Mock Test Paper - Series II: August, 2025

Date of Paper: 11th August, 2025

Time of Paper: 2 P.M. – 6 P.M.

Time of Paper: 2 P.M. – 6 P.M.

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

SUGGESTED ANSWERS

ANSWERS TO THE CASE STUDY 1

Answers to the Multiple Choice Questions

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

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

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

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

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

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

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

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

Working Note:

Loan amount to be initially recognised:

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

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

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

5. **(c)** A Key Performance Indicator

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

Answers to the Descriptive Questions

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

(b) The plant has been working at full capacity during the year 2026-27. Out of the total capacity of 400,000 tons per annum, 240,000 tons are being supplied to UFL and the balance is being sold externally.

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

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

The contribution from external sales is calculated as below:

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

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

Alternate method:

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

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

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

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

(c) When ammonium nitrate is diverted from external sales to captive consumption, BCPL will have to be compensated for the lost contribution. Roshan Lal is trying to convince Ramesh Shah of BCPL to accept an internal transfer price of ₹ 155,000 per ton of ammonium nitrate supplied. However, the suggested price range as per answer (b) above is ₹ 160,000 per ton to ₹ 170,000 per ton of ammonium nitrate supplied. The minimum transfer price that BCPL should charge to recover any lost contribution would be ₹160,000 per ton. Therefore, BCPL will incur loss of contribution if Ramesh Shah accepts Roshan Lal's offer of ₹ 155,000 per ton as the internal transfer price.

(d) The estimated profit per annum for FY 2026-27 of BCPL after capacity expansion, working at full capacity, supplying 240,000 tons at ₹ 165,000 per ton to UFL and 160,000 tons at ₹ 180,000 per ton to external customers respectively

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

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

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

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

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

(i) Complete Logistics acts as a pure agent of BCPL when it makes the payment to the third party on authorization by BCPL;

(ii) The payment made by Complete Logistics on behalf of BCPL has been separately indicated in the invoice when it is issued to BCPL; and

(iii) The supplies procured by Complete Logistics from the third party as a pure agent of BCPL are in addition to the services it supplies on its own account.

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

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

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

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

ANSWERS TO THE CASE STUDY 2

Answers to the Multiple Choice Questions

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

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

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

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

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

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

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

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

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

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

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

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

(i) the amount of income assessed, or

(ii) the amount of tax determined, or

(iii) the amount of loss computed, or

(iv) the status under which he is assessed

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

5 (c) Transformation

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

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

Answers to the Descriptive Questions

6. (i)

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

(ii) Advantages Of Mutual Fund

(a) Professional Management: The funds are managed by skilled and professionally experienced managers backed by a team of Research Analysts.

(b) Diversification: Mutual Funds invest into many securities and offer diversification which reduces the concentration risk.

(c) Convenient Administration: There are no administrative risks of share transfer, as many of the Mutual Funds offer services in a demat form which saves investor's time and prevents delay.

(d) Higher Returns: Over a medium to long-term investment horizon, investors get higher returns in Mutual Funds as compared to other avenues of investment. However, investors are cautioned that such very high returns during the exceptional bull phase of the market like IT boom or Infrastructure boom should not be considered as regular returns and therefore one should look at the average returns provided by the Mutual Funds particularly in the equity schemes over a long period of time.

(e) Low Cost of Management: SEBI has prescribed maximum limit of charging 2.50% for Equity Mutual Funds. No Mutual Fund can increase the cost beyond prescribed limits of 2.5% maximum and any extra cost of management is to be borne by the AMC.

(f) Liquidity: In all the open ended funds, liquidity is provided by direct sales / repurchase by the Mutual Fund and in case of close ended funds, the liquidity is provided by listing the units on the Stock Exchange.

(g) Transparency: The SEBI Regulations now compel all the Mutual Funds to disclose their portfolios on a half-yearly basis. However, many Mutual Funds disclose their Scheme Portfolio on a quarterly or monthly basis to their investors. The NAVs are calculated on a daily basis in case of open ended funds and are published through AMFI in the newspapers.

(h) Other Benefits: Mutual Funds provide systematic withdrawal and systematic investment plans according to the need of the investors. The investors can also switch from one scheme to another without any restrictions except in case of Tax Savings Fund which restricts switch out for first 3 years of its investments.

(i) Highly Regulated: Mutual Funds all over the world are highly regulated and in India all Mutual Funds are registered with SEBI and are strictly regulated as per the Mutual Fund Regulations which provide high level of investor protection.

