PAPER

6

FINAL COURSE

INTEGRATED BUSINESS SOLUTIONS

CASE STUDY DIGEST

VOLUME - II

Board of Studies (Academic)
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

This Case Study Digest has been prepared by the faculty of the Board of Studies (Academic). The objective of this digest is to provide case studies for practice to the students to enable them to strengthen their preparation in the subject. In case students need any clarifications or have any suggestions to make for further improvement of the material contained herein, they may write to the Joint Director, Board of Studies (Academic).

All care has been taken to provide interpretations and analysis in a manner useful for the students. However, the digest has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

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PREFACE

Business decisions—whether operational or strategic − are guided by an organisation's long-term vision and objectives. Effective decisions result from integrated thinking that connects finance, strategy, compliance, ethics, taxation, and technology. In today's interconnected environment, decisions in one area often have cascading effects across multiple functions. The Integrated Business Solutions (IBS) paper at the CA Final level is structured to mirror this reality. At its core lies the Case Study− a problem-solving structure designed to develop the ability to synthesize knowledge across domains. Each case presents a business situation complete with industry context, stakeholder interests, financial data, and regulatory considerations. Students are expected to assess the situation holistically and recommend decisions that are not only compliant and ethical but also strategically sound.

Volume II includes case studies from diverse sectors such as Film, Fast Fashion, Airlines, Petrochemicals, Hotels, Online Gaming, Online Food Delivery, and Technology etc. Many of these are sculpted after real-life companies, several of which are listed and operate internationally.

The Case Studies include both Descriptive Questions and Multiple-Choice Questions (MCQs). In Descriptive Questions, emphasis is placed on higher-order thinking. Most questions are structured around verbs such as analyse, interpret, advise, recommend, and evaluate, encouraging critical thinking and decision-making. In MCQs, diverse formats are used to enhance practical exam readiness. These include multiple-correct options, most likely/appropriate options, and "not correct" type MCQs, offering deeper practice and reinforcing conceptual clarity.

Each case is supported with comprehensive solutions, often exploring multiple possible approaches and outcomes, allowing flexibility in thought and adaptability in application.

Enhanced with industry-specific visuals, conceptual diagrams, and structured layout, the Digest is designed to provide a practical, boardroom-level experience. Every case encourages students to assume the role of strategic decision-makers—such as CFOs, Finance Directors, Auditors, or CEOs − who must balance strategic goals with compliance and ethical conduct.

This volume aims to reinforce the capabilities essential to delivering integrated business solutions, aligned with the evolving role of Chartered Accountants as strategic partners in governance, performance, and sustainable value creation.

Wishing you happy reading!

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CASE STUDY 1

Dakshin Fertilizers and Petrochem Ltd.

Dakshin Fertilizers and Petrochem Ltd. (DFPL), a leading producer of industrial chemicals, crop nutrition, and mining chemicals, stands as a testament to the vision and entrepreneurial spirit of its founder, Mr. N. Venkata Ravi. Born in October 1948 in the modest village of Nungambakkam, Tirupati, Venkata Ravi displayed a natural acumen for business from an early age. At just 18, he began his career in trade, demonstrating an insatiable curiosity and a drive to build something extraordinary. In 1962-64, he established Dakshin Trading Co., a venture through which he quickly gained prominence, earning the nickname "The Chemical Architect" for his expertise and influence in the chemical market.

Sustained by the success of Dakshin Trading Co., Mr. Ravi expanded into manufacturing, promoting Dakshin Chemicals Private Limited in 1975. Under his leadership, the company achieved profitability within three years, reinforcing his reputation as a visionary in the chemicals industry. Building on this success, he founded Dakshin Fertilizers and Petrochem Ltd. (DFPL) in 1980, with an aim to meet the increasing demand for industrial and agricultural chemicals across India. Headquartered in Thiruvananthapuram, Kerala, DFPL's main manufacturing facility is in Eloor, Ernakulam, along with additional plants in Dahej (Gujarat), Hisar (Haryana), and Brahmapur (Odisha). These facilities produce specialty products that serve critical sectors of the Indian economy, including agriculture, pharmaceuticals, mining, and infrastructure. The units in Hisar and Brahmapur are currently small-scale units. The Board of DFPL decided to set up these units in order to have a pan India presence. In the coming years, DFPL plans to deepen its market presence in northern and eastern India. As and when this is achieved, the scale of production at these units will be ramped up to cater for the increased demand. The Board felt that this ramping up of capacity will be easier if there is already an existing manufacturing set up in these areas.

Venkata Ravi's long-term aspirations continue to guide DFPL's business strategy and operations. The company is committed to leadership in chemicals and agri-nutrients, underpinned by a dedication to excellence and sustainability. DFPL's vision ***to become a leader in chemicals and agri-nutrients***, reflects its emphasis on sustainable growth, aligning closely with India's rapid development in key sectors like agriculture and infrastructure. With a mission ***to manufacture and deliver sustainable chemicals and agri-nutrients***, DFPL aims to be the trusted partner for industries that drive India's growth. Through these foundational values, the company continually strives for profitable growth while remaining committed to a sustainable future, honoring Venkata Ravi's legacy of foresight, determination, and excellence.

At a recent board meeting convened to discuss the company's strategic direction, Mr. Venkata Ravi, the Chairman of DFPL, addressed the board members, sharing his insights on the challenges and opportunities faced by the company.

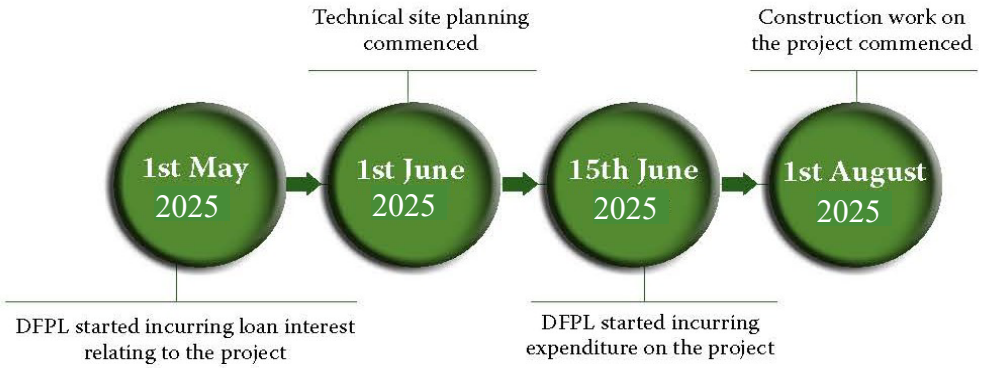
> *"The financial years 2023-24 and 2024-25 have been among the most volatile on record. All our raw material inputs saw an unprecedented hike due to global uncertainties, forcing us to raise the price of all our finished products. Fortunately, despite these price hikes to off set the increase in raw material costs, there has been no impact on the demand for our products from any of our core sectors and markets. The robust domestic demand, despite high prices, is driven by the growth of sectors that are critical to the Indian economic growth story. Our revenues have touched ₹ 12,000 crores for FY 2024-25, and profits are expected to increase by 60% compared to the previous year. The final results will soon be made available to you and our statutory auditors, FRP & Co. We can look forward to strong results and hopefully propose a good dividend payout to our shareholders.*
>
> *At the same time, volatility requires us to remain agile and resilient. Ammonia, a nitrogen and hydrogen compound, is a key ingredient and critical raw material for each of our business segments. The availability of ammonia is not a constraint, as we import it primarily from Middle Eastern countries. However, due to various factors, including global geopolitical uncertainties, the price of this commodity has fluctuated drastically, from ~ US$ 150 per MT to as much as ~ US$ 750 per MT on an FOB Middle East basis. Adding to the complexity is the challenge of transporting the raw material from Kochi Port in Ernakulam to our manufacturing facility in Eloor, on the outskirts of Ernakulam. Out of our total requirement of 1,600 Metric Tons Per Day (MTPD), we meet almost 80% of it through imports, requiring the safe movement of ~ 65,000 trucks annually to Eloor.*
>
> *Given the operational and logistical challenges, I propose setting up our own ammonia manufacturing plant with a capacity of 1,500 MTPD at Eloor, within our current manufacturing complex. Our Eloor facility already has a well-established natural gas pipeline, which is a key component in the production of ammonia. The piped ammonia from the new plant can be supplied directly to our finished goods manufacturing units within the same complex. Having our own ammonia manufacturing unit will make us more resilient and mitigate risks associated with the supply of this key raw material. Our forex savings due to import substitution could potentially reach ₹ 17,000 crores (~US$ 2.0 Bn) over the next 10 years. Direct supply to our finished products manufacturing facility will also help reduce storage, transportation, and logistics costs. Freight cost savings alone could amount to ~₹ 4,500 per ton. Our goals for creating an environmentally sustainable business will also be effectively supported by this project.*
>
> *Currently, none of our competitors have the capability to set up such a large ammonia manufacturing plant within India. Therefore, in times of supply uncertainties, volatility, and increased pressure on margins, it is prudent to commence this project as soon as possible. The initial capital expenditure (Capex) is estimated to be around ₹ 2,000 crores."*

The Board of Directors of the company, through a resolution passed at its meeting, decided to borrow an additional sum of ₹ 1,500 crores from the company's bankers by following the due procedure as per the Companies Act, 2013. These funds will be used to set up the proposed ammonia manufacturing unit. Following the Board's approval for this borrowing, DFPL approached FRP & Co., the statutory auditors, to have the prospective financial information examined. This examination will add credibility to the company's application when they approach the bankers for the additional loan.

Y & E Law Firm, a boutique legal practice based in Ernakulam, has been appointed to ensure compliance with the necessary regulatory requirements for the project. With an annual turnover of less than ₹ 1 crore, the firm has earned a strong reputation for its expertise in corporate law, regulatory compliance, and dispute resolution. Despite its modest size, Y & E is known for delivering high-quality, client- focused legal solutions, making it a trusted choice for complex assignments. The firm successfully completed the required compliances within 30 days for a consolidated fee of ₹ 10,00,000.

CA. Fiona, the proprietor of FRP & Co., is uncertain whether she can get involved in the examination of the prospective financial information to be submitted to DFPL's bankers relating to a ₹ 1,500 crore loan. She seeks the opinion of her peer Chartered Accountant, CA. T. Ramaswamy, on this matter.

The additional loan of ₹ 1,500 crores has been sanctioned by the company's bankers. Below are some key dates related to the new borrowing of ₹ 1,500 crores for the project:



At the end of August 2025, as project construction began, Mr. Ravi shifted his focus to strategic aspects within the company's existing business operations. He requested that the heads of the various manufacturing units—industrial chemicals, crop nutrition, and mining chemicals—conduct an in-depth analysis of their business performance. The goal is to identify measures that will help DFPL establish a sustainable business model. This includes evaluating whether the selling prices and costs of each product are appropriate to support long-term profitability and competitiveness.

Mr. Panchal, head of the crop nutrition business, began analyzing his unit's financial and environmental data, focusing particularly on fertilizer production. The crop nutrition unit manufactures two main types of fertilizers: Grade A and Grade B, priced at ₹ 560 and ₹ 800 per kilogram, respectively. During production, both products pass through three cost centers—CC1, CC2, and CC3.

The direct material cost per kilogram of fertilizer totals ₹ 600, divided as follows: ₹ 180 in CC1, ₹ 240 in CC2, and ₹ 180 in CC3. Additionally, direct labour costs amount to ₹ 400 per kilogram, allocated as ₹ 120 to CC1, ₹ 160 to CC2, and ₹ 120 to CC3. The cost allocation between Grade A and Grade B fertilizers varies by cost center: in CC1, 30% of costs are assigned to Grade A

and 70% to Grade B; in CC2, costs are split equally, with 50% allocated to each grade; and in CC3, the allocation mirrors CC1, with 30% to Grade A and 70% to Grade B. Additional expenses of ₹ 300 per kilogram, considered overheads, are divided equally between Grade A and Grade B.

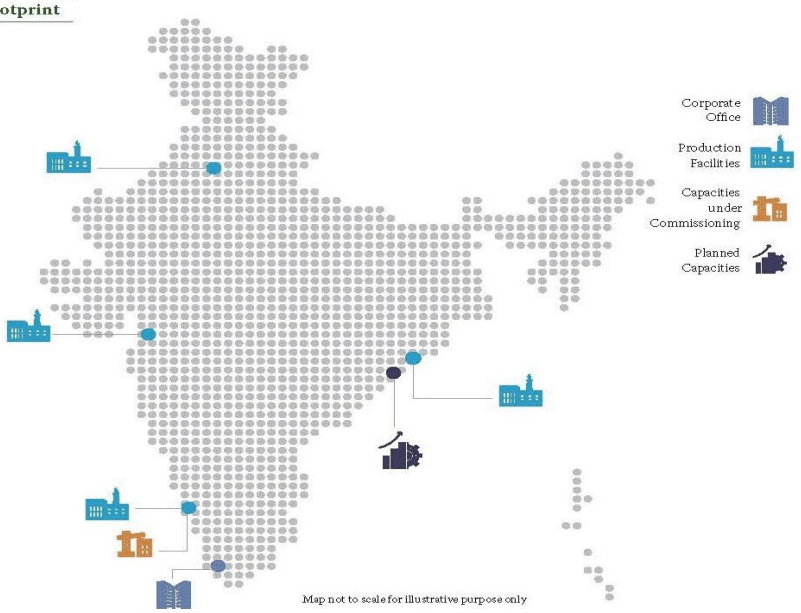
Recently, Mr Panchal encountered the concept of environmental management accounting and recognized the importance of incorporating environmental costs into pricing. Given the oligopolistic nature of the Indian fertilizer market, he saw this as a strategic advantage. His further analysis revealed that the overheads of ₹ 300 per kilogram include incinerator costs of ₹ 180 per kilogram, necessary for disposing of the solid waste generated during production. Grade A and Grade B have differing environmental impacts: Grade A produces 6 tons of waste annually (2 tons in CC1, 3 tons in CC2, and 1 ton in CC3), while Grade B generates 9 tons (2 tons in CC1, 2 tons in CC2, and 5 tons in CC3). Mr. Panchal believes it would be appropriate to adjust the incinerator cost allocation to better reflect each product's environmental impact, while the remaining overheads of ₹ 120 per kilogram will continue to be equally shared between Grade A and Grade B.

Public perception of fertilizer and petrochemical industry is that it is a major contributor to environmental pollution. This is due to the release of harmful chemicals into the environment – land, water and air. The emission of greenhouse gases is a major contributor to climate change, which has wreaked havoc globally. Mr. Ravi realizes that the future of business depends on creating a sustainable and environmentally friendly business model. Further, DFPL is a large company that supports the livelihood of roughly 5,000 employees. Mr. Ravi wants DFPL to be a good corporate citizen and has undertaken several CSR initiatives. He has requested the unit heads of the 3 units to list their division's CSR activities using which a Triple Bottom Line report will be prepared. This will be used for the upcoming call with analysts / investors next month to discuss business performance.

Mr. Panchal, the head of the crop nutrition unit, has undertaken a series of initiatives aligned with DFPL's ethical and environmental goals. Firstly, he ensured due diligence within the supply chain to confirm vendors adhere to ethical labour practices. Upon discovering instances of unethical practices, including non-payment of wages and hazardous working conditions with two vendors, he promptly terminated their services and onboarded alternate vendors. In the area of environmental responsibility, DFPL introduced a state-of-the- art technology this year to mitigate ammonia emissions, reducing them to levels significantly below regulatory requirements, despite the essential use of liquid ammonia in fertilizer production. Additionally, during the financial year 2024-25, approximately ₹ 1,600 crores—accounting for 40% of the turnover from the crop nutrition unit—was generated from environmentally friendly fertilizers (EFF), a significant increase from the previous 15-20% share. Moreover, Mr. Panchal has focused on enhancing the internal reporting mechanism to include non-financial metrics, such as innovation, brand equity, and competitor activities, thereby integrating external market considerations. He has submitted these activities to Mr. Ravi's secretary for inclusion in DFPL's Triple Bottom Line report.

Extracts from the Annual Report 2024-25
Dakshin Fertilizers and Petrochem Ltd.

Geographical Footprint



Core Product Portfolio

Crop Nutrition Business	Nitro Phosphate Fertilizer - Installed Capacity (Eloor) - 2,00,000 MT/Yr Nitrogen Phosphorous Potassium Fertilizer - Installed Capacity (Eloor) - 5,00,000 MT/Yr Nitrogen Phosphorous Potassium Fertilizer - Installed Capacity (Hisar) - 50,000 MT/Yr Nitrogen Phosphorous Potassium Fertilizer - Installed Capacity (Brahmapur) - 50,000 MT/Yr Bentonite Sulphur - Installed Capacity (Dahej) - 50,000 MT/Yr
Industrial Chemicals	Concentrated Nitric Acid - Installed Capacity (Eloor) - 2,00,000 MT/Yr Diluted Nitric Acid - Installed Capacity (Eloor and Dahej) - 1,00,000 MT/Yr Iso Propyl Alcohol - Installed Capacity (Dahej) - 50,000 MT/Yr
Mining Chemicals	Technical Ammonium Nitrate - Installed Capacity (Eloor) - 5,00,000 MT/Yr

Ammonia- Capacity Under Commissioning (Eloor) - 5,00,000 MT/ Yr
Fertilizer - Planned Capacity (Gopalpur) - 10,00,000 MT/Yr

Extracts from the Annual Report 2024-25
Dakshin Fertilizers and Petrochem Ltd.

Key Sectors of Economy Serviced

Crop Nutrition Business: Agriculture
Industrial Chemical Business: Pharmaceuticals, Paints and Coatings, Cosmetics, Steel, Explosives
Mining Chemicals (Technical Ammonium Nitrate Business): Mining, Infrastructure, Explosives

Balance Sheet

As at 31st March 2025 (All amounts in ₹ Crores unless otherwise stated)

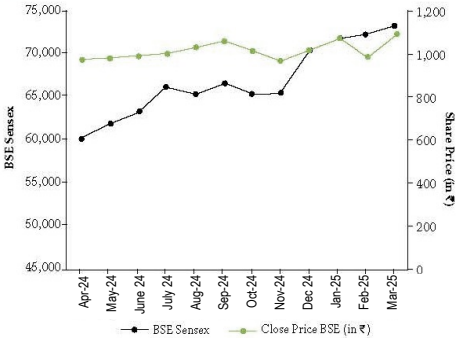
Authorized Capital	₹4,350
Paid up share capital	₹2,000
General Reserves	₹500
Debenture Redemption Reserve	₹600
Provision for Taxation	₹300
Securities Premium	₹500
Loan (Long Term)	₹2,000
Short Term Creditors	₹100

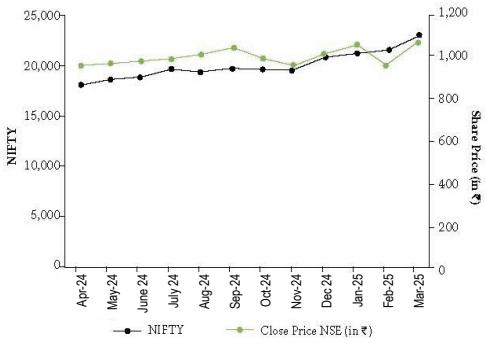
Statement of Profit and Loss

For the year ended March 31, 2025 (All amounts in ₹ Crores unless otherwise stated)

Revenue from Operations	₹11,982
Other Income	₹2,200
Cost of materials consumed	₹7,348
Remeasurement of defined benefit obligations	₹8
Cash Flow hedge	(₹701)
Deferred tax (credit)/charge	₹25

Performance of the Company's average monthly share price data in comparison to broad-based indices like BSE Sensex and Nifty in FY 2024-25





Extracts from the Annual Report 2024-25
Dakshin Fertilizers and Petrochem Ltd.

Corporate Governance

Philosophy on Corporate Governance

Effective corporate governance practices form the strong foundation on which successful commercial enterprises are built to endure. The Company's philosophy on corporate governance involves overseeing business strategies while ensuring fiscal accountability, ethical corporate behavior, and fairness to all stakeholders, including employees, investors, customers, regulators, suppliers, and society at large. Strong leadership and effective corporate governance practices have always been hallmarks of the Company.

Board Of Directors

The composition of the Company's Board reflects a commitment to diversity and is exemplified by its balanced, independent structure. The Board includes a well-proportioned representation of Executive, Non-Executive, and Independent Directors, strengthening the Company's organizational capabilities. Each Board member has been carefully selected to provide a valuable blend of expertise, experience, oversight, and security, all aimed at enhancing the Company's overall effectiveness.

Name of Director	Profile
Venkata Ravi Chairman & Managing Director	**Mr. Venkata Ravi**, a seasoned expert in the chemical industry, has over 50 years of experience driving sustainable growth. A Science graduate from the University of Madras, he is renowned for expertise in chemical and petrochemical sectors, particularly in optimizing formulations and precise blending techniques to enhance product quality. Actively participating in national forums, he promotes best practices and policies that drive innovation, collaboration, and manufacturing excellence, positioning India's chemical industry as a global leader.
W. Prock-Schauer CEO & Executive Director	**Mr. W. Prock-Schauer** brings 16 years of results-driven experience in business development, product innovation, HR, brand equity, and external relations. An Oxford University BBA alumnus, he has led the organization as Executive Director & CEO since June 2021. Known for his strategic vision and versatility, he has implemented McKinsey's 7S framework, aligning key organizational elements to achieve excellence and sustainable growth.

 **Salil Parekh** Director – Finance	**Mr. Salil Parekh**, a Chartered Accountant and Company Secretary, has over 40 years of experience in finance, treasury, taxation, corporate restructuring, and business valuations. Joining the Company in 1999, he has held key roles and contributed significantly to its financial strategy. Appointed to the Board as Director (Finance) in September 2020, he continues to drive financial leadership with his expertise and strategic insight.
 **C. Cummins** Non-Executive Director	**Mr. C. Cummins**, an accomplished Mechanical Engineer from the Massachusetts Institute of Technology with expertise in Material Science Technology, has served as Non-Executive Director of the Company since May 22, 2023. Renowned for his strategic vision and operational acumen, he played a crucial role in commissioning the state-of- the-art Phenol plant and spearheading projects for downstream products.
 **K. Mistry** Non-Executive Director	**Mr. K. Mistry** holds a Bachelor's in Conservation Biology from the University of Delhi and a Master's in Environmental Science from Yale University. As Vice Chairman of Wesfarmers Fertilisers Limited, he drives growth in technical textiles and advanced materials. A strong ESG advocate, he leads the "Ethical Chemistry" initiative, focusing on sustainability and inclusion. With expertise in ESG and sustainable financial strategy, he has strengthened governance, improved operational efficiency with advanced IT systems, and introduced progressive policies at DFPL.
 **Ajay Bhushan**[1] Independent Director	**Mr. Ajay Bhushan**, a B.E. (Mechanical) graduate from ICT, University of Mumbai, has over 30 years of extensive experience in the chemical industry, including 18 years in leadership roles. He successfully developed the LNG business using a novel spot cargo model, later integrating service provider arrangements with spot cargoes and short-term contracts. His expertise also includes implementing hedging strategies and managing long-term supply contracts, ensuring operational efficiency and risk mitigation.
 **Meleveetil Damodaran** Independent Director	**Mr. Meleveetil Damodaran**, Senior Partner at Mehta & Mehta, has over 30 years of experience in law and corporate affairs. A practising Advocate since 1992, Solicitor since 1994, and a qualified Chartered Accountant, his expertise includes corporate law, cross-border mergers and acquisitions, foreign exchange management compliances, and customs regulations. Throughout his career, Mr. Damodaran has provided key legal counsel on strategic business transactions, significantly contributing to the success of his clients' legal, financial, and operational ventures.

 **Jeevitha Chopra** Independent Director	**Ms. Jeevitha Chopra** holds a BA in Economics and Political Science from St. Xavier's College, Mumbai University. As CEO of Z Consultants, India's premier Strategic HR consulting firm, she specializes in resolving HR issues with cultural sensitivity while incorporating global best practices. A second-generation entrepreneur, she drives business growth and leadership excellence. Ms. Chopra serves on multiple boards, chairing Nomination & Remuneration Committees and other key committees.
 **Gavan Ord**[2] Independent Director	**Mr. Gavan Ord** is a Fellow Member of the Institute of Chartered Accountants of England and Wales, with over 32 years of professional experience. He specializes in accounting, tax, and corporate advisory services for international clients. His expertise includes structuring collaborations and joint ventures, corporate restructuring, and implementing turnaround and change management strategies. Mr. Ord is also proficient in analysing the tax impact of various financial instruments, offering strategic solutions that optimize business performance and foster growth.
 **A. Bindra**[3] Independent Director	**Mr. A. Bindra** is a B.Sc. in Chemical Engineering and Master of Science in Polymer Science from the University of Texas, Austin, United States. With over three decades years of experience in the petrochemical and plastic polymers sector, Mr. Bindra has spearheaded several initiatives and practices to increase sustainability within the industry. Mr. Bindra has also served as Chairperson of the Management Committee for the Chlorine Chemistry Division of the American Chemistry Council.
 **Siva Ganesan**[4] Independent Director	**Mr. Siva Ganesan** studied Chemical Engineering at The Indian Institute of Technology (IIT), Bombay and graduated in 1973. Mr. Ganesan has a rich experience in acquisition and project implementation including planning, procurement and construction of several projects in the field of petrochemicals, caustic soda/ chlorine, polymers, fertilisers, oil refinery, organic and inorganic chemicals, cryogenic tank systems in India and Middle East region.
 **Aditi Singh**[5] Independent Director	**Ms. Aditi Singh**, aged 32, is a distinguished legal professional with an impressive academic and professional trajectory. She earned her B.A. LL.B. from Calcutta University in 2012 and later enhanced her expertise with an LL.M. from the renowned National Law School of India University, Bangalore, in 2016. With her profound legal acumen, Ms. Singh currently holds the position of Partner at Y & E Law Firm.

 **Prem Chakraborty**[6] Independent Director	**Mr. Prem Chakraborty**, aged 72, is a Postgraduate in Commerce, Company Secretary, Cost Accountant and a Law Graduate. He has vast experience in the fields of finance, banking, treasury, legal, secretarial, personnel and administration, direct and indirect taxes. He worked as the Company Secretary and Chief Law Officer of big PSUs for sixteen years.
 **Lila Poonawalla**[7] Independent Director	**Ms. Lila Poonawalla**, aged 43 years, is a practicing Cost Accountant. She is a fellow member of the Institute of Cost Accountants of India (FCMA), MBA (Finance) and fellow member of Insurance Institute of India (FIII-Life).

1. *His initial appointment as an Independent Director was for a term of 1 year and followed by a reappointment for another term of 3 years, which ended on 30th July 2025. Based on the recommendation of the nomination and remuneration committee and after taking into account the performance evaluation of his four years and considering the knowledge, acumen, expertise, experience and the substantial contribution he brings to the Board, the committee has recommended the appointment of Ajay to the Board for an additional term of 3 years. If the proposal is accepted as per applicable laws and regulations, Mr. Ajay will be 67 years of age by the completion of his third term.*

2 & 3. *In the Board meeting held on 2nd February 2025, the Board recommended the appointment of Mr. Gavan Ord and Mr. A. Bindra as Independent Directors of the company for a first term of 3 consecutive years, effective 2nd February 2025.*

4. *The Board, via Circular Resolution on 21st February 2025, recommended the appointment of Mr. Siva Ganesan as an Independent Director of the company for a first term of 3 consecutive years, w.e.f. 20th February 2025.*

5. *The Board proposes to appoint Ms. Aditi Singh as an Independent Director of the company for her first term of 3 consecutive years, w.e.f. 2nd August 2025.*

6. *Mr. Prem Chakraborty, upon completion of his first term as Independent Directors, ceased to be directors of the company, w.e.f. 21st April 2024.*

7. *Ms. Lila Poonawalla, upon completion of her first term as an Independent Director, ceased to be director of the company w.e.f. 6th July 2024.*

The Board recommends the appointment/ reappointment to the shareholders. The notice convening the 43rd AGM, to be held on 9th September 2025, sets out the details.

Remuneration Paid to Non-Executive Directors

Mr. K. Mistry, a Non-Executive Director of the Company, also provides professional consulting services under a formal contract with the Company. In his role as consultant, he offers expert guidance on matters related to Environment, Health and Safety (EHS), Plant Operations, Pollution Control, and related activities across the Company's various facilities.

For his consultancy services, the Company paid him a professional fee of ₹ 25,00,000 during the financial year 2024-25. Mr. Mistry's insights are instrumental in supporting the Company's commitment to safe, compliant, and sustainable operations.

