ 5,000 as depreciation on the plant used for carrying out the modifications. In February 2025, GMSPL incurred additional costs in the manufacturing of customized corporate gifts. These included ₹ 55,000 for consumable stores, ₹ 65,000 towards labour, and ₹ 15,000 as depreciation on the plant used in the production process. The customised corporate gifts were ready for supply on 1st March, 2025. No abnormal wastage occurred in the development and manufacture of the corporate gifts.

Annexure 1

HMKD Plus Mutual Fund				
SCHEME NAME : HMKD Plus MF Purnarth Scheme				
PORTFOLIO STATEMENT (Extract) AS ON: 31-03-2025				
Name of the Instrument / Issuer	ISIN	Rating / Industry	No. of shares held	Closing Rate (as on 31st March 2024)
1) EQUITY & EQUITY RELATED				
- Listed / awaiting listing on Stock Exchanges				
• Nepathya Ltd.	INE040A01001	Diversified FMCG	25,000	20
• D-Con Ltd.	INE002A01099	Petroleum	35,000	300
• Sarpan Ltd.	INE090A01098	Consumer Durables	29,000	380
• Care Health Ltd.	INE321T01312	Household	40,000	500
Total				
2) DEBT INSTRUMENTS			Nil	NA
3) MONEY MARKET INSTRUMENTS			Nil	NA

*In compliance with the SEBI (Mutual Funds) Regulations

Multiple Choice Questions

- Whether website designed for www.YKassociates.com is in compliance with the guidelines given in Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949:
 - Yes, website can have names of partners and major clients along with its fees.
 - Yes, as the websites can be designed on a “push” technology.
 - Yes, as there is no restriction on the colours used in the website.
 - No, as names of the major clients were displayed without any disclosure obligation from any Regulator.

2. Before signing the tax audit report, CA. Mohit sent a registered post to the previous auditor and obtained the postal acknowledgement. Will CA. Mohit be held guilty of professional misconduct under the Chartered Accountants Act, 1949?
 - (a) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. Mohit will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.
 - (b) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Mohit will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only.
 - (c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Mohit will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.
 - (d) As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. Mohit will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.
3. Adarsh Tech Ltd. approaches you to ascertain the taxability of supply of services of development of online cloud system to JMC, in the given case, for quoting the best price. You are required to determine the taxability of the given supply.
 - (a) GST is exempt on said supply since the value of supply of goods constitutes not more than 25% of the value of the said composite supply.
 - (b) GST is payable on said supply. It will be exempt if value of supply of goods constitutes less than 25% of the value of the said composite supply.
 - (c) GST is payable on said supply. It will be exempt if value of supply of goods constitutes more than 25% of the value of the said composite supply.
 - (d) Said supply is neither supply of goods nor supply of services in terms of Schedule III of the CGST Act, 2017.
4. What is the remedy available to Adarsh Tech Ltd. against the order passed by the Assessing Officer and the time limit within which, such remedy should be exercised?
 - (a) Adarsh Tech Ltd. has to file an appeal before Commissioner (Appeals) u/s 246A within 1 month of the date on which the order sought to be appealed against is communicated to them

- (b) Adarsh Tech Ltd. has to file an appeal before the Appellate Tribunal u/s 253 within 60 days of the date on which the order sought to be appealed against is communicated to them
 - (c) Adarsh Tech Ltd. has to file an appeal u/s 246 before Joint Commissioner (Appeals) within 30 days of the date of service of the notice of demand relating to the assessment.
 - (d) Adarsh Tech Ltd. has to file an appeal u/s 253 before the Appellate Tribunal within 30 days of the date of service of the notice of demand relating to the assessment.
5. What kind of technology advancement is represented by the scenario involving RFIN Bank's implementation of a blockchain-based system in partnership with Bouyanc Bank?
- (a) Automation
 - (b) Extension
 - (c) Transformation
 - (d) Disruption
- (5 × 2 = 10 Marks)**

Descriptive Questions

6. (i) Calculate the NAV per unit of the Scheme Purnarth
- (ii) What are the advantages as well as drawbacks of investing in Mutual Funds as would have been narrated by Mr. Mohit? **(3 + 4 = 7 Marks)**
7. In connection with RFIN Bank & Bouyanc Bank, Provide some illustrative steps for performing audit of the aforesaid blockchain-based system. **(5 Marks)**
8. Compute the cost of the inventory of GMSPL, with appropriate calculations as per the relevant IND AS? **(3 Marks)**

CASE STUDY 3

ELTO's

ELTO operates globally, with a substantial presence in Belgium and a significant influence in the fast fashion market. Competing with brands like Z & A, Guccz, A to Z. ELTO produces over 20,000 designs annually and employs a strategic pricing strategy to carve out its market niche.

ELTO's adherence to its strategic vision is pivotal in maintaining its competitive advantage in the fast fashion industry. Concerns about the quality of products from fast-fashion companies are common, as these companies often aim to sell more by cutting costs. However, ELTO's robust quality control system ensures the delivery of high-quality products, distinguishing it from many of its competitors.

One of ELTO's key strategies to sustain its competitive edge is minimizing the time span between design creation and store availability. The fast fashion industry is accelerating, with companies continuously reducing the time from product design to distribution. The integration of online platforms and the normalization of one-day delivery are becoming industry standards. ELTO is committed to keeping pace with these developments to stay competitive.

Marketing and communication also play crucial roles. Leveraging information technology, ELTO can identify customer preferences and reach a broad audience. Social media is a significant tool in building relationships with customers, and ELTO utilizes these platforms effectively. It also utilizes it for super-efficient analysis of what's selling and being said on social media platforms. However, in a highly competitive industry, ELTO must constantly innovate, focusing on quality, pricing, and speed to retain its market position.

Pricing is critical for ELTO, which targets a wide market by offering products for women, men, and children. ELTO's pricing strategy aims to attract both the middle class, its largest market share, and wealthier individuals. In the South Asian market, ELTO's products are relatively affordable, catering primarily to the middle class. Conversely, in regions like Europe, ELTO's products are more expensive, targeting consumers with higher social status. In South Asian market, ELTO employs a below-market or penetrating pricing strategy, often referred to as a charming price tactic, which involves setting prices lower than the competition to attract a larger customer base, particularly among the middle class. This approach helps ELTO capture a significant market share by appealing to price-sensitive consumers. In contrast, ELTO adopts a different approach in the European market by setting prices higher than those in other regions. This strategy targets consumers who are less sensitive to price and are willing to pay a premium for ELTO's fashionable and trendy products. By catering to a wealthier segment that values brand prestige and exclusivity, ELTO effectively maximizes its profits in Europe.

ELTO's pricing strategy is part of its broader 4Ps marketing mix: product, price, promotion, and place. With a diverse product range, ELTO attracts a broad consumer base, launching new products regularly to meet changing fashion demands. This approach maximizes profit margins by aligning product prices with consumer behavior and preferences.

ELTO has used almost zero advertising and endorsement policy throughout its entire existence, preferring to invest a percentage of its revenues in opening new stores instead. It spends a meager 0.75 per cent of sales on advertising compared to an average of 5 per cent by competitors. The brand's founder Mr. Gupta who is the ninth richest man in the world, has never spoken to the media nor has in any way advertised ELTO.

It currently operates in 1189 retail stores across 97 markets (countries). The flagship locations are located in the most critical markets that appeal to their most loyal shopper. ELTO uses its store location and store displays as key elements of its marketing strategy. Its window displays, which showcase the most outstanding pieces in the collection, are also a powerful

communication tool designed by a specialized team. A lot of time and effort is spent designing the window displays to be artistic and attention grabbing. According to ELTO's philosophy of fast fashion, the window displays are constantly changed. This strategy goes down to how the employees dress as well – all ELTO employees are required to wear ELTO clothes while working in the stores, but these “uniforms” vary across different ELTO stores to reflect socio-economic differences in the regions they were located.

ELTO's pricing strategy and broad product range have given it an advantage over rivals like A to Z and Z & A, enabling global expansion to meet product demand. A company's pricing strategy significantly impacts market presence and revenue returns. ELTO's strategy aims to meet consumer needs and outperform competitors to maximize returns.

ELTO, part of the Gupta group, has gained global recognition through its innovative retail strategy. Unlike many competitors, ELTO minimizes the time between design conception and store availability to just two weeks, allowing it to respond swiftly to market demand fluctuations. This agility is enhanced by ELTO's vertical integration and avoidance of outsourcing, maintaining control over production and quality.

ELTO's business model is meticulously designed to maintain its competitive edge in the fast fashion industry. A key element is the short lead time, which ensures that ELTO's products are always aligned with the latest fashion trends. This is complemented by the strategy of reduced risks through limited production runs, allowing ELTO to quickly pivot away from unpopular designs. The company focuses on producing styles rather than mass-producing clothing, which helps keep its offerings fresh and desirable. Vertical integration, with manufacturing based in Asia, allows for rapid adjustments in production to meet market demands.

ELTO's marketing strategy is innovative, investing in making its products easily accessible rather than relying on traditional advertising methods. The company is highly reactive, swiftly responding to market demands as they arise, and it emphasizes affordability, offering stylish clothing at reasonable prices. Interactivity is another crucial aspect, as ELTO closely engages with consumer trends through social media, ensuring that it stays in tune with customer preferences. This combination of elements creates a dynamic and responsive business model that drives ELTO's success.

Aware of ELTO's recent successes in becoming a major player in the global fashion industry, many smartphone and mobile software manufacturers quickly sought to partner with the company. For instance, since 2012, Ramson smartphones have been sold with the preinstalled ELTO mobile application. Ramson Electronics announced the launch of the ELTO fashion app, which will showcase the global fashion chain's latest collections on Android smartphones for the first time. The app allows fashion lovers to browse the new season must-haves and make immediate purchases. This initiative has significantly contributed to ELTO's substantial sales

growth. With the ELTO mobile application installed on their smartphones, customers can conveniently purchase the company's products online without needing a computer.

ELTO's success stems from a combination of innovative manufacturing and marketing strategies, allowing it to remain competitive. However, maintaining this edge requires continuous adaptation and technological advancement in marketing activities.

After reading the article in Business Daily, Mr. Gupta calls a senior management meeting to discuss the impact of fast fashion on the environment. He proposes the use of eco-friendly fiber and recycled material to make clothes. Clothes can be sold in sustainable packages that are eco-friendly. He also proposes to set up recycling bins in the stores in order to encourage recycling programs. Mr. Kanti, global head for production and operations, and Mr. Patel, global head for strategy, disagree with Mr. Gupta. They argue that fast fashion by its very definition requires customer demand to constantly change thereby encouraging over consumption. By catering to this every changing demand with new and fresh fashion trends is the core business model of the fast fashion industry. They argue that with increased competition, ELTO should not worry about product sustainability. Increasing longevity for clothes goes against the very essence of fast fashion, the bedrock of the company.

