

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

The Question Paper comprises **five** case study questions.

The candidates are required to answer any **four** case study questions out of **five**.

CASE STUDY - 1

Renewable Energy Systems Limited (hereinafter referred to as "RESL" or "the Company") is a prominent, publicly listed company incorporated in India having its registered Office in Noida. RESL has established itself as a leader in the manufacturing and export of advanced components, particularly those used in renewable energy systems. RESL also provides maintenance services of solar systems and sells its products through e-commerce platform, TRICON. Incorporated in 2008, RESL has consistently maintained robust growth, underpinned by technological innovation and strategic market penetration.

As of 31st March 2025, RESL is a large-scale entity with a complex operational structure, requiring stringent adherence to the Companies Act, 2013, Securities and Exchange Board of India (SEBI) regulations, and Indian Accounting Standards (Ind AS). The Company maintains a strong equity position, with its equity shares listed on a recognized stock exchange, demanding high quality and timely financial disclosures.

The Board of Directors (BoD) of RESL comprises 14 Directors, including both Executive and Non-Executive members. Currently, RESL's Articles of Association permit a maximum strength of 15 Directors. Recognizing the need for diverse expertise to oversee its complex financial structure (RESL's operational efficiency and stringent regulatory requirements), the BOD plans to induct two new specialized directors (Mr. P and Mr. Q) subject to necessary approvals.

The Chief Financial Officer (CFO) is tasked with the advanced role of balancing financial goals vis-a-vis sustainable growth, overseeing adequate financial controls, and strategically allocating scarce capital resources among competing opportunities. Traditionally focused on wealth maximization, the management now embraces and advises CFO to use an overall approach, Strategic Financial

Management, focusing on applying financial management techniques to strategic decisions, to maximize the organization's market value.

RESL follows a policy of retaining 70% of its profit for future expansion reflecting a strategic financial policy decision that affects performance. However, achieving stability in dividend payment is also a desirable consideration as it can positively impact share prices, requiring the CFO to strike a balance between retained earnings and shareholder preference for dividends against capital gains.

In April 2025, RESL finalized a service contract (overhauling of solar panels) with ABC Limited (a registered person under GST). The service was fully provided on 20/07/2025. Payment for ₹ 10 lakhs was received in advance on 15/07/2025. The invoice was issued on 22/07/2025. The GST rate applicable to this service changed from 12% to 18% with effect from 21/07/2025. Accounts department raised an invoice and charged GST @ 18%. Besides this, RESL received an order through TRICON, for supply of components to FG Industries (an unregistered person under GST and located in Rohtak, Haryana). FG Industries instructed RESL to deliver the components to VC Industries based, in Jalandhar, Punjab. Accounts department while raising an invoice, considered Rohtak (Haryana) as the place of supply for GST charge and recorded delivery address of Jalandhar (Punjab).

In alignment with its strategy to gain a competitive advantage through technology, RESL, plans a major acquisition: the takeover of Tech Components Limited (TCL). This strategic move aims at backward integration by acquiring specific raw material supplier with core technology expertise. RESL intends to use a share-for-share exchange, but first requires a comprehensive business valuation. The valuation team, headed by the CFO, is considering methodologies, including the present value (PV) of future cash flows, aligning with the conceptual framework of valuation. TCL's current book value is ₹ 400 per share, Return on equity is 12% and it follows the same policy as followed by RESL for retained earnings.

To finance the acquisition various financing options were discussed and it was decided to issue Optionally Convertible Preference Shares (OCPS) with a face value of ₹ 100, carrying a 5% non-cumulative dividend, convertible into 5 equity shares, redeemable after 8 years. The comparable market interest rate for a similar non-convertible instrument is 8%. After raising the funds from OCPS, balance amount, if any, will be funded by borrowings from company's bankers. Accordingly, bankers were requested to get the proposal sanctioned from bank's

higher authorities. Bank asked for Audited Financial Statements for the Year ended 31.03.2025.

M/s HK & Associates are the Statutory Auditors of RESL for the financial year 2024-25. As a listed entity, the audit engagement is subject to rigorous quality control standards (SQC 1 and SA 220). The engagement partner, CA. H, is responsible for overall quality procedures applicable to the audit. During the audit of RESL's revenue recognition policies for complex multi-year service contracts, a contentious issue arose. CA. H decided to consult the Engagement Quality Control Reviewer, CA. S on this matter. Also, CA. S enquired from CA. H as to whether Internal Audit reports have been reviewed or not. CA. H informs that CA. L is the internal auditor of the company. On perusal of internal audit reports, CA. H observed that internal auditor has pointed out some GST issues where GST on invoices raised to some of the related parties has not been paid as per the rates applicable. After going through the details of GST issues, it was observed that RESL supplied multiple goods with different rates but GST rate applicable on item carrying lowest rate has been applied on the entire invoice amount. With these deficiencies all the GST returns (GSTR 1 and GSTR 3B) for the concerned month have been filed. Department identified the misrepresentation of facts and proper officer before serving show cause notice, communicated the details of tax short paid (₹ 10.00 lakhs) along with interest and penalty to RESL. Management however after verifying the amount, paid ₹ 8.00 lakhs along with interest and penalty amounting to ₹ 80,000. In view of the management, department now cannot issue SCN under GST provisions. However, to its surprise, SCN was issued even after the payment of tax.

Multiple Choice Questions:

[Provide the correct option to the following questions]

- 1.1 Which of the following are not the correct compliance steps required (pertaining to appointment of Mr. P and Mr. Q) under the Companies Act, 2013?
- (i) Alter the Articles of Association by passing an Ordinary Resolution.
 - (ii) Alter the Articles of Association and pass a Special Resolution.
 - (iii) Pass a Special Resolution.
 - (iv) Pass an Ordinary Resolution in the General Meeting followed by ROC approval.

- (A) *(i), (ii) and (iii)*
 - (B) *(ii) and (iii)*
 - (C) *(i), (ii) and (iv)*
 - (D) *(i), (iii) and (iv)*
- 1.2 *Which of the following action are permitted for CA. S without compromising to maintain his objectivity?*
- (i) *Reviewing the audit plan and determining materiality levels.*
 - (ii) *Consulting with the engagement partner on appropriate reporting conclusions.*
 - (iii) *Participating in the engagement and making decisions for the engagement team.*
 - (iv) *Reviewing the nature and scope of consultations undertaken during the audit.*
- (A) *(i), (ii) and (iii)*
 - (B) *(ii), (iii) and (iv)*
 - (C) *(i), (ii) and (iv)*
 - (D) *(i) and (iv)*
- 1.3 *In approach suggested by RESL's management to CFO, which of the following are not considered as the limiting factors while allocating resources?*
- (i) *Mode of financing.*
 - (ii) *Capital availability.*
 - (iii) *Best investment and profitable opportunities.*
 - (iv) *Future earnings potential.*
- (A) *(i), (iii) and (iv)*
 - (B) *(i), (ii) and (iii)*
 - (C) *(i) and (ii)*
 - (D) *(i) and (iv)*

- 1.4 Determine the initial fair value amount that RESL must allocate to the equity component of the issued compound financial instrument, considering that the conversion option is currently out-of-the-money.

(PV factors for 8%: PVIFA for 8 years = 5.7466; PV Factor for Year 8 = 0.5403)

- (A) ₹ 28.73 per OCPS
(B) ₹ 17.24 per OCPS
(C) ₹ 54.03 per OCPS
(D) ₹ 82.76 per OCPS
- 1.5 Determine the correctness of GST rate applied on the supplies made to ABC Limited and place of supply for goods supplied to FG Industries.
- (A) Correct GST rate: 18%. Place of Supply is Rohtak
(B) Correct GST rate: 12%. Place of Supply is Jalandhar
(C) Correct GST rate: 12%. Place of Supply is Rohtak
(D) Correct GST rate: 18%. Place of Supply is Jalandhar **(5 x 2 = 10 Marks)**

Descriptive Questions:

- 1.6 In your opinion, whether department can issue show cause notice when tax, interest and penalty has been paid? Further, whether the company has deposited the required penalty amount or not? **(2 Marks)**

What is the legal remedy available to RESL? Support your answer quoting relevant legal provisions? **(4 Marks)**

- 1.7 If RESL's acquisition of TCL is structured as a Scheme of Arrangement involving the NCLT, what specific certification must be obtained by NCLT under the Companies Act, 2013 from the Statutory Auditor of RESL Limited? **(4 Marks)**

- 1.8 Assuming TCL's Opportunity Cost of Capital (K_e) is 15%, compute the price of the share today using both (a) Dividend Growth Model and (b) Walter's Model. **(5 Marks)**

ANSWER TO CASE STUDY 1

1.1 Option (C): (i), (ii) and (iv)

1.2 Option (C): (i), (ii) and (iv)

1.3 Option (A): (i), (iii) and (iv)

1.4 Option (B): ₹ 17.24 per OCPS

1.5 Option (B): Correct GST rate: 12%. Place of Supply is Jalandhar.

1.6 The person chargeable with tax, where any tax has not been paid or short paid by reason of fraud, or any wilful-misstatement or suppression of facts to evade tax, may, before service of notice, pay the amount of tax along with interest payable under section 50 of the CGST Act, 2017 and a penalty equivalent to 15% of such tax on the basis of his own ascertainment of such tax or the tax as ascertained by the proper officer and inform the proper officer in writing of such payment, and the proper officer, on receipt of such information, shall not serve any notice, in respect of the tax so paid or any penalty payable.

Show cause notice cannot be issued for the amount of tax paid, i.e. ₹ 8,00,000 and penalty already paid.

However, show cause notice can be issued for the amount of tax unpaid ₹ 2,00,000 plus applicable interest and penalty on the same.

In view of above provisions, penalty equivalent to 15% of the tax is payable but only 10% of the penalty has been paid by the company. So, penalty is short paid by ₹ 40,000. Thus, required amount of penalty is not paid by company.

The legal remedy available to RESL is as under:

- (i) pay the said tax along with applicable interest and a penalty equivalent to 25% of such tax within 60 days of issue of the notice, and on doing so, all proceedings in respect of the said notice shall be deemed to be concluded.
- (ii) pay the tax along with applicable interest and a penalty equivalent to 50% of such tax within 60 days of communication of the order, and on doing so, all proceedings in respect of the said notice shall be deemed to be concluded.

- 1.7** The proviso to section 230(7) provides that a certificate by the company's auditor is to be filed with the Tribunal to the effect that the accounting treatment, if any, proposed in the scheme of compromise or arrangement is in conformity with the accounting standards prescribed under section 133.

In view of above, NCLT shall obtain the above certificate from the Statutory Auditors of RESL Limited.

- 1.8** Book Value = ₹ 400

$$\text{ROE (R}_e\text{)} = 12\%$$

$$\text{Payout Ratio} = 1 - 0.70 = 0.30$$

$$\text{EPS} = \text{Book Value} \times \text{ROE} = ₹ 400 \times 12\% = ₹ 48$$

$$\text{Dividend per Share} = 48 \times 30\% = ₹ 14.40$$

$$\text{Growth Rate} = 12\% \times 0.70 = 8.4\%$$

Price of Share as per Dividend Growth Model

$$= D_1 / (K_e - g)$$

$$= 14.40 / (0.15 - 0.084)$$

$$= 14.40 / 0.066 = ₹ 218.18$$

Alternatively, this question can be solved by considering dividend with Growth. Accordingly, value will be computed as follows:

$$= 14.40 (1.084) / (0.15 - 0.084)$$

$$= 15.61 / 0.066 = ₹ 236.52$$

Price of Share using Walter Model

$$V_c = \frac{D + \frac{R_a}{R_c}(E - D)}{R_c}$$

Where,

V_c = Market Price of the ordinary share of the company.

