

## 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

*Life Education Ltd., a Mumbai based entity, is an eligible start-up incorporated in May 2019 and has been successfully managing its online education services for various exams all over India. Business model of the Company is such that Division 1 takes care of educational services and Division 2 is engaged in the manufacturing of tabs which are given to the students taking classes, whether offline or online. Life Education Ltd. launched a free online service to all the students as regards how to derive maximum benefits in usage of its products. Also, it provided online expert guidance service for competitive exams on payment basis to its students. The pricing strategy decided was that the charge to student will be based on level of services availed. Initially for basic services, users were just required to provide their basic information without involvement of money and later on depending upon the level of service, a separate upgradation fee would be charged.*

*Company has presented the following summary of the financial results for the year ended 31.03.2025:*

<b>Profit and Loss Account</b>	<b>₹ in lakhs</b>	<b>Balance Sheet</b>	<b>₹ in lakhs</b>
Revenue	2,500.00	Fixed assets (PPE)	2,000.00
Direct cost	800.00	Current assets	500.00
Admin. expenses	875.71		<b>2,500.00</b>
EBIT	724.29	Equity	1,500.00
Interest	100.00	Reserves	300.00
EBT	600.00	Non-current borrowings	300.00
		Current liabilities & provisions	400.00
			<b>2,500.00</b>

*Note: Current liabilities include the income tax liability.*

*A bad debt provision of ₹50 lakhs is included in administration expenses and the corresponding amount is reduced from current assets. The pre-tax cost of debt is 15%. The company has opted for section 115BAB of the Income-tax Act, 1961. Effective Tax is to be calculated using Surcharge and Higher Education Cess. Cost of equity may be taken as 9% (i.e. shareholders expected rate of return).*

*The company wanted to expand its expertise and had solicited the services of Dr. Bhalla a reputed academician to be on its Board in F.Y. 2020-21 who is still rendering his services to the company. The company issued ESOP 50,000 equity shares of ₹ 10 each to Dr. Bhalla in September, 2024. The value of each equity share was ₹50 but it was issued at face value of ₹ 10 to Dr. Bhalla, who exercised the option in the first week of October, 2024. Shares were allotted to him in the next 10 days and he is still holding the shares. The annual salary of Dr. Bhalla for the financial year 2024-25 was ₹ 60 lakhs from Life Education Ltd. without considering the ESOP given to him at a concessional price.*

*Life Education Ltd. has a cash generating unit "Wing W" acquired on 1<sup>st</sup> April, 2017 with a carrying amount of ₹ 2,000 lakhs. "Wing W" was acquired under a business combination and goodwill of ₹ 400 lakhs was allocated to it, same is depreciated on straight line basis. "Wing W" has a useful life of 20 years with no residual value. On 31<sup>st</sup> March, 2025, "Wing W" has a recoverable amount of ₹ 1,100 lakhs.*

*During the year, company received various GST notices wherein department has alleged that the GST paid by the company is incorrect due to wrong GST rate selection and thereafter the scrutiny proceedings started. During scrutiny, department ordered special audit under the CGST Act, 2017 of the books of accounts of Life Education Ltd. The GST Commissioner nominated ABC LLP, Chartered Accountants on 10<sup>th</sup> June, 2024 to conduct special audit for the financial year 2021-22. The remuneration was fixed at ₹2 lakhs plus applicable GST.*

*Radhika is director of Life Education Ltd. and also of PQR Ltd. based at Delhi. PQR Ltd. did not file its financial statements for the year ended 31.03.2021, 31.03.2022 and 31.03.2023. On 25<sup>th</sup> September, 2023 Radhika was re-appointed as director in the AGM of Life Education Ltd. The Board of Directors of Life Education Ltd. became aware of her position as director in PQR Ltd. and its failure to file the financial statements for the earlier 3 years only in March, 2024. Radhika tendered*

her resignation from the Board of Life Education Ltd. on 10<sup>th</sup> April, 2024 and the Board of Directors reappointed her again as a director in the AGM held on 15th September, 2024 since PQR Ltd. had filed its financial statements up to the financial year ended 31<sup>st</sup> March, 2023 on 8<sup>th</sup> May, 2024.

Life Education Limited entered into a joint venture with Online Platform Limited to form a company by name Online Education Ltd. (OEL) for a project to be completed in 2 years relating to a particular line of online education, share of Life Education Limited being 50%. It was decided that project would be reviewed after a period of five years to assess the future viability. Life Education Limited transferred equipment to OEL for ₹ 8 crores being its Market value while the carrying value in its books of account is ₹ 9 crores.

TSP & Co. are the auditors of the company for the financial year ended 31.03.2025. The Audit Report for that year was signed by TSP & Co. on 04.05.2025. The Annual General Meeting was decided to be held during the month of August 2025. On 06.05.2025, the Company had received a communication from the Central Government that an amount of ₹ 58 Crores kept pending on account of incentives pertaining to financial year 2024-25 has been approved and the amount was received by the Company on 28.05.2025. To a query to Chief Financial officer of the Company by the Board, it was informed that this amount had not been-recognized in the Audited Financial Statements as same was not released before the close of the Financial Year and due to uncertainty of receipt. Now, having received the amount, the Board of Directors wished to include this amount in the Financial Statements of the Company for the Financial Year ended on 31.03.2025. On 01.06.2025, the Board amended the accounts, approved the same and requested the Auditor to consider this event and issue a fresh audit report on the Financial Statements for the year ended on 31.03.2025.

**Multiple Choice Questions:**

[Please provide the correct option to the following questions]

1.1 Which of the business model was provided by Life Education Ltd. by way of online support service to its students?

- (A) Promotion
- (B) Premium
- (C) Freemium
- (D) Subscription

1.2 Whether auditor could accede to the request of the Board of Directors and whether any separate disclosure of the same is required to be given?

- (A) Yes, auditor can issue new audit report subject to date of audit report which should not be earlier than 01.06.2025 and disclosure of the same is required to be given in other reporting responsibilities paragraph of the audit report.
- (B) No, auditor cannot issue new audit report because the audit report has been already issued and also the amount is received only in the next financial year. However only the amendment of original audit report is allowed.
- (C) Yes, auditor can issue new audit report subject to date of audit report which should be on the date of original audit report and include a statement in emphasis of matter/ other matter paragraph.
- (D) Yes, auditor can issue new audit report subject to date of audit report which should not be earlier than 01.06.2025 and include a statement in emphasis of matter/ other matter paragraph.

1.3 Whether special audit can be carried out by GST department in the given case and if Yes, what is the maximum time within which ABC LLP must complete special audit under GST law?

- (A) Special audit can be carried out and the Maximum time limit for completing the special audit under GST law is 180 days from the date of commencement of audit.
- (B) Special audit can be carried out and the Maximum time limit for completing the special audit in the given case is on or before 31<sup>st</sup> March, 2025.
- (C) Special audit can be carried out and Maximum time limit is 90 days for completing the special audit under GST law subject to a further extension of another 90 days.
- (D) Special audit cannot be carried out under the given circumstances.

1.4 Which of the following statement is most appropriate as regards deduction of tax at source in respect of ESOP shares allotted to Dr. Bhalla by Life Education Ltd. during A.Y. 2025-26?

(A) *Tax would be deducted @30% on ₹20,00,000, being the benefit obtained by means of ESOP shares received by Dr. Bhalla in addition to deduction of tax at source on the salary income ₹60 lakhs at the regular rates as applicable u/s 192.*

(B) *Tax would be deducted on ₹80,00,000 consisting of the benefit obtained by means of ESOP shares along with salary income of Dr. Bhalla at the regular rates as applicable under section 192.*

(C) *Life Education Ltd. is allowed to defer withholding tax (TDS) to a date when option is exercised and shares are allotted to Dr. Bhalla. It is to be deducted in the required manner after the expiry of certain timelines and happening of certain events.*

(D) *Life Education Ltd. is not required to withhold (TDS) any tax when option is exercised and shares are allotted to Dr. Bhalla as the transaction is exempted from withholding tax in respect of eligible start-ups.*

1.5 *How will Life Education Ltd. account the loss incurred in its books of account for the transfer of equipment to its joint venture company Online Education Ltd.?*

(A) *Recognize loss of ₹ 1 crore in two installments of ₹ 50 Lakhs each in two financial years.*

(B) *Recognize impairment loss of ₹ 1 crore immediately in the books of account.*

(C) *Recognize loss of ₹ 1 crore in five installments of ₹ 20 Lakhs in five financial years as project would be reviewed after a period of 5 years.*

(D) *There is no loss since the transfer of equipment by it is in the nature of investment in the joint venture.*

**(5 x 2 = 10 Marks)**

**Descriptive Questions:**

1.6 *When is Radhika disqualified from holding the office of director in Life Education Ltd.? Is her appointment as director of Life Education Ltd. in September, 2024 valid in law? Discuss applicable legal provisions with proper conclusion. Also state whether her DIN will be deactivated or not.*

**(5 Marks)**

1.7 In shareholders meeting, question has been raised on various strategic decisions made by the management. Representations by management indicated the impact of decisions on the path to progress of the company. If you are a part of the management, how will you indicate the efficiency of the management on the basis of summary of financial statements given?

**(5 Marks)**

1.8 Life Education Ltd. is carrying the same asset "Wing W" at ₹ 1,200 Lakhs in its books of accounts as on 31.03.2025. Do you agree with the same?

**(5 Marks)**

#### ANSWER TO CASE STUDY 1

**1.1 Option (C):** Freemium

**1.2 Option (D):** Yes, auditor can issue new audit report subject to date of audit report which should not be earlier than 01.06.2025 and include a statement in emphasis of matter/ other matter paragraph.

**1.3 Option (D):** Special audit cannot be carried out under the given circumstances.

**1.4 Option (C):** Life Education Ltd. is allowed to defer withholding tax (TDS) to a date when option is exercised and shares are allotted to Dr. Bhalla. It is to be deducted in the required manner after the expiry of certain timelines and happening of certain events.

**1.5 Option (B):** Recognize impairment loss of ₹ 1 crore immediately in the books of account.

**1.6.** Section 164 of the Companies Act, 2013 contains disqualifications of a director. A person shall not be eligible for appointment as a director of a company if he suffers from any of the disqualifications as specified under section 164.

Accordingly, Section 164(2) prescribes disqualifications which get attached to a person if he is or has been a director of a company which has committed default as under—

(a) his company has not filed financial statements or annual returns for any continuous period of 3 financial years; or

(b) his company has failed to repay the deposits accepted by it or pay interest thereon or to redeem any debentures on the due date or pay interest due thereon or pay any dividend declared and such failure to pay or redeem continues for 1 year or more.

In both the above cases of default, the director concerned shall not be eligible to be re-appointed as a director of such defaulting company or appointed in some other company for a period of 5 years from the date on which the said company has committed default.

As per the fact, company, PQR Ltd. failed to file its financial statements for the following financial years 2020–21, 2021–22, 2022–23.

In line with the above stated legal provisions, the director will be disqualified from 31st October, 2023 (\*assuming the due date for FY 2022–23 filing was 30th October 2023 i.e. within 30 days from the AGM), because that is when the default for the third year occurs. The disqualification will last for five years, i.e., till 30th October 2028.

In the case study, on 25th September 2023, the AGM of Life Education Ltd. is conducted in which Radhika was re-appointed as director. Here Radhika will be disqualified from holding the office of director from date when the default for the third year occurs i.e. from 31<sup>st</sup> October, 2023 and vacate the office in terms of Section 167(1)(a).

Radhika's appointment as director of Life Education Ltd. in September, 2024 is not valid as she is not eligible for appointment for a period of 5 years in any of the companies even though the defaulting company has set right the default by filing the relevant documents.

No, Radhika's DIN will not be deactivated as disqualification under section 164(2) is of temporary nature, and Rule 11 of Companies (Appointment and Qualifications of Directors) Rules, 2014 does not empower any authority to cancel or deactivate DIN upon disqualification under section 164(2).

*\*A copy of the financial statements duly adopted at the annual general meeting of the company, shall be filed with the Registrar within thirty days of the date of annual general meeting as per section 137 of the Companies Act, 2013. Further, Section 96 of the Companies Act, 2013 states that AGM of any company shall be held within a period of six months, from the date of closing of the financial year. For FY 2022–2023, AGM is to be held by 30<sup>th</sup> September 2023 and financial statements duly adopted in the AGM to be filed with the Registrar within thirty days of the AGM i.e. by 30<sup>th</sup> October, 2023.*

### 1.7 Analysis

The Economic Value Added (EVA) of ₹ 445.96 lakhs clearly indicates that the company is generating returns in excess of its overall cost of capital, thus creating substantial value for its shareholders. This outcome is underpinned by strong operating performance and prudent financial structuring.

The Net Operating Profit After Tax (NOPAT) of ₹ 650 lakhs has been derived from an EBIT of ₹724.29 lakhs, reflecting effective cost management in core operations, including control over raw material costs and overheads. Key adjustments—such as adding back non-cash items like depreciation and adjusting for provisions—ensure a true reflection of operating profitability. The tax impact has been optimized through application of the concessional rate under Section 115BAB (effective rate of 17.16%), enhancing post-tax returns.

On the capital structure front, the company has a total capital employed of ₹ 2,100 lakhs, comprising ₹ 1,800 lakhs in equity and ₹ 300 lakhs in debt. The cost of equity (9%) and after-tax cost of debt [ $15\% \times (1 - 0.1716)$ ] are appropriately weighted in the WACC calculation, resulting in a blended capital cost of 9.49%.

The substantial spread between NOPAT (₹650 lakhs) and the capital charge (₹204.04 lakhs) confirms that the company is not just accounting profitable but also economically profitable. EVA, by capturing the true cost of both debt and equity financing, acts as a superior metric of value creation.