Particulars of ELTO India Ltd. (Indian Subsidiary)

Employee Details and Profit Distribution – ELTO India Ltd. has a headcount of around 1,000 employees in F.Y. 2024-25. As per the company's policy, the employees are given 35 days of privilege leaves (PL), 15 days of sick leaves (SL) and 10 days of casual leaves (CL). Out of the total PL and sick leaves, 10 PL leaves and 5 sick leaves can be carried forward to next year. Based on past trends, it has been noted that 200 employees will take 5 days of PL and 2 days of SL and 800 employees will avail 10 days of PL and 5 days of SL, next year. Indian Subsidiary has been incurring profits since 2018. Therefore, it has decided in 2024-25 to distribute profits to its employees @4% during the year. But, due to the employee turnover, the expected pay-out of the Indian Subsidiary is expected to be around 3.5%. The profits earned during 2024-25 is ₹ 4,000 crores. It has a post-employment benefit plan also available which is in the nature of defined contribution plan where contribution to the fund amounts to ₹ 200 crores which will fall due within 12 months from the end of accounting period. Indian Subsidiary has paid ₹ 40 crores to its employees in 2024-25.

Asset Acquisition – On 1st April 2024, ELTO India acquired machines for production purposes at its Gwalior plant, with a list price of ₹ 160,00,000. The company was granted a trade discount of 10% on the initial list price, reducing the cost to ₹ 144,00,000. Additionally, a settlement discount of 5% was offered, provided payment was made within one month of purchase. ELTO India made the payment on 20th April 2024, thereby availing the settlement discount.

In addition to the purchase price, the company incurred several costs. These included an import duty of ₹ 10,00,000, delivery fees of ₹ 2,00,000, electrical installation costs of ₹ 20,00,000, and pre-production testing expenses of ₹ 10,00,000. Furthermore, ELTO India entered into a five-year maintenance contract with the vendor for ₹ 14,00,000.

During the initial four months of operation, the machines were operating below capacity. During this period, a production cost of ₹ 4,00,000 per month was incurred, while sales proceeds amounted to ₹ 3,00,000 per month. Additionally, the company earned ₹ 2,00,000 from the sale of output generated during pre-production testing.

Real Estate Transaction – ELTO India holds a commercial plot in Mumbai which it intends to sell. M/s. Best Broker, a real estate broker with its Head Office in the USA, has been appointed by ELTO India to find some suitable buyers for the said commercial plot in Mumbai which is situated at a prime location. M/s. Best Broker identifies Legacy Estate Inc., based out of USA, as the potential buyer. It is to be noted that Legacy Estate Inc. is controlled from India and hence, is a 'Person Resident in India' under the applicable provisions of Foreign Exchange Management Act, 1999. A deal is finalised and Legacy Estate Inc. agrees to purchase the commercial plot for USD 14,00,000 (assuming 1 USD = ₹ 84). According to the agreement, ELTO India is required to pay commission @ 7% of the sale proceeds to M/s. Best Broker for arranging the sale of commercial plot to Legacy Estate Inc. and commission is to be remitted in USD to the Head Office of M/s. Best Broker located in USA.

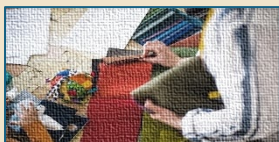
During the year 2024-2025, ELTO introduced health care benefits for employees. Health Care Benefits for Employees outstanding during the year is Rs. 70,000. The expenses are allowable as a deduction in tax only when benefits are paid but in line with Ind AS 19, such liability is recognized in profit or loss when employees provide service. Assuming the tax rate of 32% for the year 2024-2025.

ANNEXURE



The News

Your fashion sense is a major pollutant!



Brussels, 26th January 2025 –

Do you love trendy, fashionable clothes? Would you love them more if you could change them literally at the drop of the hat because they are easy on your pocket? Who wouldn't, yet do you realize the amount of pollution that your fashion sense can produce?

Fashion giants like ELTO work relentlessly to cater to your every whim by introducing clothes that are latest in trend, within few weeks of them becoming popular. To do this their speed of production is very fast as is their distribution channel. However, the clothing often relies on fibres like cotton that require lot of energy and water to produce, as also synthetic ones that are derived from fossil fuels. Reliance on non-renewable resources increases their carbon footprint. Imagine the scale of production when giants like ELTO start catering to market demand. Last year alone they produced 8,20,000 tonnes of garments, a number that has steadily increased over the years. What is additionally wasteful is that fast fashion encourages over consumption. So, when you discard a piece of clothing you had bought just a month back to replace it with a trendier clothing, you're contributing to landfill waste which is highly detrimental to the economy. The local government municipalities may consider drawing regulations that can make clothing retailers to pay for the waste they produce. However, fast fashion companies encourage this over consumption through slick marketing and advertising making you yearn for a newer attire when you can sensibly use the one you recently purchased many more times. So, the next time you visit a fast fashion website or store, do keep in mind that you may also be polluting our planet. Fast fashion isn't free; it just isn't sustainable.

Multiple Choice Questions

1. Which of the following most likely describes how ELTO's type of vertical integration contributes to its competitive advantage in the fast fashion industry?
 - (a) Backward vertical integration, by maintaining in-house production and control over the entire supply chain, allowing for rapid adjustments in production to meet market demands.
 - (b) Acquiring raw material suppliers through backward vertical integration allows ELTO to achieve economies of scale that leads to cost savings.
 - (c) Opening its own retail stores through forward vertical integration allows ELTO to have control over sales channels thereby enhancing customer experience.
 - (d) Forward vertical integration allows ELTO to develop unique marketing strategies, increasing brand visibility and customer loyalty.
2. Which of the following does NOT describe how ELTO has maintained their competitive advantage with their focus strategy?
 - (a) Rapid expansion to 1189 stores in 97 markets (countries) has made ELTO one of the most successful fashion retail brands in the world.

- (b) ELTO follows a Make-to-Stock model in their inventory and supply chain management to maintain its market position.
 - (c) Mr. Gupta's wealth making him the ninth richest man in the world can be attributed to ELTO's success.
 - (d) Minimum spending on advertising, only 0.75% of its sales, has given ELTO a cost advantage over its competitors who spend an average of 5%.
3. Determine the temporary difference, as per Ind AS 12, on account of Health care benefits for employees for the year 2024-2025.
- (a) ₹ 70,000
 - (b) ₹ 47,600
 - (c) ₹ 22,400
 - (d) Nil
4. Enumerate the legal requirements for the remittance of commission by ELTO India to M/s. Best Broker and recommend the most appropriate legal position to ensure compliance with the relevant provisions of the Foreign Exchange Management Act, 1999:
- (a) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of commission upto USD 25,000 by ELTO India to M/s. Best Broker but for the balance commission of USD 73,000, prior permission of RBI is required.
 - (b) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of commission upto USD 70,000 by ELTO India to M/s. Best Broker but for the balance commission of USD 28,000, prior permission of RBI is required.
 - (c) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of entire commission of USD 98,000 by ELTO India to M/s. Best Broker in line with agreement.
 - (d) It is mandatory to obtain prior permission of Reserve Bank of India (RBI) for remittance of entire commission of USD 98,000 by ELTO India to M/s. Best Broker.
5. Considering the news article in Annexure 1, Mr. Gupta's proposals and Mr. Kanti and Mr. Patel's arguments against it, which of the courses of action should ELTO more likely adopt.

- (a) Accept Mr. Gupta's proposals to adopt sustainable business practices through the use of more sustainable fabric in production, encourage recycling of clothes and use of sustainable packaging while distributing.
- (b) Since fast fashion is not environment friendly and is predicted to not being very sustainable, ELTO can consider exiting this business segment at the earliest.
- (c) Mr. Kanti and Mr. Patel are correct in their arguments that the core concept of fast fashion is to encourage over consumption. Hence, they should not worry about product sustainability.
- (d) Since local governments have not yet imposed any regulatory restrictions or penalties for the waste generated by fast fashion, the current business model can be continued as is. **(5 × 2 = 10 Marks)**

Descriptive Questions

- 6. ANALYZE and EVALUATE how ELTO's approach to product differentiation contributes to its competitive advantage in the fast fashion industry. **(5 Marks)**
- 7. STATE what would be the treatment of the short-term compensating absences, profit-sharing plan and the defined contribution plan in the books of ELTO. Also, STATE what would be the treatment, if the contribution paid from defined contribution plan exceeds the contribution due. Further, DETERMINE what would be the accounting if the payment from defined contribution plan does not fall due within 12 months from the end of accounting period. **(5 Marks)**
- 8. The CFO of the company wants to know at what value would this asset be recognised in the books of accounts. PREPARE a statement showing him the workings. **(5 Marks)**

CASE STUDY 4

JPL

Established in 2004, JP Ltd. (JPL), based in Tirupur, Tamil Nadu, India, has established a foothold for itself as a prominent manufacturer, wholesaler and exporter of high-quality T-shirts. Recognised as a prestigious export house, JPL takes pride in its brand, "RK," known for its commitment to style, comfort, and ethical manufacturing practices.

JPL boasts a state-of-the-art manufacturing facility equipped with advanced technology and machinery. Their production process adheres to stringent quality control measures, ensuring every "RK" T-shirt is crafted using premium materials and delivers exceptional durability, comfort, and style. The company's dedication to quality has not only earned them the trust and loyalty of their domestic clientele but has also established them as a reliable and sought-after supplier in the international market.

Understanding the evolving preferences of their customers, JPL offers a diverse range of T-shirts. Their product portfolio encompasses a wide variety of styles, colours, and designs, catering to diverse demographics and fashion trends. They prioritise innovation and constantly update their collections, ensuring their brand stays ahead of the curve and caters to the ever-changing needs of the T-shirt market.

Looking ahead, JPL is committed to sustainable growth and expanding its global footprint. They are actively exploring new markets and forging strategic partnerships to broaden their international reach. Additionally, they are implementing eco-friendly practices throughout their operations, prioritising responsible sourcing and sustainable manufacturing processes. With a focus on continuous improvement, innovation, and ethical practices, JPL strives to solidify its position as a leading player in the global T-shirt industry.