R_a = Return on internal retention i.e. the rate company earns on retained profits.

R_c = Capitalisation rate i.e. the rate expected by investors by way of return from particular category of shares.

E = Earnings per share.

D = Dividend per share.

$$V_c = \frac{14.40 + \frac{0.12}{0.15}(48.00 - 14.40)}{0.15} = \frac{41.28}{0.15} = ₹ 275.20$$

Alternatively, this question can be solved by considering dividend with Growth. Accordingly, value will be computed as follows:

$$D = 14.40 (1 + 0.084) = ₹ 15.61$$

$$E = ₹ 48 (1 + 0.084) = ₹ 52.03$$

$$V_c = \frac{15.61 + \frac{0.12}{0.15}(52.03 - 15.61)}{0.15} = \frac{44.75}{0.15} = ₹ 298.33$$

CASE STUDY - 2

XYZ Metal Industries Limited ("XYZ") is a listed public company, incorporated in 2010, engaged in the manufacturing of stainless steel pipes and fittings. The company operates manufacturing facilities in Gujarat and Maharashtra. In 2020, XYZ acquired 90% equity stake in JB Steels Limited ("JBS") an unlisted company; making it XYZ's first subsidiary. 'JBS' is engaged in the manufacturing of forged fittings used in various piping applications across industries such as chemicals, steel, and petrochemicals. 'JBS' got listed in February 2025.

XYZ operates in a highly competitive market, facing intense global and regional competition from numerous players, including pressure from low-cost imports. XYZ sells its products both domestically and internationally, with exports accounting approximately 15% of its total turnover. It primarily sources its key raw materials domestically, while also importing high-grade seamless pipes, corrosion-resistant alloys, and specialized additives for advanced applications. XYZ reported a turnover of ₹ 850 crores in the financial year 2023-24 and ₹ 800 crores in 2024-25. The profit after tax stood at ₹ 35 crores for 2023-24 and ₹ 30 crores for 2024-25. During a Board meeting held at the company's Head Office, Directors expressed concern over the decline in turnover and profit. It was resolved

to hold departmental review meetings to identify key factors contributing to this downward trend. In the meeting with departmental heads, Mr. Rajiv, Head of the Production Department, reported a significant buildup of raw material and component inventory. He attributed the failure to meet production targets to frequent machine breakdowns, employee turnover and reliance on outdated machinery and equipment. He also reported a significant inventory of finished fittings with outdated end connections, obsolete sizes, and designs based on an older revision of industry standards. Additionally, there is a stockpile of stainless steel items that are no longer required due to the discontinuation of a product line. Mr. Srinivas, Head of the Marketing Department, highlighted delays in fulfilling customer orders and noted an increase in product returns due to quality issues. He also pointed out growing competition from new entrants offering better quality products at lower prices. Mr. Rajiv presented the following matrix describing the measures taken for enhancing operational efficiency.

Sr. No.	Column A (Issues)	Column B (Corrective Measure)
(a)	For uniform procedures for tasks, minimizing variability, enhancing training efficiency, and ensuring consistent quality and stable workflows	Standardized Work
(b)	For eliminating all types of defects by producing items only as needed, thereby preventing quality problems at the source	Just-in-Time
(c)	To save search time and eliminate motion waste with a search free and count free arrangement	Visual Management
(d)	To visualize every step in a process, identify non-value-added activities and enhancing adaptability or flexibility	Value Stream System

The Head of the HR Department reported decrease in employee turnover since last year, attributing the improvement to recent policy changes and the issuance of ESOPs in 2024. These initiatives have positively influenced employee mindset, fostering a stronger sense of recognition and affiliation within the company. The information provided by the Heads of the Production and Marketing Departments was corroborated by the data submitted by Mr. Karan, Head of the Management

Accounting Department. As per his report, during the year, the company incurred the following quality-related expenditures:

₹ 10 lakhs on quality training and audits

₹ 18 lakhs on inspection of incoming materials and equipment testing

₹ 20 lakhs on preventive maintenance of equipment

₹ 117 lakhs on rework and production downtime

₹ 135 lakhs on warranty claims and addressing customer complaints

Mr. Dixit, an Independent Director with an expertise in strategic cost management techniques, recommended the adoption of lean manufacturing practices to enhance operational efficiency. He also suggested implementing corrective measures to address quality concerns and improve customer satisfaction.

Following detailed discussions with departmental heads, the Board of Directors has decided to invest in imported High- end CNC machines to enhance product quality and strengthen competitiveness in the global market. Expected cost of these CNC machines to be imported is ₹ 15 lakhs. To fund the investment of ₹ 15 lakhs, XYZ plans to raise ₹ 10 lakhs through debt. XYZ can borrow at a fixed rate of 5.5% or at a floating rate of 60 basis points above SONIA which is 5% at present (Sterling Overnight Index Average). Management of XYZ expects that pound interest rate will fall and is expected to have flexible mechanism build into their interest rates. JBS also wishes to raise loan of ₹ 10 lakhs. JBS has been offered a floating rate of 115 basis points above SONIA as against the fixed rate, of 6.5% due to lower credit rating in comparison to XYZ. Management of XYZ decides to enter into 3 months forward contract and JBS entered into currency futures as a part of foreign exchange exposure and risk management policy. The contract of JBS will not be subject to daily basis loss/profit due to change in price.

On 01.04.2024, XYZ granted 250 shares (option) of ₹ 10 each to each of its 300 employees after necessary compliances of Companies Act, 2013 and SEBI guidelines. JBS also granted 250 shares (option) of ₹ 10 each on the same date to each of its 150 employees after necessary compliances of Companies Act, 2013 and SEBI guidelines. Fair Value of each option of XYZ was ₹ 120 on the grant date and that of JBS was ₹ 70. The share options were granted on the condition that the employee has completed three years of continuous service. At the-grant-date, both the companies anticipated vesting of all the options.

XYZ also holds 45% equity stake in PQR Steels Limited, a company engaged in

manufacturing of carbon steel bars and stainless steel, key raw materials used by XYZ and its subsidiary, 'JBS'. The remaining 55% of the equity stake of PQR Steels Limited is owned by three independent entities A Ltd, B Ltd and C Ltd with A Ltd owning 19% share, B Ltd and C Ltd each owning 18% respectively.

On 01.07.2025, XYZ entered into a forward contract with B Ltd to acquire an additional 12% of the equity shares of PQR Steels Limited held by B Ltd, which is to be paid by issue of shares of XYZ. The forward contract is set to be settled after two years. Under the terms of the agreement, XYZ is entitled to receive any dividends declared on the 12% shares during the intervening period. Additionally, B Ltd. is contractually obligated to exercise its voting rights associated with the 12% shares in accordance with the instructions of XYZ.

The CFO-of XYZ compiled the interim financial information for the quarter ended 31st December 2025, in accordance with the requirements of the listing agreement, and submitted it to the statutory auditors for their review. SS & Co., Chartered Accountants, while carrying out the review, held discussions with the CFO and other key personnel responsible for financial and accounting matters. He also performed analytical procedures and other review measures as per the applicable standards. As part of his review, CA. Shivansh, also evaluated the company's assessment and treatment of obsolete and non-moving inventory items. He sought assurance that the valuation of inventory adequately reflects necessary adjustments for such items.

Mr. Suresh, who has experience of over 40 years in steel companies, has been proposed for appointment as a Whole Time Director in XYZ. Mr. Suresh currently holds directorships in one dormant company, eight Public Limited companies, of which seven are listed and one is unlisted and eleven Private Limited companies which are not holding or subsidiary companies of a public company. Among these private companies, one is a partly owned subsidiary of JBS. The matter regarding his proposed appointment was placed before the Nomination and Remuneration Committee (NRC) for consideration. During the meeting, Mr. Gautam, a member of the NRC, raised a concern about the proposed appointment, pointing out that Mr. Suresh already holds directorships in twenty companies. He requested the Company Secretary of the company to provide a clarification on the proposed appointment.

Multiple Choice Questions:

[Provide the correct option to the following questions]

2.1 Identify the correct matching from the matrix presented by Mr. Rajiv.

- (A) (a), (b) and (c)
- (B) (a), (c) and (d)
- (C) (a) and (c)
- (D) (b) and (d)

2.2 Based on the given facts and the applicable guidance under relevant Ind AS, which of the following statements accurately reflect the position of XYZ's holding in PQR Steels Limited after entering into the forward contract with B Ltd. on 01.07.2025?

- (i) XYZ is deemed to have control over PQR Steels Limited from 01.07.2025, as the forward contract gives it present access to the economic benefits and power over the relevant activities through voting rights associated with the 12% shares.
 - (ii) XYZ is deemed to have control over PQR Steels Limited as of 01.07.2025 and should consolidate PQR Steels Limited in its consolidated financial statements. The proportion of profit or loss and other comprehensive income allocated between XYZ and Non-controlling interest (NCI) of PQR Steels Limited are 57% and 43% respectively.
 - (iii) The forward contract to acquire the 12% shares meets the definition of a derivative financial instrument under Ind AS 109 and should be measured at fair value through profit or loss until settlement.
 - (iv) The forward contract shall not be subject to the requirements of Ind AS 109.
- (A) (i), (ii)
 - (B) (ii), (iii)
 - (C) (i), (ii), (iii)
 - (D) (i), (ii), (iv)

- 2.3. Which of the following statements are correct regarding the foreign exchange transactions and risk management measures taken by XYZ and JBS?
- (i) XYZ should borrow at fixed rate and JBS should borrow at floating rate.
 - (ii) Contracts entered by both the companies are traded in an over the counter market.
 - (iii) Cost of Contract of XYZ is based on bid-ask spread and cost of JBS contract entail brokerage.
 - (iv) Both types of contracts are subject to marking to market.
- (A) (i) and (ii)
- (B) (i) and (iii)
- (C) (i), (ii) and (iv)
- (D) (i), (iii) and (iv)
- 2.4 In light of the provisions of the applicable laws governing XYZ, which of the following statement most appropriately addresses the question of Mr. Suresh's eligibility for appointment as a director of XYZ?
- (A) Mr. Suresh is eligible, though the rules for calculating the maximum number of directorships allow the inclusion of all private subsidiaries of public companies and the exclusion of inactive companies and with these considerations, his countable directorships remain well within the prescribed limit.
 - (B) Mr. Suresh is eligible, as his directorships in listed companies remain within the prescribed limit and he has not exceeded the overall cap on directorships across all private and public companies combined.
 - (C) Mr. Suresh is ineligible. Although privately-held subsidiaries are included and inactive companies are excluded from the overall count and has not exceeded the overall cap on directorships across all private and public companies, but his total number of directorships in all publicly-held listed companies exceeds the limit set by SEBI.
 - (D) Mr. Suresh is ineligible as he has already exceeded the maximum permissible number of directorships in companies whose shares are publicly traded and also exceeds the specified limit for the total number of directorships in all listed companies.

2.5 Which of the following statements correctly shows the procedures audit firm has to perform in relation to interim financial information for the Quarter ending 31st December, 2025?

