



## PAPER – 6

# INTEGRATED BUSINESS SOLUTIONS

---



### QUESTIONS

#### Case Study - 1

#### **CLASSIC DEALERSHIP**

Two brothers, Ravi and Raju Sinha established Classic Dealership (CD), a partnership that is a bike dealership with its main office in Mumbai. The dealership imports premium bikes from countries like China, Taiwan, Japan, Germany among others. These are luxury bikes, that are purchased by avid bikers who ride them extensively for recreational and off-road adventures. The dealership has state of art service network that is spread all across India to take care of after sale service and maintenance of bikes. Both brothers are active working partners in the business.



Ravi Sinha is of the opinion that "the purpose of a business is to acquire and retain a customer. In order to run a profitable and sustainable business, we must be able to determine the net profit that can be attributed to the future relationship with a customer. "

Based on the buying preferences and culture, the dealership categorises its loyal customers into two categories: Good and Excellent.

#### **Customer profile for imported bikes**

Age analysis of customers taken by CD reveals a general statistical estimate that a person may become the first customer by buying a bike when he attains 20 years of age and rides bikes until he reaches the age of 40 years and 3

months. It is further observed that the "Good" category customers would not prefer waiting to purchase the bike beyond 5 years.

Relevant details pertaining to the sale price and profit margin from the sale of imported bikes are given in Annexure 1.

### **Brand endorsement to increase the share of "Excellent" customers for the sale of imported bikes**

Ravi came up with the idea of engaging Formula 1 bike racing icons to promote the bikes that are being imported. This brand endorsement would cost the dealership ₹ 25 crore over a period of time. Ravi, a conservative analyst by nature predicts that this brand endorsement is likely to turn 500 customers who attain 30 years of age, and who are bound to be otherwise "Good" customers into "Excellent" customers.

### **Dealership of Electric Bikes**

Due to its clean energy technology, low pollution emission, the popularity of electric bikes is increasing within India. Currently, Coco Motors Limited, Zoho Motors Limited and Polo Motors Limited are three companies who manufacture bikes for the domestic market. Although the market is still in its nascent stage, Raju Sinha expects electric bikes to become popular very soon. The market for imported bikes caters to a niche market primarily consisting of avid bikers. Electric bikes can cater to a larger customer segment ranging since these bikes can be used for regular daily commute, which is a very basic requirement for a large section of the population within India. Therefore, the market for these bikes will be much larger as compared to imported bikes. Therefore, Raju Sinha proposes to that CD should start a dealership of such electric bikes in the upcoming year 2026-27.

While both partners are enthusiastic about the proposal, they wish to make a thorough analysis of this venture. Being still nascent in India, electric bike market can be subject to a lot of risks and volatility. Hence, they initially plan to start this venture only for 4 years and extend it if found successful. Further, they wish to do a sensitivity analysis of the project to understand the impact of fluctuations on initial project cost, annual cash inflow and cost of capital. Details of the project are given in Annexure 2.

**Strategy to maintain sustained customer relationship for electric bikes**

CD aims to build a large dealership of electric bikes. In order to develop and maintain customer relationship, it plans the following measures to appeal to and appease them. Firstly, CD plans to increase public awareness about the environmental benefits of using electric bikes. This will appeal to the environmentally conscious customers. Secondly, CD's sales and marketing team feel that electric bikes would be most appealing to youth and young professionals below 35 years of age. For this segment the team determines that owning a car would not yet have become necessary. Further, CD plans to use digital marketing to reach out to potential customers across India. In Addition to above strategic measures, CD also plans to provide annual maintenance contracts for these electric bikes. Hence, their sales team is being trained to cross sell these AMCs at attractive rates, once the warranty period for the electric bike is over.

**Remuneration to partners for FY 2025-26 as authorized by the partnership deed**

Classic Dealership has earned a net profit of ₹ 11 crores for the year ended 31<sup>st</sup> March, 2025. This is before deduction of certain items. These items include Salary of ₹ 5,00,000 each per month payable to the working partners Ravi and Raju Sinha. This has been authorized by the deed of partnership. Additionally, Depreciation on plant and machinery under section 32 (computed) ₹ 8 crores, has not yet been deducted. The profit also does not account for Interest on capital @15% per annum as per the deed of partnership. The amount of capital eligible for interest is ₹ 10 crores. Further, When Classic Dealership was incorporated, the partnership deed allowed a salary payout to each of the working partners only to the extent of ₹ 2,00,000 each per month. The partnership deed was amended on 1<sup>st</sup> April 2024 to allow for salary payment of ₹ 5,00,000 each per month payable to Ravi and Raju. The current amended partnership deed also allowed for a salary payout of ₹ 25,00,000 each to Ravi and Raju as extra payment towards salary of the previous years that is prior to F.Y. 2024-25.

**Warranty replacement of electric bike or its parts and repair services during warranty period**

As proposed, CD started a dealership of electric bikes- manufactured by Coco Motors Limited, Zoho Motors Limited and Polo Motors Limited from

April 1, 2026. During the warranty period CD replaces certain parts or provides services to its customers on behalf of the manufacturers.

As per the arrangement with Coco Motors Limited, CD replaces the bikes or its parts to the customer under warranty either by using its stock or by buying from a third party vendor. It charges the consideration for the part(s) so replaced from Coco Motors Limited, by the issuance of a tax invoice, for the said supply made by itself to the company.

Whereas in the case of Zoho Motors Limited, CD raises a requisition to the manufacturer for the bike or its parts to be replaced by it under warranty. Zoho Motors Limited then provides the bike or its parts to CD for the purpose of such replacement to the customer as part of warranty without separately charging any consideration at the time of such replacement.

As per the terms with Polo Motors Limited, CD replaces the bike or its part(s) to the customer under warranty out of the supply already received by it from the company. Polo Motors Limited then issues a credit note in respect of the bike or part(s) so replaced subject to the provisions of section 34(2) of the CGST Act, 2017.

Further, CD provides repair services in addition to replacement of bike or its parts to the customer without any consideration, as part of warranty. This is done for bikes sold on behalf of all the three manufacturers Coco Motors Limited, Zoho Motors Limited and Polo Motors Limited. CD then charges the respective manufacturer for such repair services either by way of issue of tax invoice or a debit note.

#### **Extended warranty**

Extended warranty is a service or maintenance agreement that provides against unexpected repair or break-down after the initial warranty period expires. Extended warranty can be availed by the customers either at the time of original supply or at any other time different from the original supply. Due to the cross selling efforts of the sales and marketing team at CD, almost 60% of the customers purchase the extended warranty from CD at the time of original supply. Many of the other customers purchase the extended warranty from CD after the original warranty period has ended. Yet few other customers prefer to purchase extended warranty from service providers other than CD.

Mr. Ravi has recently won a lottery prize this year and wishes to remit USD 30,000 from his lottery winnings to his son abroad. Also, he intends to obtain USD 50,000 to facilitate the travel expenses of a cultural troupe that he plans to send on a tour of the United States. Mr. Ravi approached CA. Abhishek, a well renowned expert and practitioner in foreign currency transactions and corporate laws, seeking consultation on above two important matters.

#### Annexure 1: Sale price and Profit margin from sale of imported bikes

Summary Analysis of Sale price and Profit margin from sale of imported bikes:			
Type of customer	Periodicity of buying	Selling Price per bike	Service/Maintenance charges
Good	1 bike every 5 years	₹ 6,00,000	₹ 1,00,000 per bike
Excellent	7 bikes as a whole from the date of his first buying	₹ 9,00,000	₹ 1,20,000 per bike per year

Profit margin:		
Profit margin	Good	Excellent
On sale of each bike	25%	30%
On service / maintenance charges	50%	60%

#### Annexure 2: Project details of dealership in electric vehicles

Dealership in Electric Vehicles
<b>Project Overview:</b> <p>With the rise of clean energy technologies and increasing concerns about pollution, electric bikes are gaining rapid popularity in India. These eco-friendly vehicles offer a sustainable solution for daily commuting, appealing to a much broader market than imported premium bikes, which cater mainly to niche biking enthusiasts.</p>

**Key Financials:**

Particulars	Details
Initial Project cost	₹ 13 crores
Annual Cash Inflow	₹ 5 crores
Project Life	4 years
Cost of capital	10%

Annuity factor for 10% for 4 years is 3.169, Annuity factor for 11% for 4 years is 3.103.