Overall, the company's financial strategy reflects sound operational efficiency, optimal capital allocation, and strong earnings quality. The positive EVA signals that management is deploying funds wisely, maintaining cost discipline, and delivering returns that exceed stakeholder expectations.

### Workings

Effective tax rate (15% tax rate + 10% surcharge + 4% cess) u/s 115BAB  
= 17.16%

Particulars	Amount (₹ in lakhs)
<b>Net operating profit after tax (NOPAT)</b>	
EBIT	724.29
<i>Less: Income Tax (15% + SC 10% + HEC 4% = 17.16%)</i>	124.29
EBT	600.00
<i>Add: Non- Cash Expenses</i>	50.00
<b>Net-operating Profit After Tax (NOPAT)</b>	<b>650.00</b>
<b>Finding out the Invested Capital</b>	
Total Assets	2,500.00
<i>Less: Non-Interest Bearing Liabilities</i>	400.00
Capital Employed	2,100.00
<i>Add: Non-cash Adjustment</i>	50.00
<b>Adjusted Capital Employed / Invested Capital</b>	<b>2,150.00</b>
<b>Computation of WACC</b>	
WACC = Cost of Equity + Cost of Debt	
In this case, WACC	<b>9.49%</b>
= $(1,800/2,100 \times 9\%) + \{(300/2,100 \times 15\% (1 - 0.1716)\}$	
<b>Capital Charge</b>	<b>204.04</b>
= Invested Capital $\times$ WACC = $2,150 \times 9.49\%$	
<b>EVA</b>	<b>445.96</b>
= Adjusted NOPAT- Capital Charge = (650-204.04)	

#### **Alternative Presentation**

$$\text{EVA} = \text{NOPAT} - \text{WACC} \times \text{Capital Employed}$$

$$\text{Capital Employed}$$

$$= ₹ 1,500 + ₹ 300 + ₹ 300 = ₹ 2,100 \text{ Lakhs}$$

$$\text{NOPAT} = (\text{PBIT} - \text{Interest} - \text{Tax}) + \text{Interest} (\text{net of tax})$$

Particulars	Amount (₹ in lakhs)
EBIT	724.29
<i>Less: Interest</i>	100.00
EBT	624.29
<i>Less: Tax</i>	107.13
PAT	517.16
<i>Add: Interest (net of tax)</i>	82.84
<i>Add: Non- cash expenses</i>	50.00
<b>NOPAT</b>	<b>650.00</b>

### Computation of Adjusted Capital Employed

Particulars	Amount (₹ in lakhs)
Capital Employed	2,100
<i>Add: Non-cash adjustment</i>	50
<b>Adjusted Capital Employed</b>	<b>2,150</b>

$$\begin{aligned}
 \mathbf{WACC} &= (1,500 + 300) / 2,100 \times 9\% + 300 / 2,100 \times 15\% (1-0.1716) \\
 &= 9.49\%
 \end{aligned}$$

$$\begin{aligned}
 \mathbf{EVA} &= \text{NOPAT} - (\text{WACC} \times \text{Adjusted Capital Employed}) \\
 &= 650 - (9.49\% \times 2,150) \\
 &= 650 - 204.04 \\
 &= ₹ 445.96 \text{ Lakhs}
 \end{aligned}$$

### Alternative Solution

**Analysis** - The Economic Value Added (EVA) of ₹ 425.84 lakhs clearly indicates that the company is generating returns in excess of its overall cost of capital, thus creating substantial value for its shareholders. This outcome is underpinned by strong operating performance and prudent financial structuring.

The Net Operating Profit After Tax (NOPAT) of ₹ 629.88 lakhs has been derived from an EBT of ₹600 lakhs, reflecting effective cost management in core operations, including control over raw material costs and overheads.

Key adjustments—such as adding back non-cash items like depreciation and adjusting for provisions—ensure a true reflection of operating profitability. The tax impact has been optimized through application of the concessional rate under Section 115BAB (effective rate of 17.16%), enhancing post-tax returns.

On the capital structure front, the company has a total capital employed of ₹ 2,100 lakhs, comprising ₹ 1,800 lakhs in equity and ₹ 300 lakhs in debt. The cost of equity (9%) and after-tax cost of debt [ $15\% \times (1 - 0.1716)$ ] are appropriately weighted in the WACC calculation, resulting in a blended capital cost of 9.49%.

The substantial spread between NOPAT (₹629.88 lakhs) and the capital charge (₹ 204.04 lakhs) confirms that the company is not just accounting profitable but also economically profitable. EVA, by capturing the true cost of both debt and equity financing, acts as a superior metric of value creation.

Overall, the company's financial strategy reflects sound operational efficiency, optimal capital allocation, and strong earnings quality. The positive EVA signals that management is deploying funds wisely, maintaining cost discipline, and delivering returns that exceed stakeholder expectations.

### ***Workings***

$$\text{EVA} = \text{NOPAT} - \text{WACC} \times \text{Capital Employed}$$

Capital Employed

$$= ₹ 1,500 + ₹ 300 + ₹ 300 = ₹ 2,100 \text{ Lakhs}$$

$$\text{NOPAT} = (\text{PBIT} - \text{Interest} - \text{Tax}) + \text{Interest} (\text{net of tax})$$

<b>Particulars</b>	<b>Amount (₹ in lakhs)</b>
EBT	600.00
<i>Less: Tax</i>	102.96
PAT	497.04
<i>Add: Interest (net of tax)</i>	82.84
<i>Add: Non- cash expenses</i>	50.00
<b>NOPAT</b>	<b>629.88</b>

### Computation of Adjusted Capital Employed

Particulars	Amount (₹ in lakhs)
Capital Employed	2,100
<i>Add:</i> Non-cash adjustment	50
<b>Adjusted Capital Employed</b>	<b>2,150</b>

$$\begin{aligned}
 \mathbf{WACC} &= (1,500 + 300)/2,100 \times 9\% + 300/2,100 \times 15\% (1-0.1716) \\
 &= \mathbf{9.49\%}
 \end{aligned}$$

$$\begin{aligned}
 \mathbf{EVA} &= \text{NOPAT} - (\text{WACC} \times \text{Adjusted Capital Employed}) \\
 &= 629.88 - (9.49\% \times 2,150) \\
 &= 629.88 - 204.04 \\
 &= \mathbf{₹ 425.84 Lakhs}
 \end{aligned}$$

### 1.8

Particulars	Goodwill (₹ in lakhs)	Identifiable assets (₹ in lakhs)	Total (₹ in lakhs)
Cost at the time of acquisition	400	2,000	2,400
<i>Less:</i> Depreciation for 8 years (from 2017-2018 to 2024-2025)	-	(800)	(800)
Carrying amount	400	1,200	1,600
<i>Less:</i> Impairment loss	(400)	(100)	(500)
<b>Carrying amount after impairment loss</b>	<b>-</b>	<b>1,100</b>	<b>1,100</b>

Since, the recoverable amount is ₹ 1,100 lakhs, there is an impairment loss of ₹ 500 lakhs. The impairment loss of ₹ 500 lakhs should be allocated to goodwill first, and then to the other identifiable assets, i.e., ₹ 400 lakhs to goodwill and ₹ 100 lakhs to identifiable assets of "Wing W".

Hence, the presentation of "Wing W" by Life Education Ltd. in its books at ₹ 1,200 lakhs as on 31.3.2025 is incorrect.

**CASE STUDY - 2**

*Emm Vee Motors Limited (EVML) is one of the largest manufacturers of commercial vehicles in India. The company has grown over a period of time under the dynamic leadership of its Managing Director, Mr. Ramesh Chander. Vehicles manufactured by the company are appreciated for their resilience, reliability and exceptional value. In F.Y 2022-2023, EVML recorded a Profit after Tax (PAT) of ₹ 180 crores on sales of ₹ 4,860 crores, as compared to previous financial year PAT of ₹ 325 crores on sales of ₹ 5,670 crores. With the manufacturing industry reeling under recession, the freight generating sector saw a steep decline. EVML's supply chain had gone haywire under the recession which eroded 14.29% of its revenue from operations in one year, forcing the company to helplessly allow inventories to build up.*

*In 2023-24, EVML decided to meet the challenge by re-gearing its systems, be it material order, handling, procurement or inventory control. EVML conducted brainstorming sessions inviting ideas on cost cutting. It became clear that cost-cutting would only be effective if the supply chain operated smoothly. It was decided to revamp its inbound and outbound supply chain. It identified two methods to reduce costs in supply chain: firstly reduce material costs and secondly reduce inventory carrying costs by implementing Just in Time technique. The Procurement and Quality Engineering team jointly formed the single window vendor management system. Within the centrally negotiated price, unit material functions interacted with the approved panels of vendors to "pull" materials in line with the production plans. The single window system created ease for the vendors for sharing drawings, negotiating prices and for any assistance on quality related issues. EVML purchasing policy was to maximize the bought-out parts both indigenous and imported. It believed in global sourcing. It started creating database for the 18,000 plus parts which were matched with the supplier's part numbers. A classification of 1,500 odd suppliers based on business volumes revealed that 25 % accounted for 80% of the business while 60% handled just 5%. EVML aimed at reducing the supplier's base from 1,500 to 800. It considered new suppliers for the required components based on their ability to meet quality, specification, price and delivery schedule. EVML cutback its panel of direct suppliers through Tiering and system buying. Tiering formed the basis of the vendor consolidation drive. It dealt directly with the tier- I suppliers who in turn were supported by the tier-2 and tier-3 suppliers. Lean manufacturing practices focused on reducing waste, improving process efficiency, and increasing*

*production flexibility. Value engineering analyzed the composition of parts to reduce costs through substitution or elimination of materials and methods with less expensive alternatives without sacrificing functionality. The resultant cost benefits were shared with the suppliers.*

*It moved to JIT ordering system for high value/low volume items and low logistic cost for low value/high volume items. It moved from 'Push' system to 'Pull' system, which resulted in substantial reduction of inventory holding period of components. Each stage produced only as much as the next stage needed. The local suppliers were advised to have their warehouses at a distance of 35-40 minutes from the EVML's production plants. Suppliers' being partners in progress were given necessary technical assistance to maintain quality standards and deliver the required components on time. Main components used in production were classified into 'ABC' category with their suppliers also being classified accordingly. It developed different delivery norms for each category. The plant sent JIT card through email to the suppliers who dispatched the required components directly to the assembly line. EVML introduced RFID, GPS tracking, EDI, bar coding system to enhance inbound logistics. JIT system reduced the annual average inventory of materials by 75% from the current level of ₹ 240 crores. Annual insurance and warehousing costs for inventory reduced by 60 % of previous year figure of ₹ 5 crores. Annual Payroll expenses for current inventory management staff reduced to 60 % of the previous year figure of ₹ 12 crores. Additional annual costs for JIT system implementation and management, including personnel costs were ₹ 7.5 crores. EVML's required rate of return on inventory investment is 10%. JIT system also enabled the company to reduce the delivery time of products to end customers.*

*With all the above activities at shop floor, EVML did not lose sight of the customer. Customer satisfaction was the prime objective of EVML. EVML revamped distribution network for its finished products. EVML set different delivery schedules for its various products. EVML launched new 3S (Sales, Services and Spares) dealerships in various cities to enhance customer service and reach. The 24 x 7 operational service outlet incorporated advanced tools and equipment and pneumatic systems-integrated mobile service vans to attend to breakdowns. It set up regional distribution centres at strategic locations to ensure that products were delivered quickly to dealers and customers. It organized dealers training program twice a year to keep them well equipped with latest changes in automobile industry and technology. Customer Relationship Management (CRM) was used to monitoring trends and forecast demand on the basis of inputs received from*

*customers. Company automated the post- delivery feedback report. A customer feedback report revealed three major parameters for service level targets: order to delivery time, reliability of deliveries and availability of order status information. As a result of the steps taken by the company to revamp its supply chain, there was a significant increase in profits during the year 2023-24 compared to year 2022-23.*

*EVML provides assurance type warranty for one year which is included in the selling price of vehicles. To increase customer satisfaction and trust in the company's products, EVML offers flexibility to customers by allowing them to purchase the extended warranty plan either at the time of the original sale or just before the standard warranty expires. An extended warranty plan offers to repair or replace mechanical parts. Company determined that the two years of extended warranty represent a separate performance obligation. Standalone selling price of extended warranty is fixed at ₹ 15,000. On the basis of past experience, it is estimated that ₹ 7,500 will be incurred to repair defects that would arise within one year coverage period for the assurance type warranty. In a board meeting held on 01.11.2024, Board of Directors of EVML, made a resolution in the Board meeting that the technical errors in the vehicles will be rectified even if warranty expired. But this matter was neither announced to the public nor intimated to affected parties.*

*In a Board meeting held on 01.01.2025, Board of Directors of EVML had taken strategic decision to set up a new manufacturing plant at Hisar. The initial capital expenditure was estimated to be around ₹ 120 crores, for which EVML decided to borrow ₹ 90 crores from the company's bankers by following due procedure as per the Companies Act, 2013. Loan was sanctioned on 28.02.2025 and directors of the company provided personal guarantee to bank for sanctioning the loan. EVML also provided corporate guarantee of ₹ 12 crores for four years in case of loan given by bank to its associate Indian company DEF Ltd. and charged a fee of ₹ 10,00,000 from DEF Ltd.*

*The Board of the Directors of EVML has appointed Mr. Nilesh, a qualified management professional, having 25 years of rich industrial experience, as Additional Director, on 01.10.2024 by passing a board resolution by circulation. Mr. Nilesh is also a managing Director of PQR Limited, which is engaged in the manufacturing of industrial spare parts. On 15.11.2024, Mr. Ramesh Chander suffered a severe heart attack and being hospitalized, decided to retire from his position as Managing Director. Management of the company proposed to appoint*

Mr. Niles as a Managing Director of the company. Notice of meeting was sent to all the ten directors present in India. On 08.12.2024, he was appointed as managing director by Board of Directors by passing resolution in the board meeting with the consent of eight directors present in the meeting. Mr. Vinod, a Director of the company, who had not attended the meeting, raised concern regarding validity of his appointment, as he was of the view that proper procedure as per the provisions of The Companies Act, 2013 was not followed.