Annexure: 1

Venkata Ravi/ Managing Director/ Dakshin Fertilizers and Petrochem Ltd. (DFPL)

From: "Managing Director" <md@dfpl.com>
Sent : 12 June 2025 19:49
To: "Salil Parekh" <salilparekh@dfpl.com>
Cc: "Venkata Ravi" <nvenkataravi@dfpl.com>
Subject: Gopalpur Proposal
Date: 12 June 2025

Dear Salil,

Gaspro India Limited (GIL) our main supplier of natural gas plans to set up a Liquified Natural Gas (LNG) receipt facility at Gopalpur port, Odisha. Our crop nutrition unit in Brahmapur already receives natural gas supplies from GIL's unit in Paradeep, Odisha. Now that GIL plans to set up its facility in Gopalpur our ability to scale up operations on the East Coast will become easier. We have made significant market penetration for our crop nutrition products in Odisha and Northern belt of Andhra Pradesh. I plan to start a bigger unit with a capacity of 10,00,000 MT/ Yr. in Gopalpur. This unit will exclusively manufacture fertilizers only. Since this will be our biggest venture in fertilizers, the new facility in Gopalpur will be created as a separate entity. It will be company that is a joint venture between DFPL and Greenspan Gmbh, a reputed fertilizer company based in Germany. Greenspan Gmbh can provide technical assistance to develop energy efficient, modern manufacturing techniques. This will enable CYPL to achieve the scale of production that is required to get the benefit of cost economies of scale. The profitability of this unit will be driven significantly by the cost efficiencies due to economies of scale that we can achieve by operating at large scale.

The Brahmapur facility will no longer be required and will be shut down. Therefore, I plan to shift some of our existing machinery from Brahmapur facility to the proposed facility at Gopalpur. The value of the second-hand machinery so transferred will be ₹ 45 crores, 15% of the total plant and machinery required at the new facility. Greenspan Gmbh also plans to transfer some of its plant and machinery to the Gopalpur facility. These machineries have the latest technology and have a larger processing capacity, much more than what we can build or buy domestically in India. However, these are also second hand machineries that was used by a subsidiary of Greenspan Gmbh within its facility at Weisbaden, Germany. The new company at Gopalpur will be importing these machineries from this German subsidiary valued at ₹ 120 crores, 40% of the total plant and machinery required at the new facility. These machineries have been used only by the German subsidiary of Greenspan Gmbh and by no other entity whether in Germany or India. In addition, we are in talks to acquire industrial land worth ₹ 100 crores at Gopalpur. The project planning has not yet been finalized; it is in the nascent stage. At the same time, I need some advice from you regarding a taxation angle.

I recall that as per the Income Tax Act, 1961, companies are eligible to claim certain "investment-linked tax incentives" for specified businesses. Please advise, from the point of view of the new company assessee, the conditions subject to which the above capital expenditures can be claimed as deductions.

Regards,
Managing Director

Annexure: 2

Auditor Investigated Following Allegations of Insider Trading, 30th June 2025

The Securities and Exchange Board of India today initiated an inquiry against CA. Fiona, the proprietor of FRP & Co., a reputed Chartered Accountants firm in Mumbai. FRP & Co. is the statutory auditor of Dakshin Fertilizers and Petrochem Ltd. (DFPL), a listed company on both BSE and NSE (BSE: 500123 | NSE: DFPL | ISIN: INE000A00123). The allegation is that CA. Fiona was privy to DFPL's plans to open an ammonia manufacturing unit within its manufacturing complex at Eloor. In March 2025, the company had even approached her services to help it avail loan facilities from its bankers. This project is of vital importance since it enables the company to build substantial agility and robustness in its operations, due to substantial cost advantages as well as an unbeatable competitive edge over its competitors. However, as soon as she became privy to this information in the month of March 2025, CA. Fiona shared this information with Mr. A. Sahu, a stockbroker who trades on both BSE and NSE. At the time of passing, this information was not available in the public domain through the company. Following this, Mr. A. Sahu had taken positions on DFPL's shares and when the share price rose in the month of May 2025, he netted a profit of approximately ₹ 3 crore on account of this trade alone. This incident came to light following an independent investigation launched by SEBI against Mr. A. Sahu, who was under the scanner for irregularities relating to insider trading deals of other companies as well. SEBI has claimed that it has evidence against CA. Fiona in the form of emails and telephonic conversations. CA. Fiona vehemently denies these charges and has decided to appeal against such charges. She is currently co-operating with the authorities in this regard.

I. Multiple Choice Questions

1. With respect to the fresh borrowing of ₹ 1,500 crore loan for the project (qualifying asset), identify the commencement date for capitalization of borrowing cost:

   (a) 1st May, 2025

   (b) 1st June, 2025

   (c) 15th June, 2025

   (d) 1st August, 2025

2. As a peer Chartered Accountant, what advise will CA. T. Ramaswamy give to CA. Fiona-

   (a) No, CA. Fiona should not accept the assignment. The Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed of professional misconduct, if he permits his name or the name of the firm to be used in connection with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast.

   (b) Yes, CA. Fiona can accept the assignment. There is no restriction contained within the Chartered Accountants Act, 1949 regarding

association of a Chartered Accountant's name with prospective financial information.

(c) Yes, CA. Fiona can accept the assignment. The Chartered Accountants Act, 1949 does not preclude a Chartered Accountant from being associated with prospective financial information. She should clearly indicate in her report, the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts. She can then vouch for the accuracy of the forecasts that will provide requisite credibility to the information.

(d) Yes, CA. Fiona can accept the assignment. The Chartered Accountants Act, 1949 does not preclude a Chartered Accountant from being associated with prospective financial information as long as she does not vouch for the accuracy of the forecasts. Moreover, she should clearly indicate in her report, the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts.

3. Setting up an in-house ammonia manufacturing plant will provide which of the following advantages to DFPL?

i. Allows DFPL to use product differentiation as a strategy since none of the company's competitors have the capability to set up such a unit within India.

ii. Manufacturing a critical raw material like ammonia builds resilience within the supply chain management system of DFPL.

iii. Allows DFPL to follow cost leadership strategy since manufacturing ammonia inhouse results in substantial forex savings in addition to operational costs like storage, transportation and logistics costs.

iv. Manufacturing a critical raw material like ammonia allows DFPL to pursue a horizontal integration strategy within its supply chain management system.

Options

(a) i, ii and iv

(b) ii and iii

(c) i, iii and iv

(d) ii, iii and iv

4. While implementing the reporting mechanism to gather information above the various non-financial considerations that Mr. Panchal wants to track in order to develop the KPI report, which of the following are potential hurdles that he faces while carrying out this exercise:

   i. The time and cost involved in gathering this information should be viable and feasible.

   ii. Non-financial considerations can at times have subjective attributes which make them difficult to measure.

   iii. Improper choice of measures can lead the management to focus attention on the wrong objectives.

   iv. Decisions based on Non-financial measures can only help in short term as in the long term it is financial considerations like profitability that matter the most.

   Options

   (a) i, ii and iii

   (b) i and iii

   (c) ii, iii and iv

   (d) ii and iv

5. With reference to the activities submitted by Mr. Panchal regarding the crop nutrition unit, Identify the classification of each activity with their respective categories in the Triple Bottom Line report.

Sr. No.	Activity	Sr. No.	Category in Triple Bottom Line report
i.	Due diligence of vendors within the supply chain to ensure compliance of ethical business labour practices	a.	Planet
ii.	Development of state of art technology to reduce emissions of ammonia negligible levels much below the regulatory requirements	b.	Not relevant
iii.	Increasing contribution of Environmentally Friendly Fertilizers (EFFs) to the total turnover of the crop nutrition unit	c.	People

iv.	Improving internal reporting mechanism to include non- financial parameters to include external market considerations like new innovations, brand equity and competitors' movements	d.	Profit

Options

(a) i – c, ii – a, iii – d, iv – b

(b) i – b, ii – c, iii – a, iv – d

(c) i – c, ii – b, iii – a, iv – d

(d) i – a, ii – d, iii – b, iv – c

6. With respect to the allegations made against CA. Fiona, you are required to select the correct option which indicates whether this is a case of insider trading or not and if it is a case of insider trading then the quantum of penalty that can be levied.

(a) It is not a case of insider trading since CA. Fiona is the statutory auditor of DFPL and is therefore cannot be considered as an insider to the company.

(b) It is not a case of insider trading since CA. Fiona did not disclose any price-sensitive information.

(c) It is a case of insider trading and therefore the penalty leviable would be not less than ₹ 10 lakh, but which may extend to ₹ 25 crore or three times the profit made out of insider trading, whichever is higher.

(d) It is a case of insider trading and therefore the penalty leviable would be not less than ₹ 25 crore or three times the profit made out of insider trading, whichever is lower.

7. Can Mr. Ajay be reappointed as an independent director for another term of 3 years?

(a) Under the Companies Act, 2013, an independent director can be appointed for a maximum period of 3 years. Mr. Ajay can be reappointed as an independent director for the remaining period of the first term, i.e., 2 years and serving this balance term construed as part of the earlier incomplete term only.

(b) Under the Companies Act, 2013, an independent director can be appointed for 2 consecutive terms – each term being 5 years (i.e. 10 years). Mr. Ajay can be reappointed as an independent director for another term of 3 years since his first two terms were of lesser period instead of 5 years as provided under the Companies Act, 2013.

(c) Under the Companies Act, 2013, an independent director can be appointed for maximum 2 consecutive terms – each term can be upto 5 years (i.e. 10 years). Mr. Ajay cannot be reappointed as an independent director since he will be 67 years of age on completion of the proposed term of 3 years. Any person reaching 65 years of age cannot be appointed as an independent director.

(d) Under the Companies Act, 2013, an independent director can be appointed for a maximum 2 consecutive terms – each term can be upto 5 years (i.e. 10 years). Mr. Ajay cannot be reappointed as an independent director since he has completed 2 consecutive terms. Appointment for a term less than 5 years is treated as one term.

8. With reference to professional fees paid to Mr. K. Mistry, which statements are correct?

i. The services rendered are of a professional nature.

ii. The Director possesses the requisite qualification for the practice of the profession.

iii. Since the transaction does not involve an amount exceeding one crores rupees, the prior approval of audit committee is not necessary.

iv. Approval of the audit committee is necessary.

v. Only those members of the audit committee who are independent directors shall approve related party transactions.

Options

(a) i, ii

(b) i, ii, iii

(c) ii, iii, iv

(d) i, ii, iv, v

9. Mr. A. Damodaran, a shareholder of the company, issued a formal letter to the Nomination and Remuneration Committee, raising objections to the appointment of Ms. Aditi Singh as an Independent Director. He contended that Ms. Aditi's association with Y & E Law Firm, which is engaged by the company, potentially disqualifies her from being appointed as an independent director under the Companies Act, 2013. The Committee must now evaluate whether Ms. Aditi's appointment meets the statutory criteria for independence.

Can Ms. Aditi's appointment as an Independent Director be considered valid?

(a) Yes, her appointment as an independent director is valid as she is a partner of the Y & E providing services to the company in the normal course of business.

(b) No, her appointment is invalid as an independent director because the receipts of the Y & E exceed 10% of its gross turnover.

(c) No, her appointment is invalid as she cannot be appointed as an independent director due to her position as a partner in the Y & E.

(d) Yes, her appointment is valid as an independent director because the receipts of the Y & E are less than 10% of its gross turnover.

II. Descriptive Questions

10. (i) Using original cost allocation methodology, CALCULATE product profitability per kg for each grade as also profitability % of selling price per kg.

(ii) Using activity-based costing methodology, CALCULATE product profitability per kg for each grade as also profitability % of selling price per kg.

(iii) ANALYSE the impact on product profitability using original cost allocation methodology versus activity- based costing methodology.

(iv) JUSTIFY if Mr. Panchal's opinion that it would be appropriate to revise the incinerator cost allocation since each product has a different impact on the environment is correct or incorrect as the case may be.

11. ADVISE the Board of Directors regarding the procedure to be followed under the Company's Act, 2013 in respect of borrowing of ₹ 1,500 crores from the company's bankers.

12. ANALYSE the market's valuation of DFPL's business based on an expected dividend per share of ₹ 55, an annual growth rate of 5%, and a required rate of return of 10%. What conclusions can be drawn regarding the market's assessment of DFPL's value?

13. ADVISE Mr. Venkata Ravi regarding conditions subject to which the specified capital expenditures mentioned in the email, can be claimed as deductions under "investment linked tax incentives" by the proposed joint venture company to be set up at Gopalpur, Odisha.

ANSWERS TO THE CASE STUDY 1

I. Answers to the Multiple Choice Questions

1. (c) 15th June 2025.

Reason:

As per para 17 of Ind AS 23, Borrowing costs, the capitalization of borrowing cost on qualifying asset starts when all the three conditions are met i.e. expenditures are incurred for acquiring or constructing the qualifying asset, borrowing costs are incurred on those qualifying asset, and the activities necessary to prepare the qualifying asset for its intended use or sale are undertaken.

On 15th June 2025, all three conditions necessary for capitalisation of cost are satisfied:

(i) Incurring of borrowing cost commenced from 1st May 2025

(ii) Activities necessary to prepare qualifying asset for its intended use began from 1st June 2025

(iii) Expenditure began to be incurred on the qualifying asset from 15th June 2025.

Hence, on 15th June, 2025, all the three conditions prescribed in Ind AS 23 for commencement of capitalization of borrowing cost are met. Hence, the commencement date would be 15th June, 2025.

2. (d) Yes, CA. Fiona can accept the assignment. The Chartered Accountants Act, 1949 does not preclude a Chartered Accountant from being associated with prospective financial information as long as he does not vouch for the accuracy of the forecasts. Moreover, she should clearly indicate in her report, the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts.

Reason:

Clause 3 of the Second Schedule to the Chartered Accountants Act, 1949 states that that a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon

future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast.

The above clause does not preclude a Chartered accountant from associating his name with prospective financial statements. A chartered accountant can participate in the preparation of profit or financial forecasts and can review them, provided he indicates clearly in his report the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts and so long as he does not vouch for the accuracy of the forecasts.

3. (b) ii and iii.

Reason:

In house manufacture of ammonia mitigates risks and external uncertainties within the supply chain. This makes the supply chain system robust and resilient to any external supply shock. Manufacturing ammonia also allows DFPL to realize substantial cost savings by reducing forex outgo as well as making operations more efficient resulting in savings in operational costs like storage, transportation and logistics costs.

Statement i is incorrect as in-house manufacturing ammonia assists DFPL in pursuing a cost leadership strategy since it results in substantial cost savings. It does not help in differentiating DFPL's products with that of its rivals.

Statement iv is incorrect since in house manufacturing of a critical raw material like ammonia would be an example of backward vertical integration rather than a horizontal integration within the supply chain.

4. (a) i, ii and iii.

Reason:

Statements i, ii and iii are the potential hurdles that Mr. Panchal can face while carrying out this exercise. Statement iv is incorrect. Typically, decisions based on non-financial measures have a long-term focus. Rather this ensures the long-term profitability and business sustainability of an organization.

5. **(a)** i – c, ii – a, iii – d, iv – b.

Reason:

(i) Due diligence of vendors within the supply chain to ensure compliance of ethical business labour practices – People

(ii) Development of state of art technology to reduce emissions of ammonia to negligible levels much below the regulatory requirements – Planet

(iii) Increasing contribution of Environmentally Friendly Fertilizers (EFFs) to the total turnover of the crop nutrition unit - Profit

(iv) Improving internal reporting mechanism to include non-financial parameters to include external market considerations like new innovations, brand equity and competitors' movements – Not relevant

6. **(c)** It is a case of insider trading and therefore the penalty leviable would be not less than ₹ 10 lacs, but which may extend to ₹ 25 crore or three times the profit made out of insider trading, whichever is higher.

Reason:

Section 15G of the SEBI Act, 1992. Information passed on by CA. Fiona to Mr. A. Sahu regarding the expansion of DFPL to build its own ammonia manufacturing plant, a critical raw material for its operations, will be considered as unpublished price sensitive information and CA. Fiona will be considered as insider as per Regulation 2(1)(g) of SEBI (PIT) Regulations, 2015.

7. **(d)** Under the Companies Act, 2013, an independent director can be appointed for a maximum of 2 consecutive terms – each term can be upto 5 years (i.e. 10 years). Mr. Ajay cannot be reappointed as an independent director since he has completed 2 consecutive terms. **Appointment for a term less than 5 years is treated as one term.**

Reason:

MCA has clarified that an independent director can be appointed for a term of less than 5 years. However, any appointment whether of 5 or less than 5 years will be regarded as 'one term'. Section 149 (11) of the Companies Act, 2013 clearly stipulates that no person can hold office as an independent director for more than 'two consecutive terms'. Thus,

irrespective of the duration of each of the two terms (whether the same aggregates to 10 years or less) a person holding office for two consecutive terms shall be eligible for re-appointment only after the expiry of three years of ceasing to become an independent director.

8. (d) i, ii, iv, v.

Reason:

Under **Section 197** of the **Companies Act, 2013**, a company is allowed to pay remuneration to its **Non-Executive Directors (NEDs)** for services rendered if:

(a) The services provided are of a **professional nature** and

(b) The **Nomination and Remuneration Committee** determines that the Director possesses the **necessary qualifications** to practice the profession.

Thus, statements i and ii appear to be correct, as the professional nature of the services and the qualification of the Director are prerequisites for such payments which is also justified by his profile.

Additionally, all Related Party Transactions (RPTs) and any material modifications require prior approval of the Audit Committee of the listed entity, as specified under Regulation 23(2) of the SEBI (LODR) Regulations, 2015. Only those members of the Audit Committee who are independent directors are permitted to approve such transactions.

Thus, statements iv and v are also correct, as **Audit Committee approval** is required, and the approval must come from independent directors. However, statement iii is incorrect. Even if the transaction does not exceed one crore rupees, it still qualifies as a Related Party Transaction and, therefore, requires **Audit Committee approval**, regardless of the amount involved.

In summary, the company's transaction is conducted in the **ordinary course of business** and on an **arm's length basis**, which eliminates the need for **Board approval under Section 188**. However, all related party transactions must be approved by the **Audit Committee** as per the regulations, making Option (d) the correct choice.

9. (b) No, her appointment is invalid as an independent director because the receipts of the Y & E exceed 10% of its gross turnover.

Reason:

According to Section 149(6) of the Companies Act, 2013, in relation to a company, an independent director means a director (other than a managing director or a whole-time director or a nominee director), and who neither himself nor any of his relatives is or has been an employee or proprietor or a partner, in any of the 3 financial years immediately preceding the financial year in which he is proposed to be appointed, of—

- a firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or
- any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to 10% or more of the gross turnover of such firm.

Ms. Aditi is a partner in Y & E Law Firm, which has an annual turnover of less than ₹ 1 crore. However, the fee of ₹ 10,00,000 received from the company represents more than 10% of the firm's gross turnover. As a result, her appointment as an independent director is invalid because the law prohibits such appointments if the transaction exceeds the specified threshold of 10%.

II. Answers to the Descriptive Questions

10. (i) Calculation of profitability as per Original cost allocation methodology

(Figures in ₹ per kilogram of fertilizer produced)

Particulars	Grade A	Grade B	Total
Selling Price	560	800	1,360
Direct Material	228	372	600
Direct Labour	152	248	400
Overheads (allocated equally)	150	150	300
Total Expenses	530	770	1,300
Profit	30	30	60
Profitability	5.36%	3.75%	

Allocation of Direct Materials and Labour as per cost center and product using original cost allocation methodology

Particulars	CC1			CC2			CC3		
	Grade A	Grade B	CC Total	Grade A	Grade B	CC Total	Grade A	Grade B	CC Total
Material	54	126	180	120	120	240	54	126	180
Labour	36	84	120	80	80	160	36	84	120

Total for the company

Particulars	Grade A	Grade B	Grand Total
Material	228	372	600
Labour	152	248	400

Using the original cost allocation methodology, profit earned per kg of Grade A and Grade B fertilizer is ₹ 30 per kg each. However, the profitability as a % of selling price per kg works out Grade A: 5.36% and Grade B: 3.75%.

(ii) Calculation of product profitability using activity- based costing methodology

(Figures in ₹ per kilogram of fertilizer produced)

Particulars	Grade A	Grade B	Total
Selling Price	560	800	1,360
Direct Material	228	372	600
Direct Labour	152	248	400
Overheads	132	168	300
Total Expenses	512	788	1,300
Profit	48	12	60
Profitability	8.57%	1.50%	

Allocation of Overhead Expenses to each cost centre and product

Waste produced (in tonnes per annum)

Particulars	CC1	CC2	CC3	Total
Grade A	2	3	1	6
Grade B	2	2	5	9
Total Waste (in tonnes)	4	5	6	15
Incinerator Cost allocated to cost centres (based on waste generated)	48	60	72	180
Other Overhead Expenses	40	40	40	120
Total Cost Centre wise Overhead Cost	88	100	112	300

Part A: Allocation of Incinerator Cost (based on waste produced at each cost centre)

Particulars	CC1	CC2	CC3	Total
Grade A	24	36	12	72
Grade B	24	24	60	108
Total Incinerator Cost	48	60	72	180

Part B: Allocation of Other Overhead Cost (allocated equally to each product)

Particulars	CC1	CC2	CC3	Total
Grade A	20	20	20	60
Grade B	20	20	20	60
Total Other Overhead Cost	40	40	40	120

Part C: Total Overhead Cost

Particulars	CC1	CC2	CC3	Total
Grade A	44	56	32	132
Grade B	44	44	80	168
Total Overhead Cost	88	100	112	300

Using the activity-based cost allocation methodology, profit earned per kg of Grade A and Grade B fertilizer is ₹ 48 per kg and ₹ 12 per kg respectively. The profitability as a % of selling price per kg works out Grade A: 8.57% and Grade B: 1.50%.

(iii) Activity based cost allocation methodology allocates the incinerator cost on a more logical basis rather than an ad-hoc distribution as per the original cost allocation method. It can be seen from Table, that out of the 15 tons of annual total waste generated, Grade A generates 6 tons annually, whereas Grade B

generates 9 tons annually. Hence, it would be appropriate to allocate the incinerator cost more to Grade B since it generates more waste. This is done under the activity-based cost allocation method.

Accordingly, the profitability of Grade A increases from ₹ 30 per kg as per original cost allocation method to ₹ 48 per kg as per the activity-based cost allocation methodology. This is an increase of ₹ 18 per kg. At the same time, the profitability of Grade B fertilizer drops by ₹ 18 per kg when the allocation method is changed from original cost allocation method (₹ 30 per kg) to activity-based-cost allocation method (₹ 12 per kg). The summary of impact on product profitability on account of *change* in method can be summarized as:

Product	Profit in ₹ per kg of fertilizer produced		Profit %	
	Original method	ABC as per EMA method	Original method	ABC as per EMA method
Grade A	30	48	5.36%	8.57%
Grade B	30	12	3.75%	1.50%

By allocating the incinerator cost on a more appropriate basis, DFPL could arrive at a more accurate profitability for each product.

(iv) In the given case, Mr. Panchal's opinion that it would be appropriate to revise the incinerator cost allocation since each product has a different impact on the environment is correct. The benefits of using such an activity-based-costing methodology over the traditional cost allocation method is that:

(a) The company was able to conclude that Grade B product generated more waste than Grade A product resulting in more accurate product costing.

(b) Based on the activity cost allocation methodology, subject to prevailing market conditions, company can increase the market price of Grade B fertilizer by 18 per kg fertilizer, to recoup the extra overhead cost allocation. If found unviable the company can even, consider phasing out production of Grade B.

(c) The company can explore the possibility of adopting more sustainable manufacturing processes that reduces waste generated, this would increase its overall profitability.

(d) In addition to the above benefits, adopting activity-based costing methodology makes the company environmentally friendly by highlighting the need to reduce its carbon footprint.

11. As per Section 180(1)(c) of the Company's Act, 2013, the Board of Directors without obtaining the approval of the shareholders in a general meeting through special resolution, can borrow funds including funds already borrowed upto an amount which does not exceed the aggregate of the paid- up share capital, free reserves and securities premium. Such borrowing shall not include temporary loans obtained from the company's bankers in the ordinary course of business. Free reserves do not include reserves set apart for specific purposes.

According to the above provisions, the Board of Directors of DFPL can borrow, without obtaining the approval of the shareholders in a general meeting, upto the amount calculated as below:

Particulars	**(In crores)**
Paid up share capital	₹ 2,000
General Reserves (being free reserve)	₹ 500
Debenture Redemption Reserve (not considered as this is a specific reserve kept apart for specific purpose of debenture redemption)	-
Provision for Taxation (not considered as this is a specific reserve kept apart for taxation)	-
Securities Premium	₹ 500
Aggregate of paid-up share capital, free reserves and securities premium	₹ 3,000
Total borrowing power of the Board of Directors (100% of aggregate paid-up share capital, free reserves and securities premium) – from step above	₹ 3,000
Less: Amount already borrowed	
Long Term Loan	₹ 2,000
Short term creditors (not considered as it is a temporary financing arrangement in the ordinary course of business)	-
Amount that the Board of Directors can borrow without the approval of shareholders in a general meeting	**₹ 1,000**

In the present case, the directors of DFPL by a resolution passed at its meeting have decided to borrow an additional sum of ₹ 1,500 crores. Apparently, the proposed borrowing will be beyond the powers of the Board of Directors.

The management of DFPL therefore should take steps to convene the general meeting and pass a special resolution by the members in the meeting as stated in Section 180 (1)(c) of the Companies Act, 2013. Then only, the proposed borrowing of ₹ 1,500 crores will be valid and binding on the company and its members.

12. DFPL has an expected dividend per share of ₹ 55, growing at an annual rate of 5%, with a required rate of return of 10%.

Using the Gordon Growth Model ($P = D_1 / (r - g)$), the estimated intrinsic value of DFPL's stock is calculated as follows:

$P = D_1 / (r - g) = 55/ 10\% - 5\% = ₹1,100$

This intrinsic value of ₹1,100 aligns with DFPL's actual market price in March 2025, as shown in the chart extracted from the annual report. DFPL's share price trends around ₹ 1,100 in March 2025, which is consistent with its calculated intrinsic value.

This suggests that the market perceives DFPL's growth prospects being fairly represented in its current valuation. The required rate of return (10%) and expected dividend growth rate (5%) are viewed as appropriate reflections of DFPL's value. This implies that investors see DFPL's future earnings and growth potential as stable, supporting the current market price.

13. Section 35AD of the Income-tax Act, 1961 provides for investment linked tax incentives. It allows for 100% deduction of the capital expenditure incurred during the previous year, wholly and exclusively for setting up specified business, of which fertilizer producers is one of them. However, expenditure incurred on acquisition of any land, goodwill or financial instrument would not be eligible for deduction.

The new company that is a joint venture at Gopalpur port, Odisha will exclusively produce fertilizers. Hence, capital expenditures subject to certain conditions can be claimed as deduction under section 35AD. However, expenditure of ₹ 100 crore towards acquisition of land at Gopalpur cannot be claimed as deduction under section 35AD.

One of the conditions subject to which deduction can be allowed under this section is regarding transfer of previously used plant or machinery.

The new joint venture should not be set up by the transfer of machinery or plant previously used for any purpose. In order to satisfy this condition, the total value of plant or machinery so transferred should not exceed 20% of the total plant or machinery used in the specified business.

For the purpose of this condition, machinery or plant will not be considered as previously used if it had been used outside India by any other person other than the assessee provided the following conditions are satisfied:

(a) such plant or machinery was not used in India at any time prior to the date of its installation by the assessee

(b) the plant or machinery was imported to India from a foreign country

(c) no deduction in respect of depreciation of such plant or machinery has been allowed to any person at any time prior to the date of installation by the assessee

Working back, the estimated total investment in plant and machinery works out to be ₹ 300 crores (₹ 120 crores/40%).

Given that machinery currently being used by the Brahmapur unit of DFPL will be transferred to this new company proposed in Gopalpur. Valued at ₹ 45 crores, it will comprise of 15% of the total plant and machinery required at the new facility. In addition, certain machinery will be imported from the subsidiary of Greenspan Gmbh, Weisbaden, Germany. Valued at ₹ 120 crores, it will comprise 40% of the total plant and machinery required at the new facility. Hence, the total machinery that the proposed unit will have, which have been previously used for other purpose will be 55% of its total plant and machinery. However, the imported machinery from the German subsidiary of Greenspan Gmbh has not been used in India at any time prior to the date of its installation by the assessee. Also being thus far solely owned by the subsidiary in Germany, it can be concluded that no deduction in respect of depreciation of such plant or machinery has been allowed to any person at any time prior to the date of installation by the assessee. Hence, if these conditions hold until the date of actual installation of these imported machinery at the Gopalpur facility, they will not be treated as being previously used for any other purpose. Consequently, it is only the transfer of machinery valued at ₹ 45 crores, from Brahmapur unit of DFPL to the new company that comprises of 15% of the total plant or machinery that will be considered as previously used for other purpose. This is within the overall limit of 20% of such machinery as restricted by section 35AD.