- (i) Obtaining an understanding of the entity and its environment and related internal controls.
- (ii) Corroborating the information obtained concerning significant accounting matters relating to the interim financial information.
- (iii) Obtaining written representation from management regarding the completeness of interim financial statements and evaluating the reasonableness of estimates made by the management.
- (iv) Performing an in-depth assessment of internal controls to ensure that they are effective for the period under review.

- (A) (i) and (ii)
- (B) (i) and (iii)
- (C) (i), (ii) and (iii)
- (D) (ii), (iii) and (iv)

(5 x 2 = 10 Marks)

Descriptive Questions:

2.6 You have recently joined the Management Accounting Department and have been assigned the task of preparing a report. The objective of the report is to analyse the quality costs incurred by the organization and to recommend appropriate measures to reduce quality-related issues effectively. Draft a suitable report.

(6 Marks)

2.7 On April 1, 2025, JB Steels Limited granted share options to its own employees as well as to the employees of XYZ Metal Industries Limited. The grant was made on the condition that the employees of XYZ Metal Industries Limited would surrender their rights under XYZ's existing Employee Stock Option Plan (ESOP). All employees of XYZ accepted this condition. You are required to determine the appropriate accounting treatment as per the relevant Ind AS in the books of XYZ Metal Industries Limited on:

1. April 1, 2025 (the date of surrender of rights under XYZ's ESOP scheme), and
2. March 31, 2026 (the end of the financial year).

Pass the necessary journal entries in the books of XYZ Metal Industries Limited for the above dates.

(4 Marks)

2.8 *In the context of a limited review engagement conducted under the requirements of the listing agreement for the quarter ending 31st December 2025, CA. S, noted that the XYZ Metal Industries Ltd. has identified obsolete and non-moving inventory items, whether he can perform additional procedures, if yes, what additional procedures should CA. S perform to obtain limited assurance regarding the appropriate valuation of inventory, and how should this matter be addressed in his review report, if the valuation appears to be materially misstated or if sufficient appropriate evidence is not obtained?*

(4 Marks)

ANSWER TO CASE STUDY 2

2.1 Option (B): (a), (c) and (d)

2.2 Option (D): (i), (ii), (iv)

2.3 Option (B): (i) and (iii)

2.4 Option (C): Mr. Suresh is ineligible. Although privately held subsidiaries are included and inactive companies are excluded from the overall count and has not exceeded the overall cap on directorships across all private and public companies, but his total number of directorships in all publicly- held listed companies exceeds the limit set by SEBI.

2.5 Option (B): (i) and (iii)

2.6 A deeper analysis of the company's quality cost structure, when viewed alongside the operational issues highlighted by the Production, Marketing, and HR departments, reveals that the organisation is trapped in a cycle of *reactive problem-solving rather than proactive quality management*.

The extremely high share of non-conformance costs i.e., 84% of the total quality costs reflects inefficiencies in the production system. The buildup of outdated finished fittings, and discontinued stainless-steel components indicates weak design control, *poor coordination between production and marketing*, and *ineffective inventory and product lifecycle management*. Machine breakdowns and employee turnover have further aggravated the situation, leading to frequent rework, excessive downtime, and poor adherence to production targets. These operational weaknesses are directly

visible in the data, where rework and downtime alone account for 39% of total quality costs, while warranty claims and customer-related failures constitute another 45%. Marketing's report of delayed deliveries, quality complaints, and rising competition reinforces that the organisation is losing its market position because its *internal systems are not robust enough to support consistent product quality*.

The low proportion of conformance costs, only 16%, suggests that preventive and appraisal activities are not receiving adequate attention. Despite recent HR improvements and the introduction of ESOPs, the underlying manufacturing systems remain outdated, with *insufficient investment* in preventive maintenance, supplier quality assurance, employee training, and design upgrades. The heavy dependence on outdated equipment, outdated product designs, and insufficient inspection mechanisms is creating systematic quality issues, resulting in rising returns, dissatisfied customers, and increasing market pressure from competitors offering superior quality at lower prices. The data strongly signals that *unless the company shifts its focus from curing defects to preventing them, the profitability and reputation of the business will continue to deteriorate*.

To resolve these deep-rooted inefficiencies, the company should prioritise the adoption of Total Productive Maintenance (TPM) and Total Quality Management (TQM) as strategic interventions rather than mere operational tools. TPM will help stabilise the production environment by reducing breakdowns, improving equipment availability, and strengthening the reliability of manufacturing processes. By embedding *autonomous maintenance practices* and *structured preventive maintenance schedules*, the company can significantly reduce rework, scrap, and downtime, currently the *largest contributors to internal failure costs*. In parallel, the adoption of TQM is essential to address systemic weaknesses in design control, supplier management, employee involvement, and customer-focused quality. TQM will enable the organisation to *establish a culture where processes are designed to avoid defects rather than detect them*, ensuring that outdated fittings, obsolete designs, and poor-quality components do not enter the production process in the first place.

Together, TPM and TQM create a balanced approach that strengthens both process efficiency and product quality. This integrated strategy will gradually shift the company's cost profile toward prevention and appraisal while compressing the disproportionately high failure costs. Over time, this will reduce customer complaints, improve delivery performance, enhance brand perception, and restore competitive advantage. Ultimately, the company must move from a *reactive posture to a proactive, system-driven quality culture* if it aims to improve operational efficiency, reduce costs, and sustain long-term growth.

Alternative Presentation

Statement Showing "Total Quality Cost"

Particulars of Costs	₹	% of Total Costs of Quality
Prevention Costs		
Quality training and audits	10,00,000	3.33%
Preventive maintenance of equipment	20,00,000	6.67%
Total (A)	30,00,000	10.00%
Appraisal Costs		
Inspection of incoming materials and equipment testing	18,00,000	6.00%
Total (B)	18,00,000	6.00%
Cost of Conformance (A) + (B)	48,00,000	16.00%
Internal Failure Costs		
Rework and production downtime	1,17,00,000	39.00%
Total (C)	1,17,00,000	39.00%
External Failure Costs		
Warranty claims and addressing customer complaints	1,35,00,000	45.00%
Total (D)	1,35,00,000	45.00%
Cost of Non-Conformance (C) + (D)	2,52,00,000	84.00%
Total Quality Costs (A) + (B) + (C) + (D)	3,00,00,000	100.00%

The reporting of quality costs highlights the *cost of quality activities* at XYZ. The total quality costs statement clearly displays the relationship between conformance costs (prevention and appraisal costs) and non-conformance costs (internal failure and external failure costs) and the drivers of a reduction in the overall spending on quality. Statement indicates that only 10.00% of the total quality cost is the cost of preventing quality problems while 6.00% is the cost of appraisal activities. Thus, prevention and appraisal costs make up only 16.00% of total quality costs. In contrast, 84.00% of quality control costs are incurred for internal and external failure costs.

Recommendation

Following two measures can be used to reduce non- conformance cost:

Total Productive Maintenance (TPM) is a system of maintaining and improving the integrity of production and quality system through *keeping all equipment in top working condition* so as to avoid breakdowns and delays in manufacturing processes. It involves identifying machines in every division (including planning, manufacturing, maintenance) and then planning & executing a maintenance programme covering their entire useful life.

In this scenario, TPM will help in reducing internal failure cost (i.e. rework and production downtime), which constitutes 39.00% of total quality cost, by keeping all equipment in good working conditions so that there is no downtime or machine breakdown and ensuring that all equipment run smoothly. If machines work properly, the chances of rework will reduce, ultimately will also reduce chances of warranty claims and customer complaints (comprising 45.00% of total quality cost which is the major part of total quality cost).

Total Quality Management (TQM) aims at improving the quality of organisational output, including goods and services, through *continual improvement* of internal practices. Its objective is to eradicate waste and increase efficiency without compromising with the quality. It requires that company maintain this quality standards in all aspects of business by ensuring that things are done right the first time so that defects and waste are eliminated from operation.

It appears that XYZ is not a TQM company at present due to *huge disparity between conformance costs and non-conformance costs*. In order to make XYZ to be successful, all staff at XYZ must be engaged in the improvement process

and share in the continuous improvement ethos. In order to establish a reputation as a high- quality product manufacturer XYZ must ensure staff are focused on quality *and* attitudes changed toward the importance of conformance activities, for instance, XYZ can conduct third party inspection of raw material at supplier's workplace leading to maintenances of quality standards.

Overall, while applying above two measures, in the XYZ, consideration must therefore be given to the *optimum balance* between the costs of conformance and the costs of non-conformance.

2.7 Expense recognised till surrender date i.e. 1st April 2025

Options granted on 1st April, 2024

= 250 options × 300 employees

= 75,000 options.

Total grant date fair value

= 75,000 × ₹ 120

= ₹ 90,00,000

Annual employee compensation expense

= ₹ 90,00,000 ÷ 3 years

= ₹ 30,00,000 per year

For the year ended 31st March 2025, XYZ would have already recognised, employee compensation expense of ₹ 30,00,000 by correspondingly crediting to ESOP Outstanding.

Accounting implication of surrender of rights on 1st April 2025 by the employees of XYZ in the existing ESOP issued by XYZ

On 1st April, 2025, the ESOPs issued by XYZ is neither modified nor replaced. It is the employees of XYZ who surrender the rights in existing ESOP issued by XYZ and accepted the ESOPs of JBS. Therefore, as per Ind AS 102, this would be treated as a cancellation of the ESOP by XYZ because of no takers of the same. Hence, the balance standing in ESOP Outstanding is transferred to Retained Earnings.

Journal Entry on 1st April 2025 i.e. date of cancellation

ESOP reserve A/c	Dr.	30,00,000	
To Retained Earnings			30,00,000

Accounting on 31st March 2026

The ESOP has already been fully cancelled and settled on 1st April 2025. However, XYZ is receiving the services of its employees against the ESOP received from the subsidiary JBS (subsidiary). So XYZ would be booking expense against the employee benefit expenses. But since there is no payment against it, it will be recognised as Retained Earning considering the distribution from subsidiary JBS as follows:

Employee Benefit Expenses	Dr.	?	
To Equity/Retained Earnings / Dividend Income from Subsidiary			?

In the absence of fair value of the options granted as on 1st April, 2025, no amount has been given in the amount column.

- 2.8** Additional procedures are required under this SRE if the practitioner CA. S becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated. The practitioner's response in undertaking additional procedures with respect to an item the practitioner has cause to believe may be materially misstated in the financial statements will vary, depending on the circumstances, and is a matter for the practitioner's professional judgment.

Additional procedures focus on obtaining sufficient appropriate evidence to enable the practitioner to form a conclusion on matters that the practitioner believes may cause the financial statements to be materially misstated. The procedures may be:

- Additional inquiry or analytical procedures, for example, being performed in greater detail or being focused on the affected items (i.e. amounts or disclosures concerning the affected accounts or transactions as reflected in the financial statements); or
- Other types of procedures, for example, substantive test of details or external confirmations.

In the given situation, during the course of performing analytical procedures for review, CA. S noted that XYZ Metal Industries Ltd. has identified obsolete and non-moving inventory item. This causes the practitioner CA. S to believe that the inventory balance in the financial statements may be materially misstated.

If the practitioner determines that the financial statements are materially misstated, the practitioner shall express:

- (a) A qualified conclusion, when the practitioner concludes that the effects of the matter(s) giving rise to the modification are material, but not pervasive to the financial statements; or
- (b) An adverse conclusion, when the effects of the matter(s) giving rise to the modification are both material and pervasive to the financial statements.

