

Mock Test Paper - Series II: April 2025

Date of Paper: 14<sup>th</sup> April 2025

Time of Paper: 2 P.M. – 6 P.M.

FINAL COURSE: GROUP – II  
PAPER – 6: INTEGRATED BUSINESS SOLUTIONS  
SUGGESTED ANSWERS

**ANSWERS TO THE CASE STUDY 1**

**Answers to the Multiple Choice Questions**

1. (b) ₹ 21,22,950

**Reason:** As per Rule 8 (computed value) read with Rule 3 and Rule 10 of Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, value of imported goods shall be based on a computed value, which shall consist of the sum of the cost or value of materials and fabrication or other processing employed in producing the imported goods; an amount for profit and general expenses equal to that usually reflected in sales of goods of the same class or kind as the goods being valued which are made by producers in the country of exportation for export to India; and the cost or value of all other expenses under sub-rule (2) of rule 10.

So, FOB value (in '000) shall be ₹ 2,040 (i.e. 1,500 + 300 + 90 + 150)

Transport Cost given is ₹ 60

Cost of Insurance to the place of Import, since not ascertainable, hence 1.125% of FOB value i.e. 1.125% of 2,040 is equal to ₹ 22.95

Hence, Assessable Value (in '000) shall be 2040 + 60 + 22.95 = 2122.95 or **₹ 21,22,950**

2. (c) ₹ 8,69,607

**Reason:** Liability in \$ to be paid in 3 months' time = \$10000

Deposit such number of dollars in the US, that it will become \$10000 in three months' time =  $\$10000 / (1 + 0.8\%) = \$ 9921$

\* 3.2% is annual rate, to calculate quarterly rate simply divide it by 4.

To deposit \$9921, Daily Mart must have to borrow in ₹ to convert same in \$ (but transaction for \$) at spot market exchange rate i.e. ₹ 85.9345 per \$ (because market will sell at higher). Daily Mart have to borrow ₹ 8,52,556 @8%p.a. for three months.

Daily Mart have to pay back the ₹ borrowing in three months' time i.e. 8,52,556+2% i.e. ₹ 869607.

(Note: All calculation round-off to nearest full unit of currency.)

3. (c) ₹ / ¥ 57.05

**Reason:** For imported goods, the conversion to ₹ shall be done with reference to rate of exchange prevalent on the **date of filling of bill of entry** under section 46 of the Customs Act, 1962.

For custom valuation the rate of exchange means rate of exchange determined by the board or ascertain in such manner as the board may direct.

**Note for better understanding of students:** The exchange rates of 22 currencies is published online in advance for ease of all importers and exporters. These exchange rates would be made available on the ICEGATE website twice a month i.e., on the evening of the first and third Thursdays of the month and would be effective from midnight of the following day. Detailed procedural modality has been explained in the **Circular 07/2024-Customs dated 25.06.2024**.

4. (b) **Statement II is correct but statement I is incorrect**

**Reason:** Second proviso to section 161 (2) of the Companies Act 2013, provides that an **alternate director shall not hold office** for a period longer than that permissible to the director in whose place he has been appointed and shall vacate the office if and **when the director in whose place he has been appointed returns to India**; hence first statement is **incorrect**.

Further, second statement is **correct**, because as per section 161(1) of the Companies Act 2013, the articles of a company may confer on its Board of Directors the power to appoint any person, other than a person who fails to get appointed as a director in a general meeting, as an **additional director** at any time who shall hold office up to the **date of the next annual general meeting or the last date on which the annual general meeting should have been held, whichever is earlier**.

5. (d) **II and III**

**Reason:** As per sub-section 1 to section 14A of the Foreign Exchange Management Act, 1999, the Adjudicating Authority may, by **order in writing, authorise an officer of Enforcement not below the rank of Assistant Director** to recover any arrears of penalty from any person who fails to make full payment

of the penalty imposed on him under section 13 within the period of ninety days from the date on which the notice for payment of such penalty is served on him.

Further, sub-section 2 provides that the officer referred to in sub-section (1) shall exercise all the like powers which are conferred on the income-tax authority in relation to recovery of tax under the Income-tax Act, 1961 (43 of 1961) and the procedure laid down under the Second Schedule to the said Act shall mutatis mutandis apply in relation to recovery of arrears of penalty under this Act.

### **Answers to the Descriptive Questions**

6. One of the most often used business strategy tools for organisations to have a better understanding of the primary competitive forces operating in their market is Porter's Five Forces model.

Michael Porter, a professor at Harvard Business School, developed the Five Forces Model, which was initially released in 1979. Porter's Five Forces are competitive rivalry, supplier power, buyer power, threat of substitution, and threat of new entry.

When evaluating strategy, the model advises firms to take into account external factors rather than only their direct rivals. Organisations can strengthen and improve their competitive position in the market by redefining their strategy, identifying areas for improvement, and making better judgements by comprehending these influences.

#### **Assessment**

##### **Force 1 - Existing competitive rivalry**

There are currently four competitors on the market, and it seems like there is fierce competition. These businesses would probably oppose a newcomer to the market, especially a big, global competitor like Daily Mart. This would most likely be accomplished by tightening supplier contracts, expanding stores quickly, and increasing marketing.

Nevertheless, despite the recession, the scenario's data indicates that the "everything at 99" shop market sector is still expanding. This would imply that rivals may enhance their outcomes by just keeping up with industry performance. Because other geographic areas that aren't yet fully supplied by the current competitors can be exploited, the market may even gain legitimacy and continue to grow as a result of Daily Mart's entry.

Moreover, Daily Mart is making income (bottom line) of 24 crores in existing country; which more than total revenue (top line) of all four 'everything at 99' stores taken together i.e. 22.60 crores; hence size of operation is a plus for Daily Mart.

##### **Force 2 - Bargaining power of suppliers**

The bargaining strength of Daily Mart's suppliers is minimal. Daily Mart Stores are the primary clients of several small suppliers, with the exception of the almond provider. Due of the lack of differentiation in the items, Daily Mart can easily switch suppliers. It is

improbable that any of these vendors could use forward integration to compete with their present clients.

The suppliers of Daily Mart don't have much negotiating power. Their primary clients are Daily Mart Stores, and there are several small suppliers (apart from the almond supplier). Additionally, the items lack differentiation, making it simple for Daily Mart to switch vendors. By using forward integration, none of these providers are likely to become rivals of their present clients.