Please note that details of other capital expenditures, for the rest of the plant and machinery worth ₹135 crores, will be required to be considered eligible for "investment linked tax incentives" under Section 35AD

Hence, based on the information provided, the new company can currently claim these capital expenditures of ₹ 165 crores for machinery as "investment linked tax incentives" and can claim deduction under Section 35AD.

CASE STUDY 2

Crop Yield Private Limited

Dakshin Fertilizers and Petrochem Ltd. (DFPL) is a reputed company manufacturing industrial chemicals, crop nutrition and mining chemicals. Headquartered in Thiruvananthapuram, Kerala, DFPL's main manufacturing facility is in Eloor, Ernakulam, along with additional plants in Dahej (Gujarat), Hisar (Haryana), and Brahmapur (Odisha). These facilities produce specialty products that serve critical sectors of the Indian economy, including agriculture, pharmaceuticals, mining, and infrastructure. The units in Hisar and Brahmapur are currently small-scale units. The Board of DFPL decided to set up these units in order to have a pan India presence. In the coming years, DFPL plans to deepen its market presence in northern and eastern India. As and when this is achieved, the scale of production at these units will be ramped up to cater for the increased demand. The Board felt that this ramping up of capacity will be easier if there is already an existing manufacturing set up in these areas.

Setting up new manufacturing facility at Gopalpur and closure of Brahmapur facility

DFPL has established a strong foothold in the crop nutrition market, including fertilizers, with significant penetration in Odisha and the northern belt of Andhra Pradesh. To capitalize on rising demand in these markets, the company is poised to expand its production capacity, paving the way for increased market presence.

The fertilizer industry operates under stringent regulations and is supported by government subsidies aimed at ensuring affordability for farmers. In such a regulated environment, achieving cost efficiencies is crucial for enhancing profitability. As a capital-intensive sector, the fertilizer industry depends heavily on economies of scale, which play a vital role in driving these efficiencies.

To meet its expansion goals, DFPL plans to set up a new manufacturing unit exclusively for fertilizer production, with a planned capacity of 10,00,000 MT per year. The facility will produce both urea-based and non-urea-based fertilizers, requiring a substantial and consistent supply of natural gas—a key raw material in fertilizer manufacturing.

Currently, Gaspro India Limited (GIL), through its Paradip unit, is the primary supplier of natural gas to DFPL's Brahmapur facility. However, the Brahmapur unit operates on a modest scale, making it a smaller customer for GIL. Recently, GIL has commissioned a larger Liquefied Natural Gas (LNG) facility at Gopalpur, Odisha, which has the capacity to meet the significant natural gas demands of DFPL's proposed fertilizer unit.

Leveraging its strong business relationship with GIL and the cost benefits achievable through economies of scale, DFPL's Board of Directors has decided to establish the new

fertilizer manufacturing unit in Gopalpur, Odisha. GIL's management has also shown interest in the initiative, as it represents a significant growth opportunity for their business.

A new company, Crop Yield Private Limited (CYPL), will be established as a joint venture between DFPL and Greenspan GmbH, a globally reputed fertilizer company headquartered in Germany. Greenspan GmbH is widely recognized for its advanced fertilizer technologies and energy-efficient manufacturing processes. This collaboration brings together DFPL's deep understanding of the southern Indian market and its growing presence in the eastern market through the Brahmapur unit, making CYPL, DFPL's largest initiative in the fertilizer sector. For Greenspan GmbH, this venture marks its entry into the Indian market, an important step in its global expansion.

Greenspan GmbH will provide technical assistance to CYPL, facilitating the adoption of modern, energy-efficient manufacturing techniques. Additionally, its subsidiary owns state-of-the-art machinery with cutting-edge technology and superior processing capacity—far beyond what DFPL could independently build or acquire within India. This machinery, valued at ₹ 120 crores, will account for approximately 40% of the total plant and equipment requirements for CYPL's new facility. By leveraging this advanced technology, CYPL aims to achieve the production scale necessary to capitalize on cost efficiencies through economies of scale.

Negotiations and project planning are currently at an advanced stage. Recognizing DFPL's limited experience in negotiating joint venture agreements, both parties have engaged Pro International (PI), a leading consulting firm, to assist in finalizing the agreement. PI's responsibilities include guiding the joint venture's legal and regulatory compliance, facilitating the establishment of the manufacturing facility at Gopalpur, and providing management consulting services to ensure smooth operations and strategic alignment.

Mission of CYPL: ***"Be a good corporate citizen assisting to Indian farmers to improve their yield, while also generating wealth for our shareholders by following environment and social friendly business practices."***

Vision of CYPL: ***"Be the most preferred supplier of fertilizers in India."***

By September 2025, the company had already purchased land worth ₹ 100 crores in Gopalpur. During this time, negotiations for a multi-year purchase agreement between CYPL and Gaspro India Limited for the supply of natural gas commenced. Other raw materials required for production are readily available in adequate quantities in the open market. CYPL's management plans to initiate discussions with the suppliers of these materials after operations begin, as the immediate priority is securing natural gas on favorable terms and conditions.

CYPL has also procured plant and machinery for the unit, which require constant maintenance. To address this, the company has entered into short-term contracts, lasting less than a year, for factory consumables, primarily tools and other maintenance equipment. These consumables are supplied by small enterprises located in the industrial area of Gopalpur. Since full-fledged operations have not yet begun as of 2025, CYPL is just one of many customers served by these suppliers.

DFPL's facility in Brahmapur will be shut down following the establishment of the new facility in Gopalpur. Workers have been given the option to either relocate to Gopalpur to continue their employment or accept one month's severance pay and exit the company.

Concerned by the developments detailed in mail communication, DFPL's Chairman, Mr. Venkata Ravi, and Greenspan GmbH's Managing Director, Mr. Gerhard Braun, have approached Mr. Jeevan Sampath, a partner at the consulting firm Pro International (PI). The following is an excerpt from their meeting:

"Jeevan, we are worried about the public resistance to our proposed facility at Gopalpur. If we are required to shift the facilities as farther away as 600 kilometers from Gopalpur, the entire venture will become unviable. Moreover, we would not want our international brand image tarnished by any controversy. At the same time, we are keen to enter the Indian market. DFPL is a partner we trust and would like to leverage their experience to begin our venture in the Indian market. Our shareholders primarily consist of large financial institutions, they have shown keen interest in our entry into the Indian market due to the potential business opportunity that the market offers. Hence, we would like to maintain their perception of these developments on a positive note. They have the power to overturn our decision if the project is found to be unviable. It is also important to note that government authorities in Germany would not hesitate to take legal action if we are found engaging in practices that compromise public or environmental safety at any of our facilities worldwide." ***– Mr. Gerhard Braun***

"Thank you, Gerhard, for your continued confidence in us. Jeevan, I share Gerhard's concerns and agree that we must address this issue promptly to prevent a potential public relations crisis. Both Gerhard and I want to assure you of our unwavering commitment to implementing best practices to safeguard public health and environmental safety. While unforeseen events, such as a pipeline leak, are always a possibility, we are prepared to take all necessary measures to minimize these risks and their impact.

Although government authorities have been cooperative in granting us the license for CYPL, the laws regarding social justice, public health, and environmental protection are highly stringent, leaving little room for error.

DFPL's shareholders are aware of these developments, but there has been no dissenting voice yet. This may be because our shareholding pattern is largely fragmented, with most shareholders individually holding less than 2% of the total share value. They do not actively participate in every decision made by DFPL. However, during our latest earnings calls, shareholders expressed keen interest in the Gopalpur facility, expecting it to unlock significant value and generate considerable wealth. There were also inquiries about the public resistance to the project reported in the media.

Meanwhile, the workers' union in Brahmapur is demanding a higher compensation package for the relocation of workers from Brahmapur to Gopalpur. CYPL can benefit from the experience and skills of these 112 workers, but meeting their demands will set a precedent. If we offer this package, we will need to extend a similar one to newly hired workers from the external market, significantly increasing operational costs.

I am also aware that union heads at our other facilities are closely watching these developments. Currently, there is no collaboration between the unions at different locations, but mishandling these demands could sow discontent across all unions, leading to a company- wide crisis. This would be disastrous for both our operations and our domestic reputation.

Please guide us on how to manage these developments effectively." ***– Mr. Venkata Ravi***

"In situations like these, it is first important to assess the power and interest of each stakeholder in influencing the issue. This assessment will help us determine the best way to communicate with each category of stakeholder. Please allow me a few days to evaluate the situation before I can guide you on the next steps forward." ***– Mr. Jeevan Sampath***

After several rounds of careful negotiations, an amicable settlement was reached between the management and the displaced workers at Brahmapur. Consequently, DFPL's facility in Brahmapur was officially closed on December 31, 2025. Production at CYPL's Gopalpur facility commenced on January 1, 2026. Additionally, the issues related to public resistance to the establishment and operation of CYPL in Gopalpur were fully resolved by January 31, 2026.

Indirect tax matters for CYPL

Mr. Lalit Shah, the newly appointed finance head of CYPL, joined the company on April 1, 2026. A fresh commerce postgraduate with strong academic credentials but no prior experience in tax matters, Mr. Shah has been entrusted with preparing CYPL's GST return. Recognizing his limited experience in this area, he has identified the need for expert guidance to ensure accurate and compliant filing.

Earlier in the week, Mr. Ramakant Bhushan, Managing Director of CYPL, also directed Mr. Shah to investigate potential recovery claims from Paradip Port Trust regarding a shipment of potash pilfered in June 2026. This incident has raised concerns about potential financial losses and recovery options.

While reviewing the GST return for the period ending June 30, 2026, Mr. Shah uncovered a significant issue related to the GST structure for CYPL's operations. Fertilizers, the company's end product, are taxed at a concessional rate of 5% GST. However, key inputs like ammonia, used in the production of P&K fertilizers, and packaging materials attract an 18% GST rate. He realizes that this structure could lead to higher working capital requirements and a significant accumulation of input tax credits (ITC), potentially straining the company's cash flow. Recognizing the impact, Mr. Shah is eager to explore the possibility of claiming refunds for unutilized ITC under GST regulations, aiming to optimize CYPL's tax position and ensure financial stability.

To handle these complex matters, Mr. Shah, after consulting with Mr. Bhushan, reached out to CA. Shrihari for professional advice. In his email, he requested comprehensive guidance on several matters.

Gas Leak in pipeline of Gaspro India Limited



Gaspro India Limited (GIL) is a well-established supplier of natural gas to various industrial and commercial companies. It recently set up its Liquefied Natural Gas (LNG) facility in Gopalpur, Odisha, from which it supplies natural gas to customers via a pipeline network spanning nearly 1,000 kilometers across Odisha and Andhra Pradesh. In January 2026, CYPL and GIL, Gopalpur, entered into a 5-year long- term contract for the supply of natural gas, covering the period from January 2026 to January 2031. Given the large scale of CYPL's operations, it became one of GIL's largest customers.

On September 30, 2026, a massive fire broke out following a gas leak that led to an explosion in GIL's underground natural gas pipeline at Arjyapalli, Odisha. The incident tragically claimed the lives of 15 people and caused significant property damage. As a result, GIL was forced to halt the supply of natural gas through its pipelines in Odisha to all customers for an extended period until the safety of operations could be fully ensured. This time was necessary for GIL's technical team to repair the pipelines and conduct safety tests across the entire pipeline network originating from its LNG facility in the region.

The suspension of natural gas supply caused major disruptions for all of GIL's customers, who relied heavily on gas for their production needs. CYPL also suffered significant losses due to the sudden stoppage of the gas supply from GIL. Despite the critical business need for natural gas, the extraordinary nature of the accident made it impossible to predict when GIL would be able to resume its supply. Consequently, CYPL canceled its long-term contract with GIL.

To maintain minimal operations, in October 2026, Mr. Ramakant Bhushan, Managing Director of CYPL, approached Natural Gas Suppliers Limited (NGSL)—a competitor of GIL—for the procurement of natural gas. NGSL, with facilities in Paradip, Odisha, agreed to supply natural gas to CYPL.

To secure a stable procurement price, CYPL entered into a 5-year fixed-price contract with NGSL, spanning from October 2026 to September 2031. Compared to GIL, NGSL's production capability was significantly smaller, and the volume of gas NGSL could supply to meet CYPL's demands was much lower. Additionally, since the Gopalpur region is still developing as an industrial hub, there were no other alternative suppliers willing to deliver natural gas to CYPL's Gopalpur facility. Therefore, NGSL became CYPL's sole supplier from October 2026 onward.

Since CYPL is currently operating at a minimal scale of production, it has lost the cost efficiencies it could generate from economies of scale. Most of its cost structure consists of fixed costs that must be incurred regardless of the actual scale of production. CYPL had to bear fixed expenses such as loan repayments, rent, and regular minimum maintenance of production facilities, despite operating at minimal capacity. This increased the per-unit cost of production for CYPL. However, due to regulatory constraints governed by the government's subsidy mechanism and market competition, the company could not pass on the increased cost of production to customers. As a result, CYPL sold its fertilizers at a loss, further straining its financial position.

Uncertainty regarding "Going Concern" of CYPL

In April 2027, CYPL's management is in the process of finalizing the financial statements for the fiscal year 2026-27. The prolonged aftermath of the GIL pipeline explosion has left the company in a precarious position, with no clear timeline for GIL's resumption of natural gas supplies to Gopalpur. The company has been compelled to scale down operations to the bare minimum, which has resulted in the loss of a substantial number of customers and severely impacted its revenue generation capabilities. Dis-economies of scale took away cost efficiencies that were originally expected to be garnered from such a large venture.

Cash flow has turned negative due to limited inflows, while outflows continue for fixed costs such as interest payments, staff salaries, rentals, plant maintenance and upkeep among other costs. This financial strain has raised serious concerns about the joint venture between DFPL and Greenspan GmbH, which is becoming increasingly economically unviable. CYPL's management, led by Mr. Ramakant Bhushan, is uncertain about the company's ability to continue operations in the near future. The management has decided to disclose the uncertainty regarding the company's "Going Concern" status in the notes to the financial statements, signaling a potential risk to the company's continued operations as well as the management's plans to deal with these conditions.

In light of this situation, CA. Bharat Chowdhary was appointed as the statutory auditor for the financial years 2025-26 and 2026-27. The management informed him of the adverse business conditions and potential "going concern" issues. Recognizing the gravity of the situation, the auditor noted the company's financial instability. On June 15, 2027, CA. Bharat Chowdhary issued his audit report for financial year 2026-27.

In August 2027, under the leadership of Mr. Ramakant Bhushan, CYPL established a recovery committee comprising key management personnel from operations, finance, human resources, and marketing, along with DFPL's executive directors and representatives from Greenspan GmbH. To strengthen the committee's approach, Mr. Bhushan invited Mr. Jeevan Sampath from Pro International, the consulting firm that played a pivotal role in establishing CYPL at Gopalpur. Mr. Sampath's external perspective brought valuable insights into the company's recovery strategies. The discussion concluded with a consensus to formulate actionable strategies

focused on securing subsidy support, implementing capital infusion, executing a market repositioning strategy, and conducting a comprehensive financial health assessment. For further details, please refer to the extracts of the committee minutes.

The performance assessment of Mr. Ramakant Bhushan, Managing Director CYPL

Due to the exceptional nature of the business environment CYPL is operating in, it has been decided that the performance assessment of Mr. Ramakant Bhushan for the financial years from 2026-27 to 2028-29 will been based with many metrics like building supply chain resilience, taking measures to improve market share, reducing costs, improving sales among others.

Mr. Ramakant Bhushan reports directly to Mr. Venkata Ravi, Chairman DFPL, and Mr. Gerhard Braun, Managing Director Greenspan GmbH, as a part of the leadership team overseeing CYPL's operations and strategic direction. The organizational structure ensures streamlined decision-making and alignment with the broader goals of DFPL and Greenspan GmbH.

Resumption of supplies under new contract with GIL, Gopalpur, Contract termination with Natural Gas Suppliers Limited (NGSL), Paradip

GIL restored its normal supply levels to the market by March 2029. NGSL had been a reliable supplier of natural gas to CYPL until this point. However, once GIL resumed supplies, the

management of CYPL decided to scale back the operations to originally planned levels at the time of inception of the company. Renewing the contract with GIL was consistent with the original rationale for establishing CYPL at Gopalpur, based on the cost efficiencies of operating arising from economies of scale.

It was proposed to terminate the contract with NGSL, Paradip. The final decision to terminate the contract was made on April 1, 2029. Although the original contract with NGSL was valid for another 30 months, until September 2031, CYPL chose to exit due to the significant increase in the volume of natural gas supplies that it could procure from GIL. CYPL agreed to pay an exit cost of ₹ 15 crores for terminating the contract on April 1, 2029. Following this, GIL would become the sole supplier of natural gas to CYPL.

Annexure: 1

Shankar Patra/ Union Leader/ Dakshin Fertilizers and Petrochem Ltd. (DFPL), Brahmapur

From: "Union Leader " <ul_brahmapur@dfpl.com>
Sent: 3rd November 2025 19:00
To: "Ramakant Bhushan" <ramakant@cypl.com>
Cc: "Venkata Ravi" <nvenkataravi@dfpl.com>
Subject: Relocation Compensation Package for Brahmapur Workers of DFPL.
Date: 3rd November 2025

Dear Mr. Ramakant,

We have received the official intimation regarding the compensation package offered by DFPL to the workers transitioning to CYPL, Gopalpur. While we appreciate the 5% salary hike, we respectfully reiterate our request for a 15% increase as adequate compensation.

The move to CYPL presents an opportunity for skill development and career growth, which we recognize and value. Consequently, out of 112 workers, only two have opted out of this transition. However, relocating operations to Gopalpur from Brahmapur introduces additional challenges. Our families will continue residing in Brahmapur due to its superior facilities and infrastructure, necessitating a daily two-hour commute for us. The additional costs and inconvenience involved in this commute warrant a more substantial compensation adjustment.

Registered unions across DFPL's various locations, representing a combined membership of 5,000, are closely monitoring how the management is handling the reabsorption of displaced workers from Brahmapur. Although our group at Brahmapur is comparatively small, our successful reintegration under fair terms will set a positive precedent, reinforcing the company's commitment to employee welfare during strategic transitions.

Our collective experience at the Brahmapur facility has equipped us to contribute effectively to CYPL from day one, minimizing the need for additional training. This brings immediate value to your operations. We believe that addressing our compensation request will foster goodwill among the broader workforce and demonstrate management's dedication to balancing corporate objectives with employee well-being.

We respectfully urge you to reconsider and approve our request for a 15% salary increase. We look forward to a positive response and are eager to continue contributing to DFPL's and CYPL's success.

Thank you for your attention to this matter.

Regards,

Shankar Patra

Annexure: 2

Lalit Shah/ Finance Head CYPL/ Crop Yield Private Limited (CYPL), Gopalpur

From: " Lalit Shah" <lalits@cypl.com>
Sent: 23rd July 2026 19:10
To: "CA. Shrihari" <cashrihari@shassociates.com>
Cc: "Ramakant Bhushan" <ramakant@cypl.com>
Subject: Indirect Taxation Matters – CYPL
Date: 23rd July 2026

Dear CA. Shrihari,

Thank you for agreeing to assist us with indirect tax matters for CYPL. I have outlined the following clarifications needed:

(a) The Government of India provides subsidies on fertilizers under two schemes: the Nutrient Based Subsidy (NBS) Scheme for Phosphatic and Potassic (P&K) fertilizers, and the Urea Subsidy Scheme for urea-based fertilizers.

Urea is supplied to farmers at a statutorily notified Maximum Retail Price (MRP). The subsidy paid to urea manufacturers is the difference between the delivered cost of urea at the farm gate and the net market realization by the urea units.

Under the NBS scheme, manufacturers are allowed to set the MRP of P&K fertilizers at reasonable levels. A fixed subsidy amount is provided to manufacturers for subsidized P&K fertilizers based on their nutrient content.

In summary, the government fixes the MRP for urea fertilizers, while fertilizer companies like us determine the MRP for P&K fertilizers. The subsidy for urea fertilizers is the difference between the MRP and the cost price, while for P&K fertilizers, companies receive subsidies based on rates fixed under the NBS scheme.

These subsidies ensure farmers have access to fertilizers at affordable rates and support fertilizer companies in producing this critical agricultural input.

How is the value of supply determined for GST on fertilizers subsidized?

(b) We purchase natural gas from GIL to produce ammonia, which is used in fertilizer production. Additionally, we procure ammonia in gaseous form from the external market. In April 2026, we entered into a contract with Eastern Petrochemical Ltd. (EPL) to supply ammonia via pipeline to our Gopalpur unit for one year. The contract terms are as follows:

i. Monthly Payments: CYPL will make monthly payments to EPL, with each payment due by the 7th of the following month.
ii. Quarterly Statements: EPL will issue a quarterly statement of account showing the quantity and value of gas supplied, payments received, and payments due.
iii. Quarterly Adjustments: Any differential amount mentioned in the quarterly statement must be settled by CYPL each quarter.

Timeline of Events:

- May 5, June 5, and July 7: Payments of ₹ 5 crores were made each month for the quarter April to June.
- July 4: EPL issued a statement of account for April to June, showing ₹ 5.9 crores as unpaid.
- July 18: CYPL paid the balance of ₹ 90 lakh to EPL for the quarter ended June.

To maintain better internal control over the GST paid on our raw material procurement, we need clarity on this–

When is the latest date by which EPL must issue an invoice under GST regulations for this continuous supply of gas?

(c) Is the procurement of natural gas entirely exempt from GST?

(d) Our Managing Director, Mr. Ramakant Bhushan, has requested clarification on our legal position regarding a customs duty matter involving the pilferage of potash from an import shipment while it was in custody at Paradip Port.

In May 2026, we imported 1,000 MT of potash from Canada, a critical ingredient for fertilizer production. The shipment was unloaded in the customs area at Paradip Port on 1st June 2026. Upon clearance by the proper officer on 5th June 2026, it was discovered that some potash had been pilfered.

Since the goods were in the custody of the Port Trust, the customs authorities have demanded duty from the custodian under Section 45(3) of the Customs Act, 1962 for the pilfered potash. However, the Port Trust has denied this liability, arguing that it is not an "approved custodian" under Section 45 of the Customs Act, 1962 and that its possession of goods is governed by the Major Port Trusts Act, 1963, which exempts it from such liability.

Given this context, we need clarity on the following:

1. **Do we have legal grounds to demand compensation from the Port Trust for the loss of goods due to pilferage?**
2. **Would CYPL be held liable to pay customs duty on the pilfered goods, or can this liability be shifted to the Port Trust or another entity?**

(e) What are the possibilities for CYPL to claim refunds for unutilized Input Tax Credit (ITC) under GST law to optimize its tax position and maintain financial stability?

Your prompt response on this matter will be greatly appreciated.

Regards,

Lalit Shah

Annexure: 3

Extracts of Minutes: Committee on Financial Challenges and Strategic Recovery Crop Yield Private Limited

Date: 20th September 2027
Location: CYPL Corporate Office, Gopalpur
Chairperson: Mr. Ramakant Bhushan, Managing Director

During the recovery meeting, several critical strategies were discussed in length to address the financial and operational challenges CYPL faced:

Financial Health Assessment and Altman Z-Score Analysis

The financial discussion highlighted key financial ratios that reflect CYPL's operational efficiency and financial stability. The Working Capital to Total Assets ratio stands at 0.1, indicating a moderate level of liquidity. The Retained Earnings to Total Assets ratio is 0.0125, suggesting limited reinvested profits relative to total assets. However, the EBIT to Total Assets ratio of -0.2 points to a concerning negative operational performance. On a more positive note, the Book Value of Equity to Total Liabilities ratio is 4, demonstrating a strong equity position relative to liabilities, which showcases a solid capital structure. Lastly, the Sales to Total Assets ratio at 0.1875 reveals the company's asset turnover rate, suggesting room for improvement in asset utilization to boost revenue generation.

Mr. Felix, the Chief Financial Advisor and a representative of Greenspan GmbH, proposed using the Altman Z-Score, a widely recognized financial model, to assess CYPL's financial health and identify early signs of distress. He emphasized the importance of this model in providing a comprehensive view of the company's financial position and enabling timely decision-making.

The committee acknowledged the urgency of addressing these issues to stabilize the company's financial position. It was agreed that reaching at least a breakeven point is critical, along with enhancing sales and EBIT to improve overall financial health and ensure long-term viability. Regular monitoring of financial ratios and periodic reporting to the recovery committee were also recommended to track progress and make timely adjustments. These measures were considered essential for steering CYPL out of financial distress and aligning it with the broader strategic goals of DFPL and Greenspan GmbH.

Capital Infusion Proposal

Recognizing the long-term potential of CYPL's operations, committee members deliberated on a proposal to infuse additional capital into CYPL for the 2027-28 financial year. This capital injection is expected to alleviate immediate financial stress and temporarily resolve going concern issues, providing CYPL with a two-year buffer to stabilize its operations.

Subsidy Support from the Government

W. Prock-Schauer, CEO & Executive Director of DFPL, emphasized that CYPL could optimize on government subsidies available through programs such as the Nutrient-Based Subsidy (NBS) for Phosphatic and Potassic (P&K) fertilizers, as well as the Urea Subsidy Scheme. He emphasized that this financial support, though limited, could partially offset CYPL's losses.

Market Repositioning Strategy

Mr. Sampath, presented a market repositioning strategy to counter the ongoing crisis:

- **Addressing Market Shortage:** Due to the reduced production of fertilizers, there was a shortage in the market, yet demand from farmers for the rabi and kharif seasons remained strong. He highlighted the growing issue of spurious fertilizers being sold by opportunistic distributors, warning that their usage could degrade soil health and cause extensive crop damage over time.
- **Digital and Direct Sales Approach:** To combat this, he proposed leveraging digital platforms, social media, radio, and print media to create awareness about the dangers of substandard fertilizers. By selling directly to farmers through the company's website, CYPL could ensure the availability of authentic, high-quality fertilizers. This can help the company increase its market reach. At the same time, it would eliminate costs like distributor commissions that can help improve profitability.
- **RFID Tag Implementation:** He also recommended the introduction of RFID tags to enhance product traceability, building trust and differentiating CYPL from competitors.

Committee Consensus

The committee unanimously agreed to implement the above-mentioned multi-pronged strategy to help CYPL regain market share, rebuild trust among farmers, and enhance its financial health. The Chairperson concluded the meeting with the message that successfully executing this strategy could position CYPL as a leader in the fertilizer industry, turning the current crisis into an opportunity for long-term growth and sustainability.

Annexure: 4

30th October 2025: Development at the Cost of Public Safety?



Bhubaneswar: Over 1,000 residents from Gopalpur and Brahmapur gathered at Town Hall Square, Gopalpur, to protest the proposed establishment of the fertilizer plant by Crop Yield Private Limited (CYPL). This is a joint venture between Dakshin Fertilizers and Petrochem Ltd. (DFPL) from Thiruvananthapuram, Kerala, and Greenspan GmbH, a leading fertilizer company from Germany. Aiming for large scale production with a planned capacity of 10,00,000 MT/Yr, this fertilizer plant would require large volume supply of natural gas which is a key raw material for its production. For such a large scale set up, the most viable place for setting up this unit would be in Gopalpur. Economies of scale would help CYPL achieve cost efficiencies, which can improve its competitive position and profitability. The company has already acquired land in Gopalpur worth ₹ 100 crores for the project.

However, the proposed location is within 1 kilometer of the town's public settlements in a densely populated area, raising concerns about safety. The resistance stems from a recent ammonia gas leak at a similar fertilizer unit in Paradip, Odisha, operated by Verico Ltd. The leak caused a severe public health hazard, with hundreds of residents affected, some resulting in casualties.

In response to inquiries, the company's Public Relations Officer, Mr. Prakash Singhal, stated, "The company has obtained the necessary license to establish and operate the facility, having complied with all government regulations. Both DFPL and Greenspan GmbH are reputable companies with an impeccable track record in social responsibility, public health, and environmental safety. The nearest suitable location for such a large facility is over 600 kilometers away. This would prove to be a hinderance operationally and would significantly raise the cost of operations, making the project unviable. If the project does not proceed, it would result in losses for the company's shareholders, reduced access to high-yield fertilizers for farmers, and missed economic opportunities for the town."