EVML imported some components from a German Company in the month of February 2025. The finance manager of company needs to borrow 5,00,000 euros for 90 days to settle the payments. Policy of the company is not to take any currency risk. The following rates are quoted: ₹/€ spot: 90/90.35 and 90 days swap: 20/25. € Interest rates: 4.00/4.25; Banker suggests another alternative of US dollar loan. Enquiries reveal that interest rate is 5% and \$/€ rate is 1.0220/1.0240 and 90 days swap points of 15/10.

The income tax return filed by EVML on 30th October, 2023 for the Assessment Year (A.Y.) 2023-2024 was selected under CASS (Computer Aided Scrutiny Selection) by the Income Tax Department. During the assessment proceedings, the assessing officer identified transactions related to foreign borrowings amounting to US \$ 45,00,000 at an interest rate of 8% from its overseas associate company, and referred the matter to the Transfer Pricing Officer (TPO). Upon examination, the TPO determined that the interest rate was excessive by 3%, a finding that was subsequently accepted by EVML. As a result, the Assessing Officer made an addition of ₹ 1.20 crores on account of the excessive interest rate. Additionally, other additions amounting to ₹ 1.5 crores were made to EVML's income for the A.Y. 2023-2024. The assessment order was received by EVML on 30<sup>th</sup> January, 2025.

**Multiple Choice Questions:**

[Please provide the correct option to the following questions]

2.1 Which of the following statement/(s) describes the explanation for the success of EVML's supply chain transformation?

(i) The implementation of a pull system and JIT approach minimised excess inventory costs resulted into net saving of ₹ 25.80 crores.

- (ii) *The implementation of a pull system and JIT approach minimised excess inventory costs and streamlined logistics and resulted into net saving of ₹ 18.30 crores.*
- (iii) *EVML shifted to a more flexible and responsive supply chain. EVML used tiered levels to enhance supplier relationships and improve the overall quality of components.*
- (iv) *The tier system was established to centralize all supplier functions and eliminate local supplier networks.*

*Options:*

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

2.2 *Which of the following statements are correct with respect to the accounting and recognition of the warranties and provisions under relevant Ind AS?*

- (i) *The resolution made by the Board on 01.11.2024 creates a constructive obligation for EVML, requiring it to recognize an additional liability for warranty repairs beyond the standard warranty period.*
- (ii) *Since the resolution made by Board on 01.11.2024 was not publicly announced, it cannot be considered as constructive obligation, EVML need not create any provision related to the technical repairs outside the standard warranty period.*
- (iii) *The contract liability of ₹ 15,000 is recognized as revenue over the extended warranty period of two years and the costs of providing extended warranty are recognized as incurred.*
- (iv) *The company should disclose the resolution regarding technical errors even though it is not publicly announced, because it could impact the financial statements of future periods.*

*Options:*

- (A) (i), (iii)
- (B) (ii), (iii)

(C) (i), (iii), (iv)

(D) (ii), (iii) and (iv)

2.3 Which of the following statements are incorrect as per the relevant provisions of the Companies Act, 2013?

- (i) Mr. Nilesh can be appointed as Additional Director only by members at the Annual General Meeting, hence his appointment as Additional Director is not valid.
- (ii) Appointment of Mr. Nilesh can be made only by passing resolution in the Meeting of the Board and not by passing a resolution by circulation.
- (iii) Appointment of Mr. Nilesh as Additional Director of EVML on 01.10.2024 by Board of Directors is valid and he can be appointed as Managing Director of the company.
- (iv) The appointment of Mr. Nilesh as Managing Director can only be made through a unanimous resolution passed at a Board Meeting, with the consent of all ten directors present in India and specific notice of the Meeting and the resolution to be moved has been given to all directors.

Options:

(A) (i), (ii)

(B) (ii), (iii), (iv)

(C) (i), (ii), (iv)

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

2.4 Which of the following statements is correct according to the relevant provisions of the CGST Act, 2017?

- (A) The value of the corporate guarantee provided by EVML in case of loan given by bank to DEF Ltd. will be ₹ 10,00,000, as this is the fee explicitly charged for the corporate guarantee service, and GST of ₹ 1,80,000 will be payable. Value of the personal guarantee given by directors to bank in case of loan given to EVML will be zero and therefore no GST will be payable on such supply of service.
- (B) The value of the corporate guarantee provided by EVML in case of loan given by bank to DEF Ltd. will be ₹ 12,00,000 and GST of ₹ 2,16,000 will be payable. Value of the personal guarantee given by directors to bank

*in case of loan given to EVML will be zero and therefore no GST will be payable on such supply of service.*

(C) *The value of the corporate guarantee provided by EVML in case of loan given by bank to DEF Ltd. will be ₹ 48,00,000 and GST of ₹ 8,64,000 will be payable. Value of the personal guarantee given by directors to bank in case of loan given to EVML will be zero and therefore no GST will be payable on such supply of service.*

(D) *The value of the corporate guarantee provided by EVML in case of loan given by bank to DEF Ltd. will be ₹ 48,00,000 and GST of ₹ 8,64,000 will be payable. Value of the personal guarantee given by directors to bank in case of loan given to EVML shall be based on open market value and GST will be payable on such supply of service.*

2.5 *Which of the following statements are incorrect with respect to GST liability and the liability to reverse Input Tax Credit (ITC) for supplies related to the replacement of parts during the warranty period?*

- (i) *An extended warranty involving goods and services, sold separately by the manufacturer or dealer, is treated as a mixed supply.*
- (ii) *Where a customer enters into an extended warranty agreement entered with the manufacturer at the time of purchase of vehicle, the consideration for the warranty is included in the mixed supply value, with the principal supply being the vehicle, and GST is paid accordingly.*
- (iii) *GST is applicable on the value of warranties if the warranty is provided as a separate supply from the vehicle sold and the customer is charged separately for the warranty.*
- (iv) *GST is not applicable on the replacement of parts by the original manufacturer during the warranty period. However, the Input Tax Credit (ITC) claimed on the parts replaced free of charge must be reversed.*

*Options:*

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

**(5 x 2 = 10 Marks)**

***Descriptive Questions:***

2.6 *Discuss how did EVML strategically improve its in-bound and out-bound supply chain to reduce costs, minimize inventories and enhance customer satisfaction.* **(6 Marks)**

2.7 *Advice which of the two currencies should be attractive for EVML to borrow. (Assume 1 year = 360 days)* **(5 Marks)**

2.8 *Discuss in brief the repercussion of addition of ₹ 1.2 crores to the income of EVML.* **(4 Marks)**

**ANSWER TO CASE STUDY 2**

**2.1 Option (C):** (ii) and (iii)

**2.2 Option (B):** (ii), (iii)

**2.3 Option (C):** (i), (ii), (iv)

**2.4 Option (A):** The value of the corporate guarantee provided by EVML in case of loan given by bank to DEF Ltd. will be ₹ 10,00,000, as this is the fee explicitly charged for the corporate guarantee service, and GST of ₹ 1,80,000 will be payable. Value of the personal guarantee given by directors to bank in case of loan given to EVML will be zero and therefore no GST will be payable on such supply of service.

**OR**

**Option (C):** The value of the corporate guarantee provided by EVML in case of loan given by bank to DEF Ltd. will be ₹ 48,00,000 and GST of ₹ 8,64,000 will be payable. Value of the personal guarantee given by directors to bank in case of loan given to EVML will be zero and therefore no GST will be payable on such supply of service.

**2.5 Option (D):** (i), (ii), (iv)

**2.6** A supply chain is a complete network of entities involved in serving customers or end consumers—whether linked directly or operating interdependently. It includes vendors who supply raw materials, manufacturers who transform these materials into finished products, warehouses that store the products, distribution centres that facilitate their movement to retailers, and retailers who finally deliver the product to the

end users. In the case of EVML, a decline in volume by 14.29% led to the accumulation of unsold inventory, indicating inefficiencies in the supply chain. To address this challenge, EVML decided to re-gear its systems, including material ordering, handling, procurement, and inventory control. As a strategic response, the company embarked on a comprehensive revamp of both its inbound and outbound supply chains, with the objective of enhancing operational efficiency, reducing costs, and improving responsiveness to market demand.

### **Management of Upstream Supplier Chain (Inbound)**

To strengthen its inbound supply chain and address the challenges arising from excess inventory due to a decline in volume, EVML identified two key strategies to reduce supply chain costs: (i) reduction in material costs, and (ii) reduction in inventory carrying costs through the implementation of the Just-in-Time (JIT) technique. The company adopted value engineering to analyze the composition of parts and explore opportunities for cost reduction by substituting or eliminating expensive materials and processes—without compromising on functionality. EVML transitioned from a traditional “Push” system to a “Pull” system, where production at each stage was synchronized with the actual demand of the subsequent stage. It implemented JIT ordering for high-value, low-volume items to minimize capital lock-in, and optimized logistics for low-value, high-volume items to reduce transportation costs. To support this strategic transformation, the following actions were undertaken:

### ***Relationship with Suppliers***

EVML considered its suppliers as key partners in its growth and success, fostering strong, collaborative relationships built on mutual benefit. To strengthen these partnerships, the company provided technical assistance, including training, sharing best practices, and supporting process improvements to help suppliers consistently meet quality standards and delivery schedules. EVML’s supplier strategy emphasized sharing the cost benefits gained through value engineering and process enhancements, encouraging continuous innovation and collaboration. This approach ensured consistent quality, timely delivery, and enhanced overall supply chain efficiency.

***Number of Suppliers***

As part of its supply chain restructuring, EVML began by developing a comprehensive database for over 18,000 parts, aligning them with corresponding supplier part numbers. Using Pareto analysis (80/20 rule) to evaluate supplier performance, EVML identified that approximately 25% of its 1,500 suppliers accounted for nearly 80% of its procurement value, while 60% of the suppliers contributed to only 5% of the total business volume. This imbalance indicated significant inefficiencies and high transaction costs in managing a fragmented supplier base. To streamline procurement operations and improve supply chain efficiency, EVML set a strategic goal to reduce its supplier base from 1,500 to 800. The company assessed potential and existing suppliers based on their ability to meet quality standards, technical specifications, pricing benchmarks, and delivery reliability. A fundamental shift towards Tiering and system buying drove its vendor consolidation initiative, wherein EVML engaged directly with Tier-1 suppliers supported by Tier-2 and Tier-3 vendors. This structure not only improved coordination but also established clear responsibility chains within the supply network. The consolidation was in alignment with lean manufacturing principles, aiming to reduce waste, optimize resource utilization, and enhance flexibility across production processes.

***Cost, Quality, and Speed of Delivery***

To optimize cost, ensure consistent quality, and enhance the speed of delivery, EVML adopted a structured supplier engagement strategy. Local suppliers were advised to maintain warehouses within a 35–40 minute radius of EVML's production plants, thereby reducing lead time and logistics costs. The company provided necessary technical assistance to these suppliers to uphold stringent quality standards and ensure timely delivery of components. A comprehensive ABC classification of main production components and their respective suppliers enabled EVML to develop tailored delivery norms for each category, aligning supply frequency and priority with production needs. The introduction of a JIT system ensured that the plant sent JIT cards via email, prompting suppliers to dispatch components directly to the assembly line precisely when required. This minimized inventory holding and enhanced production responsiveness. Furthermore, the Single Window Vendor Management System facilitated seamless coordination with suppliers—streamlining the

sharing of technical drawings, pricing negotiations, and resolution of quality-related issues. Together, these initiatives contributed significantly to cost efficiency, higher product quality, and faster delivery cycles within EVML's inbound supply chain.

#### ***Make or Buy and Outsourcing***

EVML's purchasing policy emphasized maximizing the proportion of bought-out parts, both indigenous and imported, rather than relying heavily on in-house manufacturing. This strategy enabled the company to focus on its core competencies such as design, assembly, and quality control, while leveraging external expertise for component manufacturing. To ensure cost competitiveness and access to high-quality components, EVML adopted a global sourcing approach—identifying and engaging with suppliers across international markets who could meet its stringent quality, cost, and delivery benchmarks.

#### ***Use of Information Technology***

EVML strategically leveraged Information Technology to streamline its inbound logistics and vendor coordination. Key digital tools such as RFID, GPS tracking, Electronic Data Interchange (EDI), and barcoding systems were introduced to enhance real-time visibility, traceability, and efficiency across the supply chain. The use of JIT cards, transmitted electronically via email, enabled suppliers to dispatch components directly to the assembly line in sync with actual production needs, minimizing inventory holding and improving responsiveness.

Further integrating its procurement and quality functions, EVML established a Single Window Vendor Management System, jointly managed by the Procurement and Quality Engineering teams. This system served as a centralized platform to facilitate technical assistance, price negotiations, quality resolution, and approval workflows. Within the framework of centrally negotiated pricing agreements, unit-level material functions used this platform to interact with an approved panel of vendors, ensuring that materials were "pulled" just in time, in alignment with dynamic production schedules.

**Downstream Supply Chain Management (outbound)**

EVML's downstream supply chain management focused on ensuring timely and efficient delivery of finished products to customers. The company revamped its distribution network by establishing regional distribution centers at strategic locations and launching 3S (Sales, Services, and Spares) dealerships across various cities to enhance customer reach and service. With tailored delivery schedules and advanced logistics tools like RFID and GPS tracking, EVML improved order fulfillment speed and reliability. Regular dealer training and a robust customer relationship management system helped maintain high service standards, ultimately boosting customer satisfaction and loyalty.