### **Force 3 - Bargaining power of customers**

Customers of Daily Mart have significant negotiating leverage. There are several reasons for this:

- a. Customers looking for cheaper purchase costs are drawn to the products because of their low profit margin.
- b. The buyer can easily move to a different supplier because Daily Mart provides unbranded commodity goods. As a result, switching costs are minimal.
- c. Other suppliers can readily offer standard, undifferentiated products. In order to get the best terms of supply, customers can thus select which supplier to work with and pit the businesses against one another.
- d. Because they are probably extremely price sensitive, customers will make significant efforts to secure the best terms of supply.

### **Force 4 - Threat of substitutes**

The "everything at 99" stores could be replaced by traditional supermarkets since they provide a large selection of ambient goods, frequently with rival brands available. The prices varies, though, and no supermarket has yet to use the discount fixed-price sale strategy; instead, they prefer to set themselves apart with well-known brands. Since the supermarkets are out of town with plenty of parking and easy access by car, location is also a crucial factor. However, because Daily Mart is a well-known and significant participant in the fixed-price sector, supermarkets may change their strategy as a result of its entry into the Bangladesh countries.

Traditional supermarkets also provide home delivery and online shopping. The internet might also be viewed as a substitute channel because ambient items, like those sold at 'everything at 99' stores, are ideally suited to this strategy. However, considering how sensitive buyers are to pricing, the ₹ 25-50 delivery fee might lessen this threat.

Moreover, Daily Mart is making income (bottom line) of 24 crores in existing country; while the largest traditional supermarket player in county Bangladesh has revenue (top line) of 8.5 crores in F.Y. 2024-25; hence size of operation is a plus for Daily Mart or act a back-up to be there and overcome initial hard days in the country Bangladesh.

### **Force 5 - Potential entrants and barriers to entry**

The substantial amount of capital needed to have a credible presence in this sector is a major barrier to entrance. This is not expected to be an issue for Daily Mart, though, since it has the funds on hand to lease a sizable number of stores in Bangladesh and build a respectable presence in the region.

Since many towns and cities now have empty stores that are reasonably priced to rent, the lower rental costs that are now available in Bangladesh also help to lower capital expenditures. Additionally, more and more landlords are agreeing to rent these establishments for a comparatively short fixed-term lease, whereas previously they demanded exorbitant prices and lengthy leases. As a result, this market's departure costs are decreased.

Brand awareness is one entry barrier that could pose a challenge for Daily Mart. The current competitors have more than 85% brand recognition rate, while only 10% of people are familiar with Daily Mart. If Daily Mart wants to succeed in this market, it could need to invest a lot of money in a big marketing campaign.

**(Note – Answer is explanatory in nature, reasonable amount of explanation by students is also acceptable; provided they cover/consider all important facts/points)**

7. All the elements of 7S framework have equal importance, while shared values are core to rest of elements. Hard and Soft S are different from each other only in respect to identification and influence that can be exercised by the management.

Strategy, Structure, and Systems are feasible and easy to identify. These can be found in strategy statements, corporate plans, organizational charts and other documentations. They are easier to change than the others. Therefore, called hard S elements.

While Skills, Staff, Style, and Shared Values are not change-feasible. These are harder to describe since capabilities, values and elements of corporate culture are continuously developing and changing. They are highly determined by the people at work in the organization. Hence these are harder to change directly, and typically take longer to do so. Therefore, called soft S elements.

Effective companies tend to pay equal attention to these soft S factors as much as they pay to the hard S's. Hence Daily Mart advised to focus on all the 7Ss.

8. As per Ind AS 115 "Revenue from contracts with customers", revenue is recognized when control of goods or services is transferred to the customer. The standard introduces a 5-step model for revenue recognition, centred around the core principle that revenue should reflect the transfer of promised goods or services in exchange for consideration expected. If a contract includes a significant financing component, the transaction price must be adjusted for the time value of money— as the timing of payments provides either the customer or the entity with a significant financing benefit. Under Ind AS 115, when goods are sold with the right of return, revenue is recognized only to the extent that it is highly probable that a significant reversal of revenue will not occur when the uncertainty

is resolved. Recognize revenue for the portion of goods expected not to be returned. Refund liability is recognized for the amount expected to be refunded.

Daily Mart will recognize revenue when control of the goods is transferred to Max Retail and it becomes probable that no significant reversal will occur i.e., after the 90-day return period, as the product is new and the return history is unavailable. The contract also includes a significant financing component. This is evident from the difference between the amount of promised consideration of ₹ 1,21,000 and the cash selling price of ₹ 1,00,000 at the date that the goods are transferred to the customer.

The contract includes an implicit interest rate of 10 per cent (i.e. the interest rate that over 24 months discounts the promised consideration of ₹ 1,21,000 to the cash selling price of ₹ 1,00,000). The entity evaluates the rate and concludes that it is commensurate with the rate of interest that would be reflected in a separate financing transaction between the entity and its customer at contract inception.

At the time of delivery:

- A contract liability of ₹ 1,00,000 is recognized, deferring revenue recognition.
- After 90 days, when returns are no longer expected, the contract liability is reversed and revenue of ₹ 1,00,000 is to be recognized.

Financing component of ₹ 21,000 shall be recognized as interest income over the period of 2 years. Until the entity receives the cash payment from the customer, interest revenue would be recognized in accordance with Ind AS 109. In determining the effective interest rate in accordance with Ind AS 109, the entity would consider the remaining contractual term.

## ANSWERS TO THE CASE STUDY 2

### Answers to the Multiple Choice Questions

1. (b) A – III, B – I, C – V, D – II, E – IV

**Reason:**

- A Storing vendor delivered freshly laundered crockery, bedding and laundry for future use as per guest requirements – Inbound Logistics as it relates to activities of receiving, handling of materials from the supplier and their storage until further use later in operations.
- B Ensuring cleanliness and safety of rooms, working order of facilities offered like TV and internet service, coffee machines – Operations as these are activities related to converting inputs into production of output or service.
- C The review of food items to remove the ones past expiry to ensure customer satisfaction and safety – Outbound Logistics as it relates to storage and movement of the end product from the production line to the customer.
- D Free shuttle service to attract guests to stay at the hotel – Marketing and sales as these are activities related to communicating, selling and delivering the product or service to the customer.
- E Front desk activities handling complaints, customer support – Service includes after sale service, handling customer complaints, customer support, training etc. It is one of the most important activities in their value chain model. Good service ensures happy guests.

2. (c) **Threshold attribute**

**Reason:** Threshold attribute as this is feature that is taken for granted by the guests at the resort. However, if the required quality is not met it would cause dissatisfaction.