I. Multiple Choice Questions

1. Which of the following statements is true regarding accounting for CYPL's contract with NGSL?

   i. In FY 2027-28, it is essential to check whether the contract with NGSL is onerous or not. If found onerous, provision has to be accordingly made in case the unavoidable cost of meeting the obligations of the contract is more than the economic benefits it can derive from it. This has to be done after recognizing any impairment loss of relevant assets used in fulfilling the contract.

   ii. In FY 2027-28, it is essential to check whether the contract with NGSL is onerous or not. If found onerous, provision has to be made irrespective of whether relevant assets are impaired or not.

   iii. In FY 2028-29, CYPL should make a provision for termination cost of agreement with NGSL for ₹ 15 crores irrespective of whether the contract is onerous or not since the decision to terminate the contract was finalised on April 1, 2029 i.e. before approving the financial statements of FY 2028-29.

iv. In FY 2029-30, as the contract with NGSL not been found to be onerous in FY 2028-29, the payment of termination cost of agreement with NGSL for ₹ 15 crores needs to be recognized when it is incurred on April 1, 2029.

Options

(a) i and iii

(b) i and iv

(c) ii and iv

(d) ii and iii

2. With respect to CYPL's "Going Concern" issue, which of the following statements is true?

(a) CA. Bharat Chowdhary needs only to disclose the material uncertainty in the audit report under the heading "Emphasis of Matter" paragraph for the year ended on 31/03/2027, since it is already being disclosed by the management of CYPL in the notes to accounts.

(b) CA. Bharat Chowdhary on becoming aware of the uncertainty relating to "Going Concern" of CYPL needs to express an adverse opinion in the audit report for the year ended on 31/03/2027.

(c) CA. Bharat Chowdhary on becoming aware of the uncertainty relating to "Going Concern" of CYPL needs to express a disclaimer opinion in the audit report and it shall include a separate section under the heading "Material Uncertainty Related to Going Concern" for the year ended on 31/03/2027.

(d) CA. Bharat Chowdhary on becoming aware of the uncertainty relating to "Going Concern" of CYPL needs to express an unmodified opinion in the audit report and it shall include a separate section under the heading "Material Uncertainty Related to Going Concern" for the year ended on 31/03/2027.

3. With reference to the appropriate model, calculate the Altman Z score for CYPL. Using this model, what can be your conclusion about CYPL's financial health?

(a) The Altman Z score falls in the grey area of discrimination. This indicates that the financial health of CYPL, while not in distress but caution is needed, it does need further investigation.

(b) The Altman Z score falls in the distress area of discrimination. This indicates that the financial health of CYPL is in danger and possibly heading towards bankruptcy.

(c) The Altman Z score falls in the safe area of discrimination. This indicates that the financial health of CYPL is financially sound.

(d) The Altman Z score falls in the safe area of discrimination, but with a score close to the grey area. This indicates CYPL needs to closely monitor its financial performance and proactively address any potential risks.

4. Which of the following will not be helpful in improving the long-term sustainability of sales and EBIT of CYPL?

(a) Undertaking Customer Profitability Analysis to weed out unprofitable customers, since this would mean that there are a smaller number of customers.

(b) Concentrating on product differentiation that will build a better reputation and market share for the company's products.

(c) Once GIL's supply resumes there can be reliance on supply of natural gas from single source since GIL is a major supplier of natural gas within the country. Alternate suppliers for natural gas procurement would not be needed.

(d) Tackle the problem of spurious fertilizers and engage with farmers to educate them about the use of quality fertilizers for long term sustenance of the soil in their fields.

5. Which of the following is the Remuneration Committee most likely not to consider as part of Mr. Ramakant Bhushan's performance assessment for the years 2027-28 and 2028-29?

i. An increase in subsidy support under various government schemes effective September 2027 that contributed to improving the company's financial health.

ii. Implementation of RFID tags on products and initiating direct sales to farmers, which resulted in higher sales volumes and reduced distributor commission costs.

iii. Leading negotiations to terminate the contract with NGSL, ensuring that from April 2029, GIL becomes the sole supplier of natural gas for CYPL to enhance supply chain resilience.

iv. Spearheading negotiations to renew the contract with GIL, ensuring the resumption of natural gas supplies in April 2029, enabling CYPL to scale up production to its planned levels.

Options

(a) ii and iv

(b) i and ii

(c) i and iii

(d) iii only

6. In September 2026, in the immediate aftermath of the pipeline accident, which of the following could have possibly occurred?

(a) Bargaining power of natural gas suppliers increased since there was a critical business need for the raw material.

(b) Bargaining power of CYPL increased since it had large scale of operations requiring huge volume of natural gas as raw material.

(c) Threat of substitutes for natural gas increased since it was in short supply in the market.

(d) Threat of new entrants increased since business of existing companies were severely impacted.

7. Which of the following is the primary reason DFPL and Greenspan GmbH decided to enter into a joint venture for the Gopalpur facility instead of pursuing a strategic alliance?

(a) A joint venture allows both DFPL and Greenspan GmbH to share ownership and control of the new entity (CYPL), and ensuring efficient management of operations at the Gopalpur facility.

(b) A joint venture provides DFPL with exclusive access to Greenspan GmbH's fertilizer patents and formulas, while a strategic alliance would limit DFPL's ability to fully integrate Greenspan GmbH's technology and intellectual property.

(c) DFPL and Greenspan GmbH opted for a joint venture because it would give them more flexibility in managing and scaling the Gopalpur facility's operations independently, without the need for shared decision- making or governance structures.

(d) A joint venture allows DFPL to maintain shared control over operations at the Gopalpur facility, but Greenspan GmbH's role is restricted to supplying machinery and technology, with no involvement in management or decision-making.

II. Descriptive Questions

8. In his office, Mr. Jeevan asks you to categorize the stakeholders based on their power and interest in the issues affecting the Gopalpur and Brahmapur facilities. Your tasks are as follows:

(a) ANALYZE the stakeholders' levels of interest and influence using Mendelow's Matrix for both the Gopalpur and Brahmapur facilities.

(b) ADVISE CYPL on an action plan to effectively manage these stakeholders based on your analysis.

9. How should CA Shrihari ADVISE Mr. Lalit Shah on the various indirect tax matters concerning CYPL?

ANSWERS TO THE CASE STUDY 2

I. Answers to the Multiple Choice Questions

1. The correct answer is (b) i and iv.

Reason:

Ind AS 37 outlines the requirements to identify onerous contracts and also provides for when the same is required to be made. The standard also provides for treatment to account for contract termination costs where the contract is onerous. If the contract is not onerous, contract termination cost has to be accounted for when incurred.

Statement ii is incorrect since provisions for loss has to be made only if the executory contract is found to be onerous as per Ind AS 37. Similarly iii is incorrect since as per Ind AS 37, provision for contract termination cost needs to be made only when the contract is onerous. Further, the decision to terminate the contract was made on 1st April, 2029 i.e. after the reporting date. Since no condition to terminate the contract existed on or before the reporting date, it will not be considered as an adjusting event to be provided for.

2. The correct answer is (d) CA. Bharat Chowdhary on becoming aware of the uncertainty relating to "Going

Concern" of CYPL needs to express an unmodified opinion in the audit report and it shall include a separate section under the heading "Material Uncertainty Related to Going Concern" for the year ended on 31/03/2027.

Reason:

As per SA 570 "Going Concern", If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Relating to Going Concern" to draw attention to the

note in the financial statements that discloses the relevant matters and to state that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

3. The correct answer is (a) the Altman Z score falls in the grey area of discrimination. This indicates the financial health of CYPL, while not in distress caution, it does need further investigation.

Reason:

We need to use the model used for private firms.

Particulars		Ratio	Weight	Component score
X_1	Working Capital / Total Assets	0.1	0.717	0.072
X_2	Retained Earnings / Total Assets	0.0125	0.847	0.011
X_3	EBIT / Total Assets	-0.2	3.107	-0.621
X_4	Book Value of Equity / Total Liabilities	4	0.42	1.680
X_5	Sales / Total assets	0.1875	0.998	0.187
Altman Z score				**1.328**

A score between 1.23 to 2.99 indicates that CYPL has to be on alert. Any score below 1.23 indicates that the company is in grave danger of becoming bankrupt.

4. The correct answer is (c) Once GIL's supply resumes there can be reliance on supply of natural gas from single source since GIL is a major supplier of natural gas within the country. Alternate suppliers for natural gas procurement would not be needed.

Reason:

It is important to build resilience within the supply chain in order to tackle disruptions. This includes having alternate sources of suppliers available for raw material procurement, even in the event of GIL resuming its supply to CYPL. For example, having a renewed contract with NGSL will help CYPL tackle any future disruption seamlessly. Trying to find alternate suppliers after an exigency / emergency occurs will almost always cause supply chain disruptions and generally prove to be more expensive.

5. The correct answer is (c) i and iii

Reason:

Statement i: An increase in subsidy support under government schemes is a policy decision outside Mr. Ramakant Bhushan's control. Thus, it cannot be attributed to his performance.

Statement iii: Terminating the NGSL contract and relying solely on GIL for natural gas does not enhance supply chain resilience. This approach mirrors the earlier situation that necessitated an unfavourable agreement with NGSL in October 2026 following a pipeline accident. Retaining NGSL as an alternative supplier could have ensured a minimum supply and strengthened supply chain resilience, a better strategic decision for CYPL.

6. The correct answer is (a) Bargaining power of natural gas suppliers increased since there was a critical business need for the raw material.

Reason:

Due to the accident at GIL's facility, there was a severe shortage of natural gas in the market. This gave more bargaining power to natural gas suppliers to negotiate for terms and conditions favorable to them.

Large scale operations of CYPL that required more quantity of natural gas may not have necessarily increased their bargaining power in the immediate aftermath of the pipeline.

7. The correct answer is (a) A joint venture allows both DFPL and Greenspan GmbH to share ownership and control of the new entity (CYPL), and ensuring efficient management of operations at the Gopalpur facility.

Reason:

A joint venture permits both companies to collaboratively make decisions and oversee the facility, promoting smoother integration into the local market. Although obtaining access to intellectual property (IP) from Greenspan GmbH might be a factor, it is not the main reason. The primary benefit of the joint venture is the shared operational control, which guarantees that both partners are engaged in the venture's success. In comparison, a strategic alliance, which would entail less formal control and cooperation, would not offer the same degree of shared governance needed to address regulatory issues. Moreover, a joint venture does not grant additional operational flexibility for DFPL alone, as it necessitates both DFPL and Greenspan GmbH to work together in decision- making. Consequently, the joint venture structure was selected to furnish the essential legal framework and shared control for both companies to thrive in the Indian market.

II. Answers to the Descriptive Questions

8. Stakeholder Mapping

Level of interest low: level of power low

Suppliers of consumables for the plant and machinery procured by CYPL: These suppliers are small enterprises located at Gopalpur. Hence, their power is low. Since operations have not yet begun, CYPL has entered into only short-term contracts, for less than a year, with these suppliers. At present, CYPL is one of the many customers for these suppliers. Hence, their interest in these developments will also be low.

Level of interest low: level of power high

Government authorities in Germany: Government authorities in Germany may not directly be interested in proposed establishment of CYPL at Gopalpur, Odisha, India. At the same time, as Gerhard Braun states, they would not hesitate to take legal action if Greenspan GmbH is found to carry on with practices that can endanger public and environmental safety in any of their facilities in any part of the globe.

Level of interest high: level of power low

Employees working at Brahmapur facility: The setting up of Gopalpur facility will provide better job opportunities and career growth prospects for the workers at Brahmapur facility. Along with this, they are being given a hike as part of the compensation package that the management of DFPL is offering for their relocation. Therefore, their interest in these developments will be high. At the same time, their strength is only 112 as compared to the 5,000 members of registered unions across DFPL's various locations. At present there is no collaboration between the worker unions at different locations / facilities. Hence, their power at present is low. However, if in future there is involvement of unions from other locations, the collective power worker unions can increase.

Gaspro India Limited (GIL): At present, DFPL Brahmapur procures natural gas from GIL. DFPL being a small unit, it is one of their many customers for GIL. However, with the establishment of CYPL at Gopalpur, this business relation can be further strengthened since the scale of operations is going to be ramped up manifolds, which can potentially make CYPL become a high value customer. Hence, GIL may be interested in these developments. However, it cannot directly wield any influence and therefore its power may be considered to be low.

Shareholders of DFPL: Shareholding pattern of DFPL is largely fragmented and with most of them individually holding less than 2% of total share value. Therefore, their power may be low at present. They do not actively participate in every decision made

by DFPL. Yet, in DFPL's latest earnings calls they have shown a keen interest in the setting up of the new facility at Gopalpur. They expect this to be a wealth generating opportunity due to the significant profit generation value of the Gopalpur facility. Their inquiries about media reports also show their interest in these developments.

Registered unions across DFPL's various locations: Mr. Venkata Ravi states that he is aware that the worker union heads at other facilities of DFPL are also closely watching these developments. Hence, interest is high. Currently, there is no collaboration between the worker unions at these different locations. Therefore, power is low. However, if DFPL does not handle the demands properly, it could sow discontent among all the unions across the company. That would be a disaster and could impact DFPL's operations and reputation domestically. This shows that worker unions collectively have the power to potentially influence decisions within the company

Level of interest high: level of power high

Board of Directors of DFPL: The Board is interested in this decision as the facility at Gopalpur can help it deepen its presence in Eastern India, which is one of its strategic objectives. Since the license to establish and operate.

CYPL is obtained after all necessary compliance and formalities, it has the power to decide whether to locate the plant within 1 kilometer of the densely populated part of the town. Economic viability due to cost considerations needs to be balanced with the possibility of potential legal ramifications in the event of any untoward incident. As Mr. Venkata Ravi has pointed out the possibility of a leak cannot be completely ruled out despite the best efforts and due diligence by the company. The outcome of this decision will also influence its decision to shut down the Brahmapur facility.

Board of Directors of Greenspan Gmbh: The company wants to venture into the Indian market through this Joint Venture. The company has confidence in its partner DFPL to achieve this objective. Hence, the Board of Greenspan GmbH would be interested in the proposed facility at Gopalpur. Just like DFPL, Greenspan GmbH also has the power to influence the event, since despite getting the license, the Board can decide not to go ahead with the project if it's not economically viable. Since, CYPL plans to import almost 40% of its total plant and machinery from a subsidiary of Greenspan Gmbh, the Board has a lot of power to influence the outcome of these events. Like DFPL, the economic viability would be balanced with the possibility of potential legal ramifications, not just in India but also Germany, in the event of any untoward incident.

Government authorities in India: It has been mentioned that the Government in India has been promoting capacity expansion for fertilizer production in line with

the "Make In India" policy. Foreign Direct Investment (FDI) is also being encouraged in the broader chemical sector. Since CYPL could get the license to establish and operate at Gopalpur, it indicates that the Indian government authorities are interested in setting up the facility. Significant employment generation, economic growth, access to farmers to high yielding fertilizers are major benefits that can be derived from this project. At the same time, the government is equally stringent with laws relating to social justice, public health and the environment. Hence, it has high power and high interest over the outcome of the event.

Shareholders of Greenspan Gmbh: Shareholders primarily consist of large financial institutions, who have shown a keen interest in Greenspan's entry into the Indian market in joint venture with DFPL. Due to the significant business opportunity it represents, they have high interest. However, as Mr. Gerhard Braun states, if the project is found to be unviable, they have the power to overturn the Board's decision to enter the Indian market. Hence, they wield high power.

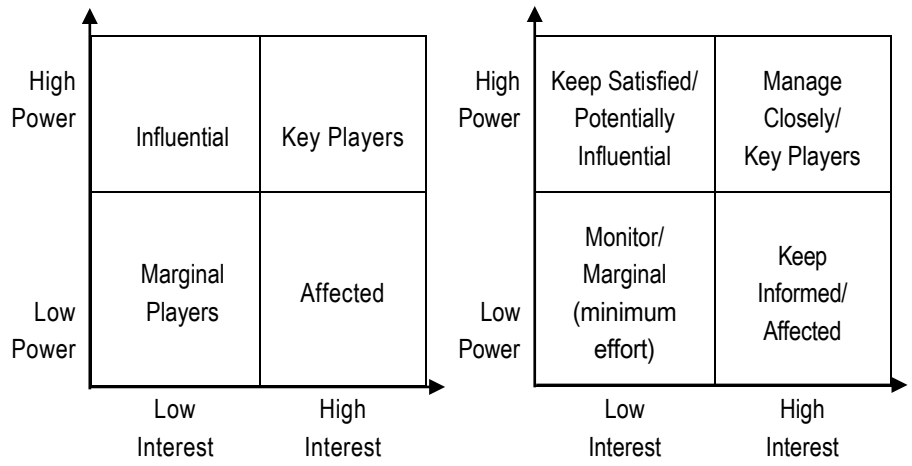


Figure – Mendelow's Matrix and Response to each class of stakeholders

Action Plan for CYPL to manage the various stakeholders Level of interest

low: level of power low

The suppliers of consumables to CYPL fall under this category. They do not have immediate interest in the strategic direction through this proposed project at Gopalpur, nor are they significantly interested in the worker's concerns at Brahmapur. They are likely to accept any position the company takes without much resistance. CYPL only needs to **monitor** these stakeholders and to keep a check on whether there is any change in the level of interest or power of these stakeholders.

Level of interest low: level of power high

The government authorities in Germany fall under this category. While they are not interested in the developments at Gopalpur, they can take stringent action against Greenspan GmbH in the event of untoward incidents that can harm public health and environmental safety. Greenspan GmbH needs to **keep them satisfied** with the compliance of social justice, public health and environmental safety. By keeping them satisfied they are less likely to gain interest and exercise their power of influence.

Level of interest high: level of power low

Employees working at Brahmapur facility, Gaspro India Limited (GIL), shareholders of DFPL and worker unions of DFPL fall under this category. Adequate interactions with these parties can help CYPL identify any area where improvements can be made or issues that may have been overlooked. However, since they have low power to influence the outcome of these developments, the group should only be **kept informed** to assure them that no major issues are arising. At the same time, while they have low power by themselves, they may join forces with a group that wields power.

For example, the employees at Brahmapur facility in collaboration with worker unions at other locations can collectively wield higher power over DFPL's management and force them to accept their terms if required. Due to non-collaboration the worker unions across locations individually have low power at present, However, if the management of DFPL does not handle the issue well, the seeds of discontent among the worker unions across locations have the potential to disrupt operations as also damage the company's reputation domestically.

Similarly, while the shareholders of DFPL are fragmented, with most of them individually holding less than 2% of the total share value, together they can form a significant dissenting voice to the project. Likewise, relations with GIL need to be maintained to ensure sustained interest since any negative perception of the unviability of the project can be detrimental to the ongoing negotiations for long term supply of natural gas.

CYPL must watch out for such developments. Adequate interactions are needed to keep them satisfied so that collectively, their level of power does not move from low quadrant to higher quadrant.

Level of interest high: level of power high

The Board of Directors of DFPL, the Board of Director of Greenspan GmbH, Indian Government Authorities and Shareholders of Greenspan GmbH. They are the key stakeholders of the developments at Gopalpur and Brahmapur facilities. It is important to **manage closely** to engage with them and keep them satisfied about the issue.

9. **(a)** The Government of India provides subsidies under the Nutrient Based Subsidy (NBS) Scheme and the Urea Subsidy Scheme to keep fertilizer prices affordable for farmers. According to section 15(2)(e) of the CGST Act, 2017, subsidies are included in the value of supply for the supplier receiving them, provided they are directly linked to the price of goods or services and are given by non-Governmental organisation. However, blanket subsidies that are not tied to the price are excluded from the value.

Similarly, subsidies provided by the Central or State Government are specifically excluded from the value of supply. Therefore, when calculating the value of supply for GST purposes, the amount of Government subsidy will not be added, ensuring the taxable value excludes this subsidy.

(b) As per section 31(4) of the CGST Act, 2017, in case of continuous supply of goods, where successive statements of accounts or successive payments are involved, the invoice is issued before or at the time of issue of each such statement or as the case may be, each such payment is received. Therefore, EPL should issue invoices for ₹ 5 crores each on or before May 5 and June 5, when monthly payments of ₹ 5 crores are received. Further, invoice should be issued for the differential of ₹ 5.9 crores on or before July 4, when the statement of account is issued.

(c) No, the procurement of natural gas is not entirely tax-free. As per section 9(1) of the CGST Act, 2017, currently, GST is not leviable on natural gas. GST will be levied on natural gas from the date to be notified based on the recommendations of the GST Council. Until that date, central excise duty continues to be imposed on the production or manufacture of natural gas. Additionally, the inter-State sale of natural gas is subject to Central Sales Tax (CST), while intra-state sales are subject to Value Added Tax (VAT).

(d) The facts of the case are similar to the case of *Board of Trustees vs. UOI (2009) 241 ELT 513 (Bom HC DB)*, wherein the High Court held that the language of section 45(3) of the Customs Act, 1962, the liability to pay the duty is on the person, in whose custody the goods remain as an approved person under section 45 of the Customs Act, 1962. Therefore, section 45(3) of the Customs Act, 1962 applies only to private custodians who are required to be approved by Principal Commissioner/ Commissioner of Customs under Section 45(1) of the Customs Act, 1962. Accordingly, the major ports and airports covered under the Major Port Trusts Act, 1963 who do not require any approval under section 45(1) are not covered under Section 45(3) of the Customs Act, 1962. Thus, the department cannot demand duty from the Port Trust on the pilferage under Section 45(3) of the Customs Act, 1962. Therefore, CYPL too cannot demand the Port Trust to pay duty on the pilfered

goods. However, CYPL can hold the Port Trust as a bailee of the goods liable the value of potash that was pilfered from its custody.

At the same time, as per section 13 of the Customs Act, 1962, CYPL also cannot be held liable to pay duty on such goods except where the goods are restored to CYPL after pilferage.

(e) This situation is known as the "inverted duty structure," where the GST paid on inputs exceeds the GST collected on outputs. CYPL can apply for refund of the accumulated unutilized Input Tax Credit (ITC) due to inverted duty structure in accordance with the provisions of section 54(3) of the CGST Act, 2017 read with rule 89(5) of the CGST Rules, 2017.

Questions involving the application of GST law have been answered on the basis of position of law as amended by the Finance (No.2) Act, 2024 as well as the notification and circulars and other legislative amendments, which have become effective till 28.02.2025.

CASE STUDY 3

JayZee Ltd.

Indian automotive industry is a cornerstone of the nation's economy, contributing around 7.1% to the GDP and nearly 49% to the manufacturing GDP. In the fiscal year 2020-2021, the industry produced over 22 million vehicles, including passenger cars, commercial vehicles, and two-wheelers. The two-wheeler segment dominates the market, with over 80% of the total automotive sales. In the same period, India exported approximately 4.5 million vehicles, showcasing its growing influence in the global automotive market. The government aims to make India a hub for electric vehicles (EVs), targeting a 30% EV adoption rate by 2030. This ambitious goal is supported by policies such as the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME) scheme, which allocates significant funds to boost EV infrastructure and adoption.

Raj Malhotra, founder of JayZee Ltd., a leading manufacturer of automotive spare parts, envisioned the company's potential during one of his visits to the USA. In 1998, he anticipated the forthcoming boom in the Indian automotive industry, particularly from 2011 to 2020. Foreseeing this growth, he decided to establish JayZee Ltd. to provide high-quality and affordable spare parts for the Indian market. The company is based in Gurgaon, Haryana, with manufacturing facilities in Uttarakhand and Uttar Pradesh strategically located to leverage government benefit schemes.

Over the years, JayZee Ltd. has expanded its product range to include various components such as engine parts, brake systems, suspension systems, electrical components, and more. The company has a state-of-the-art manufacturing facility spread over 20 acres, equipped with advanced machinery imported from Germany and Japan. JayZee Ltd. employs over 1,000 skilled technicians, engineers, and support staff dedicated to maintaining the highest standards of quality. JayZee Ltd.'s commitment to quality has earned it a reputation as a trusted supplier among domestic and international customers. The company follows stringent quality control measures adhering to international standards like ISO 9001, TS 16949, and IATF 16949, ensuring its products meet stringent performance, safety, and environmental regulations. While Raj Malhotra provided the technical vision, his sons Arjun and Karan, have been instrumental in driving the company's financial strategy and decision-making processes. Their astute financial

acumen and business insights have played a crucial role in JayZee Ltd.'s growth and expansion plans.

In addition to the domestic market, JayZee Ltd. has a strong global presence, exporting to over 30 countries across Asia, Europe, Africa, and North America. Major export destinations include the UAE, Saudi Arabia, South Africa, Germany, USA, and Canada. The company has established robust distribution networks and partnerships in these regions. In line with the government's vision, Raj Malhotra knows that the next decade, from 2021 to 2030, will be a boom period for the EV market in India. He foresees this due to the recent government push towards Atmanirbhar Bharat with its Production Linked Incentive (PLI) Scheme and the global shift towards India as part of the China Plus One strategy. This strategy essentially means that companies do not want all their manufacturing footprint in China due to geopolitical tensions. Additionally, the fast acceleration towards EVs is driven by climate and sustainability strategies of companies.

To meet the burgeoning demand, JayZee Ltd. has implemented aggressive expansion plans, including the construction of two new state-of-the-art manufacturing units in Gujarat and Tamil Nadu. The company has also invested heavily in R&D, collaborating with leading automotive engineering institutes to develop innovative products using advanced materials and cutting-edge technologies.

Apr'2023 Beginning

To support the company's strategic objectives, JayZee Ltd. relies on its skilled workforce, who are considered as the backbone of the organization. In order to foster long-term loyalty and engagement, the company is offering Employee Stock Ownership Plans (ESOPs) to its employees. As the company achieves its earnings targets, shares will vest, granting employees ownership in the company. JayZee Ltd. grants 100 shares to each of its 500 employees on 1st April, 2023. The employees should remain in service during the vesting period. Annexure 1 containing Terms and Conditions of Employee Stock Option Plan has been approved by the shareholders of JayZee Ltd. passing a special resolution.

JayZee Ltd.'s success is attributed to its strong leadership team, employee-friendly policies, continuous training programs, and a culture that fosters innovation. The company provides competitive compensation, growth opportunities, and a positive work-life balance, resulting in high employee satisfaction and low attrition rates. Despite challenges like increased competition, fluctuating raw material prices, and regulatory changes, JayZee Ltd. has maintained a steady growth trajectory with consistent profitability and a strong balance sheet.

Guided by Raj Malhotra's principles and the financial expertise of his sons, Arjun and Karan, JayZee Ltd. Ltd thrived under the directors' unwavering dedication and the collective efforts of its team. As JayZee Ltd. looked towards the future, the directors' global vision and local roots served as a powerful combination, propelling the company's success in the competitive automotive spare parts industry.

JayZee Ltd. is focused on enhancing its manufacturing processes and assessing the efficiency of its operations in relation to their full potential, while also identifying areas of loss. The company has a state-of-the-art production facility that operates in two shifts of 9 hours each, for 6 days a week. Under the leadership of Raj Malhotra, the founder, and his sons Arjun and Karan, the company emphasizes efficiency and productivity in its operations. One of JayZee Ltd.'s critical production lines, responsible for manufacturing essential spare parts, has been closely monitored by the team. Over the last 4 weeks, the following details have been collected for one of their important equipment: Lunch break is 30 mins and other miscellaneous breaks add up to 15 minutes; Hours for Planned Preventive Maintenance is 15 minutes per shift; For Breakdown Maintenance is 6 hours total; Set up Changes require 14 hours in total; Power Failure is 4 hours in total; Standard Cycle Time per piece is 3 minutes; No of Parts Produced per shift are 140; and Parts Accepted per shift are 131.

Year Ended Mar 2024

In an effort to build long-term loyalty and enhance employee engagement, the company introduced Employee Stock Ownership Plans (ESOPs) in 2023. The ESOPs were designed to provide employees with a direct stake in the company’s growth and success. By offering employees the opportunity to become shareholders, the company aims to foster a culture of ownership, where every team member has a vested interest in the organization’s performance and outcomes. One year has now elapsed since the implementation of the ESOPs. The program has proven to be an effective way to show appreciation for the hard work of employees and to build stronger ties between the workforce and the company.

At the end of FY 2023-24, earnings is 11%, and 29 employees left the organisation. The company expects that the shares will vest at the end of March 2025 subject to earnings target achieve. The company also expects that an additional 31 employees will leave the organisation in the FY 2024-25 and that 440 employees will receive their shares at the end of the FY 2024-25.