***Relationship Marketing***

EVML's launch of new 3S (Sales, Services, and Spares) dealerships across various cities, along with 24x7 operational service outlets and mobile service vans, reflects a strong focus on relationship marketing as per the Six Markets Model. By setting up regional distribution centers for faster delivery and organizing bi-annual dealer training programs, EVML effectively manages multiple markets—such as supplier markets, and customer markets—ensuring high service quality and customer satisfaction. This comprehensive approach strengthens long-term relationships with customers, dealers, and other stakeholders, fostering loyalty and creating a competitive advantage through enhanced service, trust, and communication.

***Customers Relationship Management***

Despite focusing on improving operations at the shop floor, EVML never lost sight of its prime objective—customer satisfaction. To support this, the company revamped its distribution network for finished products and established different delivery schedules tailored to various product lines. Customer Relationship Management (CRM) systems were employed to monitor market trends and forecast demand based on customer inputs. Additionally, EVML automated the post-delivery feedback process, which highlighted three key service level targets: order-to-delivery time, reliability of deliveries, and availability of order status information. These efforts ensured a seamless customer experience and helped EVML maintain high service standards.

***Customer's Selection, Acquisition, Retention, and Extension***

EVML's customer strategy seamlessly integrates selection, acquisition, retention, and extension to build lasting relationships. Customers initially select EVML vehicles with confidence due to the one-year assurance-type warranty included in the selling price, which guarantees product quality and reliability. During acquisition, EVML offers the option to purchase an extended warranty plan—covering repairs or replacements of mechanical parts—either at the time of sale or just before the standard warranty expires, providing added flexibility and security. This extended warranty, priced separately at ₹ 15,000, represents a distinct performance obligation, reinforcing customer commitment. To ensure retention, EVML relies on its strong post-sale support, including resolving technical errors even beyond the warranty period, as decided by the Board on 01.11.2024, though not publicly announced. This comprehensive approach not only enhances customer satisfaction and trust but also encourages long-term engagement through extended service offerings and proactive support.

***The use of Information Technology in Downstream Supply Chain Management***

EVML leverages advanced information technology to streamline its downstream supply chain management. The company uses real-time tracking systems, automated inventory management, and electronic data interchange (EDI) to ensure timely and accurate delivery of finished products to regional distribution centers and dealers. Integration of IT tools enables efficient order processing, better demand forecasting, and improved communication with dealers, enhancing overall customer service and responsiveness in the sales, services, and spares (3S) network.

***Brand Strategy***

EVML's brand strategy focuses on building a strong, reliable, and customer-centric image in the competitive automobile market. By consistently delivering quality products, offering excellent after-sales service through its 3S dealerships, and emphasizing innovation and sustainability, EVML aims to create lasting trust and loyalty among customers.

### Conclusion

In short, EVML's supply chain transformation—driven by JIT implementation, digital integration, and strong supplier and customer relationships—led to a 75% reduction in inventory, significant cost savings in warehousing and payroll, and faster product delivery. Despite added JIT costs, the overall returns exceeded expectations, enhancing efficiency, customer satisfaction, and long-term competitiveness.

### 2.7 Borrowing Money in €

Particulars	Amount in €
Borrowing Amount	5,00,000.00
<i>Add: Interest @ 4.25% × 90/360 × € 500,000</i>	5,312.50
<b>Amt. Repayable in € (A)</b>	<b>5,05,312.50</b>
	₹/€
Spot Rate	90.35
<i>Add: Swap Points</i>	0.25
<b>Applicable Rate (B)</b>	<b>90.60</b>
<b>Amount Repayable in ₹ (A) × (B)</b>	<b>4,57,81,312.50</b>

**Note:** In case the amount repayable in € is rounded off then above repayable amount in ₹ shall be ₹ 4,57,81,267 or ₹ 4,57,81,358.

### Borrowing Money in \$

Particulars	Amount in \$
Equivalent Amount in (₹ 5,00,000 × \$ 1.0240)	5,12,000.00
<i>Add: Interest @ 5% × 90/360 × \$ 512,000</i>	6,400.00
<b>Repayable in \$ (a)</b>	<b>5,18,400.00</b>
	\$/€
Spot Rate	1.0220
<i>Less: Swap Points</i>	0.0015
	1.0205

Equivalent Rate of €/\$ (1/1.0205)	0.9799
<b>Equivalent Rate of ₹/\$ (90.60 × 0.9799) or (90.60/1.0205) (b)</b>	<b>88.78</b>
<b>Equivalent amount of repayment in ₹ (\$ 518,400 × 88.78) (a) × (b)</b>	<b>460,23,552</b>

**Note:** If rounded off the equivalent rate upto 3 decimal points then above amount shall be approx. ₹ 4,60,23,034 and if rounded off upto 4 decimal points then amount shall be approx. ₹ 4,60,22,982.

Decision: Since the cash outflow is least in case of borrowing in Euro, the amount should be borrowed in €.

### Alternative Solution

If the company borrows in Euros, it will have to repay.

$$€ 5,00,000 \{1 + 0.0425(90/360)\} = € 5,05,312.50$$

The ₹/€ 90 day rate are 90.20/90.60. Thus, it must buy euros forward at ₹ 90.60. Thus, total payment will be € 5,05,312.50 × ₹ 90.60 = ₹ 4,57,81,312.50

With a dollar loan, EVML would have to borrow at the rate of € 1 = \$ 1.0240. Thus, \$ 5,12,000 (5,00,000 × \$ 1.0240) to acquire € 5,00,000. The repayment would be:

$$\$ 5,12,000 \times \{1 + 0.05 (90/360)\} = \$ 5,18,400$$

The \$/€ 90 day outright rate is 1.0205/1.0230. Now to convert \$ to rupees we need a cross rate ₹/\$. We have to calculate the bid rate, as we would sell dollars to receive rupees.

$$\begin{aligned} (\text{₹}/\$)\text{bid} &= (\text{₹}/\text{€})\text{bid} \times (\text{€}/\$)\text{bid} \\ &= ₹ 90.60 \times 1/1.0205 = ₹ 88.7800 \end{aligned}$$

Thus, EVML would have to pay ₹ (\$ 5,18,400 × ₹ 88.78) = ₹ 4,60,23,552 to buy Euro forward to repay the loan. This is more than Euro loan by ₹ 2,42,239.50.

**Therefore, finance manager of EVML should choose Euro loan and reject bank's suggestion.**

**2.8** On account of the primary adjustment of ₹ 1.20 crores made by the Assessing Officer in the total income of EVML for A.Y.2023-24, secondary adjustment has to be made under section 92CE, since –

- (i) The company has accepted the primary adjustment made by the Assessing Officer;
- (ii) The primary adjustment is in respect of A.Y.2023-24; and
- (iii) The primary adjustment exceeds ₹ 100 lakhs.

Accordingly, the excess money i.e., ₹ 1.20 crores available with the associated enterprise has to be repatriated to India within 90 days of the date of the order of the Assessing Officer.

If the same is not repatriated to India within that time limit, it would be deemed as an advance made by the EVML to its associated enterprise and interest would be calculated on such advance at the rate of six-month LIBOR as on 30<sup>th</sup> September, 2024 + 3%, since the international transaction is denominated in foreign currency. Such interest computed from 30.1.2025 to 31.3.2025 would be added to its total income for A.Y.2025-26.

Alternatively, EVML can opt to pay additional income-tax @20.9664% (tax @18% plus surcharge @12% plus cess@4%) on ₹ 1.20 crores, which amounts to ₹ 25,15,968.

### CASE STUDY - 3

*ABC Electronics Limited manufactures and sells various electronic items including ceiling fans. It manufactures and sells 15,00,000 ceiling fans annually. A ceiling fan is composed of an electric motor, blades, metal arms, a flywheel, a rotor, and other components. Annually it is purchasing 12,00,000 sets of blades from an outside supplier at ₹ 615 per set. The production manager is of the opinion that if all the components are produced at own plant, it is possible to maintain better quality in the finished product. Further he proposed that in-house production of blades with other items will provide more flexibility to increase the annual production of fans by 1,50,000 units. He estimates the cost of manufacturing one set of blades as under:*

	₹ per set
Direct material	380
Direct labour	60
Factory overheads (65% variable)	180

The proposal of production manager was forwarded to marketing manager for his remarks. He pointed out that to market the additional units, the overall unit price of ceiling fan should be reduced by 2% and variable marketing cost will increase by ₹ 4 per unit and additionally ₹ 36 lakh should be incurred for advertisement. The present average selling price and average variable cost (including cost of blades purchased from outside supplier) per ceiling fan are ₹ 3,500 and ₹ 3,200 respectively. Mr. Kushal, Director (finance) has asked CA Harsh, Chief Management Accountant of the company to prepare a report on the viability of the proposal.

The demand for electronic goods has been increasing in India. Hence, the management wants to increase the annual manufacturing capacity. Due to increased production requirements, ABC Electronics Ltd. also bought additional indigenous machinery for the production line and sold some old machinery. All assets were purchased by account payee cheque. Below are the details of plant and machinery.

S. No.	Particulars	₹
1.	Opening WDV for plant and machinery on 01.04.2024 (eligible for depreciation @15%)	12,60,00,000
2.	New plant and machinery purchased on 30.07.2024 and put to use on 30.09.2024 (excluding IGST @18%)	1,50,00,000
3.	New plant and machinery purchased on 15.09.2024 and put to use on 05.10.2024 (excluding IGST @18%)	1,20,00,000
4.	Sale of old plant and machinery on 10.10.2024	75,00,000

Company has strength of around 600 employees and is registered under the Factories Act, 1948. A provident fund trust (a private trust) has been created as per the norms of respective law. The company transfers employer and employee contribution to the trust and it is managed by the trustees. The company is responsible for providing principal amount along with a specified rate of return.

Accountant of the Company has considered it as defined contribution plan and accordingly accounted for in the books of accounts.

ABC Electronics Limited imported automatic machine from USA for upgrading its production facilities. The events relating to its entry into India and the discharge and onward movement are as follows:

Date	Event	Exchange Rate in ₹ (notified by CBIC)
20 <sup>th</sup> January, 2025	Vessel enters the Indian territorial waters	₹ 80
22 <sup>nd</sup> January, 2025	Bill of entry filed for warehousing of goods	₹ 82
23 <sup>rd</sup> January, 2025	Entry inward granted to the vessel	₹ 84
30 <sup>th</sup> March, 2025	Bill of entry presented for home consumption	₹ 85

The rate of custom duty was 25% as on the date of presentation of bill of entry for warehousing of goods and it was reduced to 15% w.e.f. 2<sup>nd</sup> February, 2025. The details of such import transactions are as follows:

S. No.	Particulars	Amount
1.	Cost of machine	US\$ 40,000
2.	Transportation charges from the factory of exporter to the port for shipment & handling charges for loading of machine in the ship	US\$ 1,000
3.	Commission paid (not the buying commission) to the local agent of exporter	₹ 1,50,000
4.	License fee relating to imported goods payable by buyer as a condition of sale	10% of the price of machine
5.	Actual insurance ascertainable charges paid are not ascertainable	-
6.	Freight charges from USA to India	US\$ 4,000

7.	<i>Lighterage charges paid by company at Indian Port</i>	₹ 28,800
8.	<i>Unloading and handling charges paid at the Indian Port</i>	₹ 10,000
9.	<i>Warehouse charges paid in India</i>	₹ 60,000
10.	<i>Integrated Tax is 18% and Social Welfare Cess is 10% and GST Compensation Cess is NIL</i>	

*During the year, in a board meeting, proposal was raised to implement a new digital system to streamline both accounting and production processes, aiming to enhance overall efficiency. To lead this initiative, Mr. Amit, an experienced IT professional, had been appointed as the IT Manager. While he acknowledged the significant benefits that new technologies can bring, he was also aware of the potential risks they may pose. After carefully assessing the technological risks associated with the implementation of the new system, Mr. Amit ensured that the necessary controls are put in place to mitigate these risks. As a result, the digital system was successfully implemented.*

*NGH & Co., Chartered Accountants, is the statutory auditor' of the company. CA. N, Partner at NGH & Co., regularly holds meetings with Mr. Kushal and other members of the Accounts Department. In a meeting held at the company's office regarding audit planning, Mr. Kushal informed CA. N about the full digitization of both the Accounting and Production processes.*

*Once the formal audit discussions concluded, Mr. Kushal and CA. N engaged in a general conversation. During this discussion, Mr. Kushal informed that on 31<sup>st</sup> December, 2024, he had received an i-Phone worth ₹1,20,000 as a gift from his brother Suresh, who is a British national. Additionally, Mr. Kushal mentioned that on 31<sup>st</sup> January, 2025, he also received a foreign remittance of ₹9,00,000 as a gift from Suresh for the purpose of purchasing property in his name. Suresh had gone out of India in the year 2005 and is permanently settled in UK. Kushal raised another query from CA. N that Suresh holds agricultural land inherited from his parents and is considering selling it. He wants to repatriate the entire proceeds out of India. Kushal informed that he has advised Suresh to use the proceeds either to purchase another piece of agricultural land or buy a residential flat in Jaipur.*

**Multiple Choice Questions:**

[Please provide the correct option to the following questions]

3.1 Given the information about ABC Electronics Ltd.'s plant and machinery, what is the amount of depreciation (including additional depreciation) that can be claimed as per the Income-tax Act, 1961 for the A.Y. 2025-26? The company has opted for section 115BAA/115BAB.

(A) ₹2,09,25,000  
(B) ₹2,44,95,000  
(C) ₹2,42,25,000  
(D) ₹2,51,25,000

3.2 Which of the following statement is accurate with respect to the classification and accounting treatment of the provident fund plan under relevant Ind AS?