3. (a) **When all five directors of HomeInn Limited attending the meeting consent to the acquisition of property**

**Reason:** the resolution will be taken as passed when all five directors of HomeInn Limited attending the meeting consent to the acquisition of property

4. (d) ₹ 1.90 crores. EVA = NOPAT less capital charge on invested capital
- Reason:** Net Operating Profit After Tax (NOPAT) = Net Operating Profit before Interest and Tax Less Taxes
- = ₹5 crores less 30% of ₹5 crores = ₹3.50 crores.
- Capital charge on invested capital = WACC \* Invested capital = 8% \* ₹20 crores = ₹1.60 crores.
- Therefore, EVA = ₹3.50 crores less ₹1.60 crores = ₹1.90 crores.
5. (a) **Homelnn Limited should outsource all its cleaning and food service operations in all its properties ignoring the risks of outsourcing, if the cost of outsourcing is less than the cost of providing this service in-house. This is because the Economic Value Added (EVA) of the company will be positively impacted despite the risk of outsourcing.**
- Reason:** Homelnn Limited should reconsider the feasibility of operating properties where the Economic Value Added (EVA) is negative. Negative EVA implies that the profits from the property does not cover the cost of invested capital.

#### Answers to the Descriptive Questions

6. (a) **Risks of outsourcing cleaning and food service under the luxury resort model:**
- In the luxury resort business under the brand “Homelnn Comfort”, the target guests are travellers on leisure. The primary feature of this model would be “good quality of service”. Maintaining cleanliness of premises and food service are critical activities in the operation of luxury hotels. Therefore, customer satisfaction on these metrics is paramount to sustain and grow business. With the ability to post reviews online on booking portals, any negative review (whether justified or not) can reach very easily to a large number of potential guests. This can negatively impact future business. Hence, “Homelnn Comfort” brand has to deliver the quality of service that it provides in terms of cleanliness and food that should meet and beat the guests' expectation.
- Outsourcing these services to well established vendors is advantageous since the focus can remain on improving guest experience. It may also be cost advantageous in many cases. However, there a number of risks in this model.
- (1) The required quality of service for “Homelnn Comfort” resort properties should be delivered by these vendors. Detailed service level agreements need to drawn up to ensure this. Homelnn Limited should be able to



monitor the performance of these vendors. In cases of non-delivery of the required level of service, the agreement should provide for means of redressal. This could vary from compensation for any loss in business to immediate termination of service.

- (2) Homelnn Limited should ensure that it can easily and economically switch service providers if required. For this it has to identify alternate vendors who can provide the same level of service as the current ones. At the same time, since the resorts are in locations where the number of vendors providing these services is limited, it increases the risk of outsourcing these services. The other risk in outsourcing could be of instances where well performing vendors could go bankrupt and shut shop. In such cases, resort operations could be immediately impacted since such services can no longer be availed from these vendors. Again, list of alternate service providers is a necessary back-up that the hotel should have.
- (b) Where the management of Homelnn Limited determines that guests experience (primarily influenced by cleanliness of facilities and food service) is a very important critical success factor (CSF) it may choose not to outsource these activities to outside vendors. Quality control issues and poor customer service may wipe out any cost savings attributed to lower expenses from the outsourcing model. Homelnn Limited would then have to consider developing in-house departments that cater to cleanliness and food service. Control over factors such as input material used, the performance of service, equipment used, training of staff and other essential activities can ensure that the required service quality can be achieved. Better service enhances guest experience through these critical activities. Compared to outsourcing, this might be a costlier option. However, since the guests are ready to pay a premium for service quality, Homelnn Limited could choose to charge higher rates for its resort properties.
- (c) The difference between the risk of outsourcing for “Homelnn Comfort” and “Homelnn Budget” driven by the difference in the focus and target customer segment of their respective business models. “Homelnn Budget” focuses on providing value for money to the cost conscious short stay guests while “Homelnn Comfort” focuses on customer experience through quality of service provided to the guests staying on longer vacations.

As regards “Homelnn Budget” due to high real estate cost, both for ownership and rental, the cleaning and food service has been outsourced. This enables Homelnn Hotels to keep the costs of operation low, which is very critical

for the business model of “Homelnn Budget”. Hence, instances of dis-satisfaction among guests as regards quality of cleaning and food service, within certain limits will not negatively impact business. These activities are non-core and hence can be considered for outsourcing. For “Homelnn Budget”, the critical success factor (CSF) is low cost of operations in order to be able to offer guests rooms at reasonable rates.

As regards “Homelnn Comfort” where CSF is guests experience, which is primarily influenced by cleanliness of facilities and food service, these activities become core activities, hence the risks of outsourcing are higher. Therefore, there may need to be a consideration whether to outsource these activities at all. Pricing for rooms at these resorts can factor any additional costs to be incurred to ensure the delivery of the required quality of service in these resorts.

- (d) Branding of properties under either “Homelnn Budget” and “Homelnn Comfort” makes helps potential customers determine their expectations from each of such properties. Based on these expectations the customer appeal can be distinctly determined for each of these properties. This will help them choose which property could potentially satisfy their expectations better. Thus by operating different properties under either “Homelnn Budget” or “Homelnn Comfort” brand, Homelnn Limited has created a brand strategy that can effectively communicate their product and service offering to potential customers.

**7. Computation of total cost of construction of Homelnn Comfort” resort being developed in Goa as per Indian Accounting Standard 16, “Property, Plant and Equipment”**

Particulars	Amount (₹)
Purchase of land	15 crores
Site preparation costs including cost of dismantling existing structures on site	2 crores
Direct Material costs	8 crores
Direct Labour costs (including ₹ 20 lakh that was incurred during a labour strike)	2.8 crores
Testing the safety of construction at the resort site	0.5 crores
Consultation fee (Legal and architect) related to construction of resort	1.5 crores
Total cost to be capitalized Homelnn Comfort” resort being developed in Goa as per Indian Accounting Standard 16.	29.80 crores

As per Para 20 (c) of Ind AS 16, "Property Plant and Equipment" recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Costs incurred in using or redeploying an item are not included in the carrying amount of that item. Therefore, Costs of relocating or reorganising part or all of an entity's operations are not included in the carrying amount of an item of property, plant and equipment.

Relocation expense of hotel manager from Mangalore to Goa and administrative and general overheads allocated to the project by corporate office are not capitalized under Indian Accounting Standard 16. Direct labour costs incurred during a labour strike is not attributable to construction of resort and hence not capitalized. All other costs are directly attributable to the construction of the resort.

8. As per Section 12(3) of the IGST Act, 2017, the place of supply of services by way of lodging accommodation service by a hotel, inn, guest house, home stay, club or campsite, by whatever name called, and including a house boat or any other vessel shall be the location at which the immovable property or boat or vessel, as the case may be, is located or intended to be located provided that if the location of the immovable property or boat or vessel is located or intended to be located outside India, the place of supply shall be the location of the recipient. In case Immovable property related service attributable to different States/ Union territories – where the immovable property/ boat/ vessel is located, value shall be proportionate in the ratio of number of nights stayed in each such property.