On 23rd April, 2024, JPL enters into a contract with RI Ltd. (RIL) to sell T-shirts for ₹ 600 per T-shirt. As per the terms of the contract, if RIL purchases more than 2,000 T-shirts till March 2025, the price per T-shirt will be retrospectively reduced to ₹540 per unit. Till September 2024, JPL sold 190 T-shirts to RIL. JPL estimates that RIL's purchases by March 2025 will not exceed the required threshold of 2,000 T-shirts.

In October 2024, RIL acquires DC Ltd. (DCL) and from October 2024 to December 2024, JPL sells an additional 1,200 T-shirts to RIL. Due to these developments, JPL estimates that purchases of RIL will exceed the 2,000 T-shirts threshold for the period and therefore, it will be required to retrospectively reduce the price per T-shirt to ₹ 540.

JPL is analyzing a strategic move – the potential acquisition of RIL through a merger. This decision is driven by the potential for significant synergy benefits that could propel JPL's growth and market position.

The synergy between the two companies can be multifaceted. Firstly, combining their manufacturing capabilities could lead to economies of scale. Sharing resources and expertise could optimize production processes, potentially reducing costs and increasing overall efficiency. Additionally, a larger production capacity could allow JPL to cater to a broader range of customer demands and potentially enter new markets.

The financial data relating to these two companies are; JPL has reported after tax earnings of ₹ 10 crores. The company has 10,00,000 equity shares outstanding, with a current market price of ₹ 75 per share. Whereas, RIL has reported after tax earnings of ₹ 3 crores. It has 2,50,000 equity shares outstanding, and the market price per share is ₹ 60.

It is proposed that certain changes in the shareholding of RIL would be made in case of consolidation with JPL, as per the discussion between the management of the two companies, JPL & RIL.

During the course of the audit of JPL, CA Kashavi Rana is verifying export revenues of the company for the F.Y. 2024-25, with her engagement team. She has verified transactions entered in "Export Sales" account maintained in accounting software from relevant export invoices. The export sales are being made on payment of IGST, for which a refund is automatically credited in the account of the company after the goods are shipped.

On enquiring from internal audit staff regarding the recognition of export revenues, she is told that export sales are recognised for the year on the basis of "Bills of Lading". However, she is not convinced with such a response and feels that the same does not appear to be proper. She finds that four export invoices bearing dates in the month of March 2025 having a total value of ₹ 125 lakhs have not been recognized in export revenue on the ground that bills of lading for these invoices were issued in the month of April 2025.

Further, during audit of current year, CA Kashavi had identified that there was a misstatement also in last year pertaining to export revenues of the company and the same is still not corrected. She had issued an unmodified audit report in last year.

In respect of its Japanese exports, on 31st March, 2025, JPL has an export exposure of JPY 10,00,000 receivables. On the date of export, the Finance Department approached the bank to obtain applicable foreign exchange rates for converting the export proceeds. In response, the bank has provided them both the prevailing spot rate and the forward rate. Based on the information received, Finance team prepared a comprehensive report (refer Annexure) detailing the prevailing spot rate and the forward rate for the specified period. This report will serve as the basis for evaluating hedging strategies and revenue recognition in foreign currency. Japanese Yen (JPY) is not directly quoted against Indian Rupee.

It is estimated that at the time of realization of export receivables the Japanese Yen will depreciate to 124 level and Indian Rupee to depreciate against US \$ to ₹ 65.

CA Kashavi recommended that taking a forward cover in such a situation would be beneficial.

On 31st March, 2025, JPL has an outstanding interest liability of ₹ 1 crore towards loan payable to BFCI Ltd., a public financial institution. On the same date, it issued debentures to BFCI Ltd. in lieu of the outstanding interest and deducted the said interest while computing profits and gains of business of A.Y.2025-26. The Assessing Officer, however, rejected the deduction of interest on loan claimed by JPL.

After the issue of such debentures, the company has a total debt of ₹ 3 crores and surplus funds to the tune of ₹ 5 crores. Further, it has made a gross profit of ₹ 18 crores and incurred indirect expenses of ₹ 4 crores for the financial year.

Annexure 1

This report pertains to the foreign currency exchange rates relevant to the company's export transactions. The Finance Department has compiled and prepared a detailed analysis based on exchange rate quotations received from the company's authorized dealer bank. The report includes both the spot exchange rate and the forward exchange rate for March 2025 as on the date of export.

The current spot rates are:

INR/US \$	₹62.22
JPY/US\$	JPY 102.34

Forward rates for March 2025 are:

INR/US \$	₹66.50
JPY/US\$	JPY 110.35

:

Multiple Choice Questions

1. With respect to information given if the merger goes through by exchange of equity shares between JPL and RIL and the exchange ratio is set according to the current market prices, what is the post merger earnings per share of JPL?
 - (a) ₹ 104
 - (b) ₹ 108.33
 - (c) ₹ 83.33
 - (d) ₹ 130
2. With respect to information given, certain adjustments would be required to be made to account for the change in the shareholding of RIL in case of consolidation. These adjustments are known as:
 - (a) Memorandum adjustments.
 - (b) Current period consolidation adjustments.
 - (c) Permanent consolidation adjustments.
 - (d) Temporary period consolidation adjustments.
3. With respect to information given, guide CA Kashavi on the audit opinion considering the fact that the last year's misstatement pertaining to export revenues has been identified in the current year and unmodified opinion was issued in the last year.
 - (a) CA Kashavi should give an unmodified opinion, but include other matters paragraph in the audit report as last year's profit is being reflected in reserve and surplus.

- (b) CA Kashavi should seek legal opinion.
 - (c) CA Kashavi should express a qualified opinion or adverse opinion in auditor's report of current period financial statements, modified with respect to corresponding figures included therein.
 - (d) CA Kashavi should give unmodified opinion, but last period's unmodified opinion should be highlighted in Emphasis of matter paragraph.
4. With respect to information given, comment upon the validity of the action of the Assessing Officer on rejecting the deduction of interest on loan claimed by JPL.
- (a) The interest so converted into debentures and not actually paid shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y.2025-26. The action of Assessing Officer is correct.
 - (b) The interest so converted into debentures shall be deemed as actual payment but would not be allowed as deduction while computing its profits and gains of business for A.Y.2025-26. The action of Assessing Officer is correct.
 - (c) The interest so converted into debentures shall be deemed as actual payment, and hence, would be allowed as deduction but while computing 'Income from other sources' for A.Y.2025-26 even though the liability to pay is deferred to a future date. Thus, the action of Assessing Officer is partially correct, as the said interest though not allowed while computing profits and gains of business but would be allowed as deduction while computing 'Income from other sources'.
 - (d) The interest so converted into debentures shall be deemed as actual payment as in the given case loan is provided by a public financial institution and hence, would be allowed as deduction while computing its profits and gains of business for A.Y.2025-26. The action of Assessing Officer is not correct.
5. With respect to information given, calculate the Equity Value of JPL if the applicable EBITDA multiple is 4:
- (a) ₹ 53 crores
 - (b) ₹ 58 crores
 - (c) ₹ 64 crores
 - (d) ₹ 74 crores
- (5 × 2 = 10 Marks)**

Descriptive Questions

6. With respect to information given, analyse and state how the revenue should be recognised in respect of sale of T-shirts by JPL to RIL. **(5 Marks)**
7. With reference to information given, discuss from what sources CA Kashavi can obtain reliable audit evidence in respect of the export revenues particularly for the four export invoices of current year. How can she challenge management's assertion regarding the completeness of export revenues for the F.Y. 2024-25? **(5 Marks)**
8. With respect to information given,
- (i) Calculate the expected loss, if the hedging is not done. How the position will change, if the firm takes forward cover?
 - (ii) If the spot rates at the date of realization of the export receivables are:
INR/US \$ = ₹ 66.25
JPY/US \$ = JPY 110.85
Is the decision to take forward cover justified?
- Note: For cross rate of ₹ /¥ round off up to 4 decimal points. **(3 + 2 = 5 Marks)**

CASE STUDY 5

LumaLight Ltd.

Back in 2010, Mr. Raj Mehta launched his lighting venture by offering a diverse mix of technologies-LCD lighting fixtures, CFL and ICL lamps, and basic LED bulbs. In those early years, LumaLight catered to customers seeking traditional LCD, compact fluorescent (CFL), or induction ceramic (ICL) options alongside the emerging promise of LED. Foreseeing the superior energy efficiency and lower environmental impact of LEDs, Mr. Raj transitioned LumaLight's entire product line to LED technology even before the Government of India's UJALA scheme was launched in 2015.



Overview of the UJALA Scheme and LED Adoption in India

In May 2015, the Government of India launched the UJALA (Unnat Jyoti by Affordable LEDs for All) scheme, also known as the Domestic Efficient Lighting Programme (DELP), with the objective of promoting energy efficiency in Indian households. This flagship initiative is a

collaborative effort involving the Ministry of Power, Energy Efficiency Services Limited (EESL), and state electricity distribution companies (DISCOMs).

Through the UJALA scheme, the government aimed to replace 770 million traditional bulbs and CFLs in households and 35 million streetlights with energy-efficient LEDs. This massive replacement drive was projected to save 85 lakh kWh of electricity annually and reduce CO₂ emissions by 15,000 tonnes. As per the Ministry of Power, by December 2023, 1.3 crore LED smart streetlights had already been installed under the LED Street Lighting National Programme.

Research studies by organizations such as ELCOMA (2013), NITI Aayog (2012), and the Economics Research Group (2011) highlighted that lighting accounted for approximately 18–27% of total residential electricity consumption in India. A 2011 study estimated that Indian households had one billion lighting points, of which 46% used CFLs, 41% used tube lights, 13% used incandescent bulbs, and a mere 0.4% used LEDs. Assuming an average annual usage of 1,580 hours per lighting point, the study concluded that lighting constituted about 27% of residential electricity consumption.

While LEDs consume nearly 75% less energy and last up to 25 times longer than incandescent bulbs, their high initial cost was a significant barrier to widespread adoption. To address this, the government introduced UJALA to make LED lighting more affordable. Under the scheme, the price of LED bulbs distributed via EESL dropped dramatically from ₹ 310 (US\$4.22) in 2013 to ₹ 65 (US\$0.80) in 2016.

In addition to UJALA, the government launched several complementary programmes to accelerate the adoption of energy efficient lighting, including the Demand Side Management (DSM)-based Efficient Lighting Programme and the Bachat Lamp Yojana (BLY). These initiatives aimed not only to subsidize LED costs but also to raise public awareness about the benefits of LED lighting.

As a result of these efforts, the Indian LED lighting market experienced exponential growth annual sales increased from less than 5 million units in 2014 to approximately 669 million units by 2018, according to the ELCOMA India Report.