Inability to obtain sufficient and appropriate evidence:

If the practitioner is unable to form a conclusion on the financial statements due to the inability to obtain sufficient appropriate and evidence, the practitioner shall:

- (a) Express a qualified conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive or
- (b) Disclaim a conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

CASE STUDY - 3

Non-Governmental Organisations (NGOs) are non-profit entities that function independently of government control, though they may receive substantial government funding. They play a vital role in tackling social and environmental challenges by advocating for a policy change, raising awareness, delivering essential services, and promoting community development. Acting as a bridge between the government and the public, NGOs help to identify critical issues and drive effective, sustainable solutions. Our country has a rich tradition of civil society movements, with organization actively engaged in diverse areas such as health, education, community development, environmental protection, sanitation,

access to clean drinking water, and poverty alleviation. The country is estimated to have around 32 lakh NGOs, which operate in the form of trusts, societies, and Section 8 companies. Many States and Central Government agencies have regulatory over these non-for-profit entities. Non-Governmental Organisations (NGOs) in India operate independently of the State and are governed by a board of trustees who serve in a fiduciary capacity. These organizations exist to generate benefits for society rather than for personal gain, as they are prohibited from distributing any monetary surplus among their members.

NGOs raise funds through multiple sources, including online platforms, fundraising events, government grants, corporate partnerships, and international agencies. To maintain public trust and credibility, they uphold strong accountability mechanisms such as financial transparency, periodic reporting, and impact assessment. For legal operation and eligibility for tax exemptions, NGOs in India must be registered under the Societies Registration Act, 1860 or Public Trust Act as applicable at the state level and obtain registration under Section 12AB of the Income Tax Act, 1961. Furthermore, organizations seeking to receive foreign contributions, whether from international agencies or Non-Resident Indians, are required to secure registration under the Foreign Contribution (Regulation) Act, 2010.

EarthCare Health Trust (EHT) a Non-Governmental Organisation (NGO) is committed for providing essential medical services and promoting environmental sustainability across India. Its primary objective is to ensure that underprivileged communities have access to basic healthcare facilities, such as free eye camps and medical check-ups, while fostering a clean and green living environment for all. The organisation mobilises resources primarily through local donors, state government grants, and foreign contributions.

During the financial year 2024-25, EarthCare Health Trust spearheaded a variety of initiatives focused on healthcare and environmental sustainability, demonstrating its commitment to the well-being of communities and the preservation of the environment. In the city and surrounding villages, EHT has conducted 50 cleanliness campaigns, supported by the distribution of segregated dustbins. A total of 2,500 coloured dustbins with twin colours of green and blue, costing 400 (MRP: ₹ 700) each have been distributed free of cost to encourage residents to separate domestic waste effectively. These initiatives have made waste recycling easier while promoting active community participation in maintaining hygiene and sanitation. Tree plantation drives were conducted in three cities with

planting of 12,000 trees at a well-managed cost. Trust spent ₹ 5 lakh on the purchase of saplings. The Trust also conducted organized awareness drives, spending 3 lakh on various programs aimed at educating the local community on waste management techniques and promoting a green environment. During the year 2024-25, the Trust purchased and installed solar panels and lighting systems in the hospital and other buildings at a 25% reduced installation cost. Local government survey at the end of the year, reported a noticeable reduction in litter and an increase in vegetation cover in the areas where the campaigns were implemented. Trust organized 60 free medical check-up camps and eye care camps, facilitated by a local team of doctors who were provided honorariums for their services. Through these initiatives, 2,560 eye surgery were successfully conducted in the Trust-owned hospital, providing critical care to underserved populations. The hospital is equipped with state-of-the-art machines and medical equipment. Trust implemented a cost-effective healthcare delivery model that helped keep medical service costs low. Additionally, it negotiated discounted rates with suppliers of medical equipment and materials, further reducing operating expenses. The introduction of a digital medical records system also minimized paperwork and administrative costs.

During the financial year 2024-25, it imported latest medical equipment (first of its kind in India) worth ₹ 75 lakh specifically for performing eye surgeries. The Trust provides each of the five doctors, who consistently dedicate their time to the Trust-owned hospital and actively contribute to enhancing healthcare services, with an annual honorarium of ₹ 4.50 lakh each, in addition to reimbursement for eye surgery charges. It implements sliding-scale fees to ensure healthcare remains accessible to patients from all economic backgrounds and conducts outreach programs in underserved areas to extend its services to communities with limited access to medical care. Hospital charges a nominal fee from the patients for services to cover basic operational costs but continue offering free care to those who cannot pay at all. It served more than 22,000 patients during the year. It also organized a range of preventive healthcare programs aimed at reducing the incidence of diseases. The hospital has outsourced its security and cleaning services to external agencies in March 2025, paying ₹ 7.50 lakh p.a. to ABC Security Services Pvt. Ltd. and 6 lakh p.a. to Purecare Services Co., a partnership firm respectively.

EarthCare Health Trust has been registered under the Income-tax Act, 1961 since 01.04.2012 and registered under section 12AB w.e.f. 1st April, 2021 and under the

Foreign Contribution (Regulation) Act, 2010 with effect from 1st August 2021. EHT is not registered under CGST Act, 2017. The annual return in form FC-4, certified by a CA. Amit, who is not a statutory Auditor, for the financial year ending 31st March 2024 was filed on 15th January 2025. Trust owns three buildings, of which one was constructed in December 2023, comprising two community halls having capacity of 120 persons and three community halls, each with a capacity of 50 persons. Trust intends to use the newly constructed buildings for hosting yoga and meditation camps, and other related activities. For this daily rent of 5,000 will be charged. Rental income from organising Yoga and meditation camps, renting of community halls to external parties is to be used for the main objectives of the trust. On 30th April 2025, the office bearers of the Trust convened a meeting to deliberate on the implications of the recent amendments to the FCRA Act and Rules and the Income-tax Act, 1961, and to evaluate the applicability of the provisions of CGST Act 2017 to the Trust. The meeting was attended by CA. Puneet, who has been appointed as an auditor of the trust for the financial year 2024-25. They sought information from CA. Puneet regarding the recent amendments to the FCRA regulations, the Income Tax provisions related to renewal of registration, and the changes in GST provisions applicable to trusts. He was informed of the committee's decision to raise funds by renting out conference and community halls and was asked whether these rental services are exempt for the trust under GST or if GST registration is necessary. The Chairman of the trust asked CA. Puneet to suggest a method for evaluating the effectiveness of the trust's various initiatives undertaken during the year. CA. Puneet recommended that a Value for Money (VFM) framework would be the most suitable approach to assess the trust's performance. One of the office bearers, Mr. Raman enquired whether, EHT can donate any funds to another charitable trust registered under section 12AB and whether it will be treated as application of income of the trust. He further informed that during the financial year 2024-25, the Trust received foreign contributions amounting to ₹ 75 lakh from foreign agencies and Non-Resident Indians, designated for various healthcare and environmental initiatives undertaken by the Trust. The said funds were received in 'FCRA Account' maintained with authorised branch of State Bank of India. Out of the total foreign contributions received, ₹ 55 lakh was utilized for healthcare and environmental initiatives undertaken during the year and in addition, administrative expenses incurred amounted to ₹ 12 lakh. Planned expenditure of ₹ 3 lakh on fire safety system upgrade and administrative office maintenance could not be spent due to unavailability of vendor in

March 2025 and will be incurred in May 2025. EHT accounts department however did not maintain separate records for either the receipt or the utilisation of the same. Trust is also maintaining two accounts with other branches of State Bank of India for the purpose of utilizing the foreign contribution which has been received from 'FCRA Account' mentioned above. Trust is maintaining separate bank accounts for receiving donations and contributions from persons in India.

The accountant of the trust has provided the following summarized financial information for the financial year 2024-25:

	Income ₹ in lakhs
State Govt. Grant received for eye surgeries during the year 2024-25	40
Voluntary contribution received not forming part of the corpus (including foreign contribution)	190
Voluntary contribution received not forming part of the corpus (names, addresses and PAN of donors not available)	15
Net income from property held under trust	8
Corpus donations received (names, addresses and PAN of donors are available)	10
Corpus donations received (names, addresses and PAN of donors are not available)	2
Amount applied for the objectives of the trust	213

After calculating the surplus, trustees decided to invest 15% of the income in bonds u/s 11(5) of the Income-tax Act, 1961. For this Bonds of three approved financial corporations were identified and discussed. The following further information is available in respect of three bonds:

	Maturity (Years)	Coupon Rate (%)	Yield to Maturity (%)	Currently Trading at
Bond 1	2	8	8.25	Premium
Bond 2	5	7	7.85	Discount
Bond 3	6	6	7.00	Discount

An income tax refund of ₹ 1 lakh was received on 20th April 2025 in the Trust's non-FCRA bank account. This amount includes ₹ 0.20 lakh pertaining to refund

of tax deducted at source (TDS) on interest earned from FCRA-funded fixed deposits. Amount applied for objectives includes amount spent on Healthcare and Environmental Sustainability initiatives undertaken during the year and administrative expenses. At the end of the meeting, CA. Puneet provided a comprehensive overview of FCRA compliance obligations, highlighting the consequences of non-compliance and brief overview of the latest amendments in the law. He also offered detailed clarification regarding the applicability of GST provisions to the trust and procedure relating to renewal of registration under section 12AB of the Income Tax Act, 1961.

One of the trustees who regularly travels abroad put a proposal before Board of trustees of EHT to make overseas direct investment in foreign entity. Board has approached different consultants on this matter and could not get clear view on the following:

- (i) Whether EHT can make investment in a foreign entity
- (ii) If yes, which will be the appropriate authority for getting the requisite approval, if necessary?
- (iii) If Trust deed does not have any clause for such investments, whether any amendment to trust deed is required?
- (iv) Whether foreign entity needs to be engaged in same sector as of EHT?

Multiple Choice Questions:

[Provide the correct option to the following questions]

3.1 Identify the Incorrect statements considering the compliance requirements under the FCRA, 2010:

- (i) The annual return for F.Y. 2023-24 has been filed before the due date.
- (ii) Foreign contributions amounting to ₹ 75 lakh from foreign agencies and Non-Resident Indians has been received in the permitted bank account.
- (iii) Books of Accounts are properly maintained as per the provisions of FCRA.
- (iv) Annual return can be certified by CA. Amit.

Options:

- (A) (i) and (iii)

(B) (i), (ii) and (iv)

(C) (ii), (iii) and (iv)

(D) (i), (iii) and (iv)

3.2 Identify the correct statements from the following by analyzing the information in respect of bonds identified for investment u/s 11(5).

(i) Bond 1 has less interest rate risk considering maturity of given three bonds

(ii) Bond 3 has lower interest rate risk considering YTM of given three bonds

(iii) Price of Bond 2 will increase over time

(iv) Price of Bond 1 will decrease over time

(A) (i), (ii) and (iv)

(B) (i), (iii) and (iv)

(C) (ii), (iii) and (iv)

(D) (iii) and (iv)

3.3 One of the consultants answered the questions of the trustees on the matter of ODI as follows. Identify the Correct statements (assuming that EHT does not require special license from Ministry of Home Affairs or from relevant local authority).

(i) ODI is permitted.

(ii) Permission from Central Government is required.

(iii) EHT needs to incorporate clause in the trust deed permitting the ODI.