The place of supply in this case is both in the Union territory of Delhi and in the State of Rajasthan and the service shall be deemed to have been provided in the Union territory of Delhi and in the State of Rajasthan in the ratio 4:2 respectively. The value of services provided will thus be apportioned as ₹ 40,000/- in the Union territory of Delhi and ₹ 20,000/- in the State of Rajasthan.

## ANSWERS TO THE CASE STUDY 3

### Answers to the Multiple Choice Questions

1. (b) On subsequent remeasurement as on 1st Oct, 2024, aircraft shall be carried at ₹ 290 crore and there will be gain of ₹ 25 crore to be recognised in the books as per Ind AS.

**Reason:** As per Ind AS 105, An entity should measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. On 1<sup>st</sup> April, 2023, the fair value less costs to sell of the aircraft was determined to be ₹ 250 crore, which was lower than its carrying amount of ₹ 255 crore at that time. Accordingly, an impairment loss of ₹ 5 crore was recognised in the profit and loss account, and the aircraft was carried at ₹ 250 crore. Following classification as held for sale, no further depreciation is required to be recognised.

On 31<sup>st</sup> March, 2024, fair value less costs to sell has been reassessed at ₹ 265 crore. Accordingly, there is gain of ₹ 15 crore, which is less than the cumulative impairment losses recognised to date (₹ 35 crore + ₹ 5 crore = ₹ 40 crore). Accordingly, it is credited in profit or loss and the property shall be carried at ₹ 265 crore.

Subsequently, on 1<sup>st</sup> Oct, 2024, the fair value less costs to sell further increased to ₹ 300 crore. There is further gain of ₹ 35 crore, however, Gain to be recognised on remeasurement is restricted to the cumulative impairment losses recognised to date (₹ 35 crore + ₹ 5 crore – ₹ 15 crore = ₹ 25 crore). Accordingly, a restricted gain of ₹ 25 crore is credited in profit or loss and the property shall be carried at ₹ 290 crore.

2. (c) (i), (iii) and (iv)

**Reason:** The correct answer is (c). Lean thinking is an organized management philosophy to reduce waste. In the above case scenario (i), (iii) and (iv) represent reduction of waiting time for guests. Waiting time is a form of waste in a lean system. Across the board reduction of ground staff to reduce cost of operations on the other hand does not necessarily lead to reduction of waste. While cost efficiencies are important, indiscriminate across the board reduction of ground staff can cause inefficiencies in the process flow of operations. Since there is a lot of passenger volume, this rather increases the possibility of generating waste in the form of inefficient operations since there may be insufficient staff to handle the operations.

3. (a) **Performance attribute**

**Reason:** The answer is (a) Performance attribute. This one dimensional shows the linear relationship between YIAL's investment in providing extensive connectivity at affordable rates to that of customer satisfaction. Better the connectivity and better the affordability by the customer, better the customer satisfaction.

4. (d) **As per the provisions of Companies Act, 2013, Mr. Chabbra is entitled to ₹ 2 crores as remuneration in FY 2024-25.**

**Reason:** The correct answer is (d). Under Section II of Part II of Schedule V to the Companies Act, 2013, the remuneration payable to managerial personnel is linked to the effective capital of the company. Schedule V states that where in any financial year during the tenure of a managerial person or other director, a company has no profits or inadequate profits, it may pay remuneration to the managerial person not exceeding ₹ 120 Lakh (₹ 1.2 crores) in the year in case the effective capital of the company is between ₹ 100 crores and ₹ 250 crores. However, the remuneration in excess of ₹120 Lakh maybe paid if the resolution passed by the shareholders is a special resolution.

YIAL has an effective capital of ₹ 215 crores. From the foregoing provisions as contained in Schedule V, the payment of ₹ 2 crore in FY 2024-25 to Mr. Chabbra is more than ₹ 120 Lakh (₹ 1.2 crores) specified limit for companies with effective capital between ₹100 crores and ₹250 crores. However, the remuneration of ₹ 2 crores has been approved by a special resolution passed by the shareholders. Hence, Mr. Chabbra is entitled to ₹ 2 crores as remuneration in FY 2024-25.

5. (a) **Operate affordable low cost model and premium full service model under different brands of YIAL. Pricing of tickets can be differentiated based on which model that particular flight is offering, higher price for premium full service tickets and lower price for affordable tickets.**

**Reason:** The correct answer is (a). Operate affordable low cost model and premium full service model under different brands of YIAL. Pricing of tickets can be differentiated based on which model that particular flight is offering, higher price for premium full service tickets and lower price for affordable tickets.

This concept is based on multi-brand strategy with the goal of catering to different customer segments simultaneously. By operating under different brands for example, YIAL Express (for low cost affordable travel) and YIAL Comfort (for full service premium travel), the passengers can clearly understand the expected level of service offering from the flight. Pricing will also be accordingly charged based on the level of

service. Hence, this will help avoid confusion about the service offering for the flight, enabling YIAL to operate both models simultaneously.

### Answers to the Descriptive Questions

6. As per the statement given in the problem, Flight 7J6622 incurs a net loss of ₹380,000. This is the net result of revenue less costs. Revenue is entirely variable depending upon passenger occupancy. Costs are both variable and fixed nature. To analyze the impact of dropping Flight 7J6622, we need to re-compute net gain/ (loss) that YIAL earns when it operates the flight based on relevant costing principles.

Net Gain/ (Loss) = Revenue earned from flight operations less Variable costs of operation

Revenue earned is the ticket revenue earned from flight operations of 7J6622, this is entirely variable. Variable costs of flight operations are those expenses that would be incurred only when the flight is operated. These include variable expenses per passenger, salaries flight assistants, overnight costs for flight crew and assistants, fuel for aircraft, a third portion of flight insurance that is specifically related to this flight sector and flight promotion expense. These are expenses that will not be incurred if the flight is not operated. Hence, relevant for decision making.

Other expenses like salaries of flight crew and hanger parking fees for aircraft are fixed expenses that will be incurred even if the flight does not operate. Loading and flight preparation expense is an allocated cost that will continue to be incurred even if flight 7J6622 does not operate. Depreciation of aircraft and liability insurance expense (2/3rd portion not related to a specific flight sector) are sunk costs. These expenses have already been incurred and hence are irrelevant to decision making. Therefore, these fixed, allocated and sunk expenses are ignored while analyzing the decision whether to continue operating flight 7J6622.