Lumalight Ltd.'s strategic expansion in LED Lighting

Today, headquartered in Delhi, LumaLight Ltd. is renowned for its durable, eco-friendly indoor, outdoor, solar, architectural, and linear LED lighting solutions. To maintain a competitive edge in this fast-moving market, LumaLight bases its pricing largely on competitors' rates rather than its own costs or demand projections. Under Mr. Raj's visionary leadership, honed during his studies at Riverdale Country College in New York, LumaLight has doubled its revenue, expanded its market share, and solidified its reputation as an innovator in energy-efficient lighting. By investing heavily in research and development and nurturing a team of seasoned

professionals alongside young talent, the company continues to set industry benchmarks and drive innovation in LED lighting, expanding its business through new units and strategic acquisitions.

EcoBright Acquisition & Asset Transactions

In the fiscal year 2024-25, LumaLight Ltd. acquired EcoBright Systems (a private limited company), marking its first subsidiary acquisition. EcoBright Systems is another company in the LED lighting industry. Its 60% equity shares were recently acquired by LumaLight Ltd. during F.Y. 2024-25, due to which the paid-up capital of EcoBright Systems increased from ₹ 8 crore to ₹ 11 crore. This capital infusion not only reflects LumaLight's investment in strengthening the subsidiary's growth potential but also supports the company's vision to consolidate its position in the competitive LED lighting market. The acquisition is expected to unlock synergies in R&D, manufacturing efficiency, and distribution networks, benefiting both companies in the long term.

In a strategic move to strengthen its leadership, LumaLight Ltd.'s subsidiary EcoBright Systems appointed Mr. Ravi as its whole-time company secretary and Mr. Arjun as its managing director. Notably, both Mr. Ravi and Mr. Arjun were already serving in similar positions at LumaLight Ltd., the holding company. Mr. Ravi brings extensive experience in corporate compliance, regulatory affairs, and secretarial practices, which will be instrumental in maintaining robust governance at EcoBright Systems. Meanwhile, Mr. Arjun's proven leadership in steering LumaLight's business growth will now be leveraged to drive the subsidiary's performance and integration within the group structure. This dual-role approach reflects LumaLight's commitment to fostering a unified leadership framework and maximizing synergies between the parent and subsidiary operations.

On August 25, 2024, EcoBright Systems undertook two significant transactions concerning its fixed assets, specifically its machinery. In the first transaction, the company transferred one of its machinery to Mr. Arjun, the Managing Director, in exchange for his personal vehicle. This non-monetary exchange was carried out based on mutually agreed values, and the transaction was recorded accordingly in the company's books. In the second transaction, another machinery was sold by EcoBright Systems for a monetary consideration of ₹ 1,30,000. The written-down value (WDV) of the machinery stood at ₹ 1,00,000, resulting in a recorded gain of ₹ 30,000 on the disposal. However, in an interesting turn of events, EcoBright Systems reacquired this same machinery on September 10, 2024 at a cost of ₹ 1,50,000. This reacquisition was made in light of operational requirements and strategic asset utilization planning. All transactions were duly documented and accounted for in accordance with applicable accounting standards and corporate governance practices.

During the financial year 2024–2025, Luma Light introduced healthcare benefits for its employees. Under the plan, employees became eligible for specific medical reimbursements and health-related expenses, which the company committed to settling upon actual incurrence or reimbursement claims. Health Care Benefits for Employees outstanding during the year is

Rs. 1,50,000. As per tax regulations, the related expenditure is deductible only when the benefits are actually paid. However, in accordance with Ind AS 19, the company is required to recognize a liability in the profit or loss account as employees render their services. The applicable tax rate for the year is 32%.

Expansion into Luxury LED Lighting

After acquiring Ecobright, LumaLight Ltd. decided to introduce a new unit dedicated to luxury LED lighting, drawing on insights from a February 2025. The Biz News article that highlights how premium fixtures are becoming focal points in design-led residential and commercial spaces (attached as Annexure I). Recognizing this trend, LumaLight aims to leverage Ecobright's technological capabilities and design sensibilities to craft sophisticated, aesthetically appealing lighting products. The new unit will cater to architects, interior designers, and premium property developers who prioritize both visual impact and energy efficiency. By integrating cutting-edge innovation with artistic design, LumaLight envisions transforming lighting into an expressive medium that enhances ambience and elevates lifestyle. This initiative is expected to not only strengthen LumaLight's brand presence in the high-end segment but also set new benchmarks in sustainable yet stylish lighting. Ultimately, the new unit reflects LumaLight's commitment to staying ahead of market trends and shaping the future of lighting design.

Sustainability and E-Waste Compliance

LumaLight Ltd. introduced its "EcoSmart" initiative in 2023, redesigning its packaging to use 100% recycled materials and optimizing its supply chain for shorter, consolidated shipping routes. As a result, the company reduced its annual packaging and logistics costs by 25%, saving approximately ₹ 10 lakh.

Building on the momentum of the EcoSmart initiative, LumaLight has also addressed the downstream impacts of its products. Although LED lights consume less energy, they still contain electronic components and materials (such as copper, metals, and certain plastics) that can become hazardous e-waste if not managed properly. Consequently, the Ministry of Environment and Forests required LumaLight Ltd. to submit an annual environmental report detailing its collection, recovery, and recycling of end-of-life LED fixtures and packaging. The report must demonstrate LumaLight's progress against e-waste recycling targets, specify volumes of recovered electronic components (e.g., drivers, circuit boards, heat sinks), and confirm that all mandatory e-waste handling fees and producer responsibility obligations have been fulfilled.

LumaLight Ltd. purchased machinery from Dusham Ltd. for use in its business operations. The list price of the machinery (exclusive of taxes and discount) was ₹ 30,00,000. In addition to this, the company incurred a cost of ₹ 60,000 for corrugated boxes used for packing the equipment, which was not included in the listed price. A discount of 2% was offered on the list price, as

mentioned in the invoice. To support the purchase, LumaLight Ltd. has received a government grant of ₹ 6,00,000. As a part of its policy, LumaLight Ltd. depreciates all its plant and machinery at 20% per annum on straight-line basis and also it does not claim depreciation on GST component included in the price of plant and machinery.

The Statutory audit of the company LumaLight Ltd. is being carried out by Sharma & Co. under the supervision of the Engagement Partner CA Rohit Malhotra. CA Malhotra understands that as the auditor, he should develop an audit plan that shall include a description of the procedures to be performed as per Standards on Auditing.

LumaLight Ltd. has just invented a new 'LED light-G10'. New LED light-G10 has a budgeted total profit of ₹ 75,000 from the first 256 units. The time taken to produce the first unit was 112.50 hours. The labour rate is ₹ 20 per hour. A 90% learning curve is expected to apply indefinitely.

ANNEXURE I



The Biz News

TBNews.com – Redefining luxury lighting - Key trends driving the market forward, Feb 10, 2025, at 12:16 PM IST

The lighting industry today finds itself at a compelling crossroads rooted in centuries of traditional craftsmanship while being propelled by rapid technological advancements. This convergence has unlocked exciting opportunities, particularly in the luxury segment, where lighting has evolved far beyond its utilitarian origins to become a powerful element in architectural and interior design.

This transformation reflects broader shifts in how people perceive and interact with the spaces around them. Lighting now plays a pivotal role in shaping experiences, influencing moods, and enhancing the aesthetic and functional appeal of an environment. It is no longer merely about illumination—it is about storytelling through light.

The current market dynamics reveal a unique intersection of art, technology, and sustainability. Customer expectations have significantly evolved; what was once a preference for visual appeal has now matured into a demand for lighting solutions that combine elegant form with intelligent functionality. Luxury lighting fixtures, such as contemporary chandeliers and pendant lights, are no longer just decorative additions—they are sculptural centerpieces that create spatial identities. This shift is especially prominent in

the hospitality sector, where luxury hotels allocate a significant portion of their furniture, fixtures, and equipment (FF&E) budgets specifically to decorative lighting.

Understanding the future of luxury lighting requires a grasp of the deeper market forces at play. Rapid urbanization in emerging economies, coupled with growing design awareness



and an increased emphasis on experiential spaces, is fueling demand for refined lighting solutions. There is a noticeable trend toward versatile fixtures like architectural sconces and modular lighting systems that can be tailored to suit varying spatial requirements while preserving a consistent design language.

Innovation in this space is increasingly driven by global collaboration. Progressive manufacturers are teaming up with technology firms, design studios, and sustainability experts to create next-generation lighting solutions that are future-ready. These partnerships have led to breakthroughs such as adjustable LED systems and dynamic light sculptures that react to their environments, transforming spaces through subtle shifts in intensity and color temperature.

Market indicators underscore this transformation. The global LED lighting market for indoor applications is projected to reach USD 49.4 billion by 2026, reflecting a healthy compound annual growth rate of 5.6%. Simultaneously, sustainability has emerged not just as a regulatory requirement, but as a driving force behind innovation. Designers and manufacturers are embracing recyclable materials and energy-efficient technologies in linear and recessed lighting systems, proving that environmental responsibility can go hand in hand with design excellence.

Digital transformation is also reshaping the lighting landscape. The integration of digital technologies is revolutionizing product design, manufacturing, and how companies engage with stakeholders throughout the value chain. Today's track lighting systems and ceiling-mounted fixtures often come with smart controls, enabling a new level of customization, efficiency, and user interaction.

Within the premium segment, growth prospects remain strong. Iconic statement pieces such as grand chandeliers and artistic installations continue to dominate, but their value now lies equally in their technological sophistication as in their aesthetic appeal. Several key trends are poised to shape the industry's trajectory in the coming years.

First, the blending of residential and commercial design aesthetics is creating opportunities for innovation, with pendant lights and wall-mounted fixtures now being designed for versatility across both settings. Second, the rise of smart cities and intelligent buildings is increasing demand for lighting systems that integrate seamlessly with broader urban infrastructure and development goals. This has spurred innovations in architectural lighting

that blend artistic excellence with intelligent controls. Third, changing patterns in how people live and work are driving demand for adaptive lighting solutions. Multifunctional fixtures with features like dimmability and tunability are gaining popularity, offering the flexibility to transition from task lighting to ambient moods in both home and workplace environments.

In this fast-evolving context, leadership in the luxury lighting sector will be defined not merely by superior products, but by the ability to anticipate and adapt to market shifts while remaining grounded in core values of craftsmanship, quality, and innovation. The future will favor those who can strike a delicate balance between heritage and forward-thinking design, between local sensitivities and global ambitions.