**Strategic Highlights:**

One of the key strategic advantages of entering the electric bike dealership market at this stage is the first-mover advantage. By establishing an early presence particularly in underdeveloped or semi-urban regional markets the venture can capitalize on limited competition, quickly building brand recognition and customer loyalty. These areas are often underserved, presenting an untapped opportunity for growth.

**Multiple Choice Questions**

- 1.1 With reference to CD's different efforts to maintain sustained customer relationship for electric bikes, categorize them to the most appropriate term of Customer Lifetime Value:

Sr. No.	Effort to maintain sustained customer relationship	Sr. No.	Appropriate term	CLV
i	Offering attractive options to exchange old electric bikes for newer one.	A	Customer Selection	
ii	Target youth and young professionals below 35 years	B	Customer Extension	
iii	Digital marketing to reach out to customers across India	C	Customer Retention	
iv	Cross selling annual maintenance contracts at attractive rates once the warranty period is over.	D	Customer Acquisition	

**Options:**

- (a) (i) – C, (ii) – A, (iii) – D and (iv) – B
- (b) (i) – A, (ii) – C, (iii) – D and (iv) – B
- (c) (i) – C, (ii) – A, (iii) – B and (iv) – D
- (d) (i) – D, (ii) – A, (iii) – C and (iv) – B

1.2 Ritwik Jain is an accountant working with classic dealership. He is computing the taxable income for the partnership for A.Y. 2025-26. He needs your help to with various tax calculations and other tax issues relating to A.Y. 2025-26. Which of the following statements are false?

- (i) No TDS is required to be deducted on salary and interest payments made to the working partners
- (ii) With respect to salary paid to the working partners, Ravi and Raju for the financial year 2024-25, the maximum allowable deduction under section 40(b)(v) is ₹ 1.098 crores for A.Y. 2025-26
- (iii) The extra salary payment made to Ravi and Raju as additional salary of the previous years that is prior to F.Y. 2024-25 is a deductible expense in A.Y. 2025-26 as it has been approved by the partnership deed on 1<sup>st</sup> April 2024
- (iv) With respect to salary paid to the working partners, Ravi and Raju for the financial year 2024-25, the maximum allowable deduction under section 40(b)(v) is ₹ 91.80 lakhs for A.Y. 2025-26

**Options:**

- (a) (i), (ii) and (iii)
- (b) (i) and (iv)
- (c) (iii) and (iv)
- (d) (i), (iii) and (iv)

1.3 For arrangements made with Coco, Zoho and Polo motors in respect of parts and repair services during warranty period, which of the following statements would be incorrect as per the GST Law:

- (a) In case of arrangement with Coco Motors Limited, GST would be payable by CD to the manufacturer.
  - (b) In case of arrangement with Zoho Motors Limited, no GST is payable on such replacement by the manufacturer.
  - (c) In case of arrangement with Polo Motors Limited, tax liability may be adjusted by the manufacturer subject to the condition that CD has reversed the ITC availed against the bike/parts
  - (d) In case of provision of repair services on behalf of all the manufacturers, no GST is payable by CD as such service is being done without charging consideration from the customer during the warranty period.
- 1.4 Which of the following statements is true with respect to the customer's purchase of extended warranty?
- (i) When the customer purchases extended warranty from CD at the time of original supply, it would be treated as a supply of service distinct from the original supply. CD would be liable to discharge GST liability applicable on such supply of services.
  - (ii) When the customer purchases extended warranty from CD at the time of original supply, it would be treated as composite supply, the principal supply being the supply of the bike and GST would be payable accordingly.
  - (iii) When the customer purchases extended warranty from CD at a time after/different from the original supply, the same shall be treated as a composite supply, the principal supply being the supply of the bike and GST would be payable accordingly.
  - (iv) When the customer purchases extended warranty from service providers other than CD, then the supply of extended warranty will be treated as a separate supply from the original supply of bike and will be taxable as supply of services.

**Options:**

- (a) (i) and (iv)
- (b) (ii) and (iv)



- (c) (ii) and (iii)
  - (d) (iii) and (iv)
- 1.5 While placing the order for a bike at CDs showroom, a customer has to present certain documents for verification. At times, the sales person asks for the same documents like driver's license, identity and address proof repeatedly for using it for different forms. As per Kano model which of the following quality or attribute does this repetitive request for the same document represent?
- (a) Performance attribute
  - (b) Threshold attribute
  - (c) Reverse quality
  - (d) Indifferent quality

### Descriptive Question

- 1.6 Based on the CD's operation, Answer the following:
- (a) In light of Ravi Sinha's opinion that a business must be able to know the net profit attributable to the future relationship with a customer, RECOMMEND steps that can be used to determine the Customer Lifetime Value (CLV) of a particular customer.
  - (b) CALCULATE the life time value of a "Good" customer who is 20 years of age.
  - (c) CALCULATE the life time value of an "Excellent" customer who is 25 years of age.
  - (d) ADVISE whether the brand endorsement program is worth ₹ 25 crores.

Note for questions (b) and (c), Ignore the Net Present Value of money and tax implications. Assume the service and maintenance charges will be incurred on the last day of the year. Charges will be prorated if the contract is for less than a year.

- 1.7 The Company is interested in the sensitivity analysis of key financials related to the dealership of electric bikes, ADVISE which among the

three factors except project life is most sensitive factor assuming an adverse change of 10%.

- 1.8 Mr. Ravi approached CA. Abhishek, to seek expert advice and to understand the regulatory requirements and permissible procedures under FEMA laws to ensure these transactions comply with all legal norms. What ADVICE should CA. Abhishek provide?

## Case Study - 2

### RATHVAAN

#### Founding Vision and Team Expansion



When Rahul Mehta, CEO of Rathvaan Pvt. Ltd., returned to his hometown of Agra after completing his mechanical engineering in Delhi, he envisioned a full-service automotive company that could serve urban families, corporate fleets, and commercial clients alike. Early in his career, Mehta led efficiency-driven projects at a leading OEM

supplier, refining assembly workflows and quality controls. Motivated by the challenge of delivering dependable vehicles across India's diverse markets, he founded Rathvaan Pvt. Ltd. in Agra in 2003 with a small team of engineers and a basic workshop. Today, the company employs hundreds of people and is governed by a Board of ten directors. Considering this rapid growth, the Board of Rathvaan Pvt. Ltd. resolved to induct six more directors, including two designated as independent directors pursuant to an internal governance charter adopted by the Board and a shareholders' agreement signed by all existing members.

The company convened an Extraordinary General Meeting on April 15, 2025, with notice dated 6th April 2025, to pass a special resolution to approve these appointments. The notice was published in vernacular and English newspaper and uploaded on the company's website but not dispatched to members and no explanatory statement accompanied the notice. The two independent director appointees were not registered in the databank at the time of the

EGM but had applied for registration by 15th May 2025. DIR-12 filings for all six appointees were made on 30th April 2025, with attachments including the Board resolutions and consents. The Articles of Association limited the number of directors to 12 at the time of appointment. A special resolution to approve the appointments was passed unanimously at the EGM.