Statement showing Net Gain / (loss) if flight operations continue	₹	₹
Contribution margin if flight operations continue		600,000
Less: Relevant costs if flight operations continue		
Salaries, Flight Assistants	80,000	
Fuel for Aircraft	250,000	
Liability Insurance (1/3 which is the special charge for high risk destinations)	50,000	
Flight Promotion	50,000	
Overnight Costs for Flight Crew and Assistants	80,000	
Total relevant costs if flight continues to operate		510,000
Net Gain / (Loss)		90,000

If YIAL discontinues flight 7J6622, profits will reduce by ₹ 90,000. The statement showing loss in operations of ₹ 380,000 is misleading for decision making purpose because it accounts for costs that are fixed and irrelevant. However, since flight 7J6622 yields a net gain of ₹ 90,000, flight operations should continue.

7. (i) **Initial measurement of right-of-use of each aircraft would be calculated as follows:**

Particulars	Amount (₹)
Initial measurement of lease liability for each aircraft	8,50,00,000
Initial lease payments made to Airway Inc. on 1 <sup>st</sup> October, 2024, the lease commencement date (per aircraft)	10,00,000
Lease incentives received from Airway Inc. (per aircraft)	(50,00,000)
Initial direct cost per aircraft	1,00,000
Initial measurement of right-of-use of each aircraft	8,11,00,000

Right-of-use of each aircraft will be ₹ 8.11 crores. For 5 aircrafts, the total lease will be recognized at ₹ 40.55 crores.

- (ii) YIAL is required to perform a planned check after every 1,00,000 hours of flight hours for each aircraft. This obligation is dependent on future circumstances. For example, YIAL may terminate the lease prematurely. Therefore, this does not lead to an obligation and therefore there is no need to make any provision for these checks. However, at the end of 12 years lease term, YIAL is obliged to carry out a final check irrespective of the number of hours actually flown by the aircraft. Hence, YIAL has to provide for these costs at the present value of expected costs. This provision has to be made at the beginning of the lease term i.e. in the FY 2024-25. The costs must be included in the cost of the right-of-use (ROU) asset pursuant to para 24 (d) of Ind AS 116.
8. Section 194-I requires deduction of tax at source at specified percentage on any income payable to a resident by way of rent. Explanation to this section defines the term “rent” as any payment, by whatever name called, under any lease, sub- lease, tenancy or any other agreement or arrangement for the use of any (a) land; or (b) building; or (c) land appurtenant to a building; or (d) machinery; or (e) plant; or (f) equipment; or (g) furniture; or (h) fitting, whether or not any or all of them are owned by the payee.

On the issue of whether payment of PSF by an airline to an Airport Operator qualifies as rent to attract TDS under section 194-I, the Bombay High Court relied on the Apex Court ruling in Japan Airlines and Singapore Airlines case, wherein it was observed that the primary requirement for any payment to qualify as rent is that the payment must be for

the use of land and building and mere incidental/minor/insignificant use of the same while providing other facilities and service would not make it a payment for use of land and buildings so as to attract section 194-I. Accordingly, the Bombay High Court declined to admit the ground relating to the applicability of the provisions of section 194-I on PSF charges holding that no substantial question of law arises. The provisions of section 194-I shall not be applicable. Therefore, Mayank Saxena need not deduct TDS on the PSF payments made to airport operators at Delhi and Mumbai.



## ANSWERS TO THE CASE STUDY 4

### Answers to the Multiple Choice Questions

1. (b) **Yes. Mr. Qureshi does not possess the necessary sectoral experience and knowledge to perform the EQCR role effectively, and under SQC 1, he cannot make decisions for the engagement team.**

**Reason:** Under paragraph 68 of SQC 1 the firm's policies and procedures should address the appointment of EQCRs and establish their eligibility through technical qualifications required to perform the role, including the necessary experience and authority. Also, as per paragraph 70 of SQC 1 an EQCR does not make decisions for the engagement team.

2. (d) **14 July 2024 – SQC 1 requires audit firms to establish policies for the timely completion of audit files, and as per SA 230, this should ordinarily be no more than 60 days after the auditor's report date.**

**Reason:** SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files.

As per paragraph A21 of SA 230, an appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.

3. (a) **Self-review threat. The Firm will not appropriately evaluate the results of an activity performed by an individual within the firm as part of a non-audit service on which the audit team will rely when forming a judgment as part of an audit.**

**Reason:** Under ICAI's Code of Ethics providing accounting and bookkeeping services to an audit client create a self-review threat. As per the provisions of the Guidance Note on Independence of Auditors, it is not permitted to do the book keeping work of the auditee client.

4. (b) **Disclaimer of audit opinion**

**Reason:** The implication arising due to non-availability of information relating to recovery of total financial exposure can possibly have a pervasive effect on the financial statements.

SA 705 defines pervasiveness as follows:

Pervasive – A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the

financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- (i) Are not confined to specific elements, accounts or items of the financial statements;
- (ii) If so confined, represent or could represent a substantial proportion of the financial statements; or
- (iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Since the total financial exposure, including investments in the subsidiary, represented 60% of the company's total net worth at the year-end and a possible reduction of 70% of profit before tax (basis high level estimate), the impact can be pervasive. Accordingly, as per SA 705, disclaimer of opinion should have been issued by CA. Manisha.

5. (d) **No. Shareholders' approval under section 188 is not required if the transaction is at arm's length and at ordinary course of business.**

**Reason:** First proviso to Section 188(1) of the Companies Act, 2013 inter alia require companies to obtain shareholder approval if the prescribed threshold is met. However, fourth proviso to section 188(1) state that the requirements of section 188(1) including proviso do not apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.

#### **Answers to the Descriptive Questions**

6. As per paragraph 9 of Ind AS 115, "An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:
- (a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
  - (b) the entity can identify each party's rights regarding the goods or services to be transferred;
  - (c) the entity can identify the payment terms for the goods or services to be transferred;
  - (d) the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and

- (e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession".

Paragraph 9(e) above, requires that for revenue to be recognised, it should be probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

In the given case, as the customer has liquidity issues, the collection is not considered to be probable. Accordingly, till the time the Letter of Credit (LoC) is arranged from a nationalised bank, criterion as mentioned in paragraph 9(e) is not met. Hence, revenue recognition from sale to customer P should be deferred till receipt of LoC.

7. To enhance the profitability and competitiveness of the bookkeeping division at BS & K LLP, the firm must address both internal inefficiencies and external market challenges. Here are strategic recommendations based on the analysis provided: (Any two points).