JayZee Ltd., has always been proactive in capitalising on strategic opportunities for growth and diversification. Under the astute leadership of Raj Malhotra, the founder, and his sons, Arjun

and Karan, the company has consistently made sound investment decisions to strengthen its position in the market.

JayZee Ltd. acquired a building from Moon Ltd, another reputed manufacturing company, for a cost of ₹10 million on 1st April, 2020. The building, which Moon Ltd had previously used as a factory, was accounted for under the cost model. At the time of acquisition, JayZee Ltd.'s management, guided by their financial advisors, estimated the building's expected useful life to be 10 years.

Initially, JayZee Ltd. had plans to repurpose the building and integrate it into their expanding operations. However, a few years down the line, the company faced a significant decline in demand for one of its product lines. As a result, the need for an additional factory became redundant. Recognizing the opportunity to generate alternative revenue streams, Arjun and Karan, known for their strategic foresight, proposed renting out the building to a third party. On 1st April, 2024, after conducting a thorough market analysis and obtaining necessary approvals, JayZee Ltd. successfully leased (in an operating lease agreement) the building to a reputable tenant, ABC Industries.

At the time of leasing, JayZee Ltd.'s valuation experts assessed the fair value of the building to be ₹8 million, reflecting the current market conditions and the building's condition. In accordance with the company's accounting policies, JayZee Ltd. adheres to the cost model for recognizing its owned investment properties.

With Arjun and Karan’s strategic guidance, JayZee Ltd. is well-positioned to capitalise on emerging trends and maintain its leadership in the automotive spare parts industry. At the helm of JayZee Ltd. were three dynamic directors - Mr. Rajesh Sharma, Mr. Anil Gupta, and Ms. Priya Mehta. These directors were globetrotters, frequently travelling abroad to develop and secure sustainable business opportunities for JayZee Ltd. From exploring new markets to forging strategic partnerships, they left no stone unturned in their pursuit of growth. Despite their global pursuits, the directors remained deeply rooted in Gurgaon, understanding the importance of maintaining a strong presence at the company's registered office for legal compliance and organizational stability.

Mr. Raj Malhotra is dedicated to developing and securing sustainable business opportunities while exploring new markets and forging strategic partnerships. His recent business tour took him to North America, where he visited the USA and Canada to identify potential business ventures. After 4 months, Mr. Raj is now preparing to return to India. During his stay abroad, he acquired various items and, being a responsible citizen, he is mindful of the customs regulations.

He sent an email (Annexure 2) to Mr. Sanjay, Finance and Taxation head to sought guidance his guidance, who is well-versed in legal and financial matters.

Year Ended Mar 2025

Gumber & Associates has been appointed as Statutory Auditor for JayZee Ltd. for the financial year 2024-25. With a strong track record of excellence, Gumber & Associates has experience in auditing and tax advisory services, ensuring the highest standards of financial oversight and compliance. The firm has earned a stellar reputation for its meticulous attention to detail, in-depth knowledge of regulatory frameworks, and a proactive approach to addressing complex financial and tax matters.

It has already been two years lapsed since the launch of ESOP 2023. At the end of FY 2024-25, the company's earnings is 19%. Therefore, the shares did not vest, only 29 employees left the organisation during second year. Company believes that additional 23 employees will leave during the third year and earnings will further increase so that the performance target will be achieved in FY 2025-26.

Additionally, it's important to note that JayZee Ltd. has consistently maintained high standards of corporate governance and regulatory compliance, as overseen by Arjun and Karan. The company's financial statements are audited annually by a reputed firm, ensuring transparency and adherence to accounting principles. In a significant strategic move, JayZee Ltd. was considering expanding its market reach through acquisition of BM Autos Ltd., a company renowned for its strong foothold in the global automotive sector. Arjun and Karan, with their financial expertise, meticulously analysed the acquisition's potential benefits. They anticipated that the combined resources and expanded market reach would significantly bolster JayZee Ltd.'s position in the industry. This strategic acquisition was not just about expanding market presence but also about integrating innovative technologies and best practices from BM Autos Ltd. into JayZee Ltd.'s operations. JayZee Ltd.'s shares are currently traded at ₹ 20. The company has 25,00,000 shares outstanding and its earnings after taxes (EAT) amounted to ₹ 50,00,000. On the other hand, BM Autos Ltd. had 12,50,000 shares outstanding, with a current market price of ₹ 10. Its EAT was ₹ 12,50,000.

After extensive deliberation, BM Autos Ltd. agreed to be get acquired under which JayZee Ltd. would offer the current market value of BM Autos Ltd.'s shares in a stock swap exchange. This acquisition was seen as a strategic fit, enabling JayZee Ltd. to leverage BM Autos Ltd.'s robust market presence and enhance its competitive edge. The acquisition promised to enhance shareholder value, improve operational efficiencies, and foster a more resilient business model, well-equipped to navigate the complexities of the global automotive market.

JayZee Ltd. places a strong emphasis on its employees as key assets to the company, understanding that their well-being and professional growth directly contribute to the organization's achievements. For many years, JayZee Ltd. has consistently paid bonuses to its employees, recognizing the constructive obligation to reward their hard work and dedication.

JayZee Ltd. discovered that a provision for constructive obligation for payment of bonus to selected employees in the corporate office (material in amount), which was required to be recognized in the annual financial statements for the year ended 31st March, 2023, was not recognized due to oversight of facts. The bonus was paid during the financial year ended 31st March, 2024 and was recognized as an expense in the annual financial statements for the year 2024-25.

JayZee Ltd. has significantly expanded its global presence by acquiring a major stake in a Singapore-based company. During the financial year 2022-23, JayZee Ltd. acquired a 54% stake in SYD Pte Ltd. (SPL), marking its first subsidiary company. This move underscored JayZee Ltd.'s commitment to international presence and leveraging new market opportunities.

Mr. Rajesh Sharma, one of the dynamic directors at JayZee Ltd., was instrumental in this acquisition. His vision strengthening its for international expansion aligned perfectly with the company's growth strategy. Moreover, in the financial year 2024-25, his daughter, Sunita, who has been residing in Singapore for the past six years, was appointed as a director in SPL. Sunita's extensive experience in the region made her a valuable asset to SPL. She was appointed at a monthly remuneration of SGD 5082. (SGD 1 = INR 59). Sunita's appointment was a strategic decision aimed at ensuring strong leadership and effective governance at SPL. Her presence in Singapore facilitated smoother operations and stronger ties between JayZee Ltd. and its first international subsidiary. This expansion into Singapore not only broadened JayZee Ltd.'s market reach but also reinforced its position as a formidable player in the global automotive spare parts industry.

Gumber & Associates has worked with a wide range of industries, providing tailored auditing services that align with the unique needs of each client, and has a long history of successfully navigating intricate tax laws to deliver optimal solutions. The firm's commitment to quality is reflected in its robust internal processes and a team of highly skilled professionals who continually update their expertise to stay ahead of industry trends. CA. Krish, engagement partner, is concerned about the non-verification of physical inventory.

Management of JayZee Ltd. has not undertaken the physical verification of inventories at regular intervals. Inventories constitute 30% of the total assets of the company. Due to non-maintenance of adequate inventory records at the factory, audit team could not undertake the physical verification of inventory. Hence value of inventory as on 31st March, 2025 could not be verified.

Annexure: 1

JayZee Ltd.
(Regd. Office: JayZee tower, Gurgaon, Haryana)

Employees Stock Option Plan 2023

(Plan as approved by the Shareholders through Special Resolution)

1. Name, Objective and Term of plan

1.1 This Employee Stock Option Plan shall be called Employee Stock Option Plan 2023 ("ESOP 2023" / "Plan").

1.2 The objective of ESOP 2023 is to reward employees for association, dedication and contribution to the goals of the Company.

1.3 ESOP 2023 is applicable with effect from 1st April, 2023 on which the shareholders have approved the Plan by way of a special resolution and shall continue to be in force until earlier of:

i. 31st March, 2026; or

ii. The date all the options reserved under the Plan are granted and exercised; or

iii. The date of termination, if any, of the Plan.

2. Grant and Acceptance of Grant

2.1 **Grant of Options**: Each grant under this ESOP 2023 shall be made in writing by the Company to the eligible employees fulfilling the eligibility criteria in a Letter of Grant as may be approved under the ESOP 2023 from time to time.

2.2 **Acceptance of the Grant**: Any employee who wishes to accept the Grant made under ESOP 2023 must deliver to the Company a duly signed acceptance of the Letter of Grant on or before the date (Closing Date) which shall not be more than 60 (Sixty) days from the date of the grant, as specified in the letter of Grant.

3. Vesting Schedule and Vesting Conditions:

Options granted under ESOP 2023 would vest as the company achieves its targets. The shares will vest at the end of

- First year- if the company's earnings is 15%;
- Second year- if the company's earnings is 23% over the two-year period;
- Third year- if the entity's earnings is 29% over the three-year period.

4. Fair value of option: The fair value per share at the grant date is ₹ 122.

Annexure: 2

Raj Malhotra/ Managing Director / JayZee Ltd.

From: "Raj Malhotra" < rajmalhotra@jayzee.com >
Sent: 15th April 2024 10:00
To: "Sanjay Kumar" < sanjay@jayzee.com >
Cc: "Manik Paul" < paul@jayzee.com >
Subject: Custom baggage's related

CA. Sanjay,

Trust you are doing well!

After a productive 4 months business tour in the USA, I am now preparing to return to India. During my stay abroad, I have acquired a few personal items, and as a responsible citizen, I want to ensure that I comply with all customs regulations upon my arrival.

The following are the items I will be bringing back with me:

- Personal Effects items: ₹ 59,000
- 13-Inch Laptop: ₹ 37,000
- Jewellery (15 grams, purchased in the USA): ₹ 67,000
- Music System: ₹ 1,25,000

I would appreciate it if you could kindly guide me on the proper procedures and any applicable customs duties or exemptions, I should be aware of regarding these items.

Your expertise in finance and taxation matters would be greatly helpful in ensuring everything is in order for a smooth entry into India.

Thank you for your time and assistance. Looking forward to hearing from you soon.

Best regards,
Raj Malhotra

I. Multiple Choice Questions

1. JayZee Ltd. has previously intended to use the building for its business operations. However, due to changes in the business environment, the company leased the property to ABC Industries. Determine the value at which the investment property should be recognized and calculate the gain or loss to be recognised from the reclassification of the asset on 1st April, 2024.

   (a) ₹ 10 million and no gain or loss

   (b) ₹ 8 million and gain of 2 million

(c) ₹ 4 million and loss of 2 million

(d) ₹ 6 million and no gain or loss

2. You are required to compute the customs duty payable by Mr. Raj Malhotra with reference to the Baggage Rules, 2016, Assuming if the effective rate of customs duty is 38.50% inclusive of social welfare surcharge, while ignoring the Agriculture Infrastructure and Development cess.

(a) ₹ 67,875

(b) ₹ 43,320

(c) ₹ 38,500

(d) ₹ 54,670

3. Determine the amount of expenses to be recognized in the Statement of Profit and Loss at the end of second year in respect of options granted to employees under "ESOP plan 2023" as approved by the shareholders of JayZee Ltd.

(a) ₹ 6,78,750

(b) ₹ 7,23,867

(c) ₹ 8,94,667

(d) ₹ 7,46,703

4. JayZee Ltd aims to enhance its manufacturing efficiency and productivity by reducing breakdown losses and defective products. To achieve this, management seeks to assess Overall Equipment Effectiveness (OEE), a key metric for evaluating the performance of the manufacturing process. You are required to calculate 'OEE'.

(a) 83.65%

(b) 81.03%

(c) 81.87%

(d) 83.14%

5. Whether JayZee Ltd. was required to pass resolution with respect to appointment of Mrs. Sunita in SPL considering it to be a related party transaction?

(a) No, as such appointment did not amount to appointment of Mrs. Sunita to an office or place of profit in SPL.

(b) Yes, as Mrs. Sunita was a related party to JayZee Ltd. and she would be drawing a monthly remuneration exceeding ₹ 2.5 lakhs in its subsidiary company.

(c) No, as even though Mrs. Sunita was a related party to JayZee Ltd., she would be drawing remuneration from SPL, its subsidiary company and not JayZee Ltd., itself.

(d) No, as such provisions with respect to related party are not applicable in relation to a foreign subsidiary company.

II. Descriptive Questions

6. You are required to analyse whether the situation relating to constructive obligation for payment of bonus is an error requiring retrospective restatement of comparatives, considering that the amount is material.

7. (A) Referring to the merger transaction with BM Autos Ltd. in the case study, answer the following questions:

(i) Determine the number of shares of JayZee Ltd, will be issued to the shareholders of BM Auto Ltd. as per the arrangement entered.

(ii) Suppose if BM Autos Ltd.'s P/E ratio is 6.4, then what will be its current market price and what will be exchange ratio on this basis. Also determine JayZee Ltd.'s post-acquisition EPS.

(iii) What should be the exchange ratio if JayZee Ltd.'s shareholders desire that pre-acquisition and post-acquisition EPS should remain the same?

Note: - Round off your calculations upto 2 decimal points.

(B) What is take over by reverse bid?

8. How should auditors deal with the issues in the audit report of JayZee Ltd.?

ANSWERS TO THE CASE STUDY 3

I. Answers to the Multiple Choice Questions

1. (d) ₹ 6 million and no gain or loss

Reason:

As per Ind AS 40, Initial recognition of an owned investment property should be at cost only. As per para 59 of Ind AS 40, "Investment Property" Transfers between

investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. Hence if a property which was previously used for business operations, is subsequently reclassified as an investment property, and the company follows the cost model, the investment property should be recognized at its carrying amount at the date of reclassification.

In this case, the property was purchased for ₹ 10 million on April 1, 2020. After 4 years, the carrying amount is ₹ 6 million, after accounting for depreciation. Since as per Ind AS 40, the company has to follow the cost model, the fair value is relevant only for disclosure and not for the recognition of the asset in the balance sheet. Therefore, the investment property should be recognized at the carrying amount of ₹ 6 million, as that is the value at which it is currently held on the books and there will be no gain or loss on such reclassification.

2. (d) ₹ 54,670

Reason:

Computation of customs duty payable by Mr. Raj Malhotra

Particulars	₹
Personal effects [Duty free clearance is allowed]	Nil
Laptop computer [One laptop computer is exempt when imported into India by a passenger ≥ 18 years of age]	Nil
Jewellery [Duty free jewellery allowance is not available to Mr. Raj since he did not reside abroad for more than 1 year]	67,000
Music system	1,25,000
Total value	**1,92,000**
Less: General duty-free baggage allowance of ₹ 50,000	50,000
Value of baggage liable to customs duty	**1,42,000**
Rate of Duty	38.50%
Customs duty @ 38.50% (including social welfare surcharge)	**54,670**

3. (b) ₹ 7,23,867

Reason:

Expense for F.Y. 2023-24 = Expected number of employees at the end of the vesting period × Shares per employee × Fair value of a share × Proportionate vesting period

= 440 employees × 100 shares × ₹ 122 × 1/2 = ₹ 26,84,000

Expense for F.Y. 2024-25 = (Expected number of employees at the end of the vesting period × Shares per employee x Fair value of a share × Proportionate vesting period) - Expense recognized in the year 2023-2024

= (419 employees × 100 shares × ₹ 122 × 2/3) – ₹ 26,84,000 = ₹ 7,23,867

3.4 (c) 81.87%

Reason:

Calculation of Shifts:

Total Shifts = Days per week × Shifts per week × Total Weeks

= 6 × 2 × 4 = 48 Shifts

Calculation of Un-Planned Downtime

Un Planned Loss of = Total unplanned loss in minutes/Total minutes per shift shifts

= 1440/48 = 30 mins

Total Loss = Breakdown Maintenance (in mins) + Set up Changes (in mins) + Power Failure (in mins)

= 360 + 840 + 240 = 1440 mins

Calculation of Planned Production time

Planned Production = Total Time – Planned Downtime minutes per shift

= 540 - 60 = 480 mins

Total Time = 9 hrs × 60 mins = 540 mins

Planned Downtime = Lunch Break + Miscellaneous Breaks + Preventive Maintenance

= 30 + 15 + 15 = 60

Availability Ratio = {(480 min-30 min)/480 min} = 93.75%

Actual Production = 140 units per shift

Standard Time = 3 minutes

Standard Time Required = 140 units x 3 minutes = 420 minutes

Actual Time Taken = 480 mins - 30 mins. = 450 minutes

Performance Ratio = (420 min/450 min) x 100

= 93.33%

Quality Ratio = (131/140) x 100 = 93.57%

Thus, OEE 0.9375 × 0.9333×0.9357 = 81.87%

5. (a) No, as such appointment did not amount to appointment of Mrs. Sunita to an office or place of profit in SPL.

Reason:

Section 188 of the Companies Act, 2013, along with Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014 contain provisions which regulate 'related party transactions'.

Further, Section 2(76) of the Act defines who is a 'related party. As per Section 2(76), 'related party', with reference to a company, means a director or his relative;

Where the transaction or transactions to be entered into as contract or arrangement is for appointment to any office or place of profit in the company, its subsidiary company or associate company at a monthly remuneration exceeding ₹ 2.5 lakh as mentioned in clause (f) of subsection (1) of Section 188, approval by an ordinary resolution is required.

The expression "office or place of profit" means any office or place −

(1) where such office or place is held by a director - if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

(2) where such office or place is held by an individual other than a director or by any firm, private company or other body corporate - if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise.

Mrs. Sunita, a relative of a JayZee Ltd.'s director, was appointed as a director in JayZee Ltd.'s subsidiary, SPL, for a monthly salary of ₹ 3 lakhs in the F.Y. 2024-25. This compensation, received as a related party holding a director position in SPL, constitutes her sole remuneration. Consequently, her appointment does not create an 'office or place of profit' with respect to JayZee Ltd. Therefore, JayZee Ltd. was not required to obtain shareholder approval via an ordinary resolution for her SPL directorship.

II. Answers to the Descriptive Questions

6. As per paragraph 41 of Ind AS 8, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

As per paragraph 40A of Ind AS 1, an entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if, inter alia, retrospective restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

In the given case, expenses for the year ended 31st March, 2023 and liabilities as at 31st March, 2023 were understated because of non-recognition of bonus expense and related provision. Expenses for the year ended 31st March, 2024, on the other hand, were overstated to the same extent because of recognition of the aforesaid bonus as expense for the year. To correct the above errors in the annual financial statements for the year ended 31st March, 2025, the entity should:

(a) restate the comparative amounts (i.e., those for the year ended 31st March, 2024) in the statement of profit and loss; and

(b) present a third balance sheet as at the beginning of the preceding period (i.e., as at 1st April, 2023) wherein it should recognise the provision for bonus and restate the retained earnings.

7. (A) (i) No. of Shares to be issued to the shareholders of BM Auto:

= (10/20) × 12,50,000 = 6,25,000

(ii) Revised P/E ratio of BM Autos Ltd.

EPS of BM Auto = ₹ 12,50,000/ 12,50,000 = ₹ 1

Market Price = EPS × P/E Ratio

Revised Market Price = ₹ 1 × 6.4 of BM Autos Ltd. = ₹ 6.40

Exchange Ratio

New Exchange Ratio = ₹ 6.40 / ₹ 20 = 0.32 or i.e 0.32 shares of JayZee Ltd. for one share of BM Autos Ltd.

Post-acquisition EPS of JayZee Ltd.

Post-acquisition EPS of JayZee Ltd.

= (₹ 50,00,000 + ₹ 12,50,000) / (25,00,000 + 12,50,000 × 0.32)

= ₹ 62,50,000/ 29,00,000 = ₹ 2.16

(iii) Desired Exchange Ratio

Post-acquisition total number of shares =

Post-Acquisition Earnings / Pre-Acquisition EPS of JayZee Ltd. = ₹ 62,50,000 / ₹ 2 = 31,25,000

Number of Shares Required to be Issued = 31,25,000 - 25,00,000 = 6,25,000

Thus, exchange ratio should be:

Exchange Ratio = 6,25,000 / 12,50,000 = 0.50

(B) In ordinary cases, the company taken over is the smaller company. The concept of takeover by reverse bid, or of reverse merger, is thus not the usual case of amalgamation of a sick unit which is non-viable with a healthy or prosperous unit. Instead, it is a case whereby the entire undertaking of the healthy and prosperous

company is to be merged and vested in the sick company, which is non-viable. A company becomes a sick industrial company when there is erosion in its net worth. This alternative is also known as taking over by reverse bid. The three tests to be fulfilled before an arrangement can be termed as a reverse takeover are specified as follows:

1. The assets of the transferor company are greater than the transferee company.
2. Equity capital to be issued by the transferee company pursuant to the acquisition exceeds its original issued capital.
3. The change of control in the transferee company through the introduction of a minority holder or group of holders.

8. In the present case, auditors are **unable to obtain sufficient and appropriate audit evidence** with respect to inventory of the company, neither the physical verification has been done by the management nor adequate inventory records are being maintained by JayZee Ltd. The audit team is also unable to undertake the physical inventory count and as such the value of inventory could not be verified. Further, inventory constitutes **30%** of the total assets of JayZee Ltd., which is significant.

In the above case, the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the possible effects on the financial statements of undetected misstatements, if any, **could be both material and pervasive**. Thus, auditors should give a **Disclaimer of Opinion**.

As per Companies Auditors' Report Order 2020 (CARO 2020) dated 25th Feb 2020, the audit report shall include a statement on the following matter:

Whether the physical verification of the inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate. In view of the above the auditor should give a qualification in his report narrating the situation.

CASE STUDY 4

VEN Private Limited

Agriculture and allied industries have been one of the vital sectors of the Indian economy. The crop protection industry refers to companies that manufacture fertilizers, pesticides, fungicides etc. This has a direct connection with agriculture. Allied industries of the agricultural sector include the animal husbandry industry, which is a branch of agriculture. It includes dairy farming, poultry farming, apiculture, aquaculture among others.

Mr. Karnal Singh, the founder of VEN Private Limited, founded the company in Hoshiarpur, Punjab in the year 1965. During the 1960s, the "Green Revolution" development program in India enhanced the productivity of crops. VEN Private Limited became one of the many companies manufacturing crop protection solutions. It focused on the manufacture of pesticides and insecticides.

During 1970s, "White Revolution", another landmark development program, transformed India from a milk deficient nation into the world's largest producer of milk. This popular movement prompted Mr. Karnal Singh to branch out into dairy farming, focusing on milk production and other dairy products. The crop protection business and dairy farm business turned out to be profitable ventures. Over the years, the need for animal feed products especially for livestock increased multifold. Animal feed refers to fodder like compressed and pelleted feed, grains and legumes made specifically to feed livestock cattle. Seeking this opportunity, Mr. Karnal Singh established the animal feed business in the 1990s.

Thus, VEN Private Limited became a diversified agri-business company having three different business verticals - Dairy, Animal Feed and Crop Protection.

Their vision statement reads: ***"Providing sustained value that nourish people and the planet"***

Over the years, each of these divisions has operated with the above vision in mind, aligned with what the company aspires to achieve. Although operations have been wholly contained within Punjab, the business has thrived and become profitable over the years. Management of the company in recent years has been handled by the family members, headed by Mr. Karnal Singh's son Mr. Kunal Singh.

The current management is exploring various opportunities to expand its business across different verticals. As a first step, it intends to assess the performance of each of its divisions as they currently stand in FY 2024–25 within Hoshiarpur, Punjab.

Divisional performance evaluation (Hoshiarpur, Punjab):

At VEN, the performance of each division is assessed independently, and staff members are rewarded based on the division's outcomes. For the financial year ending 31st March 2025, the financial performance of each division is as follows:

- The Dairy Division (DD) reported revenue of ₹ 6,80,00,000 and a profit before interest and tax (PBIT) of ₹ 60,10,000. The netbook value of plant and equipment stood at ₹ 5,65,25,000, and net current assets amounted to ₹ 1,04,75,000.
- The Animal Feed Division (AFD) achieved the highest revenue of ₹ 10,62,50,000 and the highest PBIT of ₹ 63,77,500. The netbook value of its plant and equipment was ₹ 7,43,75,000, and net current assets totaled ₹ 1,51,25,000.
- The Crop Protection Division (CPD) generated revenue of ₹ ,00,00,000, with a PBIT of ₹ 57,66,000. The netbook value of plant and equipment stood at ₹ 2,62,50,000, while the net current assets were ₹ 60,00,000.

It is noted that the PBIT for each division includes a deduction for head office expenses, which have been allocated 2% of the respective division's revenue. The company's cost of capital is 9% per annum, and depreciation on plant and equipment is charged at 15% per annum on cost.

VEN evaluates divisional performance using both Return on Investment (ROI) and Residual Income (RI), calculated based on the controllable profits and using the net book value of plant and equipment at the reporting date as the investment base. These metrics also serve as the basis for the company's performance-linked reward system. In this context, the manager of the Animal Feed Division has claimed that his division is the best-performing unit in the company.

It is proposed to expand the operations of the Dairy Division by venturing into the manufacturing of frozen desserts, as part of the strategic growth initiatives led by the management. For further details, refer to Annexure 1.

Operational efficiency and integration of supply chain management

In its effort to enhance operational efficiency and integrate supply chain management across its verticals, VEN has obtained consultancy services from an entity based in the USA. These consultancy services are aimed at developing a customised enterprise resource planning (ERP) software solution to optimise procurement, production, logistics, and distribution processes. The service is expected to be completed within three months from now. The consideration of USD 1,000,000 for such consultancy services is required to be paid in foreign currency. It is anticipated that the exchange rate will decline by 4% over the three months period and in order to protect the dollar payments after three months, finance manager has decided to hedge the risk involved in foreign currency transaction. He is looking forward to two options to hedge the

transaction risk i.e. either Forward cover or Money market cover. The relevant spot and forward rates are:

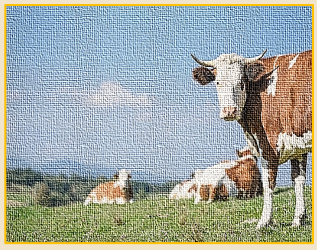
	Spot	3 Month's Forward
₹ / $	85.60/ 85.90	87.60/ 87.90

The borrowing rates in India and USA are 8% and 5.5% respectively and deposit rates are 6.5% and 4% respectively.

This ERP implementation has also supported the Crop Protection Division in resolving its warehousing and shipping constraints and enabled integration with Reachme, the e-commerce platform, as further explained in the Annexure 2.

Annexure: 1

Diversification Strategy: The Dairy Farm operations for FY 2025–26 at Dhagwar, Kangra district, Himachal Pradesh



VEN perceives that there is an opportunity to grow in the premium milk and dairy product segment. For this it wants to follow a different business operating model than the current one at Hoshiarpur. At Hoshiarpur, raw milk is procured from farmers, which is then used to produce different dairy products. The quality of milk that is used cannot be directly controlled by VEN. The dairy products at the Hoshiarpur unit caters to the wide strata of customers ranging from those preferring economy range products to those wanting premium range products. For premium range products, VEN wants to have complete control over the quality of milk that is the main ingredient of its diary operations. For this reason, it wants to own the breed of cows from which the milk will be procured that will be used to make premium range products. In order to have access to open pastures, where the required conditions can be given to the cows. VEN plans to start a new unit of dairy farm operations at Dhagwar town in Kangra district, Himachal Pradesh. VEN wants to procure high milk-yielding breeds of cows that will provide high quality milk to be used to make premium range products. They will be bred, raised, fed and managed in order to produce milk and other dairy products. Cows will be milked every day. Milk thus obtained will be stored in cold storage and sold to retail distributors on a weekly basis. The milk will be fresh milk and concentrated or sweetened or otherwise altered in any way. Milk production will be the primary focus of this newly developed milk farm. Work for this new dairy farm began in FY 2025-26.

On April 1st, 2025, VEN purchased land for ₹ 3 crores at Dhagwar town for this new dairy farm. On this day, it also purchased 100 cows which had an average age of 3 years. VEN received a non-refundable grant of ₹ 10,00,000 for the acquisition of the cows.

During the financial year 2025-26, VEN incurred the following costs:

(i) ₹ 12,00,000 to raise and feed the animals in terms of taking care of their foods requirements and managing their upkeep to maintain them in healthy condition.

(ii) ₹ 5,00,000 as breeding fee to a local farmer.

On 1st October 2025, 20 calves were born. There were no other changes in the number of animals during the year ended 31st March 2026.

On March 31st, 2026, VEN had 10,000 litres of milk in cold storage, which had not been sold to retail distributors. The milk was sold shortly after the year end at the same market price, which had not changed since the year end.