Ultimately, the luxury lighting industry is on the brink of its next great transformation. This is more than just a commercial opportunity it is a chance to meaningfully influence how people experience the spaces where they live, work, and connect. Those who can lead this evolution will not only illuminate rooms, they will illuminate lives.

Multiple Choice Questions

1. Whether there was any statutory requirement for EcoBright Systems to appoint a whole time Company Secretary (CS) and whether Mr. Ravi was eligible to be appointed as its whole time Company Secretary?
 - (a) There is no requirement to appoint a Whole time CS in a Private limited company and Mr. Ravi was not eligible as he was already holding office as a whole time CS in one other company i.e. LumaLight Ltd.
 - (b) Yes, as its paid up capital had exceeded the prescribed limit and also Mr. Ravi was eligible to be appointed as its whole time CS in EcoBright Systems as it was the subsidiary company of LumaLight Ltd.
 - (c) Yes, as its paid up capital had exceeded the prescribed limit. However, Mr. Ravi was not eligible to be appointed as its whole time CS as he was already holding office as a whole time CS in one other company i.e. LumaLight Ltd.
 - (d) No, as its paid up capital had not exceeded the prescribed limit. However, Mr. Ravi was eligible to be appointed as its whole time CS as it was the subsidiary company of LumaLight Ltd.
2. Defer tax on Health care benefits for employees for the year 2024-2025 would be:-
 - (a) Nil
 - (b) DTL ₹ 48,000
 - (c) DTA ₹ 48,000
 - (d) Health care benefits for employees will not be taxable.

3. What shall be the value of the machinery in the hands of Dusham Limited?
 - (a) ₹ 30,60,000
 - (b) ₹ 25,00,000
 - (c) ₹ 35,00,000
 - (d) ₹ 30,00,000
4. What is the cumulative average time (Revised) required per unit for producing 256 parts based on revised labour cost (₹) at zero profit?
 - (a) 48.43 hrs.
 - (b) 63.80 hrs.
 - (c) 63.08 hrs.
 - (d) 43.48 hrs.
5. The pricing method adopted by LumaLight Ltd. is–
 - (a) Value pricing
 - (b) Going rate pricing
 - (c) Image pricing
 - (d) Psychological Pricing

(5 × 2 = 10 Marks)

Descriptive Questions

6. DISCUSS the manner in which EcoBright Systems would have appointed Mr. Ravi and Mr. Arjun, respectively? **(4 Marks)**
7. DISCUSS whether there were any restrictions for EcoBright Systems to sell its machinery to Mr. Arjun in exchange of a vehicle and ANALYSE the legal requirements it would have needed to follow if such restrictions existed as per companies Act, 2013. **(4 Marks)**
8. What shall be considered as the cost of machinery reacquired by EcoBright Systems from Mr. Arjun, for income tax purpose? **(7 Marks)**

Mock Test Paper - Series II: August, 2025

Date of Paper: 11th August, 2025

Time of Paper: 2 P.M. – 6 P.M.

Time of Paper: 2 P.M. – 6 P.M.

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

SUGGESTED ANSWERS

ANSWERS TO THE CASE STUDY 1

Answers to the Multiple Choice Questions

1. (b) Non-financial measures are independent of business performance and do not impact the bottom line of the company in any way.

Reason: Non-financial measures are tied to business performance and can indirectly impact the bottom line of the company. For example, high employee attrition rate will impact the hiring cost and the HR recruiting budget. Stock-outs can impact revenue, although indirectly, in the form of lost sales opportunities.

2. (a) (i) and (ii)

Reason: The correct answer is statement (i) and (ii).

Statement (iii) making BCFL a profit centre does not necessarily promote goal congruence. The manager of each unit (Ramesh Shah, Roshan Lal and others) will want to maximize profits of their individual units in order to earn better compensation. In the pursuit of better profits, each unit may take decisions that may not always be in the best interest of the overall objective of the company.

Statement (iv) a profit center makes Ramesh Shah accountable for both revenue and costs. It is not a means to help UFL manage its profitability to optimize taxes.

3. (b) ₹ 3,73,65,000 as loan; ₹ 1,26,35,000 as deferred grant

Reason: The loan is initially recognised at its fair value of ₹ 3,73,65,000 (refer working note). BCPL will recognise ₹ 1,26,35,000 (i.e. ₹ 5,00,00,000 – ₹ 3,73,65,000) as the government grant.

Working Note:

Loan amount to be initially recognised:

Particulars	₹	Discounting factor@ 12%	Present value taking 12% as the discount rate (₹)
Interest @ 5% for Year 1 on loan amount of ₹ 5 crore	25,00,000	0.893	22,32,500
Interest @ 5% for Year 2 on loan amount of ₹ 5 crore	25,00,000	0.798	19,95,000
Interest @ 5% for Year 3 on loan amount of ₹ 5 crore	25,00,000	0.712	17,80,000
Interest @ 5% for Year 4 on loan amount of ₹ 5 crore	25,00,000	0.636	15,90,000
Interest @ 5% for Year 5 on loan amount of ₹ 5 crore	25,00,000	0.567	14,17,500
Loan	5,00,00,000	0.567	2,83,50,000
Present value of loan at the beginning of Year 1			<u>3,73,65,000</u>

4. (b) The issuance of shares to a charity without consideration is covered under Ind AS 102 as a share-based payment arrangement, while Stock Options received by employees in the capacity as shareholders are not covered under Ind AS 102.

Reason: Since the employees who have received such shares are acting in the capacity of shareholders and not as employees, this transaction will not be covered under Ind AS 102. Further, entity issuing its own shares to a charity without any consideration will be covered under Ind AS 102. This is a share-based payment arrangement, covered under Ind AS 102 (not a share-based payment transaction).

5. (c) A Key Performance Indicator

Reason: Collection of 95% of accounts receivable within 60 days of sale is a measurable target set by the organization. Hence it is a KPI. Other options would be more general in their definition rather than being a specific measurable target to achieve. A Mission seeks to explain why does the company exist. A Vision describes what the company would like to achieve and generally states an ambitious future. A Critical Success Factor would be those areas or processes that are vital for the attainment of strategic objective. Key Performance Indicators

are measurable targets set within such areas critical to success and signals the performance of the company in such areas.

Answers to the Descriptive Questions

6. (a) UFL acquired BCPL to mitigate the risk of disruptions to the supply chain rather than profit making. Hence, it has adopted an internal transfer pricing policy of charging its entire cost of production plus 15% mark up to UFL based on the ammonium nitrate supplied. For the years 2024-25 and 2025-26, Ramesh Shah's performance is assessed based on other technical and non-financial measures and not on the financial performance of this unit. Therefore, for these years, Ramesh Shah is not being held accountable for the cost of production of the ammonium nitrate supplied to the internal units. He does not have any incentive to identify any opportunities for cost efficiencies. In the long run, this would lead to cost inefficiencies that would reduce the company's overall profit margins. It has already been pointed out by Roshan Lal that UFL has absorbed an increase of ₹ 23,000 per ton within these two years. This was due to increase in fixed cost of ₹ 20,000 in FY 2025-26 plus 15% mark up on it. While UFL accepted this increase in the interest of goal congruence, in the sense that all the internal units must work towards the overall goal of the company and not just towards their individual unit's objectives. At the same time, Ramesh Shah must be held accountable for managing the cost of production at BCPL in a cost effective manner that will boost the overall profit margins of the company.
- (b) The plant has been working at full capacity during the year 2026-27. Out of the total capacity of 400,000 tons per annum, 240,000 tons are being supplied to UFL and the balance is being sold externally.

Therefore, the minimum transfer price that BCPL will demand = Marginal cost per unit + Opportunity cost per unit = ₹ 30,000 per ton + ₹ 130,000 per ton = ₹ 160,000 per ton of ammonium nitrate supplied to UFL.

Opportunity cost per unit in this case will be the contribution lost that BCPL could have earned from external sales.

The contribution from external sales is calculated as below:

Contribution table	External sales
Selling price per ton	180,000
Less: Variable costs	
Variable manufacturing cost per ton	30,000
Variable costs on external sales	20,000

Total Variable costs per ton	50,000
Contribution per ton	130,000

Alternate method:

The minimum transfer price can be the price an external customer would pay less any cost savings as a result of transferring internally.

External market price is ₹ 180,000 per ton of ammonium nitrate. Cost savings on account of internal transfer would be additional variable delivery cost of ₹ 18,000 per ton ammonium nitrate to external customers. The price also includes ₹ 2,000 per ton as variable advertising expenses. Market price net of any avoidable expenditure due to internal transfer is ₹ 160,000 per ton of ammonium nitrate.

The maximum price that UFL will be ready to pay will be the external procurement price at which it can procure from third party suppliers, which is ₹ 170,000 per ton of ammonium nitrate.

Hence, for the year 2026-27, the suggested price range that can be explored in order to promote goal congruence between Ramesh Shah (head BCPL) and Roshan Lal (director of operations UFL) would be a minimum of ₹ 160,000 per ton to ₹ 170,000 per ton of ammonium nitrate supplied.

- (c) When ammonium nitrate is diverted from external sales to captive consumption, BCPL will have to be compensated for the lost contribution. Roshan Lal is trying to convince Ramesh Shah of BCPL to accept an internal transfer price of ₹ 155,000 per ton of ammonium nitrate supplied. However, the suggested price range as per answer (b) above is ₹ 160,000 per ton to ₹ 170,000 per ton of ammonium nitrate supplied. The minimum transfer price that BCPL should charge to recover any lost contribution would be ₹ 160,000 per ton. Therefore, BCPL will incur loss of contribution if Ramesh Shah accepts Roshan Lal's offer of ₹ 155,000 per ton as the internal transfer price.
- (d) The estimated profit per annum for FY 2026-27 of BCPL after capacity expansion, working at full capacity, supplying 240,000 tons at ₹ 165,000 per ton to UFL and 160,000 tons at ₹ 180,000 per ton to external customers respectively

Sr. No.	Particulars	Details	Total ₹	Total ₹ (crores)
1	Internal sales	(240,000 tons * ₹ 165,000 per ton)	39,600,000,000	3,960
2	External Sales	(160,000 tons * ₹ 180,000 per ton)	28,800,000,000	2,880

3 = 1 + 2	Total sales		68,400,000,000	6,840
4	Variable expenses	(400,000 tons * ₹ 30,000 per ton)	12,000,000,000	1,200
5	Extra variable expenses on external sales Additional delivery expenses ₹18,000 per ton and advertising expenses ₹ 2,000 per ton)	(160,000 tons * ₹ 20,000 per ton)	3,200,000,000	320
6	Fixed cost after capacity expansion	(240,000 tons * ₹ 100,000 per ton) + (160,000 tons * ₹ 70,000 per ton)	35,200,000,000	3,520
7 = 4 + 5+ 6	Total cost		50,400,000,000	5,040
8 = 3 – 7	Net Profit per annum (estimated)		18,000,000,000	1,800

The estimated net profit of BCPL for FY 2026-27 is ₹ 1,800 crores.