#### **Analyse the Value Chain**

To enhance profitability and operational efficiency, the firm should analyse its value chain thoroughly. By *optimizing key activities* such as client engagement, service delivery, and reporting, the firm can improve the quality of its offerings. This could involve establishing *stronger communication and collaboration between departments* to ensure that resources are used effectively and aligned with client needs.

#### **Addressing Buyer Power**

Currently, local firms have an advantage because they allow clients to negotiate prices, whereas BS & K LLP offers fixed-price services.

To address this, the firm could offer customized pricing based on client size, volume of transactions, or complexity of work. For example, providing tiered pricing or discounted packages for long-term contracts could help attract *price-sensitive clients*.

In addition, highlight the superior quality of BS & K LLP's services in client communications, positioning the firm as a trusted advisor with more to offer than local firms. Educating clients about the long-term benefits of high-quality, error-free bookkeeping could justify a *premium price*.

### **Create a Centre of Excellence (CoE) and Leverage Local Talent**

Establishing a Centre of Excellence would enable the firm to *create a pool of highly skilled professionals* focused on standardizing best practices, improving operational efficiency, and reducing costs across the organization. The CoE can implement standardized operating procedures, ensuring consistency and high-quality output throughout the bookkeeping division, minimizing errors and inefficiencies.

In conjunction with the CoE, the firm should actively participate in placement activities at local colleges to hire skilled but more affordable graduate-level employees for bookkeeping roles. This approach would not only lower staffing costs but also help increase profitability. By providing ongoing professional development, mentorship, and growth opportunities through the CoE, the firm can foster loyalty, reduce staff attrition, and create a sustainable talent pipeline that aligns with long-term organizational goals.

### **Market Differentiation and Competitive Positioning**

While local clients may initially be drawn to the lower prices of local firms, BS & K LLP should focus on *communicating the long-term benefits* of working with a firm that provides higher-quality, more reliable service.

Moreover, rather than competing solely on price, the firm should work on *retaining existing clients* by building strong relationships, offering personalized services, and providing value-added solutions, such as financial reporting, advisory, or tax planning services in addition to bookkeeping.

### **Streamlined Expansion Strategy**

Rather than expanding rapidly into new regions, the firm should focus on *strengthening operations in existing markets* and ensuring each office becomes profitable. Centralized support functions, such as IT and HR, could help standardize processes and reduce overhead costs.

The firm should consider *expanding in regions* where local competition is weaker, focusing on sectors or industries that require more complex, high-quality bookkeeping services. This would help the firm build a *niche presence* and avoid direct competition with local firms.

### **Conclusion**

By addressing inefficiencies in its value chain, adopting more flexible pricing strategies, leveraging local talent, and enhancing its competitive positioning, BS & K LLP can improve the profitability of its bookkeeping division.

8. BS & K LLP establishes procedures to identify and evaluate possible threats to independence and objectivity, including the familiarity threat that may be created by using the same senior personnel on an audit or attest engagement over a long period of time, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards. Following is an illustrative independence policy that may be drafted by BS & K LLP considering the requirements of SQC 1:
- Requiring the **engagement partner to provide relevant information about client engagements**, including the scope of services, to enable him to evaluate the overall impact, if any, on independence requirements.
  - **Providing training** to partners and professional staff on what constitutes threats to independence and the nature of safeguards that may be taken to eliminate or reduce the threats to an acceptable level. Such training should include ICAI's responses to matters dealing with ethical conduct.
  - **Accumulating and communicating relevant information to appropriate personnel** so that the following can occur:
    - The firm, the engagement partner, firm personnel and *others, if any, can readily determine whether they satisfy independence requirements*.
    - *The firm can maintain and update information relating to independence*.
    - *The firm and the engagement partner can take appropriate action regarding identified threats to independence, in consultation with the independence and ethics partner.*
  - Requiring personnel to **promptly report** circumstances and relationships that create a threat to independence and independence breaches of which they become aware to the independence and ethics partner so that appropriate action can be taken.
  - Establishing criteria to determine the **need for safeguards for engagements** where the following have taken place:
    - The firm's monitoring procedures or peer review has identified weaknesses in previous years.
    - The same senior personnel have been used for five years or more on an audit or attestation engagement.
    - The client pressurizes the engagement partner to take a particular position or an accounting or auditing issue.

- Promptly communicating identified breaches of these policies and procedures, and the required corrective actions, to the following personnel:
  - The engagement partner who, with the firm, needs to address the breach.
  - The independence and ethics partner who should report the breaches to the managing partner for necessary action.
  - Other relevant personnel in the Firm and those subject to the independence requirements who need to take appropriate action.
- Requiring the engagement partner and the other individuals referred to in the previous list to confirm to the firm that the required **corrective actions** have been taken.
- Having the independence and ethics partner, or an individual designated by him, periodically review unpaid fees from clients to ascertain whether any outstanding amounts impair the firm's independence.
- Establishing additional procedures that provide safeguards when the firm performs audit or other attest work for a) significant clients or b) clients at which partners or other senior personnel are offered key management positions or have accepted offers of employment.
- Documenting the threats and the safeguards applied to eliminate or reduce them to an acceptable level for each instance.

## ANSWERS TO THE CASE STUDY 5

### Answers to the Multiple Choice Questions

1. (c) **Income from dairy farming can be considered business income and is non-agricultural income**

**Reason:** The correct answer is (c) Income from dairy farming can be considered business income and is non-agricultural income. Dairy farm operations are being performed on agricultural land, hence there is an indirect connection to agricultural land. However, it is not correct to classify income derived from dairy farm operations to agricultural income merely on account of this connection. In dairy farm operations, it is the livestock like cows, sheep and buffalo which are the main component.

2. (a) **Operating profits can be improved without investing more capital**

**Reason:** The correct answer is (a) EVA can be improved when operating profits can be improved without investing more capital. This can be achieved if more efficiency is built into the business operations, revenue can be boosted by introducing more products or expanding market share, reducing costs etc.

In statement (b), the return on capital infused should be more than the cost of additional capital. In statement (c), projects where return is less than cost of capital need to be discontinued. Statement (d) implies that the cost of capital should be manipulated to reflect a favourable EVA, which is not ethical.

3. (b) **Digital Platform model**

**Reason:** The correct answer is (b) Digital Platform model.

More specifically Reachme follows the Business to Consumer digital platform model. Reachme is a digital platform that connects business to retail consumers.