A few months earlier, at the AGM held on September 29, 2024, Mr. Ranvir's appointment to fill the casual vacancy was not proposed/approved, as the Board was of the view that it is not required now or even subsequently. Originally, Mr. Rishi had joined the Board as a Non-Executive Director for a three-year term at the AGM on September 30, 2022. However, on 2nd October, 2023, Mr. Rishi suffered a severe heart failure and expired. The Board of Directors of the company on 16th October, 2023 appointed Mr. Ranvir for a term of three years to fill the casual vacancy so created. The CFO of the company is of the opinion that the Board of Directors have contravened the provisions of the Companies Act, 2013 in respect of non-approval of the appointment of Mr. Ranvir and his office tenure.

### Operational Model and Service Portfolio

Leveraging its talented leadership bench and workforce, Rathvaan has streamlined operations and introduced a broader array of services. This foundation has propelled the company over the past two decades to become a leading manufacturer of cars in India's automotive sector and a registered supplier in Agra, known for its end-to-end



vehicle design, production, and delivery services. The Company oversees a comprehensive ten-month operational cycle from the procurement of raw materials to the completion of passenger-vehicle assembly and final delivery while customers settle their dues after a period of 10 months from the date of sale. Rathvaan offers a diverse lineup of vehicles, with a particular focus on fuel-efficient family sedans, compact SUVs, and light commercial vans, complemented by garage-door solutions (details of Garage door installation services provided by Rathvaan are attached as **Annexure I**) for residential and commercial clients. Their offerings meet the needs of individual, fleet, and corporate clients, providing tailored financing and after-sales support. This disciplined production and payment structure is central to the Company's

value proposition, ensuring predictable cash flows and long-term customer trust and aligns with its ambitious expansion plans to venture into new service domains.

### Expanding Services Through Acquisition of Yatrik

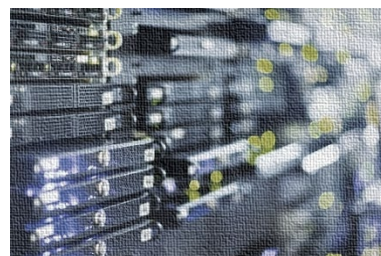


As part of its strategic expansion and service-chain optimization, Rathvaan Pvt. Ltd. has undertaken a targeted acquisition in the travel sector. Rathvaan decided to acquire Yatrik, a tour-operations company specializing in curated travel packages, adventure tours, and end-to-end trip management services across India. This forward integration move is aimed at integrating Yatrik's platform with Rathvaan's

vehicle sales and after-sales services to create bundled mobility and leisure offerings. Through this acquisition, Rathvaan said it hopes to enhance its service portfolio and operational efficiency by leveraging its nationwide dealer network alongside Yatrik's core technological capabilities. Rathvaan initially acquired 8% of the equity share capital of Yatrik On 1st April 2023, for ₹92,000. Rathvaan accounts for its investment in Yatrik at Fair Value through OCI. On 31st March 2024, Rathvaan carried its investment in Yatrik at fair value and reported an unrealised gain of ₹ 8,000 in other comprehensive income, which was presented as a separate component of equity. On 1st April 2024, Rathvaan obtains control of Yatrik by acquiring the remaining 92 percent of Yatrik. After acquiring Yatrik, the founder, Rahul Mehta, turned his attention to Rathvaan's own manufacturing capabilities, prioritizing capacity expansion and equipment upgrades.

### Modernizing Infrastructure and Equipment Upgrades

Rathvaan's aging IT infrastructure and plans to expand its car manufacturing operations led the company to invest ₹ 5 lakh on 1 May 2020 in several new computers of the latest models. All equipment was insured with United Bharat Assurance Ltd. against fire, flood, earthquake, and other risks under a reinstatement clause requiring the insurer to pay the computers' value as of the date of fire etc., in






case of destruction or loss. By 1 April 2024, the written-down value of these assets stood at ₹ 2,12,150. In August 2024, a fire broke out in Rathvaan's facility, destroying all computer systems, which remained unreplaced as of 31 March 2025 because Rathvaan awaited the release of newer models. Rathvaan received the full ₹5 lakh insurance payout on 15 March 2025, but no additional computers were purchased during FY 2024-25.

Building on its drive to replace old equipments and expand capacity, Rathvaan decided to discard an obsolete injection molding machine (used for producing plastic dashboards, bumpers, and interior trim) in June 2024 to improve operational efficiency. This discarded machinery belonged to the block of Plant & Machinery chargeable to depreciation @ 15%, which has 10 different machinery items as at 31 March 2025. For A.Y. 2025-26, Rathvaan claimed total depreciation of ₹ 20 lakhs which includes ₹ 2 lakhs being the depreciation claimed on the machinery item discarded. The A.O. disallowed the claim of depreciation of ₹ 2 lakhs during the course of scrutiny assessment.

The Cashier committed fraud and absconded with the proceeds. The Chief Accountant was unaware of when the fraud occurred. During the audit, the auditor failed to discover the fraud. However, after completion of the audit, the Chief Accountant discovered the fraud, and an investigation indicated that the auditor did not exercise proper skill and care, performing the work in a desultory and haphazard manner.







#### **Details of Sales Made to Key Customers and Related Outcomes**

 <p><b>High-Performance Engines Sold to Chola Ltd.</b></p>	<p>During the year 2024-25, Rathvaan sold 10 high-performance petrol engines to Chola Ltd., a long-standing client in the logistics and distribution industry, for a total consideration of ₹ 5 lakhs. The payment is receivable in three instalments: ₹ 1,66,666 on 1<sup>st</sup> April 2024, ₹ 1,66,667 on 31<sup>st</sup> March 2025, and ₹ 1,66,667 on 31<sup>st</sup> March 2026.</p> <p>The company is offering a discount of 5 % (i.e. ₹ 25,000) if payment is made in full at the time of</p>
---	--

	<p>sale. The sale agreement reflects an implicit interest rate of 5.36% p.a.</p> <p>The total consideration to be received from such sale is at ₹ 5 Lakhs and hence, the management has recognised the revenue from sale of goods for ₹ 5 lakhs for the year 2024-25.</p>
 <p><b>Delivery Vans Supplied to Trackon Pvt. Ltd.</b></p>	<p>On 20<sup>th</sup> March 2025, Rathvaan issued tax invoice for two light commercial delivery vans valued at ₹ 10 lakh each (excluding GST 28%) to Trackon Pvt. Ltd., a registered courier and logistics provider based in Firozabad. However, no underlying supply of vans was made. Subsequently, ITC was availed based on said invoice by Trackon Pvt Ltd. and utilised for payment of its tax liability in respect of its outward supplies of taxable goods.</p>
 <p><b>SwiftEx Sedan Sold to Mr. Amber</b></p>	<p>On 30 September 2024, Rathvaan supplied a Rathvaan SwiftEx sedan to Mr. Amber. On 1 January 2025, the company was notified that Mr. Amber had initiated legal action against the company in respect of a financial losses allegedly caused by defects in the vehicle. Rathvaan defended the case but considered, based on the progress of the case up to 31st March 2025, that there was a 75% probability they would have to pay damages of ₹ 8 lakhs to the customer. However, the accountant of Rathvaan has not recorded this transaction in its financial statement as the case is not yet finally settled. The financials have been approved by the Board of Directors in its meeting held on 18th May 2025.</p> <p>(The Supreme Court's judgment on this case has been widely reported in the newspapers-see Annexure II.)</p>

## Annexure – I

**Garage Door Installation Services Provided by Rathvaan Pvt. Ltd. during the month of April 2024**

	Part	Install	Replace	Adjust	Lubricate	Total
	Door	3	6	2	1	12
	Motor	4	3	17	10	34
	Track	6	1	7	7	21
	Trimmer	15	7	1	1	24
	T-Lock	6	1	2	1	10
	Miscellaneous	1	3	2	2	8
	<b>Total</b>	<b>35</b>	<b>21</b>	<b>31</b>	<b>22</b>	<b>109</b>

*The team provides installations, replacements, adjustments, and lubrication services across various garage door components.*



## Annexure – II

**The State News****Supreme Court Directs Rathvaan to Pay ₹10 Lakh Compensation for Defective Car**

*June 1, 2025, New Delhi* – In a landmark consumer-protection judgment, the Supreme Court of India has directed Rathvaan Pvt. Ltd., a prominent car manufacturer, to pay ₹ 10 lakh in compensation to a customer who suffered financial losses after purchasing a defective vehicle.