7. (a) Complete Logistics entered into a contractual agreement with BCPL (recipient of supply) to incur on behalf of such recipient the expenses mentioned in S. No. (ii) to (vii) incurred in relation to clearance of imported machines from the customs station and bringing the same to the manufacturing facility of the recipient at Taloja. Further, Complete Logistics does not hold any title to said services and does not use them for its own interest. Lastly, Complete Logistics receives only the actual amount incurred to procure some services in addition to agency charges. Thus, Complete Logistics is a “pure agent” as per rule 33 of the CGST Rules, 2017.

Further, Rule 33 of the CGST Rules, 2017 stipulates that notwithstanding anything contained in the provisions of Chapter IV – Determination of Value of supply, the expenditure or costs incurred by Complete Logistics as a pure agent of BCPL (recipient of supply) shall be excluded from the value of supply, if all the following conditions are satisfied:

- (i) Complete Logistics acts as a pure agent of BCPL when it makes the payment to the third party on authorization by BCPL;
- (ii) The payment made by Complete Logistics on behalf of BCPL has been separately indicated in the invoice when it is issued to BCPL; and
- (iii) The supplies procured by Complete Logistics from the third party as a pure agent of BCPL are in addition to the services it supplies on its own account.

As per the information in the case study, conditions (i) to (iii) are satisfied, therefore expenses (ii) to (vii) incurred by Complete Logistics as a pure agent of BCPL shall be excluded from the value of supply.

Accordingly, the value of supply made by Complete Logistics is as follows:

Sr. No.	Particulars	Amount (₹)
(i)	Agency charges	8,00,000
(ii)	Unloading machine at Hazira Port (Gujarat)	NIL
(iii)	Charges for transportation of machines from Hazira Port, Gujarat to godown of Complete Logistics in Surat, Gujarat	NIL
(iv)	Charges for transportation of machines from godown of Complete Logistics in Surat, Gujarat to manufacturing complex of BCPL, Baruch, Gujarat.	NIL
(v)	Prepared and submitted Bill of Entry and paid customs duty	NIL
(vi)	Dock dues paid	NIL
(vii)	Port charges paid	NIL
(viii)	Hotel expenses	20,000
(ix)	Travelling expenses	20,000
(x)	Telephone expenses	10,000
	Value of supply (sum i to x)	8,50,000

- (b) If Complete Logistics has charged ₹15,00,000 as a lumpsum consideration for getting the imported machine cleared from the customs station and bringing the same to the manufacturing complex of BCPL, Baruch, Gujarat, then yes, the answer would be different. The value of supply shall then be ₹ 15,00,000 and tax shall be charged on the value of supply since individual costs are not given.

ANSWERS TO THE CASE STUDY 2

Answers to the Multiple Choice Questions

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

Reason: Guidelines for Advertisement pursuant to decision of Council at its 388th Meeting.

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

2. (c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Mohit will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.

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

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

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

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

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

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

4. (c) Adarsh Tech Ltd. has to file an appeal u/s 246 before Joint Commissioner (Appeals) within 30 days of the date of service of the notice of demand relating to the assessment.

Reason: As per section 246 of the Income-tax Act, 1961, on or after 1.4.2023, any assessee aggrieved by any of the following orders of an Assessing Officer (below the rank of Joint Commissioner) may appeal to the Joint Commissioner (Appeals) against an order, being an intimation under section 143(1), where the assessee objects to the making of adjustments, or any order of assessment under section 143(3) or section 144, where the assessee objects to-

- (i) the amount of income assessed, or

- (ii) the amount of tax determined, or
- (iii) the amount of loss computed, or
- (iv) the status under which he is assessed

As per section 249 of the Income-tax Act, 1961, an appeal to Joint Commissioner (Appeals) or to the Commissioner (Appeals) against any order which is appealable is to be presented within 30 days of the date of service of the notice of demand relating to the assessment.

5 (c) Transformation

Reason: The scenario describes the implementation of a blockchain-based system by RFIN Bank in partnership with Bouyanc Bank to facilitate instant settlement between accounts held at the US bank. This initiative represents a significant shift in the traditional banking paradigm and has the potential to redefine the way banking transactions are conducted.

"Transformation" refers to a fundamental change in the way processes, operations, or systems function, often leading to a redefinition of existing practices. In this case, the adoption of blockchain technology fundamentally alters the way banking transactions are processed, moving away from traditional methods towards a decentralized, transparent, and immutable ledger system. This shift disrupts existing processes and workflows within the banking sector, leading to transformative changes in how financial transactions are executed and settled.

Answers to the Descriptive Questions

6. (i)

Shares	No. of shares	Price	Amount (₹)
Nepathya Ltd.	25,000	20.00	5,00,000
D-Con Ltd.	35,000	300.00	1,05,00,000
Sarpan Ltd.	29,000	380.00	1,10,20,000
Care Health Ltd.	40,000	500.00	2,00,00,000
			4,20,20,000
Less: Accrued Expenses			1,50,000
Other Liabilities			3,00,000
Total Value			4,15,70,000
No. of Units			12,00,000
NAV per Unit (4,15,70,000/12,00,000)			34.64

(ii) Advantages Of Mutual Fund

- (a) Professional Management: The funds are managed by skilled and professionally experienced managers backed by a team of Research Analysts.
- (b) Diversification: Mutual Funds invest into many securities and offer diversification which reduces the concentration risk.
- (c) Convenient Administration: There are no administrative risks of share transfer, as many of the Mutual Funds offer services in a demat form which saves investor's time and prevents delay.
- (d) Higher Returns: Over a medium to long-term investment horizon, investors get higher returns in Mutual Funds as compared to other avenues of investment. However, investors are cautioned that such very high returns during the exceptional bull phase of the market like IT boom or Infrastructure boom should not be considered as regular returns and therefore one should look at the average returns provided by the Mutual Funds particularly in the equity schemes over a long period of time.
- (e) Low Cost of Management: SEBI has prescribed maximum limit of charging 2.50% for Equity Mutual Funds. No Mutual Fund can increase the cost beyond prescribed limits of 2.5% maximum and any extra cost of management is to be borne by the AMC.
- (f) Liquidity: In all the open ended funds, liquidity is provided by direct sales / repurchase by the Mutual Fund and in case of close ended funds, the liquidity is provided by listing the units on the Stock Exchange.
- (g) Transparency: The SEBI Regulations now compel all the Mutual Funds to disclose their portfolios on a half-yearly basis. However, many Mutual Funds disclose their Scheme Portfolio on a quarterly or monthly basis to their investors. The NAVs are calculated on a daily basis in case of open ended funds and are published through AMFI in the newspapers.
- (h) Other Benefits: Mutual Funds provide systematic withdrawal and systematic investment plans according to the need of the investors. The investors can also switch from one scheme to another without any restrictions except in case of Tax Savings Fund which restricts switch out for first 3 years of its investments.
- (i) Highly Regulated: Mutual Funds all over the world are highly regulated and in India all Mutual Funds are registered with SEBI and are strictly regulated

as per the Mutual Fund Regulations which provide high level of investor protection.

- (j) Economies of scale: The way mutual funds are structured gives it a natural advantage. The “pooled” money from numerous investors ensures that mutual funds enjoy economies of scale; it is cheaper compared to investing directly in the capital markets which involves higher charges. This also allows retail investors access to participation in the Capital Market which otherwise is difficult for them go directly.
- (k) Flexibility: One of the biggest advantages of a Mutual Fund Scheme is its flexibility. An investor can opt for Systematic Investment Plan (SIP), Systematic Withdrawal Plan etc. to plan his cash flow requirements as per his convenience. The wide range of schemes being launched in India by different mutual funds also provides an added flexibility to the investor to plan his portfolio accordingly.
- (l) Convenience: It is very convenient & easy to invest & disinvest from Mutual Fund Schemes specially through digital transaction portals

(iii) Drawbacks Of Mutual Fund

- (a) No guarantee of Return – There are three issues involved:
 - (i) All Mutual Funds cannot be winners. There may be some Schemes who may underperform against the benchmark index. However, the Fund Manager will endeavour to give better return than the underlying benchmark Index in the long run.
 - (ii) A mutual fund may perform better than the stock market but this does not necessarily lead to a similar gain for every investor. This is because of the different entry & exit points for each investor.
 - (iii) In case of a massive fall in the value of the stocks held in the Portfolio, the investor may lose principal in the short-term e.g., during Global Financial Crisis in 2008 or during outbreak of Covid 19 pandemic in 2020 etc. But if the investment is held for a longer term, the chances of losing principal are very remote & negligible.
- (b) Diversification – A mutual fund helps to create a diversified portfolio. Though diversification minimizes risk, it does not ensure maximizing returns. The returns that mutual funds offer is at times lesser than what an investor can earn from a single stock. For example, if a single security held by a mutual fund double in value, the mutual fund itself would not double

in value because that security is only one small part of the fund's holdings. By holding a large number of different investments, mutual funds tend to do neither exceptionally well nor exceptionally poor.

- (c) Selection of Proper Fund – It may be easy for someone to select the right share rather than the right mutual fund scheme. For stocks, one can rely his selection on the parameters of economic, industry and company analysis. In case of mutual funds, past performance is the one of the most important criteria to fall back upon but the past performance cannot predict the future.
- (d) Cost Factor – Every Mutual Fund Scheme charges some fund management fees as a part of Annual Recurring Expenses. Although there are no charges/load on entry, but at times an exit may get charged if withdrawn before a stipulated period, known as “Exit Load”. Amount withdrawn after the stipulated period of holding, if withdrawn, doesn’t attract any Exit Load. The fees paid to the Asset Management Company is in no way related to performance.

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

- (a) Obtain a comprehensive understanding of the blockchain-based pilot program, including its objectives, scope, and key processes involved.
- (b) Review the partnership agreements, contracts, and legal documentation governing the relationship between the RFIN bank and Bouyanc Bank.
- (c) Identify the specific blockchain technology used, its functionalities, and the underlying smart contracts.
- (d) Assess Internal Controls:
 - Review policies and procedures related to the on-chain Nostro accounts, settlement processes, and money transfer mechanisms.
 - Assess the governance framework, risk management practices, and compliance procedures established by the RFIN bank and Bouyanc Bank.
- (e) Review Security Measures:
 - Assess encryption methods, cryptographic key management, and secure transmission protocols used for data protection.
 - Review measures taken to prevent unauthorized access, cyber threats, and potential vulnerabilities in the blockchain network.