4. (c) **₹ 14,40,000**

**Reason:** Correct Option C = ₹14,40,000

Do not take forward Cover	Take forward Cover
Present Cost: $\$ 10,00,000 \times ₹ 85.90 = ₹8,59,00,000$ After three months $\$10,00,000 \times ₹89.34 = ₹ 8,93,40,000$	Take forward Cover at 87.90: Expected Cost after three months: $\$10,00,000 \times ₹ 87.90 = ₹ 8,79,00,000$
Difference in cost between two options = ₹8,93,40,000 - ₹8,79,00,000 = 14,40,000	

5. (b) No, prior RBI approval is not required because the amount is within the permissible limit under FEMA regulations.

**Reason:** Correct option is (b).

The following remittance by person other than individual shall require prior approval of the Reserve Bank of India:

Remittances **exceeding** USD 10,000,000 per project for any consultancy services in respect of infrastructure projects and USD 1,000,000 per project, for other consultancy services procured from outside India.

#### Answers to the Descriptive Questions

6. (i) **Calculation of ROI (Return on Investment)/ RI (Residual Income) for FY 2024-25 for the divisions at Hoshiarpur, Punjab** (Amount in ₹)

Particulars	Dairy Division	Animal Feed Division	Crop Protection Division
a. Profit before interest and tax	60,10,000	63,77,500	57,66,000
b. Revenue	6,80,00,000	10,62,50,000	6,00,00,000
c. Head office expenses [@2% of (b)]	13,60,000	21,25,000	12,00,000
d. Controllable operating profit (a)+(c)	73,70,000	85,02,500	69,66,000
e. Net book value of plant and equipment	5,65,25,000	7,43,75,000	2,62,50,000
f. Net current assets	1,04,75,000	1,51,25,000	60,00,000
g. Investment (e)+(f)	6,70,00,000	8,95,00,000	3,22,50,000
h. ROI [(d)/(g)×100]	11%	9.50%	21.6%
i. Required return [@9% of (g)]	60,30,000	80,55,000	29,02,500
j. RI [(d)-(i)]	13,40,000	4,47,500	40,63,500

The claim made by the manager of the Animal Feed Division is **invalid** because it registered worst performance among the three divisions under both the criteria. The ROI of Animal Feed Division is 9.50%, which is less than (11.00% and 21.60%) other two divisions, whereas RI is ₹ 4,47,500 which is also less than (₹ 13,40,000 and ₹ 40,63,500) both other divisions.



It is important to note that the Animal Feed Division earns the highest profit, however **since its investment is high** the ROI and RI are the lowest compared to the other divisions.

(ii) **Evaluation of Expansion Proposal for frozen desserts – Dairy Division, Hoshiarpur, Punjab**

ROI/ RI for proposed expansion (for first year)

Particulars	Amount in ₹
a. Additional investment in plant and equipment	1,75,00,000
b. Depreciation for first year on the above investment (15%)	26,25,000
c. Net book value of additional investment in plant and equipment at reporting date (a-b)	1,48,75,000
d. Additional net current assets	25,00,000
e. Total additional investment (c)+(d)	1,73,75,000
f. Additional contribution	95,00,000
g. Additional fixed cost	8,50,000
h. Net addition to earning (f)-(g)-(b)	60,25,000
i. ROI $[(h)/(e) \times 100]$	34.68%
j. Required return [9% of (e)]	15,63,750
k. RI $[(h)-(j)]$	44,61,250

**Advise**

**ROI Criteria** – Management of VEN private limited **must expand** the business of Dairy Division by venturing into manufacturing of frozen desserts, because the proposed expansion expected to generate ROI at rate of **34.68%**, **which is not only more than existing ROI of Dairy Division (11%) but also more than overall ROI as well** (because among the three division the maximum ROI generated by Crop Protection Division i.e., 21.6%).

**RI Criteria** – Management of VEN private limited **must expand** the business of Dairy Division by venturing into manufacturing of frozen desserts, because the proposed expansion expected to generate additional RI of **₹44,61,250**.

(iii) **ROI improves with age of the assets**

Since ROI is rate of earning as percentage of investment, hence while assets getting older the amount of investment reduced; resultantly **if same productivity or efficiency is maintained** then ROI improves. Same can be seen through calculations below that ROI improves from 34.68% in first year to 40.85%, and 49.69% respectively in second and third year.

ROI for proposed expansion over years (Amount in ₹, round off to nearest rupee)

Particulars	Second Year	Third Year
a. Plant and equipment at beginning of year	1,48,75,000	1,22,50,000
b. Depreciation for year on the above plant and equipment (15%)	26,25,000	26,25,000
c. Net book value of plant and equipment at reporting date (a)-(b)	1,22,50,000	96,25,000
d. Net current assets (assumed to be constant)	25,00,000	25,00,000
e. Total relevant investment (c)+(d)	1,47,50,000	1,21,25,000
f. Contribution (assumed to be constant)	95,00,000	95,00,000
g. Fixed cost (assumed to be constant)	8,50,000	8,50,000
h. Net addition to earning (f)-(g)-(b)	60,25,000	60,25,000
i. ROI [(h)/(e)×100]	40.85%	49.69%

- (iv) Non-Financial Performance Indicators (NFPIs) are sustainable action-based indicators. For example, employee training will increase the profit & let them feel empowered, putting effort in research and development will result in a high brand image & high intellectual property rights. Hence for being sustainable rather being only profitable an organisation needs to include NFPIs as part of performance matrix in addition to financial performance Indicators. Although the scope of NFPIs substantially depends upon width and depth of organisation's objective, operations and strategies, but generically VEN Private Limited can consider–

**Human resources management**

Superior performance comes from superior processes. Who actually devise and execute superior processes to build an organisation with competitive advantage? It is the people (human resources) and their efforts. Hence human resources are a significant element for success of any organisation. If they performance well, then entire organisation automatically performs well; hence measures such as

staff turnover, absenteeism, job satisfaction, and offer letter accepted shall be part of performance metrics.

#### **Product and service quality**

What make any business **distinct from others**, what are the sources of competitive advantage? It is substantially the value which its products or services capable to create for the users; and quality is important determinant of value. Simply saying quality is conformance to need to user. Hence the following performance measures, owing to quality shall be part of performance metrics

1. What are the functions that product or service offers and how much value these are capable to generate?
2. Where do our product stand in market in comparison that of competitors, especially rivals?
3. Is product capable to generate further superior performance and scope of innovation?

#### **Brand awareness and company profile (brand equity)**

Non-financial performance measures consider the **brand equity (value of the brand)** as one of the significant performance measures. Brand value is largely based upon factors like **customer's awareness & loyalty** which includes consumer behaviour also perceived quality, stakeholder's expectation and organisation ability to meet them, and factors like patents and trademarks etc.