(A) The provident fund scheme is correctly classified as a Defined Contribution Plan and the company is required to recognize only the contribution made during the period as an expense in the statement of profit and loss.

(B) The provident fund scheme should have been classified as a Defined Benefit Plan and the company will account for the guaranteed return as part of the periodic service cost, instead of recognizing it as a component of the defined benefit obligation.

(C) The provident fund scheme should have been classified as a Defined Benefit Plan and the company will need to calculate its net defined benefit liability or asset by considering not just the guaranteed return but also the investment return, which may vary over time.

(D) The provident fund scheme is classified as a Defined Contribution Plan, but the company should account for it as a Defined Benefit Plan. The company is required to recognize a net liability, which is the future value of the obligation minus the fair value of the plan assets held by the trust.

3.3 As an auditor evaluating the risks associated with a newly implemented digital system in a company's accounting and production processes, which of the following controls should most likely be tested to assess the potential technology risks before relying on the system?

- (i) *Testing the robustness of the system's encryption protocols to ensure data confidentiality and integrity during transmission.*
- (ii) *Testing physical access to the server or production hardware to ensure overall IT security but not specifically linked to system operation.*
- (iii) *Reviewing the company's employee training programs to assess if users are properly educated on how to interact with the system and avoid common errors.*
- (iv) *Verifying that the digital system has adequate backup and recovery procedures to ensure data is not lost in case of system failure.*

**Options**

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

3.4 *Which of the following statements is correct regarding the gift received by Mr. Kushal during the year as per the provisions of FCRA, 2010?*

- (A) *Intimation to Central Government is not required because i-Phone is considered a personal gift from a relative and foreign contribution received in cash does not exceed the threshold limit specified under FCRA.*
- (B) *Intimation to Central Government in form FC-1 electronically is required to be submitted within three months from 31<sup>st</sup> December, 2024 regarding i-phone because market value exceed the threshold limit specified under FCRA.*
- (C) *Intimation to Central Government in form FC-1 electronically is required to be submitted within three months from 31<sup>st</sup> January, 2025 for total foreign contributions received from brother as it exceeds the threshold limit specified under FCRA.*
- (D) *Intimation to Central Government in form FC-1 electronically is required to be submitted within three months from 31<sup>st</sup> January, 2025 for foreign contribution received in cash only, not for the i-phone.*

3.5 As per FEMA guidelines, which of the following statements are correct regarding Kushal's brother intentions?

- (i) He can transfer the inherited agricultural land to a person resident in India by way of sale and invest the proceeds in purchasing another agricultural land in India from a person resident in India.
- (ii) He can transfer the inherited agricultural land to a person resident in India and invest the proceeds in purchasing a residential flat in Jaipur.
- (iii) He can transfer the inherited agricultural land to a person resident in India by way of sale and remit the proceeds outside India subject to permissible limit.
- (iv) He can transfer the inherited agricultural land to a person resident in India by way of sale but he cannot remit the proceeds outside India.

**Options**

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

**(5 x 2 = 10 Marks)**

**Descriptive Questions:**

3.6 Analyze the make or buy decision and recommend the most profitable alternative. Assess the sensitivity of such decision to the external purchase price. **(5 Marks)**

3.7 Determine the assessable value of the machinery imported and compute the amount of total custom duty and integrated tax payable by ABC Electronics Ltd. **(7 Marks)**

3.8 What technological risks did Mr. Amit consider while implementing the digitisation of accounting processes? **(3 Marks)**

## ANSWER TO CASE STUDY 3

**3.1 Option (A):** ₹ 2,09,25,000

**3.2 Option (C):** The provident fund scheme should have been classified as a Defined Benefit Plan and the company will need to calculate its net defined benefit liability or asset by considering not just the guaranteed return but also the investment return, which may vary over time.

**3.3 Option (C):** (i), (iv)

**3.4 Option (B):** Intimation to Central Government in form FC-1 electronically is required to be submitted within three months from 31st December, 2024 regarding i-phone because market value exceed the threshold limit specified under FCRA. **OR**

**Option (C):** Intimation to Central Government in form FC-1 electronically is required to be submitted within three months from 31<sup>st</sup> January, 2025 for total foreign contributions received from brother as it exceeds the threshold limit specified under FCRA.

**3.5 Option (B):** (ii), (iii)

**3.6** To analyse the make or buy decision and determine the most profitable option for ABC Electronics Ltd., we will compare the net benefit under the both options and conduct a sensitivity assessment regarding the external purchase price.

**Benefit Under Current Scenario, when blades are Purchased**

Particulars	No. Of Fans	Per Fan (₹)	Amount (₹)	Per fan Contribution (₹)
Sales	15,00,000	3,500	5,25,00,00,000	300
Purchase cost of Blade sets	12,00,000	615 (Note 1)	(73,80,00,000)	
Other VC	15,00,000	2,708 (Note 2)	(4,06,20,00,000)	
<b>Contribution</b>		(A)	<b>45,00,00,000</b>	

**Benefit Under Proposed Scenario, when blades will be in-house manufactured**

Particulars	No. Of Fans	Per Fan (₹)	Amount (₹)	Per fan Benefit (₹)
Sales	16,50,000	3,430	5,65,95,00,000	
Cost of Manufacture Blade sets (Based on proportionate sets requires for 16,50,000 fans)	13,20,000	557 (Note 1)	(73,52,40,000)	
Other VC	16,50,000	2708	(4,46,82,00,000)	
Marketing	16,50,000	4	(66,00,000)	
<b>Contribution</b>			<b>44,94,60,000</b>	
Advertisement			(36,00,000)	
<b>Net Benefit</b>	<b>(B)</b>		<b>44,58,60,000</b>	<b>270.2182</b>

### Loss due to shift from buying to in-house making of blades

<b>Net Loss (A – B)</b>	₹ 45,00,00,000 – ₹ 44,58,60,000	<b>₹ 41,40,000</b>
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**Note 1:** Outside market price and manufacturing cost of blade sets.

Outside market price of per set of blades = ₹ 615

Manufacturing cost per set of blades (DM + DL + Factory O/Hs Variable) = ₹ 380 + 60 + 117 = ₹ 557

### Note 2: Analysis of Current Variable Cost

Particulars	Cost per fan (₹)
Average VC	3,200
Purchase cost of blade per fan*	(492)
Other VC	2,708

\*  $615 \times 0.8 = 492$  (As 15,00,000 fan requires 12,00,000 sets of blades. It means 1 fan require  $12L/15L = 0.8$  blade set)

### Sensitivity Analysis

Let's determine at what purchase price where "make" and "buy" options are equally beneficial. To determine the break-even external purchase price at

which benefit of in-house blade production becomes equal to benefit under purchase option, we let X represent the supplier's price per set.

Particulars	No. Of Fans	Per Fan (₹)	Amount (₹)
Sales	15,00,000	3,500	5,25,00,00,000
Purchase price of Blades	12,00,000	X	(12,00,000X)
Other VC	15,00,000	2,708	(4,06,20,00,000)
<b>Contribution</b>			1,18,80,00,000 - 12,00,000 X

### Current Situation Equated with Proposed Situation

$$1,18,80,00,000 - 12,00,000X = 44,58,60,000$$

$$74,21,40,000 = 12,00,000X$$

$$\text{So, } X = 74,21,40,000 / 12,00,000$$

$$\mathbf{X = 618.45}$$

It means, if the external purchase price of blade sets rises above ₹618.45 then in-house production becomes more profitable option. Conversely, if the supplier continues to offer blade sets below ₹618.45 then it is more economical for ABC Electronics to continue purchasing them externally.

### Alternative Solution

To analyse the make or buy decision and determine the most profitable option for ABC Electronics Ltd., we will compare the net benefit under the both options and conduct a sensitivity assessment regarding the external purchase price.

### Benefit Under Current Scenario, when 12,00,000 blades (set) are Purchased and balance 3,00,000 blades (set) manufactured in-house

Particulars	No. Of Fans	Per Fan (₹)	Amount (₹)	Per fan Contribution (₹)
Sales	15,00,000	3,500	5,25,00,00,000	
Purchase cost of Blade sets	12,00,000	615 (Note 1)	(73,80,00,000)	

Manufacturing cost of Blade sets	3,00,000	557	(16,71,00,000)	<b>300</b>
Other VC	15,00,000	2,596.60 (Note 2)	(3,89,49,00,000)	
<b>Contribution (A)</b>		<b>45,00,00,000</b>		

**Benefit Under Proposed Scenario, when all blades (set) will be in-house manufactured**

Particulars	No. Of Fans	Per Fan (₹)	Amount (₹)	Per fan Benefit (₹)
Sales	16,50,000	3,430	5,65,95,00,000	<b>270.2182</b>
Cost of Manufacture Blade sets	16,50,000	557 (Note 1)	(91,90,50,000)	
Other VC	16,50,000	2,596.60	(4,28,43,90,000)	
Marketing	16,50,000	4	(66,00,000)	
<b>Contribution</b>			<b>44,94,60,000</b>	
Advertisement			(36,00,000)	
<b>Net Benefit (B)</b>			<b>44,58,60,000</b>	

**Loss due to shift from buying to in-house making of blades:**

<b>Net Loss (A – B)</b>	₹ 45,00,00,000 – ₹ 44,58,60,000	<b>₹ 41,40,000</b>
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**Note 1:** Outside market price and manufacturing cost of blade sets.

Outside market price of per set of blades = ₹ 615

Manufacturing cost per set of blades (DM + DL + Factory O/Hs variable)  
= ₹ 380 + 60 + 117 = ₹ 557

**Note 2:** Analysis of Current Variable Cost

Particulars	Total Cost (₹)	Per Fan (₹)
Total VC	4,80,00,00,000	
Purchase cost of Blade sets (12,00,000 @ 615/-)	73,80,00,000	

Manufacturing cost of Blade sets (3,00,000 @557/-)	16,71,00,000	<b>2,596.60</b>
Other VC (balance)	3,89,49,00,000	

Therefore, Other Variable Cost per FAN will be ₹ 2,596.60.

### Sensitivity Analysis

Let's determine at what purchase price where "make" and "buy" options are equally beneficial. To determine the break-even external purchase price at which benefit of in-house blade production (full) becomes equal to benefit under purchase (partial) option, we let X represent the supplier's price per set.

Particulars	No. Of Fans	Per Fan (₹)	Amount (₹)
Sales	15,00,000	3,500	5,25,00,00,000
Purchase price of Blades	12,00,000	X	(12,00,000X)
Manufacturing cost of Blade sets	3,00,000	557	(16,71,00,000)
Other VC	15,00,000	2,596.60	(3,89,49,00,000)
<b>Contribution</b>			1,18,80,00,000 - 12,00,000X

### Current Situation Equated with Proposed Situation:

$$1,18,80,00,000 - 12,00,000X = 44,58,60,000$$

$$74,21,40,000 = 12,00,000X$$

$$\text{So, } X = 74,21,40,000 / 12,00,000$$

$$\mathbf{X = 618.45}$$

It means, if the external purchase price of blade sets rises above ₹ 618.45 then in-house production becomes more profitable option. Conversely, if the supplier continues to offer blade sets below ₹ 618.45 then it is more economical for ABC Electronics to continue purchasing them externally.

### 3.7 Assessable Value of the machinery imported by ABC Electronics Ltd. and total customs duty payable by it

Particulars	Amount (\$)
Cost of the machine	40,000

<b>Add: Transportation charges</b> from the factory of exporter to the port for shipment & handling charges for loading the machine is the ship [Includible in the assessable value].	1,000
<b>Add: Licence fee</b> relating to imported goods payable by the buyer as a condition of sale [10% of ₹ 40,000 (Price of machine)] [Includible in the assessable value]	4,000
<b>Total</b>	45,000
	<b>Amount (₹)</b>
<b>Value in Indian currency</b> [\$ 45,000 x ₹ 82] [The relevant date for rate of exchange is the date on which the bill of entry is presented for warehousing.]	36,90,000
<b>Commission paid</b> to local agent of exporter [Includible in the assessable value since it is not buying commission]	1,50,000
<b>Customs FOB Value</b>	38,40,000
<b>Insurance</b> [1.125% of FOB Value] [If insurance cost is not ascertainable, the same shall be added @ 1.125% of FOB value of the goods]	43,200
<b>Freight Charges</b> [\$ 4,000 X ₹ 82] [Includible in the assessable value]	3,28,000
<b>Lighterage Charges</b> [Includible in the assessable value]	28,800
<b>Unloading and handling charges paid at the Indian Port</b> [Only charges incurred for delivery of goods "to" the place of importation are includible in the assessable value]	Nil
<b>Warehouse Charges.</b> [Not includible, since only charges incurred for delivery of goods "to" the place of importation are includible in the assessable value]	Nil
<b>Assessable value (AV)</b>	<b>42,40,000</b>

<b>Basic Custom Duty</b> (BCD) [15% of AV] [a]	6,36,000
[Rate of duty is the rate prevalent on the date of presentation of bill of entry or the rate prevalent on the date of entry inwards, whichever is later]	
<b>Social Welfare surcharge</b> @ 10% of BCD [b]	63,600
Total [(a) +(b)]	6,99,600
<b>Integrated tax</b> @ 18% of ₹ 49,39,600 [c]	8,89,128
<b>Total custom duty and integrated tax payable</b> [(a) +(b) + (c)]	15,88,728

**3.8** Emerging technologies can bring great benefits, but they also come with a varied set of substantial risks. Mr. Amit should consider the following technological risks while implementing the digitalization of accounting processes:

- Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both
- Unauthorized access to data that might result in destruction of data or improper changes to data, including the recording of unauthorized or non-existent transactions or inaccurate recording of transactions (specific risks might arise when multiple users access a common database)
- The possibility of information technology personnel gaining access privileges beyond those necessary to perform their assigned duties, thereby leading to insufficient segregation of duties
- Unauthorized or erroneous changes to data in master files
- Unauthorized changes to systems or programs
- Failure to make necessary or appropriate changes to systems or programs
- Inappropriate manual intervention
- Potential loss of data or inability to access data as required
- Risks introduced when using third-party service providers
- Cybersecurity risks

## CASE STUDY - 4

*Latest Fashions Limited, Chennai is a listed company which is engaged in manufacturing of yarn, knitted cloth, male garments, female garments and customer specific products. The consolidated financial statements prepared consisted of financial statements of the company and financial information of 6 subsidiaries audited by other auditors. 2 out of 6 subsidiaries are located outside India whose financial statements have been prepared in accordance with accounting principles generally accepted in their respective countries and have been audited by other auditors under generally accepted auditing standards applicable in their respective countries. These financial statements, financial information and auditors reports of subsidiaries were furnished by management of Latest Fashions Limited. As on 31<sup>st</sup> March, 2025 in respect of 6 subsidiaries the total assets were ₹2,500 crores; total revenue for the financial year 2024-25 was ₹1,500 crores and net cash outflows were ₹15 crores.*

*It mobilized funds by issue of shares in the financial year 2022-23. As on 31<sup>st</sup> March, 2025 its book value was ₹150 for each equity share of the face value of ₹10 each. Its return on equity is 15% and it retained 60% of its earnings. Its opportunity cost of capital is 18%. Company has manufacturing facilities at various locations in India such as Delhi, Agra, Kota, Cochin and Raipur.*

*The following are the details of segments of products reported by Latest Fashions Limited in different geographical locations:*

<b>Segment</b>	<b>External Revenue</b>	<b>Profit</b>	<b>Assets</b>
	<b>₹ in crores</b>		
Yam Reported as Segment	2,500	900	800
Knitted Cloth Reported as Segment	2,300	150	600
Male Garments Reported as Segment	900	(100)	200
Others	2,300	50	100
	8,000	1,000	1,700

*Besides this, no other information related to customers has been reported in the financial statements.*

*The knitted cloth segment has been operating for 12 years and has consistently produced profits whereas the male garments segment which was commenced in April, 2018 has been consistently incurring losses but has a proportionate share*

of goodwill of ₹5 Crores out of the total goodwill of ₹20 Crores appearing in the financial statements of the company. It was decided by the Board of Directors of Latest Fashions Limited that by way of demerger, the male garments segment would be demerged with Men's Fashion Ltd., a new company. Necessary legal formalities were carried out in this regard both under the Companies Act, 2013 and under the Income-tax Act, 1961. The demerger was made in April 2025. The male garments segment along with its movable assets and liabilities (with net book value of ₹20 Crores) were demerged for a consideration of ₹50 crores to Men's Fashion Ltd., a new company, who allotted 25 lakh equity shares of ₹100 each at a premium of ₹100 per share to the shareholders of Latest Fashions Limited in full settlement of the consideration, in proportion to their shareholdings.

For the month of January, 2025 Latest Fashions Limited gives the following information of GST paid on purchases made / input services availed by it

S. No.	Particulars	GST paid ₹
(i)	Capital goods (out of 6 items, invoice for 1 item was missing and GST paid on that item was ₹10,000)	90,000
(ii)	Inputs consisting of 5 equal lots, of which 3 lots were received during the month.	75,000
(iii)	Travel benefits extended to employees on vacation under statutory obligation as employer.	1,10,000
(iv)	Purchased machinery for manufacturing process worth ₹10 lakhs and claimed depreciation under the Income-tax Act, 1961 on ₹11,80,000 (including GST).	1,80,000
(v)	Repair services for factory buildings debited to profit and loss account.	70,000

One of the Directors, Mr. Rohit, has approached the legal department of the Company to seek its opinion on the issue of payment of insurance premium to the insurance company. He explains that his elder brother Mohit, a non-resident Indian, has an Insurance Plan with a prominent Indian Insurance Company. Due to some impending financial difficulties, Mohit requested his brother Rohit, a resident Indian, to make payment of few subsequent installments of Insurance premium on his behalf. Though, Rohit said yes but being a director of a company

and having some awareness about laws, he was not sure whether the payment is permitted or not. In his view, there is no restriction under any law for transactions with relatives and also no need to take any approval from any authority and also the premium amount per year is less than ₹ 10.00 Lakh.

Rohit also sought guidance about the taxability of some transactions done in his personal capacity. He sold 3 acres of agriculture land within the city limits of Chandigarh which he had purchased on 1<sup>st</sup> December, 2003 for ₹ 36,60,000. Title of the agriculture land was transferred on 20<sup>th</sup> August, 2024 for ₹ 1,90,00,000. On 31<sup>st</sup> August, 2024, he purchased another agriculture land situated in a remote village having population of 9,000 people for ₹ 80,00,000. The nearest town was 30 kilometers from the agriculture land. On 28<sup>th</sup> February, 2025, he sold the agriculture land purchased on 31<sup>st</sup> August, 2024 for ₹ 90,00,000. He has received ₹ 9,00,000 on 1<sup>st</sup> December, 2024 on account of buyback of 6,000 shares held by him of X Ltd. These shares were purchased by him on 1<sup>st</sup> June, 2014 at ₹ 25 per share.

During the course of audit of Latest Fashions Limited, it was noticed that a cyber-attack took place on the data in which files were encrypted through malicious links delivered via email and computers got locked. The hacker then demanded booty for decryption of files which was to be paid in bitcoins. Auditor immediately started looking into cyber security risks of the company. He is making inquiries regarding processes and controls relating to privileged account access, patch management program, vendor risk management program. He has also performed external network penetration testing.

**Multiple Choice Questions:**

[Please provide the correct option to the following questions]

4.1 Whether the segment reporting has been correctly done by Latest Fashions Limited as per relevant IND-AS?

- (A) Yes, however disclosure of revenues from transactions with a single customer amounting to ₹ 1,200 Crores or more has not been made.
- (B) Yes, however disclosure of revenues from transactions with a single customer amounting to ₹ 800 Crores or more has not been made.
- (C) Revenue of ₹ 6,400 Crores or more have not been reported separately, so disclosure is not as per requirement of IND-AS. Also, disclosure of revenues from transactions with a single customer amounting to ₹ 800 Crores or more has not been made.

(D) Revenue of ₹ 6,000 Crores or more have not been reported separately, so disclosure is not as per requirement of IND-AS. Also, disclosure of revenues from transactions with a single customer amounting to ₹ 800 Crores or more has not been made.

4.2 What would be the price of each equity share of Latest Fashions Limited computed using dividend constant growth model?

(A) ₹ 60  
(B) ₹ 120  
(C) ₹ 100  
(D) ₹ 154.50

4.3 How much would be the taxable amount of capital gain in the hands of Latest Fashions Limited on demerger of male garments segment to Men's Fashion Ltd.? Cost inflation index F.Y.2018-19 = 280; F.Y.2024-25 = 363. Figures to be rounded off.

(A) Short Term Capital Gains ₹ 25 Crores  
(B) Long Term Capital Gains ₹ 19 Crores  
(C) Long Term Capital Gains ₹ 24 Crores  
(D) NIL

4.4 If you are a part of legal team of company, what would be your response to the query of director Rohit?

(A) Rohit is not permitted to make premium payment on behalf of his brother.  
(B) Rohit is permitted to make premium payment on behalf of his brother since Mohit is his real brother.  
(C) Rohit is permitted to make premium payment on behalf of his brother as it is within the permissible limit of USD 250,000 per year.  
(D) Rohit is not permitted to make premium payment on behalf of his brother unless he obtains permission from Central Government of India.

4.5 Which type of cyber-attack has happened and which control procedure should be implemented to identify such risks?

- (A) Trojan and formal training to make the teams aware of cybersecurity risks.
- (B) Ransomware and monitoring of firewall logs.
- (C) Ransomware and prioritize protection of information assets based on sensitivity and business value and periodically review the systems connected to the network in which digital assets reside.
- (D) Ransomware and aligning cybersecurity and IT transformation with strategic objectives.

**(5 x 2 = 10 Marks)**

**Descriptive Questions:**

4.6 Determine the amount of input tax credit available under GST law for Latest Fashions Limited for the month of January, 2025 by giving reasons for treatment of each item. **(5 Marks)**

4.7 Where and how much of information would be included in independent auditor's report on consolidated financial statement of Latest Fashions Limited by Statutory Auditors? **(5 Marks)**

4.8. Calculate the capital gain on sale of agriculture lands by Mr. Rohit during the year. What are the tax implications of the amount received by him from the buyback of shares and capital gain thereon?

(Cost inflation index for 2003-04 = 109, 2014-15 = 240, 2024-25 = 363)

**(5 Marks)**

**ANSWER TO CASE STUDY 4**

**4.1 No Correct Option**

**4.2 Option (C): ₹100**

**4.3 Option (D): NIL**

**4.4 Option (A):** Rohit is not permitted to make premium payment on behalf of his brother.

**4.5 Option (B):** Ransomware and monitoring of firewall logs.

**4.6 Computation of input tax credit available for Latest Fashions Limited for the month of January, 2025**

Particulars	Amount of ITC Available (₹)
Capital Goods [ITC is available, only if registered person is in possession of a tax invoice or debit note issued by a supplier.]	80,000
Inputs consisting of 5 equal lots [No ITC is available, because where the goods against an invoice are received in lots or instalments, the registered person shall be entitled to take credit upon receipt of the last lot.]	NIL
Travel benefits extended to Employees [ITC is available in this case, where it is obligatory for an employer to provide the same to its employees under any law for the time being in force.]	1,10,000
Purchased Machinery for Manufacturing Process [If depreciation on the tax component of the cost of capital goods is claimed under the Income-tax Act 1961, the ITC on the said tax component shall not be allowed]	NIL
Repair services for factory buildings debited to P&L Account. [ITC is available, since amount of repairs is not capitalized in the cost of the factory and hence not blocked.]	70,000
Total ITC	2,60,000

**4.7** In a case where the parent's auditor is not the auditor of all the components included in the consolidated financial statements, then as prescribed in SA 706, if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor's report on the consolidated financial statements should disclose clearly the magnitude of the portion of the

financial statements audited by the other auditors. This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent's auditor.

It should be included in Other Matter paragraph of independent auditor's report. The draft "Other Matter Paragraph" is as under: -

**Other Matter Paragraph:**

We did not audit the financial statements and other financial information, in respect of six (6) subsidiaries, whose financial statements include total assets of ₹ 2500 crores as at March 31, 2025, and total revenues of ₹ 1,500 crores and net cash outflow of ₹ 15 crores for the year ended on that date. These financial statements and other financial information have been audited by other auditors and such financial statements, other financial information and auditor's reports have been furnished to us by the management of the Holding Company.

Our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries and joint ventures, and our report in terms of sub-sections (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries is based solely on the reports of such other auditors.

Two of these subsidiaries are located outside India whose financial statements and other financial information have been prepared in accordance with accounting principles generally accepted in their respective countries and which have been audited by other auditors under generally accepted auditing standards applicable in their respective countries. The Holding Company's management has converted the financial statements of such subsidiaries from accounting principles generally accepted in their respective countries to accounting principles generally accepted in India.

We have audited these conversion adjustments made by the Holding Company's management. Our opinion in so far as it relates to the balances and affairs of such subsidiaries is based on the report of other auditors and the conversion adjustments prepared by the management of the Holding Company and audited by us. Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements is

not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements and other financial information certified by the Management.

#### 4.8 Computation of Capital Gains on sale of urban agricultural land by Rohit for A.Y.2025-26

Particulars	₹
Actual sale consideration	1,90,00,000
<i>Less: Cost of acquisition [No indexation benefit since it is transferred on or after 23.7.2024]</i>	36,60,000
	<b>1,53,40,000</b>
<i>Less: Exemption u/s 54B<sup>1</sup> – In respect of agricultural land purchased on 31.8.2024 which is a rural agricultural land, Mr. Rohit is eligible to claim exemption u/s 54B. [See Note for alternative answer]</i>	80,00,000
<b>Long term capital gain</b>	<b>73,40,000</b>

**Note [Alternative answer]** – Mr. Rohit transferred urban agricultural land on 20.08.2024 and purchased rural agricultural land on 31.8.2024 which is sold on 28.2.2025. Since the rural agricultural land is sold within the same previous year in which original asset was transferred i.e., P.Y. 2024-25, a view can be taken that the exemption under section 54B would not be available as at the time of filing return of income such acquired land does not exist. In such case, long term capital gain would be ₹ 1,53,40,000.

#### Capital gain on sale of rural agricultural land

As per section 54B, if the new agricultural land is transferred within 3 years from the date of its purchase, while computing the capital gains on transfer of such new agricultural land, the cost of acquisition of such land would be reduced by the amount of capital gain claimed as exempted. However, since rural agricultural is not a capital asset, no capital gain would arise on sale of such land even though it is transferred within 3 years from the date of its purchase.

<sup>1</sup> Assuming such agricultural land is used for agricultural purposes by the assessee or his parents in the 2 years immediately preceding the date of transfer.

**Tax implications on buy-back of shares**

The sum paid by X Ltd., a domestic company for purchase of its own shares would be treated as dividend and taxable under the head "Income from Other Sources" in the hands of Mr. Rohit. No deduction for expenses would be available against such dividend income.

As per section 46A, value of consideration received by Mr. Rohit on buy back of shares by X Ltd. would be Nil and the difference between the cost of acquisition and the value of consideration received by Mr. Rohit will be capital loss.

Accordingly, ₹ 10 lakhs [₹ 9 lakh/(100-10)%] would be taxable as dividend income and there will be long term capital loss of ₹ 1,50,000 (6,000 shares x ₹ 25), being the cost of acquisition of shares, in the hands of Mr. Rohit.