(iv) Foreign entity need to be in charitable sector and it is not necessary to be in same sector.

(A) (i) and (ii)

(B) (i) and (iii)

(C) (i), (ii) and (iii)

(D) (i), (iii) and (iv)

3.4 Which of the following statements are incorrect under the provisions of CGST Act, 2017 with respect to EarthCare Health Trust?

- (i) A composite participation fee charged by the trust for residential yoga or meditation camp, focusing on the promotion of wellness and spirituality and including boarding and lodging, is exempt from GST.
- (ii) Rental income from community halls will not attract any GST.
- (iii) EHT is required to register under GST and pay GST @ 18% under RCM on account of payment made for services provided by ABC Security Services P. Ltd.
- (iv) EHT is required to register under GST and pay GST @ 18% under RCM on account of payment made for services provided by Purecare Services Co.

Options:

- (A) (i), (ii) and (iii)
 - (B) (i), (ii) and (iv)
 - (C) (iii) and (iv)
 - (D) (ii), (iii) and (iv)
- 3.5 In your opinion, which of the following statements are correct as per the provisions of Income-tax Act, 1961?
- (i) Application for renewal of registration must be filed by EarthCare Health Trust before 01.10.2025
 - (ii) Application must be filed electronically in form 10AB along with the self-certified copies of required documents and form should be duly certified by the Chartered Accountant.
 - (iii) As grant received from State Government for eye surgeries was in respect of specific purpose, it will form part of corpus and will not be included in the total income.
- (A) Only (i)
 - (B) (i) and (ii)
 - (C) (i) and (iii)
 - (D) Only (ii)

(5 x 2 = 10 Marks)

Descriptive Questions:

- 3.6 Critically evaluate how the EHT's management could measure the performance of its healthcare and environmental initiatives over the year using the four pillars of the Value for Money framework. **(5 Marks)**
- 3.7 Compute total taxable income and tax liability of EHT for the assessment year 2025-26? **(6 Marks)**
- 3.8 Identify and explain any three risks to which EHT gets exposed by importing first of its kind medical equipment for carrying out eye surgeries. **(4 Marks)**

ANSWER TO CASE STUDY 3

3.1 Option (A): (i) and (iii)

3.2 Option (B): (i), (iii) and (iv)

3.3 Option (B): (i) and (iii)

3.4 Option (C): (iii) and (iv)

3.5 Option (A): Only (i)

3.6 EarthCare Health Trust's (EHT) performance during the financial year 2024–25 can be critically assessed using the five pillars of the Value for Money framework: Economy, Efficiency, Effectiveness, Equity and Ethics. Together, these dimensions help determine whether the Trust has utilised its resources prudently, translated them into meaningful outputs, achieved its intended outcomes, delivered services fairly, and upheld the highest standards of ethical conduct.

From the perspective of economy, EHT demonstrates strong evidence of cost-conscious resource utilisation across both its healthcare and environmental activities. The procurement of 2,500 coloured dustbins at ₹400 per unit against an MRP of ₹700 signifies clear cost savings achieved through negotiation. The plantation of 12,000 saplings for ₹5 lakh points to efficient sourcing at a low per-unit cost. The Trust also installed solar panels and lighting systems at a 25% reduced installation cost, reflecting sound financial prudence. Cost management is further visible in the honorariums paid to doctors, which are modest relative to specialist medical services, and in the discounted rates negotiated for medical

equipment and surgical materials. **However**, *the import of the specialised medical equipment worth ₹75 lakh warrants closer scrutiny, as the absence of information on tendering, vendor comparison, or life-cycle cost analysis leaves questions about the completeness of the procurement evaluation.* Similarly, EHT does not appear to benchmark procurement costs against comparable NGOs or public institutions, which could further validate the strength of its economic choices.

In examining efficiency, the Trust appears to translate its inputs into a high volume of outputs. The completion of 2,560 eye surgeries, serving more than 22,000 patients, and conducting 60 medical camps reflect strong operational throughput. The introduction of digital medical records has reduced administrative work and enabled faster processing of patients. Outsourcing cleaning and security services has likely freed internal staff for core healthcare functions, improving operational focus. Environmental initiatives show similar productivity, with 50 cleanliness campaigns and a large-scale distribution of dustbins. **Yet, certain gaps remain.** The Trust does not provide data on average patient turnaround time, machine/equipment utilisation rates, equipment downtime, or the survival rate of planted trees; all of which are critical for evaluating true operational efficiency.

Regarding effectiveness, the Trust appears to have achieved significant outcomes in both healthcare and environmental domains. The 2,560 successful eye surgeries directly contribute to restoring vision among underserved populations and improving quality of life. The reported reduction in litter and increase in vegetation cover, as confirmed by a government survey, represent tangible environmental improvements. The distribution of dustbins and cleanliness drives has strengthened community participation in waste management, while preventive healthcare initiatives have likely contributed to reduced disease incidence. **However**, effectiveness cannot be fully established without more data. The Trust does not share post-surgery follow-up results, complication rates, changes in disease burden, or evidence of sustained behavioural change from awareness programmes. Similarly, the long-term effectiveness of tree plantation efforts cannot be gauged without monitoring survival and growth over time.

In terms of equity, EHT's model is inherently inclusive, given its sliding-scale fees and commitment to providing free healthcare to patients who cannot afford to pay. The Trust's medical camps and environmental initiatives were carried out, ensuring that disadvantaged communities benefit directly from its services. Free distribution of dustbins further supports equitable access to sanitation infrastructure. Nonetheless, the absence of demographic data on beneficiaries such as gender, age, income level, disability status, or geographic segmentation; prevents a complete assessment of whether services were truly equitable across all vulnerable groups. **Without structured beneficiary profiling**, it is difficult to determine the extent to which the poorest households, the elderly, persons with disabilities, or remote communities were covered.

The ethical dimension forms a crucial fifth pillar, especially given that EHT operates with donor funds, foreign contributions and government grants. Several initiatives reflect an ethical foundation, including the provision of free or subsidised services, environmentally responsible programmes, and efforts to enhance healthcare affordability. **However**, there are areas where ethical safeguards need strengthening. The absence of a documented procurement policy, particularly in relation to the high-value imported equipment, raises concerns over transparency and potential conflict of interest risks. There is no information on data privacy protocols for the newly introduced digital medical records, leaving patient confidentiality exposed. Furthermore, the Trust does not mention, an internal code of ethics, or community grievance channels; key elements for ensuring accountability and fairness. Ethical reporting to donors, including utilisation certificates or impact disclosures, is also not described, creating potential gaps in stakeholder assurance.

Overall, EarthCare Health Trust appears to perform strongly on Economy, demonstrates commendable Efficiency and generates meaningful outcomes reflecting Effectiveness. However, its Equity and Ethics dimensions require more formal systems, structured metrics and transparent reporting to fully meet the expectations of a modern, accountable NGO. By institutionalising clear procurement rules, ethical guidelines, beneficiary profiling, outcome measurement and data privacy safeguards, the Trust can further enhance its Value for Money profile and

strengthen stakeholder confidence in both its healthcare and environmental missions.

Note: Any Four Points are sufficient.

3.7 Computation of total taxable income and tax liability of EHT for the A.Y. 2025-26

	Amount (in lakhs)
State Government Grant received for eye surgeries [See Note 3 below]	40
Voluntary contribution received	190
Net income from property held under trust	8
Corpus donations received where details are maintained [Assuming invested in the modes specified u/s 11(5)]	-
Note – If it is assumed that corpus donation is not invested in the mode specified u/s 11(5), then the same would not be exempted.	238
Add: Anonymous donation [₹ 15 lakhs + ₹ 2 lakhs] [to the extent not chargeable to tax@30% under section 115BBC(1)(i)] [Refer Notes 1 & 2 below]	10.85
	248.85
Less: 15% of income eligible for being set apart without any condition [Refer Note 2 below]	37.3275
	211.5225
Less: Amounts applied for the objective of the trust	213
Total Income of the trust (before including anonymous donation)	-
Add: Anonymous donation taxable @30% under section 115BBC(1)(i) [See Note 2 below]	6.15
Total income of the trust (including anonymous donation taxable@30%)	6.15
Tax on anonymous donation @30%	1.845
Tax on balance income at slab rate	-
	1.845
Add: HEC @4%	0.0738
Tax liability	1.9188

Notes:

- (1) As per section 115BBC(1)(i), the anonymous donations in excess of the higher of the following would be subject to tax@30%;
- ₹ 10.85 lakh, being 5% of the total donations received i.e., 5% of ₹ 217 lakhs [Voluntary contributions of ₹ 190 lakhs (+) anonymous contributions of ₹ 17 lakhs (+) Corpus donation of ₹ 10 lakhs]; or
 - ₹ 1 lakh

Therefore, anonymous donations of ₹ 6.15 lakhs (₹ 17 lakhs – ₹ 10.85 lakhs) would be subject to tax@30% under section 115BBC(1)(i).

Such anonymous donations which are subject to tax@30 % are not eligible for the benefit of exclusion from total income under sections 11 and 12.

- (2) As per the plain reading of section 13(7), it appears that the entire anonymous donations may not be eligible for benefit of exclusion from total income under sections 11 and 12. If this view is taken, then ₹ 10.85 lakhs should not be added to ₹ 238 lakhs for 15% unconditional exemption. Accordingly, ₹ 35.7 lakhs, being 15% of ₹ 238 lakhs would be the income eligible for accumulation without any condition. Computation of total income and tax liability would, accordingly, change.
- (3) Grants of ₹ 40 lakhs received from State Govt. are not included in the total donations, in the above solution, while computing the limit of 5% of total donations u/s 115BBC(1). This view is taken since Govt. grants are generally given subject to stipulated conditions. However, in Income-tax Form ITR-7, Government grants are included in the total donations for the purpose of computing limit of 5% of total donations u/s 115BBC(1). Hence, the solution can also be worked out by including government grants in total donations for computing the limit of 5% of total donations.

3.8 Following risks can be considered:

- (i) *Operational Risk* – As equipment is first of its kind, training issues, non-availability of personnel to handle the equipment.

- (ii) *Currency Risk* – Equipment is imported, so currency risk exists.
- (iii) *Compliance Risk* – Compliance with Forex guidelines.

Alternative

Importing a first-of-its-kind medical equipment exposes EarthCare Health Trust (EHT) to several technological, operational, regulatory and capability-related risks that may affect its healthcare delivery model and overall Value for Money (VFM) performance. *Since this is the first such machine in India, the decision cannot be based solely on cost or efficiency; it must also incorporate non-financial considerations such as equipment reliability, service quality, patient safety, ethical responsibilities, organisational capacity, regulatory compliance, and long-term sustainability.* These factors are critical because any shortcomings in technical support, staff readiness or regulatory approvals can directly disrupt eye-care services and diminish the expected benefits of the imported technology.

The first major risk relates to ***technological uncertainty and dependence on specialised support***. Since the equipment is new to India and potentially unfamiliar to local technicians, EHT may face challenges in obtaining timely maintenance, calibration and technical troubleshooting. Any delay in repair or lack of local service capability can result in prolonged equipment downtime. This directly affects the continuity of eye surgeries, reduces patient throughput and undermines the Trust's operational efficiency. Moreover, the absence of comparable domestic expertise may force EHT to rely on costly overseas support, increasing operating costs and creating long-term financial commitments beyond the initial purchase price. This weakens *Economy* due to higher maintenance expenditure, decreases *Efficiency* because downtime limits equipment utilisation, and reduces *Effectiveness* as fewer surgeries get completed and patients experience delays in receiving care.