#### **7. Extract from Balance Sheet**

<b>Non-Current Asset</b>	<b>Note Reference</b>	<b>Amount (₹)</b>
<b>Property, Plant and Equipment</b>		
Land	Note C	3,00,00,000
<b>Biological assets other than bearer plants</b>		
Dairy Cows	Note A (iii)	52,00,000
Calves	Note B	8,80,000
<b>Inventory</b>		
Milk	Note E	4,50,000

**Extract from the Statement of Profit & Loss**

	Note Reference	Amount (₹)
<b>Income</b>		
Change in fair value of purchased dairy cow	Note (A) (iii)	10,00,000
Change in fair value of newly born calves	Note B	8,80,000
Grant received	Note D	10,00,000
Fair value of milk	Note E	4,50,000
<b>Total Income</b>		<b>33,30,000</b>
<b>Expenses</b>		
Maintenance	Note A (iv)	12,00,000
Breeding fee	Note A (iv)	5,00,000
<b>Total Expense</b>		<b>17,00,000</b>
<b>Net Income</b>		<b>16,30,000</b>

**Working Note**

The impact of various transactions mentioned in Annexure 1, as regards dairy operations at Dhagwar, Himachal Pradesh for FY 2025-26 in the financial reports, of FY 2025-26 are as below:

- (A) **Acquisition of Dairy Cows:** The herd of cows are biological assets as per Ind AS 41 that covers reporting requirements for the agricultural sector. It mentions that agricultural activity includes the management of the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). Here dairy cows (animals) are used to produce dairy products like milk (harvested produce). Dairy cows, that represent the biological asset will be recorded as Separate line item "Biological Asset other than bearer plants" under non-current asset in the Balance Sheet using the fair value model laid down in Ind AS 41.

Accordingly, the 100 cows which had an average age of 3 years that were purchased on April 1<sup>st</sup>, 2025, had a fair value of ₹42,000 per cow. As of year end, there has been an increase in the value of this biological asset. This is on account of 2 factors:

- (i) Increase in the price of a 3-year-old cow from ₹42,000 per cow to ₹50,000 per cow. This represents an increase of ₹8,00,000 on account of the increase in price (₹50,000 per cow - ₹42,000 per cow = ₹8,000 per cow ×

100 cows = ₹8,00,000). This will be recognized in the profit and loss account for FY 2025-26.

- (ii) Physical change in cow, due to the passage of 1 year increases the average age of cows from 3 years to 4 years. On account of this on March 31<sup>st</sup>, 2026, while a 3-year-old cow is valued at ₹50,000 per cow; the cows that now have an average age of 4 years as of this date are valued at ₹52,000 per cow. Therefore, each cow has had its market value increase by ₹2,000 per cow as of March 31<sup>st</sup>, 2026. This increase in the value of the biological asset due to physical change works out to ₹ 2,00,000 (₹ 52,000 per cow - ₹50,000 per cow) × 100 cows). This will be recognized in the profit and loss account for FY 2025-26.
- (iii) Accordingly, as of March 31<sup>st</sup>, 2026, the Balance Sheet will reflect ₹ 52,00,000 as the value of 100 cows with an average age of 4 years (100 cows × ₹ 52,000 per cow). The profit and loss account will show an income of ₹10,00,000 on account of (a) price increase in the value of biological asset ₹8,00,000 (refer point (i) above) and (b) increase in value due to physical change of the biological asset ₹ 2,00,000 (refer point (ii) above).
- (iv) Corresponding expenses, of ₹ 5,00,000 breeding fees paid to the local farmer and ₹ 12,00,000 various herd maintenance expenses will be considered as expenses in the profit and loss account for the year.

- (B) **Calves born during FY 2025-26:** These biological assets have been acquired on account of breeding the cows. It is not possible to calculate the “cost of acquisition” of such calves and hence they will be shown as an asset in the Balance Sheet valued at fair value as on March 31<sup>st</sup> 2026, and this value will be credited to the profit and loss as income for the year.

It is given that 20 calves were born on October 1<sup>st</sup>, 2025. Therefore, their age, as on March 31<sup>st</sup> 2026, will be 6 months. The fair value net of any cost to sell of these calves as on March 31<sup>st</sup>, 2026, is ₹ 44,000 per calf. Hence the value of 20 calves at the year end will be ₹ 8,80,000, in the balance sheet as well as considered as income in the profit and loss for the year.

- (C) **Land acquisition:** The purchase of land is not covered under Ind AS 41. The relevant standard would be Ind AS 16 “Property, Plant and Equipment”. According to it land would be considered as an asset, valued at cost in the Balance Sheet as of March 31<sup>st</sup> 2026. Since the useful economic life of the land is infinite, no depreciation can be charged against it. Therefore, the value of land as shown in the Balance Sheet as of March 31<sup>st</sup> 2026, will be at the cost of acquisition which

is ₹ 3 crores. Any subsequent change in market value post-acquisition is ignored under the cost model. ***(Please note that the allowed alternative corresponding treatment under revaluation model permits the land to be revalued to market value with the revaluation surplus taken to other comprehensive income).***

- (D) **Grant received:** VEN received a non-refundable grant of ₹10,00,000 for acquisition of cows. It is not subject to any conditions or requirements to be satisfied; hence it is an unconditional grant. As per Ind AS 20, this grant needs to be considered as income of the company and credited to the profit and loss account.
- (E) **Inventory of milk:** Milk is an agricultural produce and will be measured on the same basis as biological assets. As of March 31<sup>st</sup>, 2026, VEN has 10,000 litres of milk in cold storage, the fair value of which is ₹ 45 per litre. Therefore, milk would be valued at ₹ 4,50,000. This will be reflected as part of Inventory in the Balance Sheet. This is regarded as “cost” for future application of Ind AS 2 to the unsold milk. The fair value of milk is also considered as income in the profit and loss account.

#### 8. Forward Cover

Amount Payable under Forward Cover ( $\$10,00,000 \times ₹ 87.90$ ) = ₹ 8,79,00,000

##### Money Market Hedge

To pay \$ after 3 months' company shall require borrowing in ₹ and translate to \$ and then deposit in \$.

For payment of \$10,00,000 in 3 months @ 4.00% interest p.a. the amount required to be deposited now ( $\$10,00,000/1.01$ ) = \$9,90,099.01

With a spot rate of 85.90 the ₹ loan needed will be = ₹ 8,50,49,504.96

Loan repayable after 3 months @ 8.00% p.a. interest will be ₹8,50,49,504.96 (1.02) = ₹ 8,67,50,495.06

##### Advise

Since outflow of cash shall be least in case of Money Market Hedge hence it should be opted for.

**The suggested answers provided in these Case Studies includes a variety of potential solutions/ alternative points where applicable. This is intended to assist students by offering multiple perspectives and approaches to problem-solving.**