Hence, income from other sources would be ₹ 10 lakhs and long-term capital loss would be ₹ 1,50,000 from buy back of shares. Such long-term capital loss of ₹ 1,50,000 can be set off against long term capital gain on sale of agricultural land.

**CASE STUDY - 5**

*Surgical Equipments Limited based in Delhi is engaged in manufacturing of medical surgical instruments. Products of the company are for use by particular segment of the society who requires a product with good features and at competitive prices. Company has been in the line of business for more than a decade and has paid-up capital of ₹ 40 crores and turnover exceeding ₹ 400 crores. Company has presented complete set of financial results for 2 financial years (31.03.2025, 31.03.2024) along with a statement of profit or loss for the financial year ended on 31.03.2023.*

*During the year Surgical Equipments Limited acquired Medicines Limited. The scheme of merger / acquisition is that the shares will be issued on one-to-one basis to the shareholders of Medicines Limited. The exchange ratio is based on the market prices of the shares of two companies. The following financial data is provided to you:*

Particulars	Surgical Equipments Limited	Medicines Limited
Earnings before taxes (₹)	25,00,000	18,50,000
No. of equity shares (paid up)	8,00,000	4,00,000
PE ratio	14 times	10 times

Effective Tax rate applicable is 25%.

For paying purchase consideration, borrowing from existing bankers was made in the form of Term Loan which was to be paid in 36 monthly installments starting after the period of twelve months. One of the conditions of the borrowing was to get the Insurance Cover for full amount of assets which was not fulfilled by the Company as on the date of Balance Sheet. Till the approval of financial statements, no waiver has been given by the banker. The same loan has been classified as Non-Current in the financial statements.

Surgical Equipments Limited is engaged in manufacture of 3 products viz. X, Y and Z. All the products have the same market demand. However, the key factor is the availability of machines for manufacturing the product since the same set of machines are used for manufacturing them. The management of Surgical Equipments Limited wants to rank the products based on the rate at which company is making money. This will be used to plan the production schedule for the months taking note of the bottleneck constraint.

The following details are furnished regarding the products:

Particulars	Product X	Product Y	Product Z
Selling price - per unit (₹)	50	60	80
Material and other variable cost - per unit (₹)	30	40	50
Fixed Cost per unit (₹)	6	7	8
Time required for manufacture - per unit	20 minutes	30 minutes	40 minutes

The factory cost is ₹ 0.50 per minute.

One of the Machine named as 'Treble' has been sold during the year as no future economic benefits from its use were expected. Gain arising on disposal has been included in Other Comprehensive Income appearing in the financial statements.

*Surgical Equipments Limited has supplied products to various customers both directly and through dealers. It permitted the customers the benefit of warranty claims if supported by adequate records like bills, delivery challans, remittance details etc., and replaced defective parts by supplying to them directly. In the month of January, 2025, it supplied some parts valuing ₹3,00,000 to its corporate customer in Mumbai. There would be no revenue accrual to Surgical Equipments Limited for the supply made. The management is of the view that since the movement of goods is caused due to reasons other than supply, e-way bill is not mandatorily required to be generated in this case. Also, the accounts of Surgical Equipments Limited were checked by GST Department officials for the financial year 2018-19 and the appeal preferred by it, is pending before the GST appellate authority.*

*Surgical Equipments Limited wants to make Overseas Direct Investment (ODI) in financial services activity in UK. It wants to know the way by which it can subscribe to share capital and the limits on investment vis a vis its profits. It also wants to implement a business model as suggested by Christensen & Kaggerman for the financial services activity proposed by way of ODI in UK.*

*Secretarial department of Surgical Equipments Limited while submitting shareholders data to regulatory authorities observed that a particular name HVB is appearing in the name of many non-individual shareholders. In the meantime, HVB group made an offer of acquisition to the Board of Directors of Surgical Equipments Limited which was rejected by it. HVB did not stop there and approached the shareholders of Surgical Equipments Limited through a public announcement. Immediately a meeting was called and the matter discussed. Management decided to appoint a consultant who could advise the company about various tactics to defend itself.*

*Vikas Sharma is managing director of Surgical Equipments Limited. His wife Kavita is engaged in purchase and sale of shares through a depository and has been admitting the income under the head "Profits and gains of business or profession". During the financial year her total purchase of shares was ₹ 8.80 crores and total sales was ₹ 8.90 crores with opening stock of ₹ 20 lakhs and closing stock of ₹ 10 lakhs. Payments/receipts with depository were through online banking only. Kavita employed 3 persons to manage her share trading activity for whom she paid salary and bonus of ₹ 4,50,000 (in aggregate) and paid ₹ 20,000 each to 4 different consultants for guidance in purchase and sale of shares. Payments to staff and consultants were made by cash without violating section 40A(3) of the Income-tax Act, 1961. Assume Kavita does not have any other business or source of income for the financial year 2024-25.*

**Multiple Choice Questions:**

[Provide the correct option to the following questions]

5.1 Which of the following statement is true as regards ranking of the products manufactured by Surgical Equipments Limited based?

- (A) Rank 1 - Product Y, Rank 2 - Product Z and Rank 3 - Product X
- (B) Rank 1 - Product Z, Rank 2 - Product X and Rank 3 - Product Y
- (C) Rank 1 - Product X, Rank 2 - Product Y and Rank 3 - Product Z
- (D) Rank 1 - Product X, Rank 2 - Product Z and Rank 3 - Product Y

5.2 What would be the total market capitalization of the shares of Surgical Equipments Limited post-merger with Medicines Limited? Assume its PE ratio would be the same after merger also.

- (A) ₹ 601.44 lakhs
- (B) ₹ 316.96 lakhs
- (C) ₹ 420.54 lakhs
- (D) ₹ 456.96 lakhs

5.3 Decide which of the following statement is correct and applicable for Kavita for the assessment year 2025-26?

- (A) Admit income at 8% under section 44AD.
- (B) Admit loss as per books of account and no audit under section 44AB is required.
- (C) Admit income as per books of account and audit under section 44AB is mandatory.
- (D) Admit income at 6% under section 44AD.

5.4 Which of the following statements is fully correct?

- (A) Surgical Equipments Limited cannot present information for F.Y. ended 31.03.2023. Classification of Term Loan should be current.
- (B) Surgical Equipments Limited can present information for F.Y. ended 31.03.2023 but only in notes to accounts. Classification of Term Loan is correct.
- (C) Surgical Equipments Limited can present information for F.Y. ended 31.03.2023, as long as that information is prepared in accordance with-

*IND-AS without presenting related note information for those additional statements. Classification of Term Loan should be current.*

*(D) Surgical Equipments Limited can present information for F.Y. ended 31.03.2023, as long as the information is prepared in accordance with IND-AS along with related note information for those additional statements. Classification of Term Loan should be current.*

**5.5** *Which of the following statements is/are true in relation to 'Treble' considering the requirements of IND AS 16 and IFCoFR?*

- (i) Gain has been correctly recorded in books of accounts.*
- (ii) Apply cost model or revaluation model for calculating gain.*
- (iii) Gain should have been recorded in profit and loss account.*
- (iv) No requirement to establish IFCoFR is there for assets under disposal.*

*Options*

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

**(5 x 2 = 10 Marks)**

**Descriptive Questions:**

**5.6** *You are the management and investment consultant to Surgical Equipments Limited.*

- (i) Briefly explain FEMA regulations for ODI proposed in financial services activity in UK.*
- (ii) What is meant by business model and state the components of the business model opted by Surgical Equipments Limited. **(3 + 2 = 5 Marks)***

**5.7** *State whether generation of e-way bill is required or not in respect of warranty supplies made by Surgical Equipments Limited. Also, the period up to which the books of account or other records of the financial year 2018-19 is to be maintained by Surgical Equipments Limited. **(5 Marks)***

**5.8** *If you have been appointed as strategic consultant, what measures will you suggest to the management to defend itself against hostile takeover?*

**(5 Marks)**

## ANSWER TO CASE STUDY 5

**5.1 Option (D):** Rank 1 - Product X, Rank 2 - Product Z and Rank 3 - Product Y

**5.2 Option (D):** ₹456.96 lakhs

**5.3 Option (B):** Admit loss as per books of account and no audit under section 44AB is required.

**5.4 Option (D):** Surgical Equipments Limited can present information for F.Y. ended 31.03.2023, as long as the information is prepared in accordance with IND-AS along with related note information for those additional statements. Classification of Term Loan should be current.

**5.5 Option (C):** Only (iii)

**5.6 (i)** As per the Overseas Investment Rules, 2022 read with the Schedule I which outlines the manner of making Overseas Direct Investment by Indian entity. An Indian entity may make ODI by way of investment in equity capital for the purpose of undertaking bonafide business activity in the manner and subject to the limits and conditions provided in this Schedule.

1. The ODI may be made or held by way of-

- (i) subscription as part of memorandum of association or purchase of equity capital, listed or unlisted;
- (ii) acquisition through bidding or tender procedure;
- (iii) acquisition of equity capital by way of rights issue or allotment of bonus shares;

2. An Indian entity not engaged in financial services activity in India may make ODI in a foreign entity, which is directly or indirectly engaged in financial services activity [except banking or insurance] subject to the condition that such Indian entity has posted net profits during the preceding three financial years:

Provided that an Indian entity not engaged in the insurance sector may make ODI in general and health insurance where such insurance business is supporting the core activity undertaken overseas by such an Indian entity.

3. Limit for financial commitment – (1) The total financial commitment made by an Indian entity in all the foreign entities taken together at the time of undertaking such commitment shall not exceed 400 percent of its net worth as on the date of the last audited balance sheet or as directed by the Reserve Bank, in consultation with Central Government from time to time.

Surgical Equipments Limited (an Indian entity) may engage in financial services activities in the UK, subject to compliance with the above-stated ODI regulations under FEMA.

**(ii)** A business model explains how a business works and the economic logic behind it. It is a way of representing and communicating how an organisation creates values for itself while delivering products or services to customers.

Margretta proposed that a business model should include all the activities associated with two key components –

- a. Producing or making something.
- b. Selling something.

But in 2008, Johnson along with Christensen & Kaggerman extended the scope and proposed that a business model also needs a value proposition; a business model should contain three components –

- a. Customer value processes proposition.
- b. Profit formula.
- c. Key resources and processes.

Surgical Equipments Limited plans to establish a financial services venture in the UK through Overseas Direct Investment, adopting the Christensen & Kaggerman business model. The proposed model focuses on delivering a strong Customer Value Proposition by offering affordable financing to healthcare SMEs/ firms. Its Profit Formula relies on interest income and service fees with a lean cost structure. Key Resources may include digital platforms, capital, and skilled personnel, while Key Processes involve, credit risk profiling, and regulatory compliance—ensuring a scalable, tech-enabled, and customer-centric approach.

**5.7** The goods to be moved to another State for replacement under warranty is not a 'supply'. However, as per rule 138(1) of the CGST Rules, 2017, E-way Bill is required to be generated, whenever there is a movement of goods of consignment value exceeding ₹ 50,000, in relation to a supply, or for reasons other than supply, or due to inward supply from an unregistered person.

Thus, in the given case, since the consignment value of warranty supplies made by Surgical Equipments Limited exceeds ₹ 50,000, e-way bill is required to be mandatorily generated.

Every registered person required to keep and maintain books of account or other records shall retain them until the expiry of 72 months from the due date of furnishing of annual return for the year pertaining to such accounts and records.

However, a registered person, who is a party to an appeal shall retain the books of account and other records pertaining to the subject matter of such appeal for a period of one year after final disposal of such appeal, or for the period specified above, whichever is later.

In this case, the due date of Annual Return of FY 2018-19 is 31<sup>st</sup> December 2019 / 31<sup>st</sup> December 2020 (extended date).

So, period upto which books of account or other records are required to be maintained by Surgical Equipments Limited is 31<sup>st</sup> December, 2025/ 31<sup>st</sup> December 2026 (extended date) or 1 year after final disposal of appeal (as the appeal is pending with the Appellate Authority), whichever is later.

**5.8 Following are some measures that management can adopt to defend itself from hostile takeover.**

- **Divestiture** - In a divestiture the target company divests or spins off some of its businesses in the form of an independent, subsidiary company. Thus, reducing the attractiveness of the existing business to the acquirer.
- **Crown jewels** - When a target company uses the tactic of divestiture it is said to sell the crown jewels. In some countries such as the UK, such tactic is not allowed once the deal becomes known and is unavoidable.

- **Poison pill** - The tactics used by the acquiring company to make itself unattractive to a potential bidder is called poison pills. For instance, the acquiring company may issue substantial amount of convertible debentures to its existing shareholders to be converted at a future date when it faces a takeover threat. The task of the bidder would become difficult since the number of shares having voting control of the company increases substantially.
- **Poison Put** - In this case the target company issues bonds that encourage the holder to cash in at higher prices. The resultant cash drainage would make the target unattractive.
- **Greenmail** - Greenmail refers to an incentive offered by management of the target company to the potential bidder for not pursuing the takeover. The management of the target company may offer the acquirer a higher price for its shares than the market price.
- **White knight** - In this a target company offers to be acquired by a friendly company to escape from a hostile takeover. The possible motive for the management of the target company to do so is not to lose the management of the company as the hostile acquirer may change the management.
- **White squire** - This strategy is essentially the same as white knight and involves sell out of shares to a company that is not interested in the takeover. Consequently, the management of the target company retains its control over the company.
- **Golden parachutes** - When a company offers hefty compensations to its managers if they get ousted due to takeover, the company is said to offer golden parachutes. This reduces acquirer's interest for takeover.
- **Pac-man defence** - This strategy aims at the target company making a counter bid for the acquirer company. This would force the acquirer to defend itself and consequently may call off its proposal for takeover.