A second significant risk arises from skill and capability gaps within the organisation. Doctors, nurses and technicians at EHT may not have prior experience handling such advanced equipment, increasing the likelihood of improper use, performance errors or even safety incidents. Without structured training, certification and supervised usage protocols, the equipment may not be utilised to its full capacity, resulting in under-performance or suboptimal surgical outcomes. This not only affects the

effectiveness of eye-care services but also exposes the Trust to reputational risk if patient outcomes deteriorate. The absence of readily available training partners in India further delays capability building, which may reduce the Return on Investment from the equipment during the initial years.

A third important risk relates to regulatory, compliance and supply chain constraints that arise when importing highly specialised medical technology. Being the first of its kind in the country, the equipment may require additional approvals, import clearances, adherence to medical device rules, and periodic compliance filings. Any deviation or delay in obtaining these approvals can expose EHT to legal consequences, penalties or operational restrictions. **Furthermore**, importing such equipment creates long-term dependence on foreign suppliers for consumables, spare parts and software updates. Any disruption in global supply chains due to geopolitical tensions, currency fluctuations or import policy changes, can interrupt access to critical components, affecting the availability and reliability of surgical services. These supply-related uncertainties increase both financial risk and service disruption risk. This adversely affects *Economy* because imported consumables and compliance costs are higher, weakens *Efficiency* as delays lead to idle equipment capacity and postponed surgeries, and compromises *Effectiveness* since service disruptions reduce the number of successful procedures and overall healthcare outcomes.

Overall, while the import of the new equipment enhances the Trust's capability to conduct advanced eye surgeries, it simultaneously exposes EHT to technological, operational and regulatory risks that require proactive mitigation. Establishing service contracts with the supplier, investing in comprehensive staff training, and securing compliance clearances and backup supply arrangements are essential steps to ensure that the equipment adds sustainable value to EHT's healthcare mission.

CASE STUDY - 4

Quick Bites Limited (QBL), public company incorporated under the Companies Act, 2013, has its Registered Office in Mumbai, India. Founded in 2014 by Ms. Raspreet Kaur and Mrs. Rubeena Rani, the company operates a rapidly expanding international Quick Service Restaurant (QSR) and casual dining chain under the renowned brand name NIWALA. QBL is currently opting for 5% scheme

for restaurant services under GST provisions.

QBL has adopted a strategy centered on product differentiation and cost leadership, aiming to deliver authentic Indian cuisine tailored to global standards while maintaining superior efficiency. This dual approach is essential for gaining a competitive advantage in the highly saturated global food and hospitality industry.

As of 31st March 2025, QBL is a significant player in the Indian market, though its shares are currently unlisted.

Extract of Audited Financial Information (as on 31.03.2025 - FY 2024-25):

Particulars	(₹ in Lakhs)
Paid-up Equity Share Capital	12,000
Non-Current Borrowings (Term Loan - Balance)	12,500
Total Turnover (FY 2024-25)	48,000
Average Turnover (Immediate 3 preceding FYs)	35,000
Net Profits (before Managerial Remuneration and Tax)	3,800

The Board of Directors comprises seven members: Ms. Raspreet Kaur (Managing Director - MD), Mrs. Rubeena Rani (Whole-Time Director - WTD), Mr. Jaspal Julka (WTD), Mrs. Susheela Dhakrey (Woman Director), and three Independent Directors (Mr. Asa Ram, Mr. Hem Shankar, and Mr. Radhey Shyam).

For the Year ended 31.03.2025, remuneration paid to Ms. Raspreet Kaur, Mrs. Rubeena Rani and Mr. Jaspal Julka is ₹ 418 lakhs and remuneration to Mr. Asa Ram, Mr. Hem Shankar, and Mr. Radhey Shyam in the form of Stock Options totaling to ₹ 36.50 lakhs. Besides this, Mr. Asa Ram, Mr. Hem Shankar, and Mr. Radhey Shyam also received remuneration off 5.00 lakhs each in their respective bank accounts in the form of fee.

The Board has maintained a robust internal audit function outsourced to M/s XYZ Professionals, ensuring that internal control system compliance aligns with statutory requirements. Given the current scale and financial figures, QBL is required to appoint an internal auditor.

In line with its strategic objective to establish a worldwide food chain, QBL decided in April 2024 to establish a fully owned subsidiary in Germany, NIWALA GMBH. This subsidiary is crucial for penetrating the European market. The initial project

cost for NIWALA GMBH is estimated at USD 15 million (Current exchange rate: ₹ 88/USD). QBL Limited plans to infuse this capital through Foreign Direct Investment (FDI).

Key Expenditure Components for NIWALA GMBH (F.Y. 2024-25):

1. Specialized Kitchen Equipment (Imported from UK): USD 5 million.
2. Land Acquisition (Leased/Capitalized in Germany): USD 4 million.
3. Marketing and Brand Promotion (Global Ad Campaign): USD 1.5 million. This includes payment to "Global Reach Inc.," a US-based entity, for online advertising services provided globally.
4. Operational Working Capital and Contingency: USD 4.5 million.

Simultaneously, QBL decided to expand its Agra central preparation facility to support growing domestic demand and cater to the supply needs of NIWALA GMBH (specialized spice blends, prefabricated frozen items). For this Capital Expenditure (CapEx) project, QBL incurred the following costs during F.Y. 2024-25, with assets being put to use on 15.03.2025:

- Acquisition of new industrial building/structure for the facility (Ready-to-use factory) costing ₹ 10.50 Crores.
- Purchase and installation of new specialized machinery (M 1) as per details: List Price: ₹ 6.50 Crores, five year maintenance contract 10.00 lakhs, Operating losses before commercial production: ₹ 15.00 lakhs and Architect Fee for site preparation ₹ 5.00 lakhs and machine servicing equipment (MSE) ₹ 25.00 lakhs (it is not probable that future benefits of this will flow to the entity). {Fair value of M 1 is ₹ 7.05 Crores}
- Acquisition of industrial land adjacent to the facility costing ₹ 4.00 Crores.

QBL funded this CapEx by securing a fresh, term loan of ₹ 15 Crores from a Nationalized Bank on 1st October 2024. The interest rate is 10.5% p.a. Disbursement occurred on 15th October 2024. The project construction/installation commenced on 1st November 2024, and the asset was ready for intended use on 15th March 2025.

QBL established a detailed Strategic Cost & Performance Management (SCPM) system for its central Agra kitchen (Division-A) supplying specialized raw materials and ingredients to its domestic (Division-D) and international (NIWALA GMBH - Division-G) outlets.

Division-A (Agra) Data (Projected for F.Y. 2024-25):

- Capacity: 5,00,000 units (spice blends/pre-mixes).
- Variable Cost of Production per unit: ₹ 450.
- Expected Demand from Division-D (Domestic): 3,00,000 units.
- Expected Demand from Division-G (Germany): 1,00,000 units.

The total expected demand is 4,00,000 units, which is within current capacity. The MD, Ms. Raspreet Kaur, suggested setting the internal transfer price (TP) at Full Cost (" 650) for efficiency reporting, arguing that this policy maximizes overall company profit after considering international taxation differences.

QBL is assessing whether it qualifies for the special investment-linked deduction under Section 35AD for its Agra expansion project as the company is not opting for concessional tax regime under Section 115 BAA. The relevant assets were put to use on 15.03.2025.

QSL's management is making sincere efforts to ensure adherence to ethical labour practices among its food ingredient vendors and reduce energy consumption. Keeping this energy consumption in mind, QBL procured specialized food processing machinery from TechFab Limited (a registered supplier in UP). The machine costing ₹ 8,85,000 (inclusive of 18% GST), which also happens to be the open market value, is purchased. As part of the negotiation, QBL also provided 100 kilograms of specialized, high-grade spices (manufactured internally, valued at ₹ 40,000, exclusive of GST) as consideration to TechFab. Mr. Vivek, the accountant, is unsure how to determine the correct transaction value for GST purposes.

Further, QBL regularly uses road transport (Goods Transport Agency - GTA) for moving inventory between its Agra central kitchen and various outlets. The freight charged by the GTA (FPL Logistics, registered under GST) for F.Y. 2024-25 totalled ₹ 10 lakhs (exclusive of GST). FPL Logistics has opted to pay GST at 12% on forward charge, allowing QBL to potentially claim ITC. QBL while depositing GST dues for the concerned month sent the challan to the bank and the bank while transferring the GST to department deducted the transfer charges and remitted the net amount only. QBL thinks that bank correctly transferred the GST amount after deducting the transfer charges.

M/s RSA & Co., Chartered Accountants, is the statutory auditor of QBL, CA. Lalit Bansal is the Engagement Partner.

In December 2024, seeking enhanced credibility for the large nationalized Bank term loan of ₹ 15 Crores, QBL's CFO requested CA. Lalit to issue a compilation report on the prospective financial information (PFI) related to the projected returns from the new Agra facility. CA. Lalit is aware that prospective financial information is inherently based on management's assumptions and future contingencies.

Post-sanction of the Nationalized Bank loan, a consortium of other banks expressed interest in funding QBL's future working capital requirements. During their due diligence process in February 2025, they formally requested CA. Lalit to provide detailed extracts from his audit working papers relating to the valuation of the fixed assets of QBL, specifically the breakup of the cost of the new specialized kitchen equipment and its expected useful life (USD 5 million import for NIWALA GMBH).

Multiple Choice Questions:

[Provide the correct option to the following questions]

4.1 *Identify the correct statement in relation to the remuneration paid to the Directors.*

- (A) Remuneration paid to Ms. Raspreet Kaur, Mrs. Rubeena Rani and Mr. Jaspal Julka is within the permissible limits whereas Mr. Asa Ram, Mr. Hem Shankar, and Mr. Radhey Shyam are not entitled to the remuneration of ₹ 36.50 lakhs.*
- (B) Remuneration paid to Ms. Raspreet Kaur, Mrs. Rubeena Rani and Mr. Jaspal Julka is not within in the permissible limits whereas Mr. Asa Ram, Mr. Hem Shankar, and Mr. Radhey Shyam are entitled to the given remuneration of ₹ 36.50 lakhs.*
- (C) Remuneration paid to Ms. Raspreet Kaur, Mrs. Rubeena Rani and Mr. Jaspal Julka is not within the permissible limits and also Mr. Asa Ram, Mr. Hem Shankar, and Mr. Radhey Shyam are not entitled to the given remuneration of ₹ 36.50 lakhs.*
- (D) Remuneration paid to Ms. Raspreet Kaur, Mrs. Rubeena Rani and Mr. Jaspal Julka is within the permissible limits and also Mr. Asa Ram, Mr. Hem Shankar, and Mr. Radhey Shyam are entitled to the given remuneration of ₹ 36.50 lakhs.*

4.2 What is the maximum allowable amount of Investment Linked Deduction under Income Tax Act, 1961 for A.Y. 2025-26?

- (A) ₹ 21.05 Crores
- (B) ₹ 17.00 Crores
- (C) ₹ 17.05 Crores
- (D) Nil

4.3 Identify the bottom lines discussed in case study, which can be considered under initiatives towards sustainability?

- (i) Economic
- (ii) Environmental
- (iii) Social Equity
- (iv) Equitable

Options:

- (A) (i), (ii) and (iii)
- (B) (ii) and (iii)
- (C) (iii) Only
- (D) (iv) Only

4.4 Which of the following statements are correct in relation to recognition of M 1?

- (i) M 1 will be recognized in the books of accounts at ₹ 6.55 Crores.
- (ii) MSE will be classified as Inventory.
- (iii) Disclosure regarding fair value of ₹ 7.05 Crores must be made in financial statements.
- (iv) Disclosure regarding measurement bases is recommendatory as per concerned Ind AS

- (A) (i) and (ii)
- (B) (ii) and (iii)
- (C) (i), (iii) and (iv)
- (D) (i) and (iii)

4.5 Identify the Incorrect statements from the following considering provisions of GST Law.

- (i) ITC is available on invoices raised by FPL Logistics.
 - (ii) QBL is required to deposit GST under RCM on fee of ₹ 15.00 lakhs paid to Mr. Asa Ram, Mr. Hem Shankar and Mr. Radhey Shyam.
 - (iii) QBL's view on bank remittance of output GST is correct.
 - (iv) ITC is available on machinery purchased from TechFab Limited.
- (A) (i), (ii) and (iv)
(B) (i) and (iv)
(C) (i), (iii) and (iv)
(D) (ii), (iii) and (iv)

(5 x 2 = 10 Marks)

Descriptive Questions:

4.6 QBL Limited adheres to Total Quality Management (TQM) philosophy, emphasizing quality at every stage of its food preparation and service. Analyze how the primary activities of QBL's Value Chain are impacted by the decision to source high-grade spice blends internally (Division-A) rather than procuring from external third-party vendors. **(6 Marks)**

4.7 Determine the correct transaction value for the supply of food processing machinery by TechFab Limited to QBL under the GST provisions.

- (i) Calculate the total GST payable on this transaction, and
- (ii) Advise the accountant, Mr. Vivek, on the correct approach to valuation, assuming the standard GST rate is 18%. **(5 + 1 = 6 Marks)**

4.8 CA. Lalit, the engagement partner for QBL, receives a formal request from Nationalized Bank and a consortium of other banks during their due diligence to obtain detailed extracts from his audit working papers relating to fixed asset valuation and projected useful life. Discuss the professional and ethical duties of CA. Lalit Bansal regarding client confidentiality and his obligation to disclose information to third-party lenders. **(3 Marks)**

ANSWER TO CASE STUDY 4

4.1 Option (C): Remuneration paid to Ms. Raspreet Kaur, Mrs. Rubeena Rani and Mr. Jaspal Julka is not within the permissible limits whereas also Mr. Asa Ram, Mr. Hem Shankar and Mr. Radhey Shyam are not entitled to the given remuneration of ₹ 36.50 lakhs.

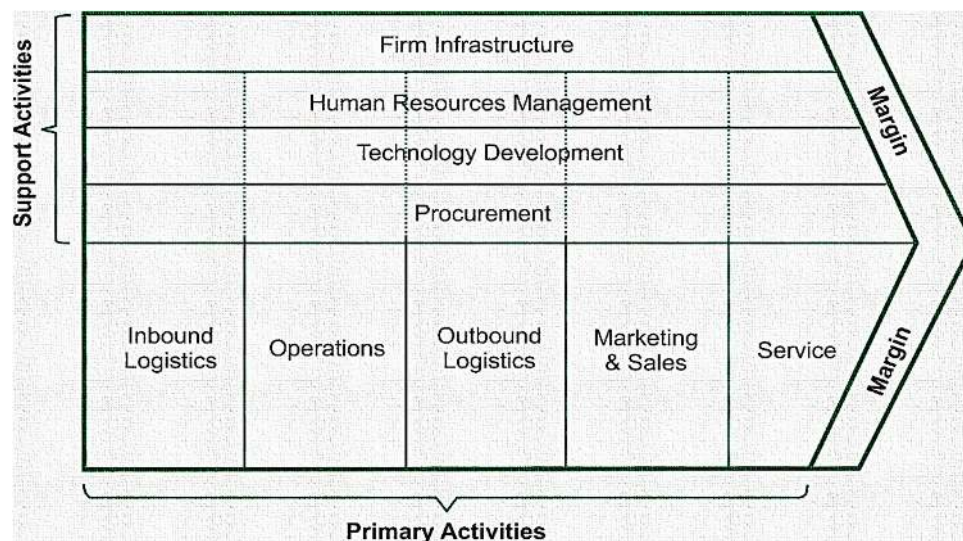
4.2 Option (D): Nil

4.3 Option (A): (i), (ii) and (iii)

4.4 Option (A): (i) and (ii)

4.5 Option (C): (i), (iii) and (iv)¹

4.6 QBL's adoption of Total Quality Management (TQM) places strong emphasis on quality, consistency, and operational efficiency across all functions. In this context, the decision to produce high-grade spice blends internally has a significant impact on each primary activity of Porter's Value Chain.



¹ It has been presumed that amount received is sitting fee in lieu of directorship services provided by Independent Directors.

In inbound logistics, the impact is generally positive. By reducing dependence on external vendors, QBL minimizes the risks associated with inconsistent quality or delayed supply of raw materials. Internal production provides better control over inventory planning, since the timing, batch size, and quality specifications of spice blends can be managed internally. This also ensures full alignment with TQM standards regarding purity, hygiene, and traceability. However, higher storage and handling requirements for raw spices and the need for closer coordination between procurement and internal processing may create some operational challenges.

In operations, particularly at Agra Division-A and across restaurant outlets, the impact is strongly positive. Internal production ensures uniformity of taste across all locations, which is critical for a QSR brand. Standardized processing under QBL's control strengthens quality assurance and eliminates the variability that often arises from third-party vendor processes, thereby improving process stability. It also enables QBL to implement continuous process improvements more rapidly, fully aligned with TQM principles. Further operational benefits include better alignment between production capacity and demand from Division-D (domestic) and Division-G (Germany), along with reduced risk of rejections.

For outbound logistics, the impact is mixed but manageable. Internal sourcing now requires QBL to transport its spice blends from the Agra facility to domestic and international outlets, which calls for more structured logistics planning, including packaging, scheduling, and, where necessary, temperature control. However, centralizing production also enables the company to consolidate shipments and achieve economies of scale. On balance, although logistical responsibilities increase, the level of control over product movement and consistency improves.

Marketing and sales benefit positively from this strategic decision. The use of in-house, authentic spice blends becomes a compelling unique selling proposition, strengthening NIWALA's brand positioning as a provider of genuine, quality-controlled Indian flavors worldwide. This supports **product differentiation** and allows marketing communication to emphasize quality assurance, ethical sourcing, freshness, traceability, and consistency of taste across global outlets. Such messaging is particularly

valuable in international markets like Europe, where food safety and traceability standards are stringent.

Customer service also experiences a strong positive impact. With improved consistency of taste and higher product quality, customer satisfaction increases, leading to more repeat visits. Internal sourcing supports TQM by reducing complaints related to inconsistent flavors or quality fluctuations. This strengthens customer trust and the overall credibility of the NIWALA brand. Over time, the resulting improvements in customer experience translate into stronger loyalty and a more sustainable competitive advantage within an intensely competitive QSR industry.

Overall, sourcing high-grade spice blends internally enhances QBL's operational control, product quality, and brand consistency, key pillars of its TQM philosophy. While the company assumes greater logistical responsibility, the strategic benefits across the value chain, particularly in operations, marketing, and customer service, far outweigh the additional costs. Consequently, this decision significantly strengthens QBL's competitive positioning in both domestic and international markets.

- 4.7** The value of a supply of goods is the transaction value where the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply in terms of section 15 of the CGST Act, 2017.

In the current case, price is not the sole consideration for the supply. Apart from monetary consideration, QBL has given TechFab Limited 100 kilograms of specialized, high-grade spices as consideration for such supply. Hence, the value of the supply cannot be determined on the basis of the transaction value in terms of section 15 of the CGST Act, 2017.

Here, the value will be determined with the help of rule 27 which specifies that where the consideration for a supply is not wholly in money, the value will be the open market value.

Open market value of a supply means the full value of money, excluding the applicable GST, where the supplier and the recipient of the supply are not related and the price is the sole consideration, to obtain such supply at the same time when the supply being valued is made.

Thus, in view of above provisions, the correct transaction value for supply of Food Processing Machinery is-

Open market value of machine (excluding GST)

$$= ₹ 8,85,000 \times 100 / 118$$

$$= ₹ 7,50,000$$

(i) The total GST payable on this transaction = ₹ 7,50,000 × 18%
= ₹ 1,35,000

(ii) Mr. Vivek, the accountant should value the supply of food processing machinery at the open market value only as per section 15 of the CGST Act 2017 read with rule 27 of the CGST Rules, 2017 as price is not the sole consideration for the supply.

Rule 27 of the CGST Rules, 2017 further provides that if the open market value of the supply is not known, the value of the supply will be the consideration in money plus the money equivalent to the non-monetary consideration, if such an amount is known at the time of supply.

In the given case, open market value is given, so the money equivalent to the non-monetary consideration shall not be added.

4.8 Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 deals with the professional misconduct relating to the disclosure of information by a chartered accountant in practice relating to the business of his clients to any person other than his client without the consent of his client or otherwise than as required by any law for the time being in force would amount to breach of conduct. The Code of Ethics further clarifies that such a duty continues even after completion of the assignment. The Chartered Accountant may, however, disclose the information in case it is required as a part of performance of his professional duties.

The only circumstance in which this duty of confidence may give rise to a difficulty is where the accountant has reason to believe that the client has been guilty of some unlawful act or default. This matter is of special significance in the case where the client is guilty of tax evasion.

Further, SA 200 on "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing" also reiterates that, "the auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any

such information to a third party without specific authority or unless there is a legal or professional duty to disclose".

Accordingly, an auditor is not required to provide the client or other auditors of the same enterprise or its related enterprise such as a parent or a subsidiary, access to his audit working papers. However, the auditor may, at his discretion, in cases considered appropriate by him, make portions of or extracts from his working papers available to the client.

In the instant case, the nationalized bank and consortium of other banks has requested the auditor for detailed extracts from his audit working papers relating to fixed asset valuation and projected useful life. Working papers are the property of the auditor. The auditor may at his discretion, make portions of or extracts from his working papers available to his client. If disclosure is required in other cases, it would be necessary to ensure that the consent of the client is obtained by a person who is competent to accord such consent. In the absence of above, the auditor CA. Lalit will be held guilty of professional misconduct.

CASE STUDY - 5

Oceanic Textiles Ltd. (OTL) is a 100% Export Oriented Unit located in Mumbai, India and listed on National Stock Exchange. Established in 2012, the company specializes in the manufacture and export of organic cotton garments to markets in Europe and North America and net foreign exchange earner. Profitability is highly exposed to foreign exchange (FX) risk. In 2024, Company reported strong sales growth in the U.S., and European countries. However, despite rising sales volumes, the company faced a profitability squeeze. One of the major contributing factors was currency volatility, particularly the depreciation of key currencies against the INR. This resulted in lower reported revenue and profit margins from those markets despite constant or increasing unit sales.

It follows a B2B model for bulk export order and is gradually exploring D2C e-commerce channels globally. It is known for managing and distributing both homegrown and international brands. OTL has established R&D facilities in India to develop new designs and manufacturing processes. Company has five subsidiaries (all unlisted) dealing in yarn and cotton ginning. None of the independent director of OTL are on the board of any of the subsidiary. Accounts of all five subsidiaries are consolidated with OTL and placed before shareholders at the general meeting.