The bench—led by Justices R. Vasudevan and N. Banerjee—held that the defects in the car supplied on 30 September 2024 caused substantial economic harm and that Rathvaan failed to uphold the quality standards promised at the time of sale.

The customer initiated legal proceedings on 1 January 2025, seeking redress for repair costs, loss of use, and other incidental expenses. Despite Rathvaan's defense that the defects were minor, the Court found the company liable for breach of its statutory duty under the Consumer Protection Act.

The case was ultimately settled on 15<sup>th</sup> May 2025 against the company, resulting in the payment of ₹ 10 lakhs as damages to the customer. Accordingly, Rathvaan is required to deposit the compensation amount within eight weeks, failing which it will be liable to pay interest at 9% per annum. The Court also remarked: *"Manufacturers must ensure vehicles are fit for purpose before they reach consumers. A failure to do so invites both legal and financial consequences."*



**Multiple Choice Questions**

- 2.1 Based on facts given, you are required to determine, which of the following options is/are most appropriate with respect to invoice issued to Trackon Pvt Ltd. without underlying supply of vans.
- Penalty under section 122(1)(ii) of the CGST Act, 2017 is leviable on Rathvaan since it has issued invoice without underlying supply of goods.
  - Rathvaan is liable to demand and recovery of the tax payable on supply of delivery vans along with penal action under section 74A of the CGST Act, 2017, along with applicable interest under provisions of section 50.
  - Trackon Pvt Ltd. is eligible to avail ITC since it was in the possession of the tax invoice.
  - Trackon Pvt Ltd. is liable to demand and recovery of ITC fraudulently availed and utilised and along with penal action under section 74A of the CGST Act, 2017, along with applicable interest under provisions of section 50.
  - Trackon Pvt Ltd. is liable to demand and recovery of ITC fraudulently availed and utilised and along with penal action under section 74A and section 122(1)(vii) of the CGST Act, 2017, along with applicable interest under provisions of section 50.

**Options**

- (i) and (iii)
  - (ii) and (iv)
  - (i) and (v)
  - (i) and (iv)
- 2.2 How should Rathvaan account for its initial 8% investment in Yatrik upon acquiring the remaining 92% and obtaining control of Yatrik on 1st April 2024?
- Reclassify the ₹ 8,000 gain from OCI to the income statement.

- (b) Retain the ₹ 8,000 gain in OCI as per Ind AS 109 and include the fair value of the 8% investment and the new acquisition in acquisition accounting.
  - (c) Remeasure the 8% investment at cost and transfer the gain to retained earnings.
  - (d) Ignore the ₹ 8,000 gain entirely as it has no impact on the acquisition accounting.
- 2.3 Analyse the tax treatment with reference to destruction of computer systems by fire.
- (Cost inflation index for financial year 2020-21 and 2024-25 are 301 and 363, respectively)
- (a) Short term capital gains: ₹2,87,850
  - (b) Long term capital gains: ₹2,87,850
  - (c) Short term capital loss: ₹1,02,990
  - (d) Long term capital loss: ₹1,02,990
- 2.4 Analyse whether the accounting treatment made by the accountant with respect to legal action taken by the Mr. Amber against Rathvaan is in compliance of the Ind AS.
- (a) Not in compliance, A provision of ₹ 6 lakhs ( $₹ 8 \text{ lakhs} \times 75\%$ ) should have been recognised at the reporting date, with no further adjustment.
  - (b) Not in compliance, An initial provision of ₹ 8 lakhs should have been recognised at 31 March 2025, and, as an adjusting event, the provision should then be increased to ₹10 lakhs and recognised as a current liability.
  - (c) In compliance, The matter is a contingent liability until the court ruling, therefore, no provision or adjustment is necessary.
  - (d) Not in compliance, An initial provision of ₹ 6 lakhs ( $₹ 8 \text{ lakhs} \times 75\%$ ) should have been recognised at 31 March 2025, and, as an adjusting event, the provision should then be increased to ₹ 10 lakhs and recognised as a current liability.

2.5 Which of the following statements accurately characterize the fraud committed by cashier and auditor's due care while audit and the subsequent actions:

- (i) The auditor exhibited due diligence and careful conduct
- (ii) Clause (7) of Part I of Second Schedule to Chartered Accountants Act, 1949 and SA 240 are relevant in this situation
- (iii) The auditor failed to plan and perform the audit with an attitude of professional skepticism
- (iv) A Chartered Accountant in practice will be deemed guilty of professional misconduct based on clause (7) of Part II of the second schedule to Chartered Accountants Act, 1949

**Options:**

- (a) Only (iv)
- (b) Both (ii) & (iv)
- (c) Both (ii) & (iii)
- (d) Both (i) & (iii)

**Descriptive Question**

2.6 ANALYSE whether the accounting treatment made by the accountant with respect to sale of goods to Chola Ltd. is in compliance of the Ind AS. If not, advise the correct treatment along with working for the same.

2.7 Required:

- (i) With reference to the garage door installation services provided by Rathvaan Pvt. Ltd. during the month of April 2024, carry out a Pareto Analysis (80/20 rule) of Total Parts.
- (ii) Using the same data carry out the second level Pareto Analysis on the type of services with respect to Motors only.
- (iii) Give your RECOMMENDATIONS on the basis of your calculations in (i) and (ii) above.

(Do calculations to two decimals only)

- 2.8 DISCUSS the validity of action taken by AO in the matter of disallowance of depreciation.
- 2.9 ANALYSE whether the appointments were legally valid in light of the Companies Act, 2013 and relevant rules.
- (a) The board's appointment of six directors
  - (b) The board's appointment of Mr. Ranvir to fill the casual vacancy



## SUGGESTED ANSWERS

- 1.1 The correct answer is (a)** (i) – C, (ii) – A, (iii) – D and (iv) – B

**Reason:**

- (i) Offering attractive options to exchange old electric bikes for newer one. – Customer Retention
- (ii) Target youth and young professionals below 35 years – Customer Selection
- (iii) Digital marketing to reach out to customers across India – Customer Acquisition
- (iv) Cross selling annual maintenance contracts at attractive rates once the warranty period is over. – Customer Extension

- 1.2 The correct answer is (c)** (iii) and (iv).

**Reason:**

A new section 194T has been inserted by the Finance (No. 2) Act, 2024 which requires partnerships to deduct 10% tax at source on any sum paid to partners such as salary, remuneration, commission, bonus or interest if such sum exceeds ₹ 20,000 during the financial year. However, section 194T is applicable with effect from 1<sup>st</sup> April 2025.

The extra additional salary payment relating to previous years prior to 1<sup>st</sup> April, 2024 is not deductible even though it has been approved in the partnership deed amended as on 1<sup>st</sup> April 2024. Section 40(b)(3)

disallows any remuneration paid to working partner or interest to a partner authorized by deed but relates to an earlier period.