- (f) Test Transaction Validity and Accuracy:
- Validate that transactions are recorded and settled accurately on the blockchain, ensuring adherence to relevant regulations and contractual obligations.
 - Perform reconciliations between on-chain Nostro accounts and the corresponding accounts held at Bouyanc Bank to confirm the accuracy of balances and transactions.
- (g) Evaluate Compliance and Regulatory Requirements:
- Review documentation and procedures related to customer due diligence, transaction monitoring, and reporting obligations.
 - Ensure that the pilot program adheres to industry-specific standards and best practices.
- (h) Assess Business Continuity and Disaster Recovery:
- Evaluate the adequacy of backup and recovery procedures, redundancy measures, and failover mechanisms to ensure uninterrupted operations.
- Test the effectiveness of these plans by conducting simulations or examining historical incidents and response procedures.
- (i) Report Findings and Recommendations:
- Provide recommendations for improving internal controls, security measures, compliance procedures, and overall efficiency and effectiveness of the pilot program.
- Communicate the audit results to the relevant stakeholders, highlighting areas of concern and suggesting remedial actions.

8. Statement showing computation of inventory cost

Particulars	Amount (₹)	Remarks
Costs of purchase	6,00,000	Purchase price of raw material [purchase price (6,50,000) less refundable purchase taxes (50,000)]
Loan-raising fee	–	Included in the measurement of the liability
Costs of purchase	55,000	Purchase price of consumable stores
Costs of conversion	65,000	Direct costs: labour
Production overheads	15,000	Fixed costs: depreciation

Production overheads	10,000	Product design costs and labour cost for specific customer
Other costs	37,000	Refer working note
Borrowing costs	–	Recognized as an expense in profit or loss
Total cost of inventories	7,82,000	

Working Note:

Costs of testing product designed for specific customer:

₹ 21,000 material (i.e. net of the ₹ 3,000 recovered from the sale of the scrapped output) + ₹ 11,000 labour + ₹ 5,000 depreciation = ₹ 37,000.

ANSWERS TO THE CASE STUDY 3

Answers to the Multiple Choice Questions

1. (a) Backward vertical integration, by maintaining in-house production and control over the entire supply chain, allowing for rapid adjustments in production to meet market demands.

Reason: ELTO's backward vertical integration, which involves maintaining in-house production and supply chain control, allows for rapid and flexible production adjustments. This strategy is crucial in the fast-fashion industry, where quick response to market demands and trends is essential for maintaining a competitive advantage.

2. (b) ELTO follows a Make-to-Stock model in their inventory and supply chain management to maintain its market position.

Reason: The company has grown rapidly, is highly profitable, spends very little on advertising, and relies on product quality and customer satisfaction rather than branding or persuasion. Moreover, follows a Make-to-Order (pull) model in their inventory and supply chain management. They create multiple designs every month based on store sales and current trends. Therefore, option (b) does not describe correctly how ELTO has maintained their competitive advantage.

3. (a) ₹ 70,000

Reason: Calculation of temporary differences and deferred tax for ELTO as on 31st March, 2025

Item	Carrying amount	Tax base	Temporary Difference	Taxable/Deductible	DTA / (DTL) at 32%
Health care benefits for employees	(70,000)	0	(70,000)	Deductible	22,400

4. (d) It is mandatory to obtain prior permission of Reserve Bank of India (RBI) for remittance of entire commission of USD 98,000 by ELTO India to M/s. Best Broker.
- Reason:** According to FEMA Act, 1999, persons other than individuals shall require prior approval of the Reserve Bank of India for remittance of Commission, per transaction, to agents abroad for sale of residential flats or commercial plots in India exceeding USD 25,000 or five percent of the inward remittance (USD 14,00,000x5%=USD 70,000) whichever is more. Here, in this case, commission is USD 14,00,000x7%=USD 98,000 which is higher than USD 70,000.
5. (a) Accept Mr. Gupta's proposals to adopt sustainable business practices through the use of more sustainable fabric in production, encourage recycling of clothes and use of sustainable packaging while distributing.
- Reason:** A business should not only consider financial aspects but also non-financial and ethical considerations of its business operations. While encouraging over consumption may be good for the company's business and profitability, it cannot sustain in the long run if such practices harm the environment. At some point in future, there will be a backlash due to increased awareness and the public will reject the very concept of fast fashion. Therefore, Mr. Gupta's proposals to proactively start following sustainable business practices will help ELTO sustain its business in the long run.

Answers to the Descriptive Questions

6. ELTO's approach to product differentiation significantly contributes to its competitive advantage in several ways.
- Firstly, ELTO's *rapid design-to-store turnaround*, where new designs appear in stores within two weeks of conception, ensures that the company constantly offers the latest fashion trends, attracting fashion-conscious consumers and setting ELTO apart from competitors who have longer production cycles. This quick response to market demands allows ELTO to keep its product offerings fresh and relevant, creating a sense of urgency and exclusivity among customers.
- Secondly, ELTO's vertical integration plays a crucial role in maintaining high product quality and control over the entire production process. By keeping a substantial portion

of its manufacturing in-house and located in South Asia, ELTO can quickly adjust production based on market feedback and emerging trends, reducing lead times and ensuring consistency in quality. This tight control over the supply chain enables ELTO to implement its innovative designs swiftly and efficiently, further differentiating its products from those of competitors who rely heavily on outsourcing.

Thirdly, ELTO gains a competitive advantage by selling its clothing exclusively through its own retail stores, strategically located to attract a high volume of customers. This strategy focuses on creating a unique and immersive shopping experience. ELTO's stores are designed to resemble high-end fashion boutiques, with carefully curated product displays that enhance the sense of luxury and exclusivity. This approach not only differentiates ELTO from competitors but also reinforces its brand image and appeals to discerning customers seeking a premium shopping experience.

Fourth, ELTO has a highly evolved data infrastructure, that allows for super-efficient analysis of what's selling and being said on social media platforms. This data is used to improve various aspects of the business from product offerings to service enhancements. The two-way communication between the customer and ELTO allows for continual improvement of product and services. This is not common for designer clothes.

Lastly, ELTO's *dynamic pricing strategy* enhances its product differentiation by catering to various market segments. In the South Asian market, ELTO employs a penetrating pricing strategy to attract middle-class consumers, while in regions like Europe, ELTO adopts a premium pricing strategy to target wealthier consumers willing to pay a premium for fashion-forward items. This regional pricing flexibility allows ELTO to maximize its market reach and appeal to a broader customer base, strengthening its competitive position globally.

In summary, ELTO's rapid turnaround time, vertical integration, exclusive distribution channel and adaptable pricing strategy collectively reinforce its product differentiation, ensuring that the company remains a leading force in the fast fashion industry by consistently meeting and exceeding customer expectations.

Evaluation of Strategy

ELTO's success has come despite the fact they use almost no advertising. Only 0.75 percent of sales is spent on advertising, compared to an average of 5 percent spent by their competitors. Their founder, Mr. Gupta, has never spoken to the media nor personally advertised ELTO in any way. This points to the success of their products in satisfying the needs of the customers rather than through branding or persuasion. By making the brand experience meaningful and the exchange valuable, ELTO taps the potential of its

customers to evangelize the brand. Therefore, ELTO has been immensely successful in maintaining their competitive advantage with their differentiation strategy.

7. (a) ELTO will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2024-25 as short-term compensated absences.
- (b) ELTO will recognize ₹ 140 crores (₹ 4,000 x 3.5%) as a liability and expense in its books of account.
- (c) When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service.

Under Ind AS 19, the amount of ₹ 160 crores will be recognised as a liability (accrued expense), after deducting any contribution already paid (200-40) and an expense in the statement of profit and loss.

However, if the contribution already paid would have exceeded the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense).

Since the contributions are payable within 12 months from the end of the year in which the employees render the related service, they will not be discounted. However, where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate.

8. In accordance with Ind AS 16, all costs required to bring an asset to its present location and condition for its intended use should be capitalized. Therefore, the initial purchase price of the asset should be:

List price	₹ 160,00,000
Less: Trade discount (10%)	₹ (16,00,000)
	₹ 144,00,000
Import duty	₹ 10,00,000
Delivery fees	₹ 2,00,000
Electrical installation costs	₹ 20,00,000
Pre-production testing (Net of Sale Proceeds of ₹ 2,00,000)	₹ 8,00,000
Total amount to be capitalized	₹ 184,00,000

Maintenance contract is a separate contract to get service, therefore, the maintenance contract cost of ₹ 14,00,000 should be taken as a prepaid expense and charged to the profit or loss over a period of 5 years.

In addition, the settlement discount received of ₹ 7,20,000 (₹ 144,00,000 x 5%) is to be shown as other income in the profit or loss.

The operating loss incurred after commercial launch cannot be capitalised. Hence those figures are being ignored.

ANSWERS TO THE CASE STUDY 4

Answers to the Multiple Choice Questions

1. (b) ₹ 108.33

Reason: The current market price is the basis of exchange of equity shares, in the proposed merger, shareholders of RIL will get only 2,00,000 shares in all or 4 shares of JPL for every 5 shares held by them, i.e., $= (2,50,000 \text{ } 60) / 75 = 2,00,000$

The total number of shares in JPL will then be 12,00,000 and, ignoring any synergistic effect, the profit will be ₹ 13,00,00,000. The new earning per share (EPS) of JPL will be ₹ 108.33, i.e., $₹ 13,00,00,000 / 12,00,000$.

2. (c) Permanent consolidation adjustments.

Reason: Permanent consolidation adjustments are those adjustments that are made only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity which is consolidated.

3. (c) CA Kashavi should express a qualified opinion or adverse opinion in auditor's report of current period financial statements, modified with respect to corresponding figures included therein.

Reason: SA 710 - Para 12

If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and, if that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.

Here, CA Kashavi had identified that there was a misstatement last year pertaining to export revenues of the company and the same is still not corrected. Although an unmodified audit report was issued last year by her. In accordance with SA 710, CA Kashavi should modify current period audit report with respect to corresponding figures only.

4. (a) The interest so converted into debentures and not actually paid shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y.2025-26. The action of Assessing Officer is correct.