## EXAMINERS' COMMENTS ON THE PERFORMANCE OF EXAMINEES

### PAPER – 4 : DIRECT TAX LAWS & INTERNATIONAL TAXATION

#### Specific Comments

**Question 1.** Some of the examinees have incorrectly allowed cash payment made to a transporter exceeding ₹ 35,000, which is not allowable as a deduction under section 40A(3). Additionally, the examinees were not aware of the implications of section 47A, which mandates the withdrawal of the capital gains exemption granted under section 47(xiii) if certain conditions are violated. In the present case, the partners of firm failed to hold 50% of the voting power of the company for a period of 5 years, which leads to taxability of capital gains which were exempt earlier. Furthermore, the examinees did not conclude their answers by evaluating whether the concessional tax regime u/s 115BAA is beneficial for the company or the normal provisions of the Act.

**Question 2.(a)** The condition of filing return of income on or before the due date is applicable for claiming deduction under section 10AA, but it is not applicable for claiming deduction under section 35AD. However, many examinees incorrectly concluded that the deduction under section 35AD would not be available since the return was filed after the due date. Deduction under section 10AA is to be allowed from the gross total income, however, examinees wrongly allowed it under the head "Profits and gains from business or profession." Additionally, while computing book profits under section 40(b), the deduction allowable under section 35AD was not considered, resulting in an incorrect computation of book profits.

**(b)** Examinees lacks clarity of special provisions contained under Chapter XII-A applicable to non-residents. Further, they could not correctly gross up the amount of interest on government securities given net of TDS.

**Question 3.(a)(ii)** Investing in shares of a public limited company is a permissible mode of investment u/s 11(5) for the purpose of claiming exemption in respect of corpus funds received by a trust. Only a few examinees were aware that a trust continue to be eligible for exemption for three years from the date of cessation (31.03.2025) when a public sector company ceases to be public sector company due to disinvestment.

**(b)** Many examinees have correctly computed the amount of total income, but average tax rates, doubly taxable income and deduction under section 91 was not correctly computed.

**Question 4.(b)** Most of the examinees have correctly identified the associated enterprises of Indiana Ltd. However, they could not correctly compute the Arm's Length Price which need to be determined applying the resale price method.

**Question 5.(a)(i)** Many examinees showed lack of knowledge of the provisions of provisional attachment under section 281B. They were not aware that the provisional attachment can be made where the amount or aggregate amount of penalty under section 271AAD exceeds ₹ 2 crores and attachment is valid for a period of 6 months which can be extended for 2 years or 60 days after the date of assessment or reassessment whichever is later.

**(b)(i)** Instead of specifying the advantages of BEPS Action Plan 13, many examinees merely explained the three-tier documentation structure.

**(ii)** Only a few examinees were aware about the 'Static approach' and 'Ambulatory approach' with regard to meaning of a term as per domestic law, not defined in the International Tax Treaty.

**Question 6.(a)(i)** Many examinees got confused between section 269ST and section 40A(3), which leads to incorrect quoting of limits of ₹ 10,000 instead of ₹ 2 lakhs.

**(b)** Many examinees wrongly stated the limit ₹ 100 crores or more with respect to tax liability though it is applicable with reference to value of transaction which applies to a resident for making application for advance ruling.

## PAPER – 5: INDIRECT TAX LAWS

### Specific Comments

#### Question 1.

- Many examinees were not able to correctly calculate aggregate turnover. They erroneously included interest received on investments and wrongly considered value of sale of securities as Nil instead of 1% of ₹ 42 lakh, while computing exempt turnover. It leads to incorrect computation of common credit, eligible ITC and net GST payable in cash.

- Most of the examinees failed to provide the correct treatment of the supply of hiring of trucks to GTA, i.e. they were unable to infer that given supply was exempt since services by way of giving on hire to a GTA, a means of transportation of goods are exempt.
- As regards applicability of rule 86B of the CGST Rules, 2017 in the given case, only few examinees correctly stated that no adjustment is required as per rule 86B since ITC available is less than 99% of the output liability.

**Question 2.(a)** Most of the examinees answered this question correctly. However, some examinees failed to explain correct reason for inclusion and exclusion of items while calculating taxable value of supply.

For instance, they correctly considered that amount charged from Tamil Nadu Government was taxable, but failed to provide that said amount was taxable since value of goods supplied exceeds 25% of the total value of composite supply of service of milling of wheat into flour and fortification for distribution by State Governments under PDS.

**Question 3.(a)** In part (iii) of this question, most of the examinees failed to mention that where any services directly in relation to an immovable property are supplied at more than one location, including a location in the taxable territory, its place of supply shall be the location in the taxable territory.

**(b)** Most of the examinees were not aware regarding the recent circular relating to "Taxability of spectrum allocation services". So, they were not able to explain the relevant legal provisions with reference to the liability to pay GST, issue of invoice and time of supply.

**Question 4.(a)** Several examinees were unable to apply the TDS provisions correctly. Few examinees wrongly applied TDS provisions in case where the value of supply was ₹ 2,50,000.

**Question 5.(a)** Many examinees incorrectly stated the penalty as ₹ 10,000. For amount of penalty leviable on person who aids or abets the offence, some examinees simply mentioned the amount of penalty as ₹ 25,000 without mentioning that the said penalty is leviable separately each under CGST and SGST.

**(c)** Most of the examinees were not aware of case law "*Pratibha Processors v. UOI 1996 (88) ELT 12*" by Supreme Court.

**PAPER – 6 : INTEGRATED BUSINESS SOLUTIONS****General**

The overall performance of the examinees was average. It was observed that examinees did not perform comparatively well in the questions that required them to answer based on the Case Studies and their underlying concepts in these questions, examinees either repeated information directly from the Study Materials without referring to the Case Study or its concepts or provided only general answers.

**Specific Comments**

## Question-wise Performance in the Descriptive Questions

**Question 1.6 It was required to examine the disqualification from holding the position of Director and to clarify whether the Director Identification Number (DIN) would be deactivated.** Many examinees correctly explained the provisions of Section 164(2) of the Companies Act, 2013 relating to disqualification in the given scenario, as well as Rule 11 of the Companies (Appointment and Qualification of Directors) Rules, 2014 concerning DIN deactivation. They also arrived at the correct conclusions regarding the validity of appointment as a director and the continued validity of DIN. However, many examinees failed to determine the exact date of disqualification. Additionally, several responses did not address the cooling-off period applicable under the disqualification and the rationale for non-deactivation of DIN. The performance was ABOVE AVERAGE.

**Question 1.7 It was required to demonstrate the efficiency of management using the summary of the financial statements provided.** Most examinees did not calculate key parameters such as NOPAT, Invested Capital, WACC, Capital Charge, and EVA using the inputs provided in the case study. As a result, they failed to assess the efficiency of the management based on these critical metrics. The performance was POOR.

**Question 1.8 It was required to check the appropriateness of the carrying amount of assets.** Many examinees correctly calculated the carrying amount and depreciation and arrived at the appropriate conclusion. However, some examinees failed to compute the correct amount of impairment loss, which affected the overall accuracy and quality of their responses. The performance was AVERAGE.

**Question 2.6** It was required to discuss strategies to enhance both the inbound and outbound supply chain. Most of the examinees did not address the inbound and outbound supply chains separately, and relevant points were not organised under appropriate headings. Additionally, responses lacked proper reference to the facts and figures provided in the case study. The performance was **BELOW AVERAGE**.

**Question 2.7** It was required to advise which of the two alternative currencies, the Euro or US Dollar, would be more attractive for borrowing. The question required calculation of the amount repayable in two alternate currencies-Euro and US Dollar-and drawing a conclusion based on the comparison. While many examinees calculated the repayable amount in Euros, many failed to do so for the US Dollar. Some examinees merely stated the spot and swap rates without performing the necessary computations. Nevertheless, most were able to arrive at the correct conclusion. The performance was **AVERAGE**.

**Question 2.8** It was required to discuss the repercussions of the addition made by the assessing officer. Examinees explained the provisions of Section 92CE of the Income Tax Act, 1961 relating to secondary adjustments, including the period for repatriation of excess money held with the associated enterprise, the applicable income tax rate, and the consequences of non-repatriation. However, most responses did not compute the relevant period for interest calculation or determine the quantum of additional income tax payable, in case the option to pay tax in lieu of repatriation was exercised. The performance was **AVERAGE**.

**Question 3.6** It was required to analyse the make-or-buy decision and evaluate how sensitive this decision is to changes in the external purchase price. Most examinees did not compare the net benefit under both options (make or buy), nor did they perform a sensitivity analysis with respect to fluctuations in the external purchase price using the inputs provided in the case study. Additionally, conclusions were often stated without proper supporting calculations or workings. The performance was **POOR**.

**Question 3.7** It was required to determine the assessable value of the machinery imported and compute the amount of total custom duty and integrated tax payable. Most of the examinees correctly applied the given input information to compute the Assessable Value, Total Customs Duty, and Integrated Tax payable. However, some examinees used incorrect exchange

rates and inappropriate rates of customs duty and tax, which negatively affected the accuracy of their answers. The performance was **GOOD**.

**Question 3.8 It was required to identify the technological risks associated with the digitization of accounting processes.** Some of the examinees provided correct responses by identifying the relevant technological risks associated with the digitization of accounting processes, as outlined in the case scenario. However, some examinees deviated from the question by discussing unrelated topics such as various types of virus attacks, potential job losses, and the role of the auditor, which were not relevant to the requirement. The performance was **AVERAGE**.

**Question 4.6 It was required to determine the amount of Input Tax Credit (ITC) available under GST law.** Most of the examinees correctly calculated the Input Tax Credit (ITC) and provided appropriate reasoning for the five transactions mentioned in the case study. However, some examinees gave generic justifications for availing ITC on repair services for factory buildings, without addressing the specific provisions or context applicable to such services. The performance was **GOOD**.

**Question 4.7 It was required to comment on the information to be included by the statutory auditors in the Independent Auditor's Report on the consolidated financial statements.** Some of the examinees explained SA 706 appropriately, particularly regarding references to the consolidated audit report that consider the audit reports of other auditors on the consolidated financial statements. However, some examinees failed to cover all essential aspects of the Other Matter paragraph, such as the inclusion of financial information of subsidiaries, conversion adjustments, and differences in accounting frameworks (GAAP). The performance was **AVERAGE**.

**Question 4.8 It was required to compute the capital gains arising from the sale of agricultural land and explain the tax implications of the amount received from the buy-back of shares, including any capital gain.** Many examinees, while referring to the applicable income-tax provisions, correctly computed the long-term capital gains on the sale of urban agricultural land and addressed the implications of selling a new rural agricultural land asset within the same financial year. They also accurately calculated the long-term capital loss arising from the buyback of shares. However, many failed to recognize that the dividend amount provided in the case study was net of tax (TDS). As a result, they did not correctly gross up the

dividend to compute income from other sources, leading to inaccuracies in their final answer. The performance was ABOVE AVERAGE.

**Question 5.6(i) It was required to explain the FEMA regulations applicable to Overseas Direct Investment (ODI) proposed in a financial services activity abroad.** Some of the examinees correctly aligned their responses with the case study by identifying that the Indian entity proposing Overseas Direct Investment (ODI) is engaged in non-financial services activities in India. They appropriately explained one or more applicable conditions and the financial commitment limit under FEMA regulations relevant to such entities. However, some examinees incorrectly addressed aspects related to Indian entities engaged in financial services, including the manner of making ODI, RBI regulations, and related restrictions, which were not applicable in this context. The performance was BELOW AVERAGE.

**(ii) It was required to define the term "business model" and outline its key components.** Some of the examinees correctly explained the concept of a business model and its general components. However, they did not explain the specific components of the business model proposed by Christensen and Kagermann, which were intended to be implemented. The performance was BELOW AVERAGE.

**Question 5.7 It was required to state whether the generation of an e-way bill is necessary for warranty supplies and to specify the retention period for books of account and other records pertaining to the financial year 2018–19.** Many examinees correctly referred to the provisions governing the generation of e-way bills and the period for maintaining books of account. However, some have failed to address the specific provisions related to the inter-State movement of goods for replacement under warranty and did not mention the exact dates up to which the records for the financial year are required to be maintained. The performance was ABOVE AVERAGE.

**Question 5.8 It was required to recommend measures to effectively defend against a hostile takeover.** Examinees most correctly identified the measures that management can adopt to protect the company from a hostile takeover and scored well. However, some candidates merely listed the headings without providing any explanation. The performance was GOOD.

conditions and the financial commitment limit under FEMA regulations relevant to such entities. However, some examinees incorrectly addressed aspects related to Indian entities engaged in financial services, including the manner of making ODI, RBI regulations, and related restrictions, which were not applicable in this context. The performance was **BELOW AVERAGE**.

**(ii) It was required to define the term "business model" and outline its key components.** Some of the examinees correctly explained the concept of a business model and its general components. However, they did not explain the specific components of the business model proposed by Christensen and Kagermann, which were intended to be implemented. The performance was **BELOW AVERAGE**.

**Question 5.7 It was required to state whether the generation of an e-way bill is necessary for warranty supplies and to specify the retention period for books of account and other records pertaining to the financial year 2018–19.** Many examinees correctly referred to the provisions governing the generation of e-way bills and the period for maintaining books of account. However, some have failed to address the specific provisions related to the inter-State movement of goods for replacement under warranty and did not mention the exact dates up to which the records for the financial year are required to be maintained. The performance was **ABOVE AVERAGE**.

**Question 5.8 It was required to recommend measures to effectively defend against a hostile takeover.** Examinees most correctly identified the measures that management can adopt to protect the company from a hostile takeover and scored well. However, some candidates merely listed the headings without providing any explanation. The performance was **GOOD**.