For the F.Y ended 31.03.2025, the Company has made the following information available in respect of some of its purchase and sale transactions:

- (i) Goods Purchased from A Ltd.: ₹ 10 Crores (GST Rate applicable is 12%)*
- (ii) OTL received an order from B Ltd. (holder of advanced authorization) to supply goods to be used as inputs by B Ltd. The supply will be made against advance release order.*
- (iii) OTL has sent goods worth ₹ 5 Crores for some jobwork process to C Ltd. However no bank guarantee has been furnished for the same.*
- (iv) OTL has imported one new machine during the year. Machinery will be used in manufacturing of goods to be exported only and also there is no specific notification making countervailing duty applicable. Legal department is of the view that machinery import is exempt from Basic Customs duty and IGST but not from countervailing duty.*

One of the subsidiaries Pluto Private Limited which contributes over 25% of the consolidated revenue and net worth of the Group entered into a related party transaction with a group company, ABC Services Ltd., for subcontracting yarn dyeing work worth ₹ 25 Crores (19.5% of total expenses of previous accounting year). However the said transaction has been put up but not approved by the board of OTL. Besides Pluto Private Limited, two other subsidiaries constitute 25% of the consolidated revenue and net worth of the Group.

OTL is preparing its financial forecasts for the next fiscal year. As part of its strategic planning, the CFO must forecast the INR/USD exchange rate to manage foreign exchange exposure for a \$10 million payment due in 6 months. CFO wants to use such technique which uses time series models. One of his team members is of the view that the method suggested by CFO suffers from one limitation i.e. changes in the sensitivity of currency movements to each factor over time. Also the method proposed by CFO takes into consideration the current spot/forward rates.

OTL owns machine that was acquired on 1st April 2016 for ₹ 50 lakhs. The useful life of the machine is 20 years and is depreciated on SLM basis. The company uses the revaluation model for subsequent measurement as per Ind AS 16. On 1st April 2020, the fair value of the machinery is determined to be ₹ 65 lakhs. There is no change in useful life. OTL has been charging depreciation on a straight-line basis and had charged depreciation up to 31st March 2020. On 31st March 2024, the machinery is sold for ₹ 18 lakhs in order to upgrade technology. OTL imported

high-precision equipment (TECH M) from Germany for its manufacturing facility. The following facts are available:

The equipment was purchased on 1st September 2024 at a price of EUR 5,00,000 on deferred credit (payment to be made in September 2026).

The exchange rate on the date of purchase was ₹ 88/EUR.

TECH M was capitalized on the same date and put to use on 15th October 2024. As on 31st March 2025, the exchange rate was ₹ 92/EUR.

The company prepares books on mercantile basis and follows ICDS for income computation. OTL claims depreciation@15% under the Income-tax Act, 1961.

The company prepares full financial statements annually, which are audited. While preparing financial statements, company has not disclosed capitalization policy for repair or upgrades as in the opinion of the management, the same is immaterial.

In addition, for public dissemination through brochures and press releases, it prepares summary financial statements. The Board of OTL engages C S & Co., a Chartered Accountancy firm, to audit the summary financial statements for FY 2024-25 citing the increasing importance of transparency and alignment with international best practices. These summary financial statements are to be included in the company's annual brochure and shared with investor during earnings calls. The summary financial statements were derived from the audited full financial statements and include:

- Summarized Statement of Profit and Loss
- Summarized Statement of Financial Position
- Summarized Notes on material accounting policies and key disclosures

Auditor firm has already issued an unmodified audit opinion on the company's full financial statements prepared in accordance with Ind AS. While drafting the audit report on the summary financial statements, the following opinion paragraph is proposed:

"In our opinion, the summary financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. "

Management is thinking of hiring you as a consultant to provide some inputs on various parameters to identify the currency risk which is squeezing the profitability of the company.

Multiple Choice Questions:

[Provide the correct option to the following questions]

5.1 Which of the following statements are true in relation to sales and purchase transactions informed by the company?

- (i) Goods supplied by A Ltd. to OTL will be considered as Zero Rated Supply.
- (ii) OTL can supply goods to B Ltd.
- (iii) Bank Guarantee is not required for sending the goods to C Ltd.
- (iv) Opinion of Legal department is correct.
- (A) Statement (i), (iii) and (iv)
- (B) Statement (ii), (iii) and (iv)
- (C) Statement (ii) and (iii)
- (D) Statement (i) and (iv)

5.2 Identify the incorrect statements (as per corporate governance guidelines requirements) in relation to transaction between Pluto Private Limited and ABC Services Ltd.

- (i) Both Pluto Pvt. Ltd. and ABC Services Ltd. should inform the BoD of OTL of the transaction.
- (ii) As the transaction amount is less than 20% of total expenses of previous accounting year, so no requirement even of putting up the transaction to the notice of the board of OTL.
- (iii) At least one independent director on the board of OTL should also be on the board of all unlisted subsidiaries.
- (iv) Transaction approval from Audit Committee of OTL was required.
- (A) Statement (i) and (iv)
- (B) Statement (i), (iii) and (iv)
- (C) Statement (ii), (iii) and (iv)
- (D) Statement (i), (ii) and (iv)

- 5.3 Identify the incorrect statements from the discussion between CFO and his team member.
- (i) The method suggested by CFO is technical forecasting.
 - (ii) Team member has correctly identified the limitation.
 - (iii) Team member has correctly identified exchange rates being used in proposed method.
 - (iv) CFO's method doesn't generally provide range estimates and generally not used by MNCs
- (A) Statement (i) and (iv)
(B) Statement (ii) and (iii)
(C) Statement (ii), (iii) and (iv)
(D) Statement (i), (ii) and (iv)
- 5.4 Why the opinion paragraph on summary financial statements is not appropriate?
- (A) Because it does not mention the responsibilities of management and the auditor.
(B) Because it incorrectly provides an opinion on the fair presentation of summary financial statements instead of their consistency with the audited full financial statements.
(C) Because it omits reference to the date of the auditor's report on the full financial statements.
(D) Because opinion cannot be expressed on engagement to report on summary financial statements.
- 5.5 What is the correct accounting treatment of the revaluation gain on 1st April 2020 in the books of OTL? Also, what is the correct accounting treatment for the Revaluation Surplus at the time of disposal of the machinery?
- (A) The revaluation gain of ₹25 lakhs should be credited entirely to the Profit and Loss account. Revaluation Surplus must be transferred to Profit and Loss account on disposal.
(B) The revaluation gam of ₹ 25 lakhs should be credited to Other Comprehensive Income and accumulated in equity under the heading

"Revaluation Surplus". Revaluation Surplus must be transferred directly to Retained Earnings on disposal.

(C) Only the gain equivalent to the difference between fair value and cost (₹ 15 lakhs) should be credited to Revaluation Surplus and the balance to P&L. Revaluation Surplus must be transferred directly to Retained Earnings on disposal.

(D) The revaluation gain of ₹ 25 lakhs should be credited to Other Comprehensive Income and accumulated in equity under the heading "Revaluation Surplus". Revaluation Surplus of ₹ 10 lakhs should continue to remain in equity under Revaluation Surplus even after disposal.

(5 x 2 = 10 Marks)

5.6 Do you agree with the management's opinion on non-disclosure of Capitalization policy for repair or upgrades? Support your conclusion?

(1 Mark)

Under What Circumstances accounting policy information is said to be material to the financial statements of an entity?

(4 Marks)

5.7 Suggest some parameters as per the requirement of the management.

(5 Mark)

5.8 (i) How should the exchange difference as on 31st March 2025 be treated under ICDS VI and Section 43A of the Income-tax Act, 1961 for TECH M?

(ii) What will be the actual cost of TECH M as per the Income-tax Act, 1961 on 31st March 2025?

(iii) Calculate the depreciation allowable for F.Y. 2024-25 based on the above treatment.

(3 + 1 + 1 = 5 Mark)

ANSWER TO CASE STUDY 5

5.1 Option: (C) Statement (ii) and (iii)

5.2 Option: None of the options is correct

5.3 Option (B): Statement (ii) and (iii)

- 5.4 Option (B):** Because it incorrectly provides an opinion on the fair presentation of summary financial statements instead of their consistency with the audited full financial statements.
- 5.5 Option (B):** The revaluation gain of ₹ 25 lakhs should be credited to Other Comprehensive Income and accumulated in equity under the heading 'Revaluation Surplus'. Revaluation Surplus must be transferred directly to Retained Earnings on disposal.
- 5.6** Under Ind AS 1 'Presentation of Financial Statements', accounting policies are required to be disclosed if they are material and materiality is assessed not only by quantitative thresholds but also by qualitative considerations. As per the standard, accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed.

In case management feel that capitalisation of repairs and upgrades are immaterial, their disclosure is not mandatory and would not be considered as non-compliance or misleading the stakeholders.

Circumstances in which accounting policy information is said to be material to the financial statements of an entity

Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:

- (a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;
- (b) the entity chose the accounting policy from one or more options permitted by Ind AS;

- (c) the accounting policy was developed in accordance with Ind AS 8 in the absence of an Ind AS that specifically applies;
- (d) the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in accordance with paragraphs 122 and 125; or
- (e) the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions-such a situation could arise if an entity applies more than one Ind AS to a class of material transactions.

5.7 The currency risk is dependent on the Government action and economic development. Some of the parameters to identify the currency risk are as follows:

- (1) *Government Action:* The Government action of any country has visual impact in its currency. For example, the UK Govt. decision to divorce from European Union i.e. Brexit brought the pound to its lowest since 1980's.
- (2) *Nominal Interest Rate:* As per interest rate parity (IRP) the currency exchange rate depends on the nominal interest of that country.
- (3) *Inflation Rate:* Purchasing power parity theory impact the value of currency.
- (4) *Natural Calamities:* Any natural calamity can have negative impact.
- (5) *War, Coup, Rebellion etc.:* All these actions can have far reaching impact on currency's exchange rates.
- (6) *Change of Government:* The change of government and its attitude towards foreign investment also helps to identify the currency risk.

5.8 (i) As per ICDS VI, Fixed assets are non-monetary items. A foreign currency transaction shall be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. At last day of each previous year, non-monetary items in a foreign currency shall be converted into

reporting currency by using the exchange rate at the date of the transaction. In respect of non-monetary items, exchange differences arising on conversion thereof at the last day of the previous year shall not be recognised as income or as expense in that previous year.

As per section 43A, increase or decrease in the liability (expressed in Indian rupees) of the assessee at the time of making the payment would be adjusted in the actual cost.

TECH M was purchased on 1.9.2024 and the payment is to be made in September 2026.

Accordingly, there would be no treatment of the exchange difference as on 31.3.2025 either under ICDS VI or section 43A for TECH M.

- (ii) The actual cost of TECH M on 31.3.2025 would be $\text{EUR } 5,00,000 \times 88 = ₹ 4,40,00,000$

- (iii) Depreciation for F.Y. 2024-25

Normal depreciation = ₹ 4.40 crore $\times 15\% \times 50\%$ since the equipment was put to use for less than 180 days = ₹ 33,00,000

Additional depreciation = ₹ 4.40 crore $\times 20\% \times 50\%$ since the equipment was put to use for less than 180 days = ₹ 44,00,000