The working for maximum deduction of salary paid to working partners is as below:

Computation of book profit of the firm under section 40(b)

Particulars	₹
Net Profit (before deduction of depreciation, salary and interest)	11,00,00,000
<b>Less:</b>	
Depreciation under section 32	8,00,00,000
Interest @12% p.a. (being maximum allowable as per section 40(b))	1,20,00,000
<b>Book Profit</b>	<b>1,80,00,000</b>

The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be:

Sr. No.	Particulars	₹
1	On first ₹ 6,00,000 of book profit (₹ 6,00,000 x 90%)	5,40,000
2	On the balance ₹ 1.74 crores of book profit (₹ 1.74 crores x 60%)	1,04,40,000
	<b>Maximum allowable salary as per section 40(b)(v)</b>	<b>1,09,80,000</b>

Actual salary paid to Ravi and Raju relating to the year 2024 - 25 is ₹ 1.2 crores (₹ 5 lakhs x 2 x 12) but the maximum allowable salary as per section 40(b)(v) is ₹ 1.098 crores. Therefore, the excess payment of ₹ 10.2 lakhs will not be allowed as a deduction while computing the taxable income of the partnership for A.Y. 2025-26.

- 1.3 The correct answer is (d)** In case of provision of repair services on behalf of all the manufacturers, no GST is payable by CD as such service

is being done without charging consideration from the customer during the warranty period.

**Reason:**

The correct answer is (d), CD is required to pay GST on the provision of repair services to the customer under warranty and the respective manufacturer is charged for such repair services by way of issue of invoice or debit note by CD. In such a scenario, there is a supply of service by CD and the respective manufacturer is the recipient of such supply of repair service in accordance with the provisions of section 2(93) (a) of the CGST Act, 2017. Hence, GST would be payable on such provision of service by CD to the manufacturer.

**1.4 The correct answer is (b) (ii) and (iv)**

**Reason:**

When the customer purchases extended warranty from CD at the time of original supply, it would be treated as composite supply, the principal supply being the supply of the bike and GST would be payable accordingly.

When the customer purchases extended warranty from service providers other than CD, then the supply of extended warranty will be treated as a separate supply from the original supply of bike and will be taxable as supply of services.

When the customer purchases extended warranty from CD at a time after/different from the original supply, the same shall be treated as a services distinct supply from the original supply of bike and will be taxable as supply of services.

**1.5 The correct answer is (c) Reverse quality**

**Reason:**

Asking for the same document repeatedly for different forms leads to customer dissatisfaction. If such repeated requests are not made, it does not lead to additional satisfaction. Therefore, this is a reverse quality, which when present causes dissatisfaction. CD can streamline its data collection process at the sales point in the showroom to overcome this issue.

**1.6 (a) Steps to ascertain the customer lifetime value of a particular customer**

CD needs to ascertain the profits generated from each customer. Activity Based Costing (ABC) model helps in associating direct costs and revenues to a particular customer over a period of time to ascertain the profit margin from that particular customer. To ascertain lifetime value, judgment with regard to duration of customer relationships have to be made. These require detailed analysis of the strengths of relationships, the likelihood, frequency and amount of repeated or additional purchases, competitive products, customer loyalty etc. Thus, profit margins are then discounted at the firm's cost of capital or any rate that may be determined by the organization to arrive at the customer lifetime value.

**(b) Lifetime value of "Good customer" aged 20 years**

A customer aged 20 years will buy 5 bikes from CD. A new bike is bought every five years. Therefore, a new bike will be bought from the ages 20 years – 25 years, 25 years to 30 years, 30 years to 35 years, 35 years to 40 years and once more at 40 years driven upto an average age of 40 year 3 months.

Profit margin from the sale of 1 bike = 25% of ₹6,00,000 = ₹ 1,50,000 per bike.

Profit margin from service / maintenance charges of 1 bike = 50% of ₹ 1,00,000 = ₹ 50,000 per bike.

Total profit margin from sale of 1 bike = ₹1,50,000 + ₹50,000 = ₹ 2,00,000 per bike.

Total profit from sale of 5 bikes = ₹ 2,00,000 × 5 = ₹ 10,00,000.

Therefore, the lifetime value of "good customer" aged 20 years is ₹ 10,00,000.

**(c) Lifetime value of "Excellent customer" aged 25 years.**

An excellent buyer on an average would buy 7 bikes from CD. Service and maintenance charges are incurred every year. The customer is expected to ride bikes until the age of 40 years and 3

months. Accordingly, CD would provide service and maintenance for 15 whole years (40 years – 25 years) and in the 16<sup>th</sup> year the service would be given for 3 months. Therefore, service and maintenance is provided for a total of 15.25 years.

Profit margin from sale a bike = 30% of ₹9,00,000 = ₹ 2,70,000 per bike.

Profit margin from service / maintenance charges of 1 bike = 60% of ₹ 1,20,000 = ₹72,000 per year.

Profit margin from sale of 7 bikes = ₹ 2,70,000 per bike × 7 bikes = ₹ 18,90,000.

Profit margin from service / maintenance for 15.25 years = ₹ 72,000 × 15.25 years = ₹ 10,98,000.

Total profit earned (customer lifetime value) from “excellent customer” aged 25 years is ₹ 29,88,000.

**(d) Brand endorsement decision involving outlay of ₹ 25 crore.**

**Lifetime value of Good customer, who is aged 30 years:**

A “good customer” aged 30 years would buy 3 bikes from CD. (30 years to 35 years, 35 years to 40 years and once more at 40 years driven upto an average of 40 years 3 months of age).

As mentioned in (b) above, the profit margin from sale of 1 bike = ₹2,00,000 per bike.

Therefore, the profit margin from sale of 3 bikes = ₹ 6,00,000, this is the customer lifetime value of “good customer” aged 30 years.

**Lifetime value of Excellent customer, who is aged 30 years:**

An “excellent customer” aged 30 years would buy 7 bikes in all from CD. The service and maintenance for these bikes will be required for 10.25 years (40.25 years – 30 years).

As mentioned in (c) above, the profit from sale of 7 bikes = ₹ 18,90,000.

Profit from providing service and maintenance for 10.25 years = ₹ 72,000 × 10.25 = ₹ 7,38,000.



Therefore, customer lifetime value of "excellent customer" aged 30 years = ₹ 18,90,000 + ₹ 7,38,000 = ₹ 26,28,000.

**Net Incremental benefit from converting good customer into excellent customer, who is aged 30 years:**

The differential / incremental profit on converting 1 customer aged 30 years from "good category" to "excellent category" would be ₹ 26,28,000 - ₹ 6,00,000 = ₹ 20,28,000 per customer.

Therefore, the incremental profit on converting 500 customers aged 30 years from "good category" to "excellent category" = ₹ 20,28,000 × 500 customers = ₹ 101,40,00,000 (101.4 crores).

The cost of hiring Formula 1 racing icons for brand endorsement = ₹ 25,00,00,000.

Therefore, the net incremental profit earned as a result of the brand endorsement = ₹ 76,40,00,000.

Therefore, the management can consider the brand endorsement program as it yields an incremental profit of ₹ 76.40 crores.

**1.7 Calculation of NPV:**

₹ (in crores)

<b>Calculation of Net Present Value (NPV) for the electric bike dealership</b>	
Present Value of annual cash inflows (₹ 5 crores × 3.169 the PVIFA @ 10% cost of capital for 4 years)	15.845
Initial project cost	(13)
<b>Net Present Value (NPV)</b>	<b>2.845</b>
<b>If the initial project cost is varied adversely by 10%</b>	
Present Value of annual cash inflows	15.845
Revised estimate of initial project cost (13 crores × 110%)	(14.3)
<b>Revised Net Present Value (NPV)</b>	<b>1.545</b>
Change in NPV	1.3
Percentage change in NPV (₹ 2.845 crores - ₹ 1.3 crores)/ 2.845 crores	54.31%

(Therefore, NPV changes adversely by 54.31% when initial project cost is varied adversely by 10%.)	
<b>If annual cash inflow is varied adversely by 10%</b>	
Revised annual cash inflow (₹ 5 crores × 90%)	4.5
Revised PV of annual cash inflows (₹ 4.5 crores × 3.169)	14.2605
Initial project cost	(13)
<b>Revised Net Present Value (NPV)</b>	<b>1.2605</b>
Percentage change in NPV (₹ 2.845 crores – ₹ 1.2605 crores)/2.845	55.69%
(Therefore, NPV changes adversely by 55.69% when annual cash inflow is varied adversely by 10%.)	
<b>If cost of capital is varied adversely by 10%</b>	
Revised cost of capital (10% × 110%)	11.00%
Revised PV of annual cash inflows (₹ 5 crores × 3.103)	14.2605
Initial project cost	(13)
<b>Revised NPV of project with cost of capital 11% for 4 years</b>	<b>2.515</b>
Percentage change in NPV (₹ 2.845 crores – ₹ 2.515 crores)/2.845	11.60%
(Therefore, NPV changes adversely by 11.60%, when Cost of capital is varied adversely by 10%.)	