Information relating to fair value

As of April 1st, 2025, the fair value less cost to sell of the land was ₹ 3 crores. Over the next two valuation dates, the value appreciated to ₹ 3.10 crores on October 1st, 2025, and further to ₹ 3.15 crores by March 31st,

2026. For milk, the fair value per litre stood at ₹ 40 on April 1st, 2025, increasing to ₹ 42 by October 1st, 2025, and further to ₹ 45 as of March 31st, 2026. Regarding livestock, the fair value of a newborn calf rose from ₹ 30,000 per calf on April 1st, 2025, to ₹ 35,000 on October 1st, 2025, and reached ₹ 40,000 by March 31st, 2026. A 6-month-old calf was valued at ₹ 32,000 on April 1st, 2025, ₹ 38,000 on October 1st, 2025, and ₹ 44,000 by March 31st, 2026. The fair value of a 3-year-old cow increased from ₹ 42,000 per cow on April 1st, 2025, to ₹ 47,000 on October 1st, 2025, and reached ₹ 50,000 by the end of the financial year. Similarly, a 4-year-old cow was valued at ₹ 42,000 per cow on April 1st, 2025, ₹ 48,000 on October 1st, 2025, and ₹ 52,000 on March 31st, 2026.

Product Development Strategy: Introduction of frozen dessert products at Hoshiarpur, Punjab within the Dairy Division

It has been proposed to expand the business of Dairy Division at Hoshiarpur, Punjab by venturing into manufacture of frozen desserts. This would require additional investment in plant and equipment of ₹ 1,75,00,000 which will generate a contribution of ₹ 95,00,000 per annum. The annual fixed cost of the division will increase by ₹ 8,50,000 (excluding depreciation). Net current assets of this division will increase by ₹ 25,00,000 due to the acceptance of this proposal.

Annexure: 2 – Expansion plans for Crop Protection Division for FY 2025-26



Crop Protection Division primarily sells pesticides and insecticides. The main market for the company has been Punjab. Recently, Mrs. Gunjan Wadhwa, the head of the CPD informed the management at VEN that there is a growing demand for these products from the nearby states of Haryana and Uttar Pradesh. These are from small pockets of rural towns, comprising farmers who have small landholdings and do not have direct access to VEN's distributors in Punjab. Therefore, they buy these products from agents, who charge a hefty commission, which reduces their profit margins. The CPD in the meantime is looking to expand its market presence outside Punjab. Mrs. Wadhwa sees an opportunity to expand in rural towns rather than in larger semi-urban cities where competition is stiff. An additional hurdle that the company faces is the lack of warehousing and shipping facilities, since VEN has had its operations only within Punjab. While VEN's newly implemented ERP system has significantly improved internal efficiencies across procurement, production, logistics, and distribution, it does not substitute for the physical infrastructure and external network required to penetrate new rural markets. Since the project is still at a nascent stage, Mrs. Wadhwa does not recommend investing in warehousing and shipping facilities in these newer markets yet. Hence, she approaches Reachme, an e-commerce company who are willing to connect sellers like VEN with buyers like small farmers in rural areas. The company earns a seller fee for the sales made through the website. Buyers pay a yearly subscription fee in order to access the website services. Further the company is willing to provide VEN warehousing and shipping services for an additional fee.

I. Multiple Choice Questions

1. The land on which VEN has its dairy farm operations at Dhagwar, Himachal Pradesh is classified as agricultural land. Which of the following statements is true?

   (a) Income from dairy farming can be considered agricultural income and is therefore exempt from tax.

(b) Income from dairy farming can be considered agricultural income as like traditional agricultural activities, it is related to agricultural land.

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

(d) Income from dairy farming performed on agricultural land can be apportioned between business income and agricultural income based on certain pre-defined ratios.

2. The Animal Feed Division, at Hoshiarpur is headed by Gurwinder Singh. He wants to improve the division's Economic Value Added (EVA). Which of the following can help the division achieve this?

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

(b) Choose projects where an additional infusion of capital gives a return that is less than the cost of obtaining this additional capital

(c) Discontinue projects where the return on investments yields more than the cost of capital

(d) Change the cost of capital to reflect EVA that is favourable

3. What type of business model does Reachme follow?

(a) Hypermarket model

(b) Digital Platform model

(c) Freemium model

(d) Service Ecosystem model

4. Suppose if after 3 months ₹ / $ Spot Rate happens to be 89.00/ 89.34 the expected loss of……..is likely to be avoided by company if it takes forward cover.

(a) ₹ 11,00,000

(b) ₹ 14,00,000

(c) ₹ 14,40,000

(d) ₹ 17,40,000

Note: Consider all calculations **up to 2 decimal points** for accuracy.

5. The compliance officer of VEN Private Limited, Mrs. Nikita, is unsure whether prior RBI approval is applicable for the foreign exchange remittance for the purpose of obtaining such consultancy services from abroad.

Advise Mrs. Nikita on whether prior approval from the Reserve Bank of India (RBI) is required for remitting foreign exchange:

(a) Yes, prior RBI approval is required because the amount exceeds the permissible limit under FEMA regulations.

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

(c) Yes, RBI approval is mandatory for all payments to foreign entities irrespective of the amount involved.

(d) No, prior RBI approval is not required since the company is engaged in agricultural activities.

II. Descriptive Questions

6. To EVALUATE divisional performance and support strategic decisions on expansion and performance measurement, answer the following:

(i) COMPUTE the Return on Investment (ROI) and Residual Income (RI) for each division. ASSESS the validity of the claim made by the manager of the Animal Feed Division based on these performance measures.

(ii) EVALUATE the proposal to expand the Dairy Division for a one-year period. Based on ROI and RI analysis, ADVISE management on whether the project should be accepted.

(iii) ANALYSE, with the help of calculations from the Dairy Division's proposal, how ROI can improve over time with the aging of assets.

(iv) Recognizing the limitations of purely financial metrics, the management of VEN Ltd. intends to incorporate Non-Financial Performance Indicators (NFPIs) for the following functional areas:

(a) Human Resource Management

(b) Product and Service Quality

(c) Brand Awareness and Company Profile

EXPLAIN the relevance and scope of NFPIs in evaluating performance in each of these areas.

Note: Compute ROI and RI by considering "Net Current Assets" along with "Net Book Value of Plant and Equipment".

7. Hari Singh, the head of the Dairy Division at Dhagwar, Himachal Pradesh. He has done his masters in dairy farming (specialization). Financial performance will be one of the metrics that is used to assess his performance for the year. Since he does not have a background in finance or commerce, he wishes to understand the impact of the above transactions on the financial reports that are being prepared for his division for the year 2025-26.

   As the Chief Accountant, guide him about how the above information has been accounted for in the financial reports prepared as per Indian Accounting Standards for the year ended March 31st, 2026.

   PREPARE an extract of the profit and loss account and the Balance Sheet to show how these transactions will be reflected for FY 2025-26.

   Note: VEN uses the cost model to account for land acquisitions.

8. ADVISE the VEN whether it should adopt Forward Cover or Money Market Cover? Consider all calculations up to 2 decimal points for accuracy.

ANSWERS TO THE CASE STUDY 4

I. Answers to the Multiple Choice Questions

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

Reason:

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

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

Reason:

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

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

3. (b) Digital Platform model

Reason:

The correct answer is (b) Digital Platform model.

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

4. (c) ₹ 14,40,000

Reason:

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

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

Reason:

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

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

II. Answers to the Descriptive Questions

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

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

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

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

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

ROI/ RI for proposed expansion (for first year)

Particulars	Amount in ₹
a. Additional investment in plant and equipment	1,75,00,000
b. Depreciation for first year on the above investment (15%)	26,25,000
c. Net book value of additional investment in plant and equipment at reporting date (a-b)	1,48,75,000
d. Additional net current assets	25,00,000
e. Total additional investment (c)+(d)	1,73,75,000

f. Additional contribution	95,00,000
g. Additional fixed cost	8,50,000
h. Net addition to earning (f)-(g)-(b)	60,25,000
i. ROI [(h)/(e)×100]	34.68%
j. Required return [9% of (e)]	15,63,750
k. RI [(h)-(j)]	44,61,250

Advise

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

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

(iii) ROI improves with age of the assets

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

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

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

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

Human resources management

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

Product and service quality

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

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

Brand awareness and company profile (brand equity)

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

7. Extract from Balance Sheet

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

Extract from the Statement of Profit & Loss

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

Working Note

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

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

than bearer plants" under non-current asset in the Balance Sheet using the fair value model laid down in Ind AS 41.

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

(i) Increase in the price of a 3-year-old cow from ₹ 42,000 per cow to ₹ 50,000 per cow. This represents an increase of ₹ 8,00,000 on account of the increase in price (₹ 50,000 per cow - ₹ 42,000 per cow = ₹ 8,000 per cow × 100 cows = ₹ 8,00,000). This will be recognized in the profit and loss account for FY 2025-26.

(ii) Physical change in cow, due to the passage of 1 year increases the average age of cows from 3 years to 4 years. On account of this on March 31st, 2026, while a 3-year-old cow is valued at ₹ 50,000 per cow; the cows that now have an average age of 4 years as of this date are valued at ₹ 52,000 per cow. Therefore, each cow has had its market value increase by ₹ 2,000 per cow as of March 31st, 2026. This increase in the value of the biological asset due to physical change works out to ₹ 2,00,000 (₹ 52,000 per cow - ₹ 50,000 per cow) ×100 cows). This will be recognized in the profit and loss account for FY 2025-26.

(iii) Accordingly, as of March 31st, 2026, the Balance Sheet will reflect ₹ 52,00,000 as the value of 100 cows with an average age of 4 years (100 cows × ₹ 52,000 per cow). The profit and loss account will show an income of ₹ 10,00,000 on account of (a) price increase in the value of biological asset ₹ 8,00,000 (refer point (i) above) and (b) increase in value due to physical change of the biological asset ₹ 2,00,000 (refer point (ii) above).

(iv) Corresponding expenses, of ₹ 5,00,000 breeding fees paid to the local farmer and ₹ 12,00,000 various herd maintenance expenses will be considered as expenses in the profit and loss account for the year.

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

It is given that 20 calves were born on October 1st, 2025. Therefore, their age, as on March 31st 2026, will be 6 months. The fair value net of any cost to sell of these calves as on March 31st, 2026, is ₹ 44,000 per calf. Hence the value of 20 calves

at the year end will be ₹ 8,80,000, in the balance sheet as well as considered as income in the profit and loss for the year.

(C) **Land acquisition:** The purchase of land is not covered under Ind AS 41. The relevant standard would be Ind AS 16 "Property, Plant and Equipment". According to it land would be considered as an asset, valued at cost in the Balance Sheet as of March 31st 2026. Since the useful economic life of the land is infinite, no depreciation can be charged against it. Therefore, the value of land as shown in the Balance Sheet as of March 31st 2026, will be at the cost of acquisition which is ₹ 3 crores. Any subsequent change in market value post-acquisition is ignored under the cost model. ***(Please note that the allowed alternative corresponding treatment under revaluation model permits the land to be revalued to market value with the revaluation surplus taken to other comprehensive income).***

(D) **Grant received:** VEN received a non-refundable grant of ₹ 10,00,000 for acquisition of cows. It is not subject to any conditions or requirements to be satisfied; hence it is an unconditional grant. As per Ind AS 20, this grant needs to be considered as income of the company and credited to the profit and loss account.

(E) **Inventory of milk:** Milk is an agricultural produce and will be measured on the same basis as biological assets. As of March 31st, 2026, VEN has 10,000 litres of milk in cold storage, the fair value of which is ₹ 45 per litre. Therefore, milk would be valued at ₹ 4,50,000. This will be reflected as part of Inventory in the Balance Sheet. This is regarded as "cost" for future application of Ind AS 2 to the unsold milk. The fair value of milk is also considered as income in the profit and loss account.

8. Forward Cover

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

Money Market Hedge

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

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

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

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

Advise

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

CASE STUDY 5

Safe and Wise Advisory Limited



Safe and Wise Advisory Limited (SWAL) is well established financial planning & risk advisory firm of the country with nation-wide presence. SWAL is engaged in selling third party products be it financial products or insurance products (life assurance only). Financial advisory business of SWAL is doing well and contributing to the half of gross revenue of group and two-third of overall group's bottom line, but insurance brokerage business is not performing as per expectation. 'Independent and impartial advice' to client is unique selling point of SWAL.

SWAL was established by Mr. Ravi Verma around two decade ago (when life-assurance business goes private), at then it was one division business i.e. assurance brokerage business. Mr. Ravi Verma is dynamic leader and presently leading the company as CEO, apart from being major shareholder of the company.

SWAL is widely acknowledged in market for two distinct features, first being presence wide across the nation, in form of 'sub-agency offices' equipped with professionally trained sale staff headed by financial planner or advisor, where customer can take advise and discuss opinion prior to investing/ buying any insurance or financial product. SWAL has 'sub-agency offices' in 580 cities, towns and blocks. Locations are semi-commercial in nature but prominent. SWAL has practice to sign 30-year lease, when so ever taking and 'sub-agency office' on lease in order to reduce the lease cost and bring stability.

Secondly, SWAL sold product of all third parties, hence provide a range of products to its client to choose from. In 2010, SWAL signed a 15 year's agency agreement with all 23 life insurance companies recognised then. SWAL's tagline is also depicting the same 'we are ethically committed to understand and deliver your needs'. SWAL believes in organic growth and listed on stock market 3 years back to float additional capital to fund more 'sub-agency offices'.

22 out of these 23 life assurance companies are private and registered themselves with regulatory between the year 2000-2009 for a period of 25 years. Considering the default by few

insurance firms and increasing customer complaints, regulator of insurance business in country tighten the registration criteria and harden the norms.

Typically each of ‘sub-agency office’ comprises three regular and one contractual employee. One being financial planner/ advisor, 2 sales and relationship officer and contractual worker in role of support staff and vested with miscellaneous clerical responsibilities. The on-roll number of employees engaged in assurance brokerage business has been increased to 1,564 from 720 five year ago (up-till 3 year ago number was 845 but since expansion of ‘sub-agency’ office division it is around 1,500).

Market trend is changing, since the SWAL commence the business. Each of such insurance company, now has their own network of branch offices to sale their insurance product directly; that too at more prominent locations. SWAL counter this step by highlighting its ‘independence and impartial advice’ practice, although SWAL managed to retain the revenue at same level, but this result in low profitability of ‘sub-agency office’ business. Now these insurance companies are not authorising any new agent.

Safe and Wise Advisory Limited (SWAL), a service-oriented company, sought to expand its market reach. To achieve this, SWAL established a dedicated 'E-platform' division, 'Policy at Your Click,' staffed by 50 professionals. Giganet is a service provider offering broadband and voice call services. SWAL intends to obtain broadband connectivity from Giganet to support the operational needs of its E-platform. For data security reasons, SWAL also wants to retain the right to procure the modem from any vendor of its choice at any time. So, SWAL has entered into an agreement (Annexure1) with Giganet for Broadband Services and for Modem procurement on 15th June 2024.

SWAL Ltd. requires a robust data management software to store, manage, and secure its valuable data against unauthorized access and malware threats. In pursuit of a reliable solution, SWAL engaged with DBMS Ltd., a renowned and experienced leader in data security solutions. After extensive negotiations spanning over a month, both parties have reached an agreement under which DBMS Ltd. shall provide SWAL with a license to use its proprietary data management software ("Software"). DBMS Ltd. is the sole owner and developer of the Software and agrees to grant SWAL a license under the terms and conditions set forth in Annexure 2.

SWAL’s **‘E-platform’** enables the seamless online sale of life insurance policies, strategically compensating for losses incurred by its sub-agency network. The insurance company has introduced multiple life insurance plans, all of which are available for purchase through SWAL’s

E-platform. Acting as an intermediary, SWAL facilitates the sale of these policies and earns a commission from the insurance company on each policy sold through its platform. This commission-based model ensures a sustainable revenue stream for SWAL while streamlining the insurance purchasing process for customers.

The insurance company offers a range of life insurance plans, each with distinct premium structures and allocations for investment or savings components. Below is a detailed description of these plans:- **Investment-Linked Policy** – This policy requires an annual premium payment of ₹1,00,000. A portion of ₹60,000 is explicitly allocated towards investment or savings, which is clearly communicated to the policyholder at the time of service supply. The remaining amount covers risk protection and other associated costs. **Single Premium Annuity** – This plan involves a one-time premium payment of ₹ 5,00,000. Unlike investment-linked policies, this plan does not have a separate investment or savings component. The entire premium is utilized to provide annuity benefits, ensuring a steady stream of income for the policyholder. **Regular Life Insurance** – Under this policy, the policyholder pays an annual premium of ₹80,000. However, there is no explicit allocation for investment or savings, meaning the distribution of funds between risk coverage and any potential savings component is not clearly defined. **Pure Risk-Cover Policy** – This policy is designed solely for risk coverage, with an annual premium of ₹ 50,000. The entire premium is dedicated to providing financial protection against life risks, without any portion being allocated for investment or savings. These plans cater to different financial and coverage needs, offering flexibility based on the policyholder's preferences and risk appetite.

JS & Associates are at a crossroads regarding their audit approach for SWAL for the financial year ending March 31st, 2025. Historically, they have identified management override of controls and revenue recognition as significant risks. However, their audits in the past 2 financial years yielded clean reports with no issues detected in these areas.

This absence of recent red flags presents a dilemma. On one hand, maintaining a conservative approach suggests continuing to assess these areas as significant risks. This ensures a thorough examination and mitigates the chance of missing potential issues that could arise due to unforeseen circumstances or changes within SWAL.

On the other hand, consistently clean reports raise the question of continued significance. JS & Associates might consider performing a more focused assessment or reducing the emphasis on these risks while still acknowledging their potential impact. This could streamline the audit process without compromising effectiveness. As part of a risk-based audit approach, JS & Associates focus on areas with a higher likelihood of material misstatement.

Supported by revenue figures given below (in '000 Crores), analysts reach to conclusion that growth in the assurance brokerage business is slowing down both for SWAL and industry overall–

Market Size/Year	2024-25	2023-24	2022-23	2021-22	2020-21
SWAL's assurance brokerage business	326	320	312	298	280
Total market size of life assurance	2,240	2,198	2,122	2,004	1,960

Revenue earned by each division of assurance brokerage business (in term of age of the client), is shown in table below for F.Y. 2024-25–

Division/Age	20-30	30-40	40-50	50-60	60+	Total
'Sub-agency office' division	2	25	38	164	51	280
'E-platform' division	8	28	8	2	0	46
Total Business of SWAL						326

Since the profitability of 'sub-agency office' division is declining, hence the strategic review committee of board of directors are concerned about the company's declining profitability due to poor performance of 'sub-agency office' division and suggest that the 'sub-agency office' division should be sold off and that SWAL shall re-position its assurance business as an online solution.

Extract from financial statement for agency office division only (figures in '000 Crores) –

Particulars/Year	2024-25	2023-24	2022-23
Revenue	280	272	250
Profit before interest and tax	18	16	31
Shareholder's' Equity	156	150	150
8% Long term debt	78	64	50
Current Liabilities	455	437	395
Current Assets	605	565	540

Applicable tax rate is 22%. The nature of cost incurred by 'sub-agency office' division is more or less balanced between the variable and fixed. Fixed costs are largely committed in nature.

But the CEO does not agree to the suggestion made by strategic planning committee, because CEO is of belief that SWAL's USP or original business model is 'sub-agency offices' through which they ensure 'independence and impartial advice' to their clients.

On 20/04/2025 – a board meeting of directors was held to discuss on continuance or sale of the 'Sub-Agency Office' division and few other matters, the minutes of which are given in Annexure 3.

Annexure: 1

AGREEMENT FOR BROADBAND SERVICES
AND MODEM PROCUREMENT

This Agreement is made and entered into on this 15th day of June, 2024, by and between:

First party i.e. **Safe and Wise Advisory Limited (SWAL),** a company duly incorporated and having its registered office at New Delhi, hereinafter referred to as "SWAL"; and Second party i.e. **Giganet Ltd.,** a company duly incorporated and having its registered office at Chandigarh, hereinafter referred to as "Giganet."

Terms of Agreement shall be as follows:

1) Scope of Services

Giganet shall provide broadband and voice call services to SWAL in accordance with the selected service plan for a period agreed as per terms. Additionally, SWAL also reserves the right to opt for any single plan individually, i.e. voice call or broadband services at any time. Giganet offers various plans, including broadband services, voice call services, and a combination of both to its customers.

2) Modem Procurement

Giganet shall provide the Modem device to SWAL. But also, SWAL reserves the right to procure the modem independently from any vendor, and this Agreement shall not impose any restriction in this regard.

3) Term and Termination

The term of this Agreement shall be for a period of three (3) years from the effective date. Upon expiration, the Agreement may be renewed by mutual consent of both parties under terms and conditions agreed upon at the time of renewal.

4) Pricing

The modem shall be sold at a one-time cost of ₹ 10,000. The combined broadband and voice call service plan shall be provided at an annual pricing of ₹ 50,000.

5) Miscellaneous

- Any amendments or modifications to this Agreement shall be made in writing and duly signed by both parties.
- Any dispute arising out of or in connection with this Agreement shall be resolved amicably between the parties. If not resolved, it shall be subject to arbitration under the applicable laws.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

Signed for and on behalf of	Signed for and on behalf of
Safe and Wise Advisory Limited (SWAL)	Giganet Ltd.
Ravi Verma	*Mahesh Makhija*
(CEO, Safe and Wise Advisory Limited)	(Managing Director, Giganet Ltd.)

Annexure: 2

SOFTWARE LICENSE AGREEMENT

This Software License Agreement ("Agreement") is made and entered into on this 20th day of June, 2024, by and between:

First party i.e. **Safe and Wise Advisory Limited (SWAL),** a company duly incorporated and having its registered office at New Delhi, hereinafter referred to as "SWAL"; and Second party i.e. **DBMS Ltd.,** a company duly incorporated and having its registered office at Bangalore, hereinafter referred to as "DBMS."

WHEREAS:

DBMS Ltd. is the owner and developer of a data management software ("Software"). DBMS Ltd. agrees to grant SWAL a license to use the Software under the terms and conditions set forth herein.

SWAL intends to utilize the Software for its business operations while maintaining operational stability.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the Parties agree as follows:

a) Grant of License

DBMS Ltd. hereby grants SWAL a non-exclusive, non-transferable license to use its Data Management Software for their internal business operations.

b) Updates and Upgrades

DBMS Ltd. shall provide updates and upgrades to the Software on a when-and-if-available basis. SWAL shall have sole discretion in determining whether to install such updates or upgrades.

c) Software Integrity

DBMS Ltd. shall not engage in any activity that alters the functionality of the Software without SWAL's prior written consent.

d) Term of contract

The term of this Agreement shall be for a period of two (2) years from the effective date.

e) Consideration

SWAL shall pay DBMS Ltd. an annual fee of ₹ 4,00,000 (inclusive of all taxes, surcharges and cess) for the licensed use of the Software.

f) Miscellaneous

- Any modifications or amendments to this Agreement must be made in writing and signed by both parties.
- Any disputes arising out of or related to this Agreement shall be resolved amicably between the parties. If unresolved, the matter shall be subject to arbitration as per applicable laws.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

Signed for and on behalf of SWA Ltd.	Signed for and on behalf of DBMS Ltd.
Ravi Verma	*Jay Soni*
(CEO, Safe and Wise Advisory Limited)	(Managing Director, DBMS Ltd.)

Annexure: 3

SWAL

(Safe and Wise Advisory Limited, Reg Address. New Delhi)

Extract of Minutes of the 89th Meeting of the Board held on April 20, 2025 at New Delhi

Item: To discuss the sale or continuance of sub agency division, managerial remuneration and several other matters.

Decision on the 'Sub-Agency Office' Division

The Board deliberated on the continuance or sale of the 'Sub-Agency Office' division. After discussions, it was decided that further evaluation of strategic options would be conducted before making a final decision.

Clarification on Maximum Remuneration

The Company Secretary, Mr. Amit Binoi, was asked about the maximum permissible remuneration for all Directors and the Manager in a financial year. He provided the necessary clarification, confirming that the company follows an annual remuneration structure while ensuring compliance with statutory limits. The Board noted that the company has Mrs. Jalpa Sen as the Whole-time Director (WTD) and recently appointed Mr. Keyur Valia as the Managing Director (MD). It was emphasized that remuneration must adhere to the prescribed statutory limits for the MD, WTD, and Manager collectively. During the scrutiny of accounts for the financial year 2024-25, it was observed that Mrs. Jalpa Sen, heading the Sub-Agency Office division, had inadvertently drawn remuneration exceeding the statutory limit in the previous financial year due to an oversight. The Board directed corrective action to be taken to ensure future compliance.

Risk Assessment of loan given to – Savya Ltd.

A resolution was passed approving a 10-year amortizing loan of ₹100 crore to Savya Ltd., from surplus funds. The Board reviewed the financial implications, considering:

Probability of Default (PoD): Estimated at 0.5% over the next 12 months at initial recognition.

Loss Given Default (LGD): Assessed at 25% of the balance outstanding.

Credit Risk Assessment: Changes in the 12-month PoD were considered a reasonable approximation for evaluating the lifetime PoD and determining any significant increase in credit risk.

Economic Outlook: Relevant economic factors and credit risk expectations were taken into account. The Board directed that ongoing monitoring of credit risk and financial exposure should be conducted to ensure effective risk management.

Conclusion: There being no further business, the meeting concluded with a vote of thanks to the Chair.

Signed

Ravi Verma

(Chairperson and CEO)

Signed

Amit Binoi

(Company Secretary)

25/04/2025

I. Multiple Choice Questions

1. What would have been told by Mr. Amit with respect to maximum remuneration that is allowed in a F.Y. to all such directors and manager taken together?

   (a) 3% of net profits.

   (b) 5% of net profits.

   (c) 10% of net profits.

   (d) 11% of net profits.

2. Mrs. Jalpa, one of the directors, had drawn remuneration in excess of the limit prescribed by the relevant provisions. As regards recovery of the excess remuneration drawn by him, which of the following options is applicable, if the company has defaulted in paying dues to BDS Bank?

   (a) The company shall not waive recovery of excess remuneration paid unless approved by BDS Bank before obtaining approval by a special resolution.

   (b) The company shall not waive recovery of excess remuneration paid unless approved by BDS Bank after obtaining approval by a special resolution.

   (c) The company shall not waive recovery of excess remuneration paid unless approved by a special resolution. Approval of BDS Bank for such purpose is not required

   (d) The company shall not waive recovery of excess remuneration paid unless approved by BDS Bank and if approved by the bank, then company's approval by ordinary resolution is only required.

3. How many Performance obligations are there under the Contract with Giganet?

   (a) There are 2 separate Performance obligations.

   (b) There are 3 separate Performance obligations.

   (c) Only 1 Performance obligation is there which encompasses 3 sub contracts.

   (d) It depends on the company's choice as to how they want to treat it.

4. Which of the following statement is correct w.r.t nature of license as obtained from DBMS Ltd.?

   (a) The Software license doesn't provide a right to use the Intellectual Property as the underlying conditions are not satisfied as per the relevant IND-AS.

   (b) The Software license doesn't provide a right to use the Intellectual Property as the upgrades will change the functionality of the software.

   (c) There is no question of Intellectual Property rights over here in this situation.

   (d) The Software license provides a right to use the Intellectual Property that is satisfied at a point in time.

5. As part of a risk-based audit approach, JS & Associates focus on areas with a higher likelihood of material misstatement. Which of the following statements best describes the concept of significant auditor attention in the context of scenario given in the case study?

   (a) JS & Associates will spend an equal amount of time reviewing all sections of SWAL's financial statements

   (b) JS & Associates will prioritize audit procedures for areas with a lower risk of material misstatement.

   (c) JS & Associates will design the audit procedures based on their assessment of risks that could potentially cause errors in the financial statements of SWAL.

   (d) JS & Associates will rely solely on past audit results to determine the scope of their procedures.

II. Descriptive Questions

6. (i) ASSESS the competitive environment of life-assurance business of SWAL (including 'sub-agency office' division). [present only two appropriate points for each phase of assessing the environment]

   (ii) EVALUATE the case for holding the 'sub-agency office' division, backed by financial viability among other criteria. [present only two appropriate points for each monetary and the non-monetary issue]

7. CALCULATE the value of supply for GST purposes in each of the plans launched by Insurance company on the E platform of SWAL in the case study.