Reason: As per section 43B, interest payable by the assessee on interest on loan from a public financial institution is allowable as deduction only in the year in which such interest is actually paid by the assessee. The proviso to section 43B permits deduction if such sum is paid on or before the due date of filing of return under section 139(1) in respect of the previous year in which the liability to pay such sum was incurred.

Explanation 3C to section 43B clarifies that if any sum payable by the assessee as interest on any such loan is converted into a loan or borrowing or advance or debenture on any other instrument by which the liability to pay is deferred to a future date, the interest so converted and not “actually paid” shall not be deemed as actual payment, and hence, would not be allowed as deduction.

In this case, since JPL has converted the interest of ₹ 1 crore payable to BFCI Ltd. on loan borrowed from it, the interest so converted into debentures shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y.2025-26. Accordingly, the action of the Assessing Officer in rejecting the deduction of interest on loan claimed by JPL while computing its profits and gains of business for A.Y. 2025-26, is correct.

5. (b) ₹ 58 crores

Reason: Equity Value of Company

	(₹ 000)
EBITDA (₹ 18,00,00,0000 - ₹ 4,00,00,000)	140000
EBITDA Multiple	4
Capitalized Value	560000
Less: Debt	(30000)

Add: Surplus Funds	50000
Equity Value	580000 (i.e. ₹ 58 crores)

Answers to the Descriptive Questions

6. Paragraph 56 of Ind AS 115 states that an entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 53 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Further, paragraph 57 of Ind AS 115 state that in assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal.

JPL estimates that the consideration in the above contract is variable. Therefore, in accordance with paragraphs 56 and 57 of Ind AS 115, JPL is required to consider the constraints in estimating variable consideration. JPL determines that it has significant experience with this product and with the purchasing pattern of the RIL. Thus, if JPL concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (i.e. ₹ 600 per unit) will not occur when the uncertainty is resolved (i.e. when the total amount of purchases is known), then the JPL will recognise revenue of ₹ 1,14,000 (190 T-shirts x ₹ 600 per T-shirt) for the half year ended 30th September, 2023.

Further, paragraphs 87 and 88 of Ind AS 115 states that after contract inception, the transaction price can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled in exchange for the promised goods or services.

An entity shall allocate to the performance obligations in the contract any subsequent changes in the transaction price on the same basis as at contract inception.

Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

In accordance with the above, in the month of October 2024, due to change in circumstances on account of RIL acquiring DCL and consequential increase in sale of T-shirts to RIL, JPL estimates that RIL's purchases will exceed the 2,000 T-shirts threshold till March 2025 for the period and therefore, it will be required to retrospectively reduce the price per T-shirt to ₹ 540.

Consequently, the JPL will recognise revenue of ₹ 6,36,600 for the quarter ended December 2024 which is calculated as follows:

Particulars	Amount in ₹
Sale of 1,200 T-shirts (1,200 T-shirts x ₹ 540 per T-shirt)	6,48,000
Change in transaction price (190 T-shirts x ₹ 60* price reduction) for the reduction of revenue relating to units sold till September 2024	(11,400)
Revenue recognised for the quarter ended December 2024	6,36,600

*₹ 600 - ₹540 = ₹ 60

7. She can obtain reliable audit evidence by going through GST returns filed by the company on GST portal and correlating the same with e-way bills. She can obtain audit evidence about how company has reflected its export sales in its GST returns and whether export sales pertaining to four invoices having total value of ₹ 125 lakhs are reflected in such returns.

Further, e-way bills generated on the portal would provide evidence that goods have moved out of the company's premises. The export revenue should have been booked at the time the goods moved out of the company's premises. The company is claiming an IGST refund. The refund is linked to the monthly sales return. This aspect can also be verified. "Bill of Lading" is only a document issued by the carrier to the shipper of goods that goods have been taken on board.

She should challenge and counter management's assertion on the above grounds and point out violations of relevant accounting standards and principles. In this way, she can obtain reliable audit evidence. Highlighting such digital and other evidence, she can challenge management's assertion regarding the completeness of export revenues and point out that export revenues are understated.

8. Since the direct quote for ¥ and ₹ is not available it will be calculated by cross exchange rate as follows:

$$\text{₹}/\$ \times \$/\text{¥} = \text{₹}/\text{¥}$$

$$62.22/102.34 = 0.6080$$

Spot rate on date of export 1¥ = ₹ 0.6080

Expected Rate of ¥ = ₹ 0.5242 (₹ 65/¥124)

Forward Rate of ¥ = ₹ 0.6026 (₹ 66.50/¥110.35)

(i) Calculation of expected loss without hedging

Value of export at the time of export (₹ 0.6080 x ¥10,00,000)	₹ 6,08,000
Estimated payment to be received (₹ 0.5242 x ¥10,00,000)	₹ 5,24,200
Loss	₹ 83,800

Hedging of loss under Forward Cover

Value of export at the time of export (₹ 0.6080 x ¥10,00,000)	₹ 6,08,000
Payment to be received under Forward Cover (₹ 0.6026 x ¥10,00,000)	₹ 6,02,600
Loss	₹ 5,400

By taking forward cover loss is reduced to ₹ 5,400

(ii) Actual Rate of ¥ on the date of export realisation = ₹ 0.5977 (₹ 66.25/¥110.85)

Value of export at the time of export (₹ 0.6080 x ¥10,00,000)	₹ 6,08,000
Estimated payment to be received on March 2025 (₹ 0.5977 x ¥10,00,000)	₹ 5,97,700
Loss	₹ 10,300

The decision to take forward cover is still justified.

ANSWERS TO THE CASE STUDY 5

Answers to the Multiple Choice Questions

1. (b) Yes, as it's paid up capital had exceeded the prescribed limit and also Mr. Ravi was eligible to be appointed as its whole time CS in EcoBright Systems as it was the subsidiary company of LumaLight Ltd.

Reason: Requirement of Company Secretary in certain other companies - Section 203 read with Rule 8 and Rule 8A of Companies (Appointment and Managerial Personnel) Rules 2014, as amended provides that every Listed company or Public company having paid up share capital INR 10 crore or more or every Private company having paid up share capital of INR 10 crore or more shall have a Whole time Company Secretary.

As per the provisions of Section 203(3) of the Companies Act, 2013, a whole-time key managerial personnel shall not hold office concurrently in more than one company, except in the case of a subsidiary company.

2. (c) DTA ₹ 48,000

Reason: Calculation of temporary differences and deferred tax for Lumalight as on 31st March, 2025:-

Item	Carrying amount	Tax base	Temporary Difference	Taxable/Deductible	DTA / (DTL) at 32%
Health care benefits for employees	(1,50,000)	0	(1,50,000)	Deductible	48,000

3. (d) ₹ 30,00,000.

Reason: Computation of value of taxable supply for Dusham Ltd.

Particulars	(₹)
List price of equipment (exclusive of taxes and discount)	30,00,000
Add: Corrugated Boxes used for packing the equipment (refer section 15(2)(c) of the CGST Act, 2017)	60,000
Total	30,60,000
Less: Discount @ 2% is offered on the list price of the machine (recorded in the invoice of the machine) (refer section 15(3)(a) of the CGST Act, 2017)	(60,000)
Value of taxable supply	30,00,000

Note: The government grant has been received by LumaLight Ltd., so there will be no impact due to grant on value of taxable supply for Dusham Ltd.

4. (c) 63.08 hrs.

Reason: Cumulative Average Time for 256 parts = 48.43 hrs. $[112.50 \times (0.908)]$

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

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

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

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

Cumulative Average Time for 256 parts (Revised) = 63.08 hrs.

[16,148.08 / 256]

5. (b) Going rate pricing

Reason: Going rate pricing is a competition-based pricing method. Going Rate Pricing is a competitive pricing method under which a firm tries to keep its price at the average level charged by the industry. The use of such a practice of pricing is especially useful where it is difficult to measure costs.

Answers to the Descriptive Questions

6. As per Section 203(2) of the Companies Act, 2013,

- Every whole-time key managerial personnel of a company shall be appointed by means of a resolution of the Board. The resolution shall contain the terms and conditions of the appointment including the remuneration.
- Whole time key managerial personnel shall not hold office in more than one company at the same time except in its subsidiary company.

As per third proviso to Section 203(2) of the Companies Act, 2013, if a person is MD or manager in some other company, it is permissible for a company to appoint him as its managing director. The modus operandi is as under:

- (a) The person so appointed or employed as managing director should be managing director or manager of one, and of not more than one, other company.
- (b) Such appointment or employment is made or approved by Board resolution at a meeting of the Board with the consent of all the directors present at the meeting.
- (c) Further, specific notice of such meeting, and of the resolution to be moved thereat has been given to all the directors then in India.

In the given instance, EcoBright Systems would have appointed Mr. Ravi, as its whole time company secretary and Mr. Arjun, as its Managing director by passing board resolutions that should have contained the terms and conditions of the appointment of them including their remuneration.

7. **Contents of notice issued for approval of resolution:** The notice for approval of the resolution in general meeting issued by the company or holding company shall include the particulars of the arrangement. It shall also include the value of the assets involved in such arrangement duly calculated by a registered valuer.

In the given instance, EcoBright Systems entered into a non-cash transaction with its managing director, Mr. Arjun by selling its machinery in exchange of a vehicle.

For doing so, EcoBright Systems would have taken prior approval for such arrangement vide a resolution in its general meeting and also as Mr. Arjun is a Managing director of its holding company, LumaLight Ltd., as well, prior approval would also have been taken by passing a resolution in the general meeting of LumaLight Ltd.

Further, the contents of notice of aforesaid meetings would have included the particulars of such arrangement between EcoBright Systems and Mr. Arjun and the value of the assets involved in such arrangement duly calculated by a registered valuer.

8. As per Explanation 4 to section 43 of the Income Tax Act, 1961-

Where any asset which had once belonged to the assessee and had been used by him for the purposes of his business or profession and thereafter ceased to be his property by reason of transfer or otherwise, is re-acquired by him, the actual cost to the assessee shall be-

- (i) the actual cost to him when he first acquired the asset as reduced by the amount of depreciation that would have been allowable to the assessee.
 - (ii) the actual price for which the asset is re-acquired by him,
- whichever is less.

The other machinery of EcoBright Systems was sold for ₹ 1,30,000. The WDV of which was ₹ 1,00,000. However, such other machinery was reacquired by EcoBright Systems on 10th September, 2024, at a cost of ₹ 1,50,000. Accordingly, the WDV of such machinery was ₹ 1,00,000 and reacquisition cost was ₹ 1,50,000.

Thus, ₹ 1,00,000 shall be considered as the cost of machinery reacquired by EcoBright Systems from Mr. Arjun, for income tax purpose.