**ADVISE**

As per the information given in the problem, the net present value of the dealership venture would be ₹ 2.845 crores. If initial project cost is varied adversely by 10%, the cost increases from ₹ 13 crore to ₹ 14.30 crores. Accordingly, the NPV for the project would decrease from ₹ 2.845 crores to ₹ 1.545 crores. This is a decline by 54.31%. If the annual cash inflow is varied adversely by 10%, the cash inflow would reduce from ₹ 5 crores per annum to ₹ 4.5 crores per annum. Accordingly, the NPV for the project would decrease from ₹ 2.845 crores to ₹ 1.2605 crores. This is a decline by 55.69%. If the cost of capital is varied adversely by 10%, the cost of capital would increase from 10% to 11%. Accordingly, the NPV

for the project would decrease from ₹ 2.845 crores to ₹ 2.515 crores. This is a decline by 11.60%.

Therefore, it can be concluded from above the project is most sensitive to adverse impact on the annual cash inflow.

- 1.8** CA Abhishek would advise Mr. Ravi as per the current regulatory framework of FEMA and the guidelines issued by the Reserve Bank of India. Under provisions of Section 5 of the Foreign Exchange Management Act, 1999, certain Rules have been made for drawal of Foreign Exchange for Current Account transactions.

As per these Rules, Foreign Exchange for some of the Current Account transactions is prohibited. As regards some other Current Account transactions, Foreign Exchange can be drawn with prior permission of the Central Government while in case of some Current Account transactions, prior permission of Reserve Bank of India is required.

In respect of remittance out of lottery winnings, such remittance is prohibited and the same is included in First Schedule to the Foreign Exchange Management (Current Account Transactions) Rules, 2000. Hence, Mr. Ravi cannot withdraw Foreign Exchange for this purpose.

Further, Foreign Exchange for meeting expenses of cultural tour can be withdrawn by any person after obtaining permission from Government of India, Ministry of Human Resources Development, (Department of Education and Culture) as prescribed in Second Schedule to the Foreign Exchange Management (Current Account Transactions) Rules, 2000.

Hence, in respect of cultural troupe, Mr. Ravi can withdraw the Foreign Exchange only after obtaining such permission.

In both above cases, where remittance of Foreign Exchange is allowed, either by general or specific permission, the remitter has to obtain the Foreign Exchange from an Authorised Person as defined in Section 2(c) read with section 10 of the Foreign Exchange Management Act, 1999.

- 2.1 The correct answer is (d) (i) and (iv)**

**Reason:**

Circular No. 171/03/2022 GST dated 06.07.2022 clarifies the applicability of demand and penalty provisions under the CGST Act, 2017, in respect

of the transactions involving fake invoices. Where a registered person "A" has issued tax invoice to another registered person "B" without any underlying supply of goods or services or both and 'B' avails ITC on the basis of the said tax invoice and utilises this ITC for payment of his tax liability in respect of his said outward supplies, the circular clarifies that since there has only been an issuance of tax invoice by the registered person 'A' to registered person 'B' without the underlying supply of goods or services or both, therefore, such an activity does not satisfy the criteria of "supply", as defined under section 7 of the CGST Act, 2017.

As there is no supply by 'A' to 'B' in respect of such tax invoice in terms of the provisions of section 7, no tax liability arises against 'A' for the said transaction, and accordingly, no demand and recovery or penal action is required to be made against 'A' under the provisions of section 74A in respect of the same.

The registered person 'A' shall, however, be liable for penal action under section 122(1)(ii) of the CGST Act, 2017, for issuing tax invoices without actual supply of goods or services or both.

Further, since the registered person 'B' has availed and utilized fraudulent ITC on the basis of the said tax invoice, without receiving the goods or services or both, in contravention of the provisions of section 16(2)(b) of the CGST Act, 2017, he shall be liable for the demand and recovery of the said ITC, along with penal action, under the provisions of section 74A of the CGST Act, 2017, along with applicable interest under provisions of section 50.

Moreover, as per provisions of section 75(13) of the CGST Act, 2017, if penal action for fraudulent availment or utilization of ITC is taken against 'B' under section 74A, no penalty for the same act, i.e. for the said fraudulent availment or utilization of ITC, can be imposed on 'B' under any other provisions of the CGST Act, 2017, including under section 122 of the CGST Act, 2017.

Thus, in the given case, no demand can be initiated against Rathvaan, he is liable to penalty under section 122(1)(ii) of the CGST Act, 2017. Further, Trackon Pvt Ltd. is liable to demand and recovery of ITC fraudulently availed and utilised and along with penal action under section 74A of the CGST Act, 2017, along with applicable interest under

provisions of section 50. However, as per section 75(13) of the CGST Act, 2017, no further penalty for same act i.e. for the said fraudulent availment and utilization of ITC, can be imposed on Trackon Pvt Ltd. under any other provisions of the CGST Act, 2017 including penalty under section 122(1)(vii).

**2.2 The correct answer is option (d) (i), (iii) and (v)**

**Reason:**

At the subsequent acquisition Rathvaan Pvt Ltd. recognises the gain of ₹ 8,000 in OCI as the gain or loss is not allowed to be recycled to income statement as per the requirement of Ind AS 109. Since, Rathvaan Pvt Ltd.'s initial investment in Yatrik is at fair value and therefore does not require remeasurement as a result of the business combination. The fair value of the 8 percent investment (1,00,000) plus the fair value of the consideration for the 92 percent newly acquired interest is included in the acquisition accounting.

**2.3 The correct answer is (a) Short term capital gains: ₹ 2,87,850**

**Reason:**

As per section 45(1A), where any person receives any money or other assets under an insurance from an insurer on account of damage to or destruction of capital asset as a result of, inter alia, accidental fire then, any profits and gains arising from the receipt of such money or other assets, shall be chargeable to income tax under the head "Capital Gains" and shall be deemed to be the income of such person of the previous year in which such money or asset was received.

For the purpose of section 48, the money received or the market value of the asset shall be deemed to be the full value of the consideration accruing as a result of the transfer of such capital asset. Since the asset was destroyed and the money from the insurance company was received in the previous year, there will be a liability to compute capital gains in respect of the insurance moneys received by the assessee.

Under section 45(1A) any profits and gains arising from receipt of insurance moneys is chargeable under the head "Capital gains". For the purpose of section 48, the moneys received shall be deemed to be the full value of the consideration accruing or arising. Under section 50 the

capital gains in respect of depreciable assets had to be computed in the following manner.

The computation of capital gain and tax implication is given below:

Full value of the consideration	₹ 5,00,000
Less: Written down value as on April 1st, 2024	₹ 2,12,150
Short term capital gains	₹ 2,87,850

- 2.4 The correct answer is (b)** Not in compliance, an initial provision of `8 lakhs should have been recognised at 31 March 2025, and, as an adjusting event, the provision should then be increased to `10 lakhs and recognised as a current liability.

**Reason:**

The above treatment needs to be examined in the light of the provisions given in Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets' and Ind AS 10 'Events After the Reporting Period'.

**Paragraph 10 of Ind AS 37** 'Provisions, Contingent Liabilities and Contingent Assets' defines:

*"Provision is a liability of uncertain timing or amount."*

Liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Further, **paragraph 14 of Ind AS 37**, states:

"A provision shall be recognised when: (a) an entity has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation."

Further, **paragraph 36 of Ind AS 37**, states:

"The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period."

Further, **paragraph 3** of **Ind AS 10** 'Events after the Reporting Period' defines:

"Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified: (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and (b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period)."

Further, **paragraph 8** of **Ind AS 10** states that:

"An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period."

The Accountant of Rathvaan Pvt Ltd. has not recognised the provision and accordingly not adjusted the amounts recognised in its financial statements to reflect adjusting events after the reporting period is not correct and nor in accordance with the provision of Ind AS 37 and Ind AS 10.

As per given facts, the potential payment of damages to the customer is an obligation arising out of a past event which can be reliably estimated. Therefore, following the provision of Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets' – a provision is required. The provision should be for the best estimate of the expenditure required to settle the obligation at 31st March, 2025 which comes to ₹ 8 lakhs as probability to settle is ~75%.

Further, following the principles of Ind AS 10 'Events after the Reporting Period' evidence of the settlement amount is an adjusting event. Therefore, the amount of provision created shall be increased to ₹ 10 lakhs and accordingly be recognised as a current liability. Since, the decision of the court is before approval of Financial Statements by the Board.

**2.5 The correct answer is (c) Both (ii) & (iii)****Reason:**

In the given case, in the course of audit, auditor failed to discover the fraud. It is clearly given that investigation indicated that the auditor did not exercise reasonable skill and care and performed his work in a casual and unmethodical manner.

According to Clause (7) of Part I of Second Schedule of Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties".

As per SA 240, "The auditor's responsibilities relating to fraud in an audit of financial statements", it can be concluded that the auditor did not plan and perform the audit with an attitude of professional skepticism. Thus, having regard to this and a fraud has actually taken place during the year, committed by the absconding cashier, it is reasonable to think that prima facie there is a case against the auditor for gross negligence.

From the facts given in the case and by applying Clause (7) of Part I of Second Schedule to Chartered Accountants Act, 1949 and SA 240, it is clear that the auditor is guilty of professional misconduct.

**2.6** As per Ind AS 115 "Revenue from Contracts with Customers" - The contract includes a significant financing component. This is evident from the difference between the amount of promised consideration of ₹ 5,00,000 and the cash selling price of ₹ 4,75,000 at the date that the goods are transferred to the customer.

The contract includes an implicit interest rate of 5.36 per cent (i.e. the interest rate that over 2 years discounts the promised consideration of ₹ 5,00,000 to the cash selling price of ₹ 4,75,000). This has been shown in the calculation below.



The fair value of consideration (cash price equivalent) of the sale of goods is calculated as follows:

Year	Consideration (Instalment)	Present value factor	Present value of consideration
Time of Sale	1,66,666	-	1,66,666
End of 1st year	1,66,667	0.949	1,58,167
End of 2nd year	1,66,667	0.901	1,50,167
<b>Total</b>	<b>5,00,000</b>		<b>4,75,000</b>

In order to determine the transaction price, Rathvaan must adjust the promised amount of consideration (as shown above) for the effects of the time value of money since the contract includes a significant financing component. The revenue from sale of goods shall be recognised at the fair value of the consideration received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest where the receipt is deferred beyond normal credit terms. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

At the time of initial recognition, Rathvaan will recognize the revenue from the sale of goods and finance income by recording a total sales value of ₹4,75,000, of which ₹1,66,666 is received in cash and ₹3,08,334 is recognized as a trade receivable. Accordingly, the accounting entry will debit Cash by ₹1,66,666 and Trade Receivable by ₹3,08,334, and credit Sales by ₹4,75,000.

In second year beginning, Rathvaan will recognize the interest income and the receipt of the second installment by recording a cash inflow of ₹1,66,667. Out of this amount, ₹16,527 is recognized as interest income earned, and the remaining ₹1,50,140 is adjusted against the outstanding trade receivable. Accordingly, the accounting entry will debit Cash by ₹1,66,667, credit Interest Income by ₹16,527, and credit Trade Receivable by ₹1,50,140.

At the time of final settlement, Rathvaan will recognize the interest income and the payment of the final installment by recording a cash inflow of ₹1,66,667. Of this amount, ₹8,473 is recognized as interest income, and the remaining ₹1,58,194 is adjusted against the outstanding trade receivable. Accordingly, the accounting entry will debit Cash by ₹1,66,667, credit Interest Income by ₹8,473, and credit Trade Receivable by ₹1,58,194.

**Statement of Profit and Loss (extracts) for the year ended 31<sup>st</sup> March, 2025 and 31<sup>st</sup> March, 2026**

Income	As at 31 <sup>st</sup> March, 2025	As at 31 <sup>st</sup> March, 2026
Revenue From Operations (Sale of Goods)	4,75,000	-
Other Income (Finance Income)	16,527	8,473

**Balance Sheet (extracts) as at 31<sup>st</sup> March, 2025 and 31<sup>st</sup> March, 2026**

Assets	As at 31 <sup>st</sup> March, 2025	As at 31 <sup>st</sup> March, 2026
<b>Financial Assets:</b>		
Trade Receivables	1,58,194	XXX

**2.7 (i) Statement Showing "Pareto Analysis of Total Parts"**

Parts	No. of Items	% of Total Items	Cumulative Total
Motor	34	31.19%	31.19%
Trimmer	24	22.02%	53.21%
Track	21	19.27%	72.48%
Door	12	11.01%	83.49%
T-Lock	10	9.17%	92.66%
Miscellaneous	8	7.34%	100.00%

(ii) **Statement Showing "Pareto Analysis of Type of Services (Motor)"**

Type of Services	No. of Items	% of Total Items	Cumulative Total
Adjust	17	50.00%	50.00%
Lubricate	10	29.41%	79.41%
Install	4	11.76%	91.17%
Replace	3	8.83%	100.00%

- (iii) Pareto Analysis is a rule that recommends focus on most important aspects of the decision making in order to simplify the process of decision making. The very purpose of this analysis is to direct attention and efforts of management to the area where best pay-off can be achieved by taking appropriate actions.

Pareto Analysis is based on the 80/20 rule which implies that 20% of the products account for 80% of the revenue. But this is not the fixed percentage rule. In a general business sense, it means that a few of the products, goods or customers may make up most of the value for the firm.

The present case stands in a difference to the 80/20 rule. Because the company installs doors, they sometimes have multiple service calls to install each door piece by piece. They may have to install, replace, adjust, or lubricate some part to get the door working properly. They work with five main parts: door, motor, track, trimmer and t-lock. The service calls with reference to motors are heavy and accounted for as much as 31.19% of the number of calls attended. Motor together with trimmer accounted for 53.21%. So, these two parts are to be considered as key parts and Rathvaan must be ever ready to cater to all provisional requirements for attending these classes without any inordinate delay. Any delay in service these calls is likely to damage its service rendering reputation within a very short span of time. Further, the second level Pareto Analysis on motors has revealed a particular reference to the service problems related to motors. Adjustments and Lubrication issues cover up 79.41% of the total service problems

exclusively connected to Motors. So, Rathvaan Pvt Ltd. must direct its best efforts and develop specific expertise to solve these problems in the best interest of the customer.

- 2.8** The issue under consideration is whether disallowance of depreciation made by the Assessing Officer with regard to the discarded asset, in arriving at the written down value of the block of assets, is justified.

One of the conditions for claim of depreciation under section 32 is that the eligible asset must have been put to use for the purpose of business or profession.

The other aspect to be considered is whether merely discarding an obsolete machinery, which is physically available, will attract the expression "moneys payable" appearing in section 43(6), so as to deduct its value from the written down value of the block.

**The facts in the present case are similar to facts in the case of CIT v. Yamaha Motor India Pvt. Ltd. (2010) 328 ITR 297**, wherein the Delhi High Court observed that the expression "used for the purposes of the business" in section 32, when applied to discarded machinery, means that it must have been used in the business not only in the relevant financial year/previous year, but also in earlier financial years.

The discarded machinery may not be actually used in the relevant previous year, but depreciation can be claimed so long as it was used for the purposes of business in earlier years, provided the block continues to exist in the relevant previous year. Therefore, the condition for claiming depreciation on the discarded machine is satisfied if it was used in earlier previous years for the business.

For the purposes of section 43(6), "moneys payable" means the sale price, or insurance, salvage, or compensation money payable in respect of the asset. In this case, the machinery has not been sold as machinery or scrap or otherwise disposed of, and it continues to exist. Hence, there is no "moneys payable" in this case, and only "moneys payable" (if any) would be deductible when computing the written-down value of the block to which it belongs.

Applying this rationale, the Assessing Officer's action in disallowing ₹ 2 lakhs, being the depreciation claim attributable to the discarded machinery, on the ground that the asset was not put to use in the relevant previous year is invalid, since the machinery had been put to use in earlier previous years.

- 2.9 (a)** Under Section 149(1) of the Companies Act, 2013 every company shall have a Board of Directors consisting of individuals as directors and shall have a minimum number of 3 directors in the case of a public company, 2 directors in the case of a private company, and one director in the case of a One Person Company. The maximum number of directors shall be 15. The First Proviso to Section 149(1) states that a company may appoint more than 15 directors after passing a special resolution.

From the provisions of section 149(1) as above, though the minimum number of directors may vary depending on whether the company is a public, private or a one person company, the maximum number of directors is same for all types of companies i.e. 15 directors subject to Special resolution and Article.

Further, the company shall inform its members regarding the candidature of a person for the office of director in accordance with the manner prescribed in Rule 13 of the Companies (Appointment and Qualifications of Directors) Rules, 2014. The same is stated below:

At least 7 days before the general meeting, the company shall inform its members of such candidature—

1. By serving individual notices through electronic mode to such members who have provided their e-mail addresses for communication purposes and in writing to all other members; and
2. By placing notice of such candidature on its website, if any.

**When there is no need to serve notices individually:**

It shall not be necessary for the company to serve individual notices if it advertises such candidature, not less than 7 days before the meeting:

- (a) At least once in a vernacular newspaper in the principal vernacular language of the district in which the registered office of the company is situated, and
- (b) At least once in English in an English-language newspaper circulating in that district.

In case an independent director is appointed in the general meeting, an explanatory statement for such appointment annexed to the notice for the general meeting, shall include a statement that in the opinion of the Board, he fulfills the conditions specified in this Act for such an appointment [Proviso to Section 152(5)].

**Section 149(4)** of the Companies Act, 2013 requires certain classes of companies (notably listed public companies and prescribed unlisted public companies) to appoint independent directors. Private companies are generally *not required* to appoint independent directors under the Act.

**However, if a private company voluntarily chooses to appoint any director as an “independent director”, then all statutory provisions applicable to independent directors, including eligibility under Section 149(6) and the requirements of Section 150 and Rule 6 of the Companies (Appointment and Qualification of Directors) Rules, 2014 must be complied with.**

**Section 150(1)** mandates that any individual proposed to be appointed as an independent director must have their name included in the data bank maintained by a notified body or institute (currently the Indian Institute of Corporate Affairs), and must meet the eligibility criteria set out in Section 149(6).

**Rule 6(1) of the Companies (Appointment and Qualification of Directors) Rules, 2014** (as amended) provides that every individual being appointed as an independent director in any company must apply online to the data bank maintained by the institute, and such appointment is only valid if the individual is so registered at the time of appointment. The appointment of an independent director whether in a public or private company must be approved by the

company in a general meeting as provided in **Section 152(2)**, and the explanatory statement annexed to the notice for such meeting must specify the justification for choosing the appointee for appointment as an independent director, as per **Section 150(2)**.

Section 170(2), read with Rule 18 of the Companies (Appointment and Qualifications of Directors) Rules, 2014, requires a company to file a return in Form DIR-12 in respect of its directors and key managerial personnel after paying the prescribed fee as under:

1. Within 30 days from the appointment; and
2. Within 30 days of any change taking place.

### **Analysis and conclusion**

In the given case, Rathvaan Pvt. Ltd. proposed to increase its board from 10 to 16 directors. The company will be required to Alter its Articles of Association as per the provisions of Section 14 of the Act by passing a special resolution, so as to increase the number of directors in the Articles from 12 to 16. Although the special resolution to approve the appointments was passed unanimously at the EGM, but no resolution was passed to amend the Articles. Accordingly, those appointments are invalid.

Also, the notice for EGM to be held on April 15, 2025, with notice dated 6<sup>th</sup> April 2025, was published in vernacular and English newspaper and uploaded on the company's website but not dispatched to members. Since the notice was duly published in vernacular and English newspaper, there is no need to serve notices individually to all members and hence the company has not violated any law in this regard.

However, for the two independent director appointments, the notice lacked the mandatory explanatory statement as required by the proviso to Section 152(5) and Section 150(2) of the Companies Act, 2013. Although private companies are not required by law to appoint independent directors, if they do so voluntarily, **all procedural requirements, including the inclusion of an explanatory statement justifying the appointment, must be complied with.** In addition, under Section 150(1) and Rule 6 of the

Companies (Appointment and Qualification of Directors) Rules, 2014, any individual being appointed as an independent director must have their name included in the data bank at the time of appointment. **Omission of the explanatory statement and failure to comply with the data bank registration requirements both render the independent director appointments invalid and non-compliant with the Act.**

Finally, the DIR-12 filings on April 30, 2025 fall within the 30-day filing window under Section 170(2) and are therefore compliant.

Therefore, on the basis of above the appointment of directors is not valid.

- (b) According to section 161(4) of the Companies Act, 2013, if the office of any director appointed by the company in general meeting is vacated before his term of office expires in the normal course, the resulting casual vacancy may, in default of and subject to any regulations in the articles of the company, be filled by the Board of Directors at a meeting of the Board which shall be subsequently approved by members in the immediate next general meeting.

Provided that any person so appointed shall hold office only up to the date up to which the director in whose place he is appointed would have held office if it had not been vacated.

Casual Vacancy is not the vacancy created due to the retirement of a director. It is created because of certain other factors that are not linked with retirement-like occurrence of death or attraction of disqualification or tendering of resignation or removal, etc. A vacancy which was created due to the fact that the elected director declined to assume the office after his appointment at general meeting cannot be said to result in a casual vacancy. In such a case, when there was no assumption of office by the director, how can he vacate it? Thus, there arises no casual vacancy.

A director appointed to fill a casual vacancy is not a 'casual director'. He enjoys all the powers as well as is required to bear the responsibilities of the director in whose place he is appointed



except that where the earlier director was an 'interested director', his 'interest' cannot be attached to the new director filling the casual vacancy.

**Analysis and conclusion**

Further, in this case, the term of the office of director because of which the casual vacancy is created does not get expired in the normal course. In the given question, the casual vacancy caused due to death of Mr. Rishi (who was appointed by the company in AGM held on 30.9.2022, for a period of 3 years) is filled by the Board of Directors by appointing Mr. Ranvir for a period of three years. However, the appointment of Mr. Ranvir for a period of three years is in contravention of above stated provisions as he can hold office only up to the date up to which Mr. Rishi would have held office if it had not been vacated.

Further, as per the provisions of the Act, the appointment of Mr. Ranvir ought to be approved by members in the immediate next general meeting. However, the appointment of Mr. Ranvir was not even proposed or approved in the immediate next general meeting held. Hence, the appointment of Mr. Ranvir is in contravention of the provisions of the Companies Act, 2013. Therefore, the opinion of CFO is correct.