8. CALCULATE loss allowance for the amortizing loan originated by Savya Ltd.

ANSWERS TO THE CASE STUDY 5

I. Answers to the Multiple Choice Questions

1. (c) 10% of net profits

Reason:

Part (i) of the Second Proviso to Section 197(1), provides that except with the approval of the company in general meeting by a special resolution, the remuneration payable to any one managing director or whole time director or manager shall not exceed 5% of the net profits of the company and if there is more than one such director then remuneration shall not exceed 10% of the net profits to all such directors and manager taken together.

Here, after the appointment of Mr. Keyur as Managing Director, since the company had both Whole-time Director as well as Managing Director, the company Mr. Amit, the company secretary would have told the maximum remuneration that is allowed in a Financial Year to all such directors and manager taken together is 10% of net profits, as per the aforesaid provision.

2. (a) The company shall not waive recovery of excess remuneration paid unless approved by BDS Bank before obtaining approval by a special resolution.

Reason:

Section 197 of the Companies Act, 2013, Where the company has defaulted in payment of dues to any bank or public financial institution or non-convertible debenture holders or any other secured creditor, the prior approval of such person respectively shall be obtained by the company before obtaining approval of such waiver by a special resolution.

Hence, SWAL shall not waive recovery of excess remuneration paid unless approved by BDS Bank before obtaining approval by a special resolution.

3. (b) There are 3 separate Performance obligations.

Reason:

Promise to provide goods and services is distinct if

- ❖ the company can benefit from the good or service either on its own or together with other resources that are readily available to the firm, and

- its promise to transfer the good or service to the company is separately identifiable from other promises in the contract

For broadband and voice call services -

- Broadband and voice services are separately identifiable from other promises as company has various plans to provide the two services separately. These two services are not dependant or interrelated. Also, the company can benefit on its own from the services received.

For sale of modem -

- Company can either buy product from Giganet or third party. No significant customisation or modification is required for selling product.

Based on the evaluation we can say that there are three separate performance obligations: -

- Broadband Service
- Voice Call services
- Modem

4. (d) The Software license provides a right to use the Intellectual Property that is satisfied at a point in time.

Reason:

Based on the facts given in question, although the updates and upgrades will change the functionality of the software, they are not activities considered in determining the nature of the entity's promise in granting the licence. The activities of DBMS Ltd. to provide updates or upgrades are not considered because they transfer a promised good or service to the company – i.e. updates or upgrades are distinct from the licence. Therefore, the software licence provides a right to use the IP that is satisfied at a point in time.

5. (c) JS & Associates will design the audit procedures based on their assessment of risks that could potentially cause errors in the financial statements of SWAL.

Reason:

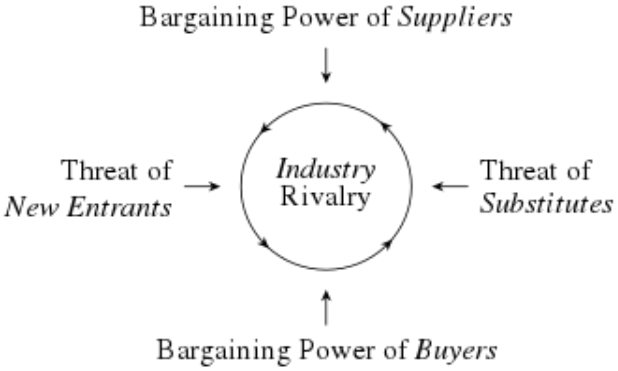
As per SA 701

The concept of significant auditor attention recognizes that an audit is risk-based and focuses on identifying and assessing the risks of material misstatement of the

financial statements, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. Options (a), (b), and (d) do not accurately represent the emphasis on risk assessment in a significant auditor attention approach.

II. Answers to the Descriptive Questions

6. (i) Michael E Porter, in 1980 in his book "Competitive strategy: Techniques' for analysing industries and competitors" suggested **five force model** to assess the competitive environment of an industry. The five forces which are enumerated by this model are the bargaining power of suppliers; the bargaining power of customers (buyers); the threat of new entrants; threat of substitute products; and the level of rivalry among current competitors in the industry.



This model is also named as porter's five force analysis. Since each of these five forces affect the competitiveness of business, hence can be used to assess the potential of any organisation or entity; life-assurance business of SWAL (including 'sub-agency office' division) is not an exception to this. **(Any Two Points)**

The bargaining power of suppliers

Number of suppliers will decide the dominance they possess in term of bargaining power regarding the price of good and service they supply to business. In case of 'sub-agency office' division following factors will affect the suppliers' power–

Control over Value Chain – By adopting the strategy of forward integration the insurance companies them-selves getting into the direct sale through own network of branch offices in order to enhance their margin or reducing the margin earned

by SWAL's 'sub-agency office' division. Since number of insurance companies are neither too less nor too much, hence bargaining power of insurance companies; in terms of percentage brokerage they offered to SWAL is moderate.

Importance of product – SWAL is also dealing in financial product's marketing and advisory, which contribute 50% of group sales and around 67% of group's profit; thus assurance business which is no doubt significant but only choice (business) available to SWAL. Hence, bargaining power of supplier is moderate.

Substitution among the brand – Life assurance product offers similar utility to client; hence easily substitutes among the brands, means if insurance company 1 charge lesser premium then insurance company 2, client will buy assurance of company 1. No doubt switching is less viable once policy subscribed. Since SWAL's 'sub-agency' division is offering the product from all 23 insurance companies, hence bargaining power of suppliers become low.

Supply of other factors – Other factor such 'sub-agency offices', which are largely on lease, has 30-year lease, this will reduce the lease cost as well as bargaining power of land-lord apart from bringing stability. **(Any Two Points)**

The bargaining power of customers

Whether seller is price taker or makes, this is outcome of bargaining power of customers (true sense competition). If the bargaining power is high seller will become price taker, else he is price maker. Following factors affect the bargaining power of customers of SWAL's 'sub-agency' division–

Number of buyers – In assurance industry the buyers are large (in comparison to few number of suppliers) and diversified, hence their bargaining power is low.

Standardised products – Since the life assurance is the product, which is standard from prospective of core functionality, hence buyers can easily substitute brands and can negotiate to reasonable extent.

Switching – Once policy subscribed can't be easily switched with another, hence due to high switching cost bargaining power reduced to some extent at-least. **(Any Two Points)**

The threat of new entrants

Although entry of a new firm to the industry/ market depends upon the level of entry barriers, but if new entity enters into the industry; it will surely bring additional capacity which enhance the stiffness of competition; hence become a kind of

threat. In case of 'sub-agency office' division, there are some major barriers to entry–

Less number of new life-assurance licenses by regulator due to tough regulations – As mentioned in the case that after considering the default by few insurance firms and increasing customer complaints, regulator of insurance business in country has tighten the registration criteria and harden the norms; hence this may act as entry barrier and reduce the threat of new entrants.

Less number of new insurance agent due to no new authorisation by insurance companies – As market is revamping, the agents is becoming competitor to the insurance companies and as mentioned insurance companies stopped authorising new insurance agents, hence this will act an entry barrier for new insurance agents, which is a great positive for SWAL's 'sub-agency office' division and intact the competitive advantage.

Learning curve and economies of scale – Since all the 23 insurance companies dealing in life assurance and SWAL are 10 to 20 years old organisations; hence learning curve and economies of scale (shared services for the 580 offices - presence in 580 cities) which they are enjoying may become entry barriers for new firm. Since new firms require huge capital to be at par to such learning curve and economies of scale. **(Any Two Points)**

Threat of substitution

Substitution means the product from some other industry which can render the same function which life assurance is rending. The threat of substitute product is quiet low.

Competitive rivalry

The level of competition among the players to acquire or retain the market share directly affects the profitability in an industry. Following factor is affecting the competitive rivalry–

Number of competitors and respective market size – Since there are good number of competitors, hence competition will be intense; may cut throat rivalry. Presently SWAL's insurance business represent 14.55% of market share (in 2024-25) in comparison to 14.29% of market share five year ago, without any major variation, hence possibility of gaining new market share is limited that too at high cost (in form of advertisement and more after sale services).

Lack of differentiation – Standardise product results in high rivalry, since the life assurance is standard product hence rivalry may be high on account of easy substitution effect among the different brands.

Slow market growth – If market is growing at high rate, rivalry may be stiffer or may be moderate; because everyone has reasonable opportunity to grow. The moment growth stagnated rivalry become stiffer because no one wish to lose market share. The industry life cycle curve is flatter here, because during last four years overall industry wide CAGR (compounded annual growth rate) of life assurance business is 3.39%, whereas year-on-year growth from 2023-24 to 2024-25 is 1.91%. Although potential is limited, but competition is still high.

Exit barriers – If the exit cost for player to move out of industry is high, it will have to be in industry and fight for survival, which may make competition tougher. Since agency agreement and lease agreement is already signed by SWAL hence, it becomes difficult to exit from the business, hence need to participate in competition to retain the share. **(Any Two Points)**

(ii) Case for holding the 'sub-agency office' division

The strategic review committee suggests that the SWAL's 'sub-agency office' division should be sold off and that SWAL shall re-position its assurance business as an online solution, but the same suggestion firstly needs to be evaluated in terms of financial perspective among the other criteria.

The growth in life assurance business is stagnated and industry is in maturity stage of industry life cycle. This is evident from industry size and growth in the same. During last four years overall industry wide CAGR (compound annual growth rate) of life assurance business is 3.39%, whereas year-on-year growth from 2023-24 to 2024-25 is 1.91%. The moment growth stagnated rivalry become stiffer because no one wish to lose market share. Hence, there is intense competition in market. In cases where market witnesses intense competition, operating efficiently is essential and reduction in cost become key success factor; in order to offer competitive deals to clients and retain market share.

Hence it becomes need of hour, that we review the operating processes followed at 'sub-agency offices' to check whether they are efficient or not, in order to ensure greater profitability rather thinking to sale off the entire 'sub-agency office' division.

Now, move to financial analysis, which suggests it is beneficial to hold back 'sub-agency' division.

Contribution to the group – Insurance business is contributing 50% of top-line of overall group revenue (and 1/3rd of bottom line), and around 86% (280/ 326) of this comes from 'sub-agency office' division and 'E-platform' division contribute only remaining 14%.

Profitability – Margins are positive. There are two major parameters to evaluate profitability further on–

- Operating profit (EBIT/ Revenue) – No doubt, operating profit shrink from 12.4% to 6.43% in three years' time frame. But as earlier quoted, margin is positive and secondly, there is sign of recovery as well. EBIT increased in absolute terms (from 16 to 18).
- Return on capital employed (ROCE) [EBIT / (Equity + Long Term Debt)] – No doubt, ROCE shrink from 15.5% to 7.69% in three years' time frame. But reduction in EBIT is not only a reason, another major reason for decline is also change in capital structure. Long term debt is increased in absolute terms (from 50 to 78).

Liquidity – Current ratio (Current Assets / Current Liabilities) being reasonable measure of liquidity indicates enough liquidity in 'sub-agency office' division to meets it obligation. There is minor decline from 1.367 times to 1.33 times. Component analysis of working capital can be performed for greater insight.

Gearing (Debt / Equity) – Gearing ratio depicts the financial leverage**,** a measure of risk**.** Gearing ratio no doubt increased as result of introduction of debt, from 1/3 to 1/2, but under control. **(Any Two Points)**

Some other quasi-finance and significant factors relevant to the decision of sale of 'sub-agency office' division and full focus on 'E-platform' division–

Client's demography – Clients from all age groups from 20 to 60+ are clients of SWAL's assurance brokerage business. 66.56% (217/326) of revenue coming from clients with 50+ years of age, and 99% (215/217) out of them are associated through 'sub-agency offices', hence holding of 'sub-agency' division become essential. Secondly, clients from all age group may not find it convenient to shift to 'E-platform' 'Policy at you click' and their resistance may result in losing business. Thirdly, they have easily available substitute, because competitors also have branch offices which will give them same feel.

Resistance from employees – Out of 1,564 on-roll employees of assurance brokerage business, only 50 are associated in 'E-platform' division- 'Policy at you click', rest all in 'sub-agency office' division. If SWAL re-structure itself fully as

online solution for life assurance then also can't absorb all the employees, many of them need to be retrenched. Resistance will be there in both the cases, because transferred employee may not have requisite skill set, result in poor quality of service and no job satisfaction to employee. Whereas in case of retrenched workers redundancy cost will become additional financial burden. This can be seen as exit barrier.

Legal aspect in term of pre-closure of lease - SWAL has practice to sign 30-year lease, when so ever taking and 'sub-agency office' on lease in order to reduce the lease cost and bring stability. It started the business 2 decades ago and expanded it 3 years ago and many of leases are active right now, in case of pre-closure, it may be possible to bear additional financial burden as per terms of lease agreement.

Loosing USP – 'Independence and impartial advice' with presence wide across the nation, in form of 'sub-agency offices' equipped with professionally trained sale staff headed by financial planner or advisor, where customer can take advise and discuss opinion prior to investing/ buying any insurance or financial product is USP for SWAL's assurance brokerage business. By disposing the 'sub-agency office' division this central idea, with which SWAL was established may be washed out.

(Any Two Points)

In nutshell, the life assurance market has matured in recent years, and result in low growth potential and lower profitability but still yielding positive numbers. Hence, sale of 'sub-agency' division will adversely hit the revenue as well as profitability.

7. As per Rule 32(4) of the CGST Rules, 2017, the value of supply under GST for each of the plans would be as follows:

Plan 1: Investment-Linked Policy

Rule 32(4)(a): The gross premium is reduced by the amount allocated for investment/savings.

Gross premium: ₹ 1,00,000

Investment/savings allocation: ₹ 60,000

Value of supply: ₹ 1,00,000 - ₹ 60,000 = ₹ 40,000

Plan 2: Single Premium Annuity

Rule 32(4)(b): For single premium annuity policies, the value is 10% of the single premium.

Single premium: ₹ 5,00,000

Value of supply: 10% of ₹ 5,00,000 = ₹ 50,000

Plan 3: Regular Life Insurance

Rule 32(4)(c): For regular policies, the value is 25% of the premium in the first year and 12.5% of the premium charged from the policy holder in subsequent years.

First Year:

Premium: ₹ 80,000

Value of supply: 25% of ₹ 80,000 = ₹ 20,000

Second Year and onward:

Premium: 80,000

Value of supply: 12.5% of ₹ 80,000 = ₹ 10,000

Plan 4: Pure Risk-Cover Policy

Proviso to Rule 32(4): If the entire premium is for risk cover, the rule doesn't apply. The entire premium charged from the policy holder is the taxable value.

Premium: ₹ 50,000 (entirely for risk cover)

Value of supply: ₹ 50,000

8. At reporting date, no change in 12-month POD and entity assesses that there is no significant increase in credit risk since initial recognition – therefore lifetime ECL is not required to be recognised.

Particulars	Details
Loan	₹ 100,00,00,000 (A)
LGD	25% (B)
PoD – 12 months	0.5% (C)
Loss allowance (for 12-months ECL)	₹ 12,50,000 (A×B×C)

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

CASE STUDY 6

BharatTech3D



Due to increased urbanization, there has been a strong demand for residential housing facilities in various cities in India. Residential housing construction in each region is largely a fragmented market dominated by local and regional builders. Few builders have a nationwide presence. Residential construction is segmented by type, that is apartments and condominiums, villas and other types. Most of the apartments' construction is aimed at the mid-range income to luxury segment of customers. There are very few players targeting the low-income customers who are also in need of affordable housing facilities. The need for affordable housing is especially felt in well-developed cities like Pune, Bangalore, Gurgaon and Ahmedabad that have become urban centers in the last few decades. Housing facilities catering to the low-income customer segment are generally of poor quality, consequently, are prone to unfortunate accidents.

BharatTech3D (B3D) is a company established by Mrs. Sinha, an architect and avid innovator. She has been a seasoned professional having more than 25 years of experience in the construction industry. She is also an innovator who wishes to harness the power of technology that can revolutionize the construction industry. ***"Provide over each head a safe and secure roof, without a huge debt" is the current vision for her latest project.*** B3D specializes on building 600 sq. ft to 800 sq. ft single- and two-bedroom homes using 3D technology. This is a revolutionary innovation in the construction industry. Traditional construction involved developing a blueprint for the home, then procure men, material and machines to work on the home. Completing a project the traditional way can take months, up to even more than a year in some cases.

B3D plans to turn this concept on the head, by introducing 3D printing technology for construction. Once the blueprint is finalized, the 3D construction printer takes over and creates the physical structure by printing out layers of concrete based on the design and specifications in the blue print. This substantially reduces wastes, errors and time required for construction in addition to generating better quality output. One housing project can be built within 6 months as compared to a period of 18 months for a similar project built using traditional construction techniques.

As compared to traditionally built homes, the cost of construction of 3D printed homes are expected to be cheaper. An advantage of using 3D construction technology is that it reduces the need for construction labourers as many of the processes are automated. This results in the reduction of construction labour cost by almost 40%. Also, reduction in wastes and errors helps in managing costs better. B3D is in talks with 3D construction printer manufacturers to procure machines needed for construction. These are costly machines that require huge initial investment. B3D is considering financing options for procurement of these machines, currently the loan financing rates are high. Due to limited supply in the face of high demand for prime locations, the cost of land procurement in these fast-developing urban centres is also high. Inflationary pressures on cost of materials, labour and other constructions costs, high financing costs etc. are challenges that B3D expects to encounter. Hence, generating a quick inventory turnover is critical.

B3D has well qualified engineers and architects who will be working on this project. Since B3D plans to build these 3D homes across different cities, their expertise will be required at multiple locations. Hence, in order to retain them and motivate them, the company has offered good remuneration packages to them. For the staff it is a matter of pride to be able to be part of such innovative projects.

B3D wants construction material such as cement and steel need to be of specific quality. There are limited suppliers who can provide material of such grade quality. Moreover, B3D's material requirements form a very small portion of the suppliers' market. Many times, the lead times for procuring these materials are uncertain. Construction material includes bricks and glass that are very fragile and difficult to store. These materials are widely available in the market with many suppliers and can be procured easily on demand. B3D is considering its strategy for inventory management for each of the requirements like cement, steel, bricks and glass.

B3D targets to achieve low cost of production, less lock in of time and capital for each project. Keeping this in mind, the company plans to price the houses at a very attractive price of ₹ 10 lakhs for a single bedroom flat and ₹ 12 lakh for double bedroom flat in prime locations in urban cities across India. On average, similar traditional homes costs around ₹ 15 lacs per single bedroom flat and ₹ 18 lakh for double bedroom flat in the same locality. This will bring a lot of relief for this segment of customers who until now were dependent on the traditional builders for their home shelter needs. B3D targets to make a profit of at least 8% on sale price per flat. At present, it plans to have a uniform selling prices for single bedroom and double bedroom flats across cities in order to popularize the projects. However, there is flexibility for B3D to charge according to the exact cost considerations for each location in each city. Incumbents in the real

estate cannot compete at this low range pricing, hence the company expects them to concentrate their business on the higher end segments for middle income and luxury class segments.

B3D has received the requisite approvals for the projects from town planning and other regulatory authorities. To create awareness and generate demand among the lower income groups, it plans to advertise its products in vernacular newspapers and TV channels. This would ensure better reach to the target customer segment. The cost of advertising in these channels is also cheaper as compared to other mediums. B3D will have a sales office at each project website, which will handle customer enquiries and take them on site tours in order to familiarize themselves with this novel building project.

B3D wishes to create traction on its sales quickly in order to capitalize on its revolutionary concept. Hence, B3D has tied up with Smart Bank Ltd. This is a reputed bank that has a national presence. It has vetted and listed B3D's project across various cities as one of its approved projects for which it is willing to provide loans along with assistance with loan processing. This tie-up gives further credibility in the market for this novel housing project.

Since customers are of the lower income group, the probability of their requirement for loan financing would be higher. Hence where felt appropriate, the sales team of B3D would encourage customers to approach Smart Bank Ltd. for home loans. Fast loan processing due to pre-approved tie-up, speeds up fund procurement and the transaction can be completed quickly, improving churn in sales. Smart Bank Ltd. will also use its digital marketing activities and direct selling agents who will advertise the availability of home loan facilities through these channels. For each loan that gets approved through this tie-up, B3D gets a small commission on each transaction. B3D expects at least 85% of the potential customers to utilize the tip-up with Smart Bank Ltd. to avail loans.

Bhavna, an engineer in the research and development team, has been working on making the construction process more efficient. Consequently, it can reduce the cost of construction. Given, the spectre of inflationary pressures on cost of operations, this project is considered to be critical to business and has the support of the senior management at B3D. Required finances have been approved by the management for this project i.e., efficient 3D construction technology. Project costs are easily identifiable and quantifiable. Bhavna believes that the cost reductions will exceed the project costs within 36 months of their implementation. Regulatory testing, health and safety approvals were obtained on June 1, 2024. This removed uncertainties concerning the project, which was finally completed on April 30, 2025. Costs of ₹ 24,00,000 incurred till March 31, 2025 have been recognized as an intangible asset. An offer of ₹ 17,00,000 has been

received from a third party potential buyer, but it was rejected by B3D, believes that the project will be a major success and that the B3D has the potential to save ₹ 19,00,000 in perpetuity. However, Mrs. Sinha, the head of the research and development team, is concerned about the long term prospects of the new process. She is of the opinion that competitors would have developed new technologies at some time which would require to replace the new process within five years. She estimates the present value of future cost savings over this period to be ₹18,00,000. After that, she feels there is no certainty about the future.

In order to know the state of art developments in the 3D construction business, B3D engages technical services of Pathway Consulting GMBH (having no PE in India), a consulting company in Germany for ₹ 25,00,000. On 31st December 2024, it paid the fees for technical services to this company. This was paid to the company's account in Germany. The accountant engaged at B3D was new to the job. He deducted the tax at source correctly but forgot to deposit the same. B3D paid the relevant TDS in December 2025. India and Germany have a Double Taxation Avoidance Agreement (DTAA) in place to prevent the double taxation of income earned in both countries. As per Article 12 of the India-Germany DTAA, the applicable TDS rate on royalties and fees for technical services (FTS) is 10%.

The management of B3D is considering the following capital budgeting report for its first project in Pune. Due to the novel nature of the project, the management wishes to know the guaranteed return that it would rather accept as compared to a higher but uncertain return. Accordingly, the capital budgeting analysis has incorporated the certainty equivalent co-efficient of future cash flows.

Total investment in the project in Pune ₹ 5 crores.

Risk free return 3%

Expected cash flow for the next five years

Year	Expected cash flow (₹)	Certainty Equivalent co-efficient
1	1 crore	0.95
2	2 crores	0.90
3	2 crores	0.85
4	3 crores	0.80
5	2 crores	0.75

In May 2024, B3D enters into a lease with AK Enterprises for a 3D construction printer for the Pune project for a period of 3 years. The contract stipulates that AK Enterprises will perform

maintenance of the leased 3D construction printer and receive consideration for that maintenance service. The contract contains the following fixed prices for the lease and non-lease component:

Lease component for 3D printer	₹ 6,00,000 per annum
Maintenance component for 3D printer	₹ 1,00,000 per annum
Total payment made to AK Enterprises	₹ 7,00,000 per annum

Assume that the stand-alone prices cannot be readily observed, so B3D makes estimates maximizing the use of observable information of the lease and non-lease components as follows:

Lease component for 3D printer	₹ 8,00,000 per annum
Maintenance component for 3D printer	₹ 2,00,000 per annum
Total payment made to AK Enterprises	₹ 10,00,000 per annum

B3D has not opted for the practical expedient option regarding the lease and non-lease component.

I. Multiple Choice Questions

1. Which type of disruption does the introduction of 3D printing in the real estate sector represent?
   (a) Low end disruption
   (b) New market disruption
   (c) competitive disruption
   (d) Generic disruption
2. From the case scenario, which stage of startup is B3D in and what is the value proposition match has it achieved?
   (a) Pre-start up stage with problem-market FIT stage
   (b) Pre-start up stage with problem-solution FIT stage
   (c) Start up stage with product-market FIT stage
   (d) Start up stage with scale-FIT stage
3. B3D is considering its strategy for inventory management. Given the information in the case study about the lead times, availability of suppliers and negotiating powers with

suppliers, which of the following inventory management methodologies can the company follow for these products?

(a) Just in Time Purchasing for all construction materials like bricks and glass, cement and steel.

(b) Just in Time Production for all construction materials like bricks and glass, cement and steel.

(c) inventory to stock for materials like bricks and glass and Just in Time Production for construction materials like cement and steel.

(d) Inventory to stock for construction materials like cement and steel while Just in Time purchasing for materials like bricks and glass.

4. The net present value of the project in Pune using the certainty equivalent technique shall be approximately

(a) ₹ 3.35 crores

(b) ₹ 2.60 crores

(c) ₹ 4.07 crores

(d) ₹ 5.00 crores

5. What will be the allocation of consideration paid by B3D for the lease and non-lease component against the contract with AK Enterprises for 3D printer?

(a) Lease component ₹ 6,00,000 per annum and non lease component ₹ 1,00,000 per annum

(b) Entire payment of ₹ 7,00,000 per annum as lease component as B3D has not opted for practical expedient regarding the lease and non lease components

(c) Lease component ₹ 8,00,000 per annum and non lease component ₹ 2,00,000 per annum

(d) Lease component ₹ 5,60,000 per annum and non lease component ₹ 1,40,000 per annum

II. Descriptive Questions

6. What are the tax implications for B3D due to the non-deduction of TDS on payments made to Pathway Consulting GMBH? Additionally, is there any interest liability for failing to deduct TDS?

7. B3D wants to ensure that its business model has a competitive advantage over its rivals. DEVELOP Osterwalder's Business Model Canvas to help the management understand the key elements of its business model.

8. ADVISE the appropriate accounting treatment for the research and development costs incurred by Bhavna to make construction process more efficient that will consequently result in future cost savings.

ANSWERS TO THE CASE STUDY 6

I. Answers to the Multiple Choice Questions

1. (a) Low end disruption.

Reason:

B3D is targeting low-income customer segment currently existing in the real estate market by offering them affordable homes using innovative 3D technology at highly attractive rates that cannot be matched by incumbents. Hence, it plans to enter the market at the lower priced product segment. Incumbents due to their inability to compete with the company, are expected to concentrate their business on higher end segments for middle income and luxury class segments.

Also, disruptive innovation is of two type low end disruption and new market disruption.

2. (c) Start up stage with product-market FIT stage

Reason:

B3D is in the start up stage with product-market FIT stage. Getting regulator approvals, arranging for operational requirements in terms of men, machines and money, strategic tie-ups that will help its reach in the market, ongoing research and development activities to reduce costs of operations. All this indicates a commitment from B3D to get customer validation for the 3D affordable housing project that it wants to the market. Its offering will be tested in the market through its first project in Pune, where customer demand is expected to be generated and the value proposition starts generating cash flow, the company moves to the start – up stage with product-market FIT of its value proposition.

3. (d) Inventory to stock for construction materials like cement and steel while Just in Time purchasing for materials like bricks and glass.

Reason:

Inventory to stock for construction materials like cement and steel. B3D wants the materials to be of specific quality grade. It also seems from the scenario, that the company may not be able to have sufficient negotiating power with the suppliers. Also, the lead time for procurement of material is uncertain. Hence, the ideal method would be the stock these inventories.

Just in Time purchasing will work well where the construction material like bricks and glass are very fragile and difficult to store. These materials can be procured only when needed in order to avoid loss due to storage due to their fragility. Loss will be incurred if the inventory is stocked and stored due to their fragility. It is given that These materials are widely available in the market with many suppliers and can be procured easily on demand. Hence, Just In Time purchasing requirements would be an ideal method for these inventories.

4. (b) ₹ 2.60 crores. Calculation as below

Reason:

PV of Cash Inflows =

$$\frac{(₹1 \text{ crore})\times 0.95}{(1.03)^1} + \frac{(₹2 \text{ crore})\times 0.90}{(1.03)^2} + \frac{(₹2 \text{ crore})\times 0.85}{(1.03)^3} + \frac{(₹3 \text{ crore})\times 0.80}{(1.03)^4} + \frac{(₹2 \text{ crore})\times 0.75}{(1.03)^5}$$

= ₹ 92,23,301 + ₹ 1,69,66,726 + ₹ 1,55,57,408 + ₹ 2,13,23,689 + ₹ 1,29,39,132

= ₹ 7,60,10,256

NPV = PV of Cash Inflows – Initial Investment

= ₹ 7,60,10,256 - ₹ 5,00,00,000 = ₹ 2,60,10,256 that is ₹ 2.60 crores.

5. (d) Lease component ₹ 5,60,000 per annum and non lease component ₹ 1,40,000 per annum

Reason:

The stand alone price for the lease component represents 80% of the total estimated stand alone prices [₹ 8,00,000/₹ 10,00,000]. Therefore, B3D allocates the consideration in the contract i.e. ₹ 7,00,000 per annum as follows:

Lease component for 3D printer 80% × ₹ 7,00,000 per annum	₹ 5,60,000 per annum
Maintenance component for 3D printer 20% × ₹ 7,00,000 per annum	₹ 1,40,000 per annum
Total payment made to AK Enterprises	**₹ 7,00,000 per annum**

II. Answers to the Descriptive Questions

6. In the given case, **BharatTech3D (B3D)** (Indian company) took technical services of **Pathway Consulting GMBH** (German based company) of **₹ 25 lakhs** in December 2024. It deducted the tax at source but failed to deposit to the Government. Later, it deposited the TDS with the Government in December 2025.

Disallowance of Expense under Section 40(a)(i):-

As per **Section 40(a)(i)** of the **Income Tax Act, 1961**, if an assessee deducted tax at source (TDS) on payment of fees for technical services to a non-resident but failed to pay the same on or before due date of filing return of income, then such expenditure shall be **disallowed** in the previous year. As per the **first proviso to Section 40(a)(i)**, if tax has been deducted during the previous year but paid after due date of filing return of income, then the expense will be **allowed** in the year in which such tax is paid.

In the given case, since BharatTech3D (B3D) deducted tax but did not deposit it on or before the due date, the fees for technical services of ₹25 lakhs will be disallowed while computing business income for the Financial Year 2024-25 (A.Y. 2025-26). Since tax is paid in December 2025, the expense of ₹25 lakhs will be allowed as a deduction in the Financial Year 2025-26 (A.Y. 2026-27).

Determination of TDS Amount :-

As per Section 195, any person responsible for paying interest (other than interest referred to in section 194LB or section 194LC) or any other sum chargeable to tax (other than salaries) to a non-corporate non-resident or to a foreign company is liable to deduct tax at source at the rates in force. Applicable rate of tax on such FTS is 20%. However, if DTAA provides for a rate lower than 20%, then, provisions of DTAA would apply.

The applicable TDS rate (assuming it qualifies as "fees for technical services" and DTAA benefit is considered) shall be 10% + surcharge (if applicable) + 4% cess.

TDS @10% on ₹25,00,000 = ₹2,50,000

HEC @4% on ₹2,50,000 = ₹10,000

So, the total TDS Amount shall be ₹2,60,000

Interest Calculation under Section 201(1A) :-

Section 201(1A) imposes interest on delayed TDS payment as follows:

Interest for Delay in Deposit (1.5% per month or part thereof)

TDS was deducted on 31st December 2024 but deposited in December 2025

Delay = 12 months

Interest = 1.5% per month × 12 months × ₹2,60,000

Interest = ₹46,800

7. Osterwalder's Business Model Canvas comprises of nine elements, wherein four elements pertain to cost (key partners, key activities, key resources and cost structure). These are connected to the other four elements pertaining to revenue (customer relationships, channels, customer segments and revenue streams). This link is established through the nineth segment, value proposition.

Key Partners:

B3D relies on several key partners to support its operations and growth in the construction industry. This includes ***suppliers of essential components*** such as 3D construction printing machines, specialized cement, and steel required for 3D printers, as well as other construction materials like bricks and glass. ***Suppliers of construction labour*** are also crucial partners in executing projects efficiently.

Furthermore, B3D has formed a ***strategic tie-up with banks like Smart Bank Ltd***. This partnership enhances market reach by facilitating easier access to financing for potential customers. Additionally, ***consulting firms providing technical insights*** on the latest developments in construction technology play a vital role in B3D's innovation and continuous improvement efforts.

Key Activities:

B3D engages in several key activities to drive its business and innovation in the construction industry. First and foremost, it meticulously follows ***advanced construction techniques, coordinating the necessary manpower, materials, and machinery*** to complete projects within a swift 6-month timeframe. This efficient project management ensures timely delivery and customer satisfaction.

Secondly, B3D places a strong emphasis on ensuring that construction materials meet the required specifications and quality standards necessary to support 3D printing technology. This ***commitment to quality*** enhances the durability and efficiency of its construction processes.

Additionally, B3D invests significantly in ***research and development activities to maintain a competitive edge***. These efforts focus on innovation in 3D printing technology and construction methodologies, enabling B3D to stay ahead in the market and continuously improve its offerings.

To facilitate quick inventory turnover and boost sales, B3D employs ***targeted advertisements and leverages its strategic partnership*** with Smart Bank Ltd. This collaboration not only expands its customer reach but also facilitates easy financing options for potential buyers, thereby accelerating sales and project timelines.

Moreover, B3D ***evaluates the creditworthiness of customers*** interested in outright purchases and actively encourages the use of home loans through Smart Bank Ltd. This approach ensures that financing solutions are accessible to a broader customer base, making homeownership more achievable for low-income segments.

Key Resources:

B3D relies on key resources essential for its operations and innovation in the construction sector. At the core of its technological advancement are ***3D construction printers***, which enable efficient and precise construction of residential units. These printers are pivotal in realizing B3D's goal of delivering high-quality, affordable housing using advanced technology.

Another critical resource for B3D is its ***team of employees specialized in engineering and architecture***. These professionals bring expertise in designing and overseeing the implementation of 3D printing technology in construction projects. Their skills and knowledge are crucial for maintaining operational excellence and driving continuous improvement.

In addition to tangible resources like 3D printers and skilled personnel, B3D leverages ***intangible assets*** such as patents and process improvements generated through its research and development activities. These intangible assets not only protect B3D's innovations but also provide a competitive edge in the market by enhancing efficiency, reducing costs, and improving the quality of its construction projects.

Value Proposition of B3D:

B3D addresses the pressing customer problem of the ***lack of good quality, affordable housing facilities*** in urban cities in India. By leveraging 3D construction printing technology and other innovative technological solutions, B3D ***provides secure and affordable housing facilities***, revolutionizing the construction industry and meeting the urgent needs of low-income customers in these urban centers.

Customer Relationships:

B3D maintains customer relationships by managing a mass customer base through sales offices at each project site. These ***offices conduct site tours and handle queries*** about the novel 3D construction project, ensuring that potential buyers are well-informed and engaged throughout the purchasing process.

Channels:

B3D utilizes multiple channels to reach its customers effectively. ***Sales offices are established at each project site*** to directly engage with potential buyers. Additionally, B3D ***leverages its tie-up with Smart Bank Ltd.***, which publicizes the projects through digital marketing activities and direct selling agents, ensuring wide reach and visibility among potential customers.

Customer Segments:

B3D targets lower-income customers in urban cities across India who are in need of affordable housing facilities. The customer base consists of two types: those making ***outright purchases*** and those ***requiring financial assistance*** for home purchases.

Revenue Streams:

B3D's primary revenue stream comes from the ***sale of residential units***, with a uniform selling price of ₹ 10 lakh per single bedroom flat and ₹ 12 lakh per double bedroom flat to popularize the scheme. There is flexibility to adjust prices upward based on cost considerations for each project across multiple cities, with a target profitability of 8% of the sale price of each flat.

In addition to direct sales revenue, B3D ***generates ancillary income through commissions*** from its partnership with Smart Bank Ltd. This collaboration facilitates loan approvals for customers, enhancing affordability and enabling quicker sales turnover.

This dual revenue model ensures that B3D not only meets the housing needs of lower-income segments but also maximizes its financial performance through strategic pricing and financial partnerships.

Cost Structure:

B3D's cost structure involves various management opportunities and challenges. On the ***opportunity side***, utilizing 3D construction technology yields higher quality construction while reducing waste, errors, and time due to automated processes. This efficiency allows for better inventory management of materials like cement, steel, bricks, and glass, and decreases construction time, lowering labor costs by almost 40% and reducing overhead expenses. However, B3D ***faces several challenges***, including high land

acquisition costs, significant expenses for 3D printing machines, and the need for higher remuneration for skilled employees such as engineers and architects. Additionally, the specialized materials required for 3D printing are costly, inflation impacts other construction costs, and financing costs remain high.

8. Ind AS 38 'Intangible Assets' requires an intangible asset to be recognized if, and only if, certain criteria are met.

- Intention to complete the asset is apparent as it is a major project with full support from board
- Finance is available as resources are focused on project
- Costs can be reliably measured
- Benefits are expected to exceed costs – (in 3 years)
- Regulatory approval which was received on June 1, 2024

Regulatory approval for the project was received on June 1, 2024. The project was completed on April 30, 2025. Costs of ₹ 24,00,000 incurred until March 31, 2025 have been recognized as an intangible asset. This is incorrect.

Expenses incurred prior to June 1, 2024 should be expensed out. Assuming that ₹24,00,000 has been incurred evenly from 1st April 2024, ₹ 4,00,000 has been charged to Profit and Loss account. Retrospective recognition of expense as an asset is not allowed.

Expenses incurred between June 1, 2024 and March 31, 2025 should be capitalized: ₹ 24,00,000×10/12 = ₹ 20,00,000

Ind AS 36 'Impairment of assets' requires an intangible asset not yet available for use to be tested for impairment annually. As of March 31, 2025 the asset is not yet available for use, hence it has to be tested for impairment. Cash flow of ₹ 19,00,000 in perpetuity would clearly have a present value in excess of ₹ 19,00,000 and hence there would be no impairment. However, the research head Mrs. Sinha is technically qualified, so impairment tests should be based on her estimate of a five-year remaining life and so present value of the future cost savings of ₹ 18,00,000 should be considered in that case. ₹ 18,00,000 is greater than the offer received (fair value less cost to sell) of ₹ 17,00,000 and so ₹ 18,00,000 should be used as the recoverable amount.

The carrying amount should be consequently reduced to ₹ 18,00,000.

Calculation of Impairment loss of intangible asset under development:

Particulars	**Amount (₹)**
Carrying amount of intangible asset as of March 31,2025	20,00,000
Less Recoverable amount	(18,00,000)
Impairment loss	**2,00,000**

Impairment loss of ₹ 2,00,000 is to be recognized in the profit and loss for the year 2024-25.

Necessary adjusting entry to correct books of account will be:

Particulars		**₹**	**₹**
Operating expenditure – Development expenditure	Dr	4,00,000	
Operating expenses – Impairment loss	Dr	2,00,000	
To Intangible asset under development			6,00,000

CASE STUDY 7

Agrofine

An article singing paeans for India's space-tech start-ups appeared in *"The New York Times"* recently. The article underlined that India has become home to many such start-ups. It pointed out that space technology is fulfilling smaller-scale and commercial purposes like helping farmers in timely insurance of their crops. Space technology is also helping commercial fishing fleets in tracking their catch by sending images back to Earth. Satellites are bringing phone signals to country's remotest corners and are helping in operation of solar farms far away from India's megacities. It's also one of India's most sought-after sectors for venture capital investors. Space technology is at the forefront of humanity's next great leap expanding our presence beyond Earth while enhancing life on our home planet. By making in-space resources available on demand, we are not only enabling sustainable exploration but also unlocking new opportunities for innovation, commerce, and scientific discovery.

Start-ups are mushrooming in different sectors of India's economy as varied as education, health, agriculture, fintech, clean energy, electric vehicles, bio technology, waste management, food processing and even drones. *Economic Survey for year 2021-22* highlights that by capitalising on the digital infrastructure support, India has also emerged as one of the world's most vibrant destinations for start-up ecosystems. Start-ups are being envisioned as the spine of new India. In fact, India is home to world's third largest start-up eco system.

Agrofine is an ed-tech start-up incorporated as a private company in April 2022. The founders of start-up believe that some benefits are available to start-ups under income tax law. However, they are unaware about nitty-gritty of the same as they are from engineering and management backgrounds. The company had launched its products in year 2024-25 itself and had a turnover of ₹ 20 crores. It is recognized by DPIIT (Department for Promotion of Industry and Internal Trade under Ministry of Commerce and Industry) and holds a certificate of eligible business and is recognized as a technology driven start-up by competent authority.

Agrofine's vision is to help farmers with space & science and to accelerate humanity's expansion into space by making in-space resources available on-demand.

Agrofine's mission is make the earth a more vibrant and sustainable place to live in by ensuring education for all sects and to promote the higher standards of education and to revolutionizing space access by dramatically lowering costs.

Agrofine has issued shares to certain investors who are familiar with founders of this ed-tech start-up during year 2024-25. They believe in the business idea of founders of the company and have decided to invest money out of their own resources. These investors are wedded to idea of providing quality affordable education to all and promoting standards of education in the country. In this way, their ideological belief stands aligned with mission of founders of start-up.

The start-up Agrofine has issued equity shares having face value of ₹ 10/-per share to these individuals @ ₹ 50/-per share during year 2024-25. The fair market value of equity shares of start-up as on valuation date is ₹ 11/-per share. The existing paid up share capital of company is ₹ 1.50 crores. The company has not issued shares at premium anytime in past.

Agrofine is still in nascent stages. However, it has already launched its products and has entered a segment of the market. The market has a considerable potential for company's business to grow. Start-ups not only need finance but they also require favourable and conducive eco system to grow. It includes not only hand holding at time of germination of a business idea but also policy measures having a legislative backing. In India, relaxations and benefits have been provided to start-ups under various laws like under Income tax Act,1961 and Companies Act,2013.

Agrofine needs talented and skilled employees for its business. However, the company is not in a position to pay high cash salaries to attract and retain employees. It is, therefore, considering route of employee stock option plans (ESOPs). Employee stock option plans provide a chance to employees to become shareholders in the company and also be benefitted by its future growth. The company plans to draft an ESOP scheme containing matters relating to grant of option, vesting period and manner of determining exercise price among others. The company is approaching many talented persons for assuming various senior roles in its organizational set-up. One such senior person, Mr. X, has shown interest in joining the company. However, he is sceptical regarding income tax implications pertaining to ESOPs. He has a doubt that it may lead to withholding of tax by start-up impacting his immediate "in-hand" salary.

Agrofine purchased a patent right in April, 2022, for ₹ 3,00,000, which has a legal life of 15 years. However, due to the competitive nature of the product, the management estimates a useful life of only 5 years. Straight-line amortisation is determined by the management to be the best method. As at 1st April, 2023, management is uncertain that the process can actually be made economically feasible, and decides to write down the patent to an estimated market value of ₹ 1,50,000 and decides to amortise over 2 years. As at 1st April, 2024, having perfected the related production process, the asset is now appraised at a value of ₹ 3,00,000. Furthermore, the estimated useful life is now believed to be 4 more years.

Company has recently developed a Soil & Water Diagnostic equipment, AgriSense-20, featuring advanced environmental analysis Instruments for soil testing, water pH evaluation and indicate the presence of dissolved salts or minerals. The company projects a total profit of ₹75,000 from the first 256 equipments produced. The first equipment required 112.50 hours to manufacture, with a labor rate of ₹20 per hour. A 90% learning curve is expected to apply indefinitely, improving efficiency as production scales. This efficiency gain will play a crucial role in making soil and water analysis more accurate and accessible, aligning with Agrofine's mission to drive sustainable agricultural and environmental solutions. With the AgriSense-20 equipment, Agrofine takes another step toward pioneering the next generation of precision farming,

empowering farmers and researchers with cost-effective and reliable diagnostic tools for improved resource management.

Agrofine is planning to merge another start-up company engaged in similar line of activity to increase its size, revenue and scalability. However, founders of the company are clueless regarding modalities of the same under relevant laws. Valuation of start-ups is often required for bringing in investments. The value of a start-up is dependent upon its future growth prospects. It is also quite likely that such a business idea has never been tested before. It only lies in realms of future. Another problem in start-up valuation is totally new or non-comparable business products and strategies. Start-ups also depend upon many rounds of funding. Agrofine may also approach another set of investors in further rounds of funding. It is actively exploring multiple avenues for funding to support its growth and business expansion. Agrofine is also planning to approach venture capital (VC) funds, which specialize in providing financial support to high-growth startups with significant market potential.

I. Multiple Choice Questions

1. From the description given in case study relating to finance brought by individuals from their own resources and whose belief in promoting affordable education to all in the country and also improving its standards is aligned with mission of founders, which type of financing for a start-up is being referred to?

   (a) Bootstrapping

   (b) Venture capital financing

   (c) Funding by angel investors

   (d) Factoring

2. The founders of Agrofine believe that some benefits are available to start-ups. Considering the description provided in case study, which of the following statements is in accordance with provisions of income tax law?

   (a) Company is eligible to deduction @ 75% of its profits from eligible business for any 5 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by Inter-Ministerial Board for Certification.

   (b) Company is eligible to deduction @ 100% of its profits from eligible business for any 3 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by Inter-Ministerial Board for Certification.

   (c) Company is eligible to deduction @ 75% of its profits from eligible business for any 5 consecutive assessment years out of 10 years beginning from the year in

which start-up is incorporated. Further, certificate of eligible business in this regard is provided by CBDT.

(d) Company is eligible to deduction @ 100% of its profits from eligible business for any 3 consecutive years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by CBDT.

3 As regards doubt of Mr. X regarding withholding tax in relation to ESOPs is concerned, which of the following statements is most appropriate?

(a) Income tax would be withheld at rates in force when option is exercised and shares are allotted to Mr. X.

(b) The company is an eligible start-up holding certificate of eligible business. Income tax would not be withheld when option is exercised and shares are allotted to Mr. X as such transactions are exempted from withholding tax in case of eligible start-ups.

(c) The company is an eligible start-up holding certificate of eligible business. However, such start-up is allowed to defer withholding tax when option is exercised and shares are allotted to Mr. X. It is deducted in required manner after expiry of certain timelines and/ or happening of certain events.

(d) Income tax would be withheld when option is granted. Such withholding tax would be deducted at the rates in force at time option is granted to Mr. X.

4. The start-up is planning merger with another start-up engaged in similar activities. Which of the following statements is in line with provisions of law regarding proposed merger of these start-ups?

(a) It requires filing of proposed scheme with NCLT and final order in respect of merger is made by NCLT after following a detailed procedure.

(b) It involves giving notice of proposed scheme to Registrar and Official Liquidators and approval of scheme by both the companies. After approval of scheme by creditors, the scheme is approved by Registrar of Companies.

(c) It involves giving notice of proposed scheme to Registrar and Official Liquidators and approval of scheme by both the companies. After approval of scheme by creditors, the scheme is filed with Regional Director, Registrar and Official Liquidators. The scheme is finally registered by Regional Director.

(d) It requires filing of proposed scheme with NCLT and final order in respect of merger is made by NCLT after following a fast-track procedure.

5. Which of the following is not a factor to be considered for valuing a start-up like Agrofine?

   (a) Past performance indicators

   (b) Educational background of founders

   (c) Uniqueness of product launched by start-up

   (d) Traction

II. Descriptive Questions

6. Determine the value of the intangible asset i.e. patent right, as of the financial year ending 31st March, 2025. Consider factors such as amortization, impairment, market valuation, and any relevant financial adjustments that may impact its final valuation.

7. Explain the different stages of Venture capital funding and also state an indicative Risk Matrix along with period and activity to be financed during each of these stages.

8. For the developed Soil & Water Diagnostic equipment,

   i. What will be the total labour cost for the first 256 equipments produced at 90% learning curve effect?

   ii. What should be the revised labour cost required to achieve zero profit, and at revised labour cost what will be the cumulative average time (Revised) required per equipment for producing 256 equipments?

ANSWERS TO THE CASE STUDY 7

I. Answers to the Multiple Choice Questions

1. **(c)** Funding by angel investors

Reason:

Angel investors typically use their own money. Often, they are among an entrepreneur's family and friends. They generally invest in small-start-ups and are attached to the idea of the business floated by start-up. However, venture capitalists take care of pooled money from other investors and place them in a strategically managed fund. Bootstrapping is an attempt to build the company from personal finances or from operating revenues of the company. Factoring is a method of bootstrapping.

2. **(b)** Company is eligible to deduction @ 100% of its profits from eligible business for any 3 consecutive assessment years out of 10 years beginning from the year in

which start-up is incorporated. Further, certificate of eligible business in this regard is provided by Inter-Ministerial Board for Certification.

Reason:

Under section 80-IAC (1) of Income tax act, 1961, where the gross total income of an assessee, being an eligible start- up, includes any profits and gains derived from eligible business, there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction of an amount equal to one hundred per cent of the profits and gains derived from such business for three consecutive assessment years.

The deduction may at the option of the assessee, be claimed by him for any three consecutive assessment years out of ten years beginning from the year in which the eligible start-up is incorporated.

Further, explanation to section 80-IAC also defines eligible start-up which fulfils the following conditions namely: -

(a) it is incorporated on or after the 1st day of April, 2016 but before the 1st day of April, 2024

(b) the total turnover of its business does not exceed one hundred crore rupees in the previous year relevant to the assessment year for which deduction under sub-section (1) is claimed and

(c) it holds a certificate of eligible business from the Inter-Ministerial Board of Certification as notified in the Official Gazette by the Central Government

3. (c) The company is an eligible start-up holding certificate of eligible business. However, such start-up is allowed to defer withholding tax when option is exercised and shares are allotted to Mr. X. It is deducted in required manner after expiry of certain timelines and/ or happening of certain events

Reason:

Under section 192(1C), a person, being an eligible start-up referred to in section 80-IAC, responsible for paying any income to the assessee being perquisite of the nature specified in sub clause (*vi*) of sub-section (2) of section 17 in any previous year relevant to the assessment year, shall deduct or pay, as the case may be, tax on such income within fourteen days—

(*i*) after the expiry of forty-eight months from the end of the relevant assessment year or

(*ii*) from the date of the sale of such specified security or sweat equity share by the assessee or

(*iii*) from the date of the assessee ceasing to be the employee of the person

whichever is the earliest, on the basis of rates in force for the financial year in which the said specified security or sweat equity share is allotted or transferred.

Therefore, section 192(1C) provides for deferment of withholding tax in case of eligible start-ups.

4. **(c)** It involves giving notice of proposed scheme to Registrar and Official Liquidators and approval of scheme by both the companies. After approval of scheme by creditors, the scheme is filed with Regional Director, Registrar and Official Liquidators. The scheme is finally registered by Regional Director.

Reason:

In case of merger between small companies/ start-ups, fast track procedure for merger has been prescribed under section 233 of Companies Act, 2013. It does not require filing of application with NCLT. The notices are to be given to registrar, official liquidator and Central Govt (powers delegated to Regional Director). After considering objections of registrar and official liquidator, the scheme is finally registered by Regional Director.

5. **(a)** Past performance indicators

Reason:

In valuation of a start-up like Agrofine, there is no historical data on basis of which future projections can be drawn. Valuation of a start-up entirely rests on its future growth potential. The assessments of future growth are dependent upon competence and drive of persons running the business.

II. Answers to the Descriptive Questions

6. Value as on 31st March, 2023

Original cost	₹ 3,00,000
Less: Amortisation (3,00,000 × 1/5)	(₹ 60,000)
Net Value	₹ 2,40,000

Value as on 31st March, 2024

On 1st April, 2023, the downward revaluation is recorded by writing down the asset to the estimated value of ₹ 1,50,000, which necessitates a ₹ 90,000 charge to profit & loss (carrying value, ₹ 2,40,000 less fair value ₹ 1,50,000).

Amortisation provided for the financial year 2023-2024 is ₹ 75,000 (₹ 1,50,000 / 2)

Net value is = ₹ 1,50,000 – ₹ 75,000 = ₹ 75,000.

Value as on 31st March, 2025

As of 1st April, 2024, the carrying value of the patent is ₹ 75,000. Revalued amount of patent is ₹ 3,00,000.

Out of total revaluation gain of ₹ 2,25,000, ₹ 90,000 will be charged to profit & loss and balance amount of ₹ 1,35,000 (₹ 2,25,000 – ₹ 90,000) will be credited to revaluation reserve in OCI.

Amortisation provided for the financial year 2024-2025 is ₹ 75,000 (₹3,00,000 / 4)

Net value as on 31st March, 2025 = ₹ 3,00,000 – ₹ 75,000 = ₹ 2,25,000.

7. Start-up Agrofine, like many early-stage businesses, can seek funding from venture capital (VC) firms to meet its business requirements. Venture capital funding typically progresses through the following stages:-

Seed Money is the initial funding required to support the development of a concept, idea, or research and development (R&D) for product creation. At this stage, the risk is extreme, as the business is still in its conceptual phase, making the likelihood of failure very high. Investors typically commit funds for a long-term horizon of 7 to 10 years.

Start-Up Funding is provided to early-stage businesses that need financial support to develop prototypes, initiate operations, and begin marketing efforts. The risk remains very high since the business has yet to establish market acceptance or generate revenue. Investment at this stage usually spans 5 to 9 years.

First-Round Funding is directed toward businesses that have started commercial production and marketing but require additional financial support to sustain operations. The risk is still high as the company is in its early revenue-generating phase but has not yet achieved financial stability. Investments at this stage generally range from 3 to 7 years.

Second-Round Funding is intended for companies looking to expand their market reach, meet growing operational needs, and scale their business, although they have not yet achieved profitability. The risk at this stage is sufficiently high, as the company is generating revenue but has not yet reached a break-even point. Investors typically commit funds for a period of 3 to 5 years.

Third-Round Funding (Mezzanine Financing) is used for market expansion, acquisitions, or product development in companies that have started generating profits. The risk level at this stage is moderate, as the business model has been proven, but financial support is still required for large-scale growth. The investment horizon for this round is usually between 1 and 3 years.

Fourth-Round Funding (Bridge Financing) is designed to help companies transition to the public market by financing their Initial Public Offering (IPO) preparations. At this

stage, the risk is relatively low, as the company is already established, generating profits, and preparing to go public. Investments in this phase generally last between 1 and 3 years.

Each funding stage carries a different level of risk, with the highest uncertainty in the seed and start-up phases, gradually decreasing as the company matures and moves toward an IPO.

Alternative Solution:

Stages of funding for VC

1. **Seed Money**: Low level financing needed to prove a new idea.
2. **Start-up**: Early-stage firms that need funding for expenses associated with marketing and product development.
3. **First-Round**: Early sales and manufacturing funds.
4. **Second-Round**: Working capital for early stage companies that are selling product, but not yet turning in a profit.
5. **Third Round**: Also called Mezzanine financing, this is expansion money for a newly profitable company.
6. **Fourth-Round**: Also called bridge financing, it is intended to finance the "going public" process.

Risk in different stages is given below:

Financial Stage	Period (Funds locked in years)	Risk Perception	Activity to be financed
Seed Money	7-10	Extreme	For supporting a concept or idea or R&D for product development and involves low level of financing.
Start Up	5-9	Very High	Initializing prototypes operations or developing products and its marketing.
First Stage	3-7	High	Started commercial production and marketing.
Second Stage	3-5	Sufficiently high	Expanding market and growing working capital needs though not earning profit.

Third Stage	1-3	Medium	Market expansion, acquisition & product development for a profit making company. Also called Mezzanine Financing.
Fourth Stage	1-3	Low	Facilitating public issue i.e. going public. Also called Bridge Financing.

8. (i) Calculation of total labour cost :-

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

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

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

(ii) Calculation of revised labour cost at zero profit and cumulative average time (revised) :-

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

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

Cumulative Average Time for 256 equipments (Revised) = 63.08 hrs. [16,148.08 / 256]

CASE STUDY 8

Shakti Agrochemical Limited

Shakti Agrochemical Limited (SAL) is engaged in the business of producing agrochemical chemicals, specializing in fertilizers. Known as the Crop Nutrition Business (CNB) the company has a portfolio of 20 products offering different grades of fertilizers for different requirements of farmers. Crop nutrition is an important part of any farming activity as it has a direct impact on productivity and sustainability. An active management of micro and macro nutrients is required to ensure that the crop yield is maximized. Maximizing crop yield has become a significant global challenge due to the food requirement demands of a growing population. Hence, companies like SAL need to provide top grade fertilizers in order to ensure that farmers can maximize the crop yield from their farming activity.

Government grants

SAL carries out various projects with government's financial assistance. It received two grants of ₹ 5 crores each in April 2024 for ongoing research and development initiatives. The first unconditional grant pertains to research on "Soil degradation due to misuse of fertilizers", focusing on the long-term effects of excessive fertilizer use, such as soil acidification, hardening, and pollution in a designated agricultural belt in Punjab. However, as of March 31, 2025, no major steps have been taken to commence this research. The second grant supports the commercial development of crop-specific nutrition solutions, designed to provide tailored nutrients based on crop variety and growth stage to enhance yield and meet the country's food requirements. SAL is confident in the technical feasibility and financial viability of this research, with the product expected to be available for sale by April 2026. Additionally, in September 2024, an earthquake led to a complete production loss at one of SAL's factories, forcing a two-