(j) Economies of scale: The way mutual funds are structured gives it a natural advantage. The "pooled" money from numerous investors ensures that mutual funds enjoy economies of scale; it is cheaper compared to investing directly in the capital markets which involves higher charges. This also allows retail investors access to participation in the Capital Market which otherwise is difficult for them go directly.

(k) Flexibility: One of the biggest advantages of a Mutual Fund Scheme is its flexibility. An investor can opt for Systematic Investment Plan (SIP), Systematic Withdrawal Plan etc. to plan his cash flow requirements as per his convenience. The wide range of schemes being launched in India by different mutual funds also provides an added flexibility to the investor to plan his portfolio accordingly.

(l) Convenience: It is very convenient & easy to invest & disinvest from Mutual Fund Schemes specially through digital transaction portals

(iii) Drawbacks Of Mutual Fund

(a) No guarantee of Return – There are three issues involved:

(i) All Mutual Funds cannot be winners. There may be some Schemes who may underperform against the benchmark index. However, the Fund Manager will endeavour to give better return than the underlying benchmark Index in the long run.

(ii) A mutual fund may perform better than the stock market but this does not necessarily lead to a similar gain for every investor. This is because of the different entry & exit points for each investor.

(iii) In case of a massive fall in the value of the stocks held in the Portfolio, the investor may lose principal in the short-term e.g., during Global Financial Crisis in 2008 or during outbreak of Covid 19 pandemic in 2020 etc. But if the investment is held for a longer term, the chances of losing principal are very remote & negligible.

(b) Diversification – A mutual fund helps to create a diversified portfolio. Though diversification minimizes risk, it does not ensure maximizing returns. The returns that mutual funds offer is at times lesser than what an investor can earn from a single stock. For example, if a single security held by a mutual fund double in value, the mutual fund itself would not double in value because that security is only one small part of the fund's holdings. By holding a large number of different investments, mutual funds tend to do neither exceptionally well nor exceptionally poor.

(c) Selection of Proper Fund – It may be easy for someone to select the right share rather than the right mutual fund scheme. For stocks, one can rely his selection on the parameters of economic, industry and company analysis. In case of mutual funds, past performance is the one of the most important criteria to fall back upon but the past performance cannot predict the future.

(d) Cost Factor – Every Mutual Fund Scheme charges some fund management fees as a part of Annual Recurring Expenses. Although there are no charges/load on entry, but at times an exit may get charged if withdrawn before a stipulated period, known as "Exit Load". Amount withdrawn after the stipulated period of holding, if withdrawn, doesn't attract any Exit Load. The fees paid to the Asset Management Company is in no way related to performance.

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

(a) Obtain a comprehensive understanding of the blockchain-based pilot program, including its objectives, scope, and key processes involved.

(b) Review the partnership agreements, contracts, and legal documentation governing the relationship between the RFIN bank and Bouyanc Bank.

(c) Identify the specific blockchain technology used, its functionalities, and the underlying mart contracts.

(d) Assess Internal Controls:

- Review policies and procedures related to the on-chain Nostro accounts, settlement processes, and money transfer mechanisms.
- Assess the governance framework, risk management practices, and compliance procedures established by the RFIN bank and Bouyanc Bank.

(e) Review Security Measures:

- Assess encryption methods, cryptographic key management, and secure transmission protocols used for data protection.
- Review measures taken to prevent unauthorized access, cyber threats, and potential vulnerabilities in the blockchain network.

(f) Test Transaction Validity and Accuracy:

- Validate that transactions are recorded and settled accurately on the blockchain, ensuring adherence to relevant regulations and contractual obligations.
- Perform reconciliations between on-chain Nostro accounts and the corresponding accounts held at Bouyanc Bank to confirm the accuracy of balances and transactions.

(g) Evaluate Compliance and Regulatory Requirements:

- Review documentation and procedures related to customer due diligence, transaction monitoring, and reporting obligations.
- Ensure that the pilot program adheres to industry-specific standards and best practices.

(h) Assess Business Continuity and Disaster Recovery:

Evaluate the adequacy of backup and recovery procedures, redundancy measures, and failover mechanisms to ensure uninterrupted operations.

Test the effectiveness of these plans by conducting simulations or examining historical incidents and response procedures.

(i) Report Findings and Recommendations:

Provide recommendations for improving internal controls, security measures, compliance procedures, and overall efficiency and effectiveness of the pilot program.

Communicate the audit results to the relevant stakeholders, highlighting areas of concern and suggesting remedial actions.

8. Statement showing computation of inventory cost

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

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

Working Note:

Costs of testing product designed for specific customer:

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

ANSWERS TO THE CASE STUDY 3

Answers to the Multiple Choice Questions

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

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

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

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

3. **(a)** ₹ 70,000

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

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

4. **(d)** It is mandatory to obtain prior permission of Reserve Bank of India (RBI) for remittance of entire commission of USD 98,000 by ELTO India to M/s. Best Broker.

Reason: According to FEMA Act, 1999, persons other than individuals shall require prior approval of the Reserve Bank of India for remittance of Commission, per transaction, to agents abroad for sale of residential flats or commercial plots in India exceeding USD 25,000 or five percent of the inward remittance (USD 14,00,000x5%=USD 70,000) whichever is more. Here, in this case, commission is USD 14,00,000x7%=USD 98,000 which is higher than USD 70,000.

5. **(a)** Accept Mr. Gupta's proposals to adopt sustainable business practices through the use of more sustainable fabric in production, encourage recycling of clothes and use of sustainable packaging while distributing.

Reason: A business should not only consider financial aspects but also non-financial and ethical considerations of its business operations. While encouraging over consumption may be good for the company's business and profitability, it cannot sustain in the long run if such practices harm the environment. At some point in future, there will be a backlash due to increased awareness and the public will reject the very concept of fast fashion. Therefore, Mr. Gupta's proposals to proactively start following sustainable business practices will help ELTO sustain its business in the long run.

Answers to the Descriptive Questions

6. ELTO's approach to product differentiation significantly contributes to its competitive advantage in several ways.

Firstly, ELTO's *rapid design-to-store turnaround*, where new designs appear in stores within two weeks of conception, ensures that the company constantly offers the latest fashion trends, attracting fashion-conscious consumers and setting ELTO apart from competitors who have longer production cycles. This quick response to market demands allows ELTO to keep its product offerings fresh and relevant, creating a sense of urgency and exclusivity among customers.

Secondly, ELTO's vertical integration plays a crucial role in maintaining high product quality and control over the entire production process. By keeping a substantial portion of its manufacturing in-house and located in South Asia, ELTO can quickly adjust production based on market feedback and emerging trends, reducing lead times and ensuring consistency in quality. This tight control over the supply chain enables ELTO to implement its innovative designs swiftly and efficiently, further differentiating its products from those of competitors who rely heavily on outsourcing.

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

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

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

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

Evaluation of Strategy

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

7. **(a)** ELTO will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2024-25 as short-term compensated absences.

(b) ELTO will recognize ₹ 140 crores (₹ 4,000 x 3.5%) as a liability and expense in its books of account.

(c) When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service.

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

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

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

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

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

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

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

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

ANSWERS TO THE CASE STUDY 4

Answers to the Multiple Choice Questions

1. (b) ₹ 108.33

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

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

2. (c) Permanent consolidation adjustments.

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

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

Reason: SA 710 - Para 12

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

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

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

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

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

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

5. **(b)** ₹ 58 crores

Reason: Equity Value of Company

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

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

Answers to the Descriptive Questions

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

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

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

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

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

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

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

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

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

*₹ 600 - ₹540 = ₹ 60

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

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

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

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

₹/$ x $/¥ = ₹/¥

62.22/102.34 = 0.6080

Spot rate on date of export 1¥ = ₹ 0.6080

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

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

(i) Calculation of expected loss without hedging

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

Hedging of loss under Forward Cover

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

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

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

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

The decision to take forward cover is still justified.

ANSWERS TO THE CASE STUDY 5

Answers to the Multiple Choice Questions

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

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

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

2. **(c)** DTA ₹ 48,000

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

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

3. **(d)** ₹ 30,00,000.

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

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

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

4. **(c)** 63.08 hrs.

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

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

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

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

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

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

[16,148.08 / 256]

5. **(b)** Going rate pricing

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

Answers to the Descriptive Questions

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

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

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

(a) The person so appointed or employed as managing director should be managing director or manager of one, and of not more than one, other company.

(b) Such appointment or employment is made or approved by Board resolution at a meeting of the Board with the consent of all the directors present at the meeting.

(c) Further, specific notice of such meeting, and of the resolution to be moved thereat has been given to all the directors then in India.

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

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

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

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

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

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

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

   (i) the actual cost to him when he first acquired the asset as reduced by the amount of depreciation that would have been allowable to the assessee.

   (ii) the actual price for which the asset is re-acquired by him,

   whichever is less.

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

   Thus, ₹ 1,00,000 shall be considered as the cost of machinery reacquired by EcoBright

   Systems from Mr. Arjun, for income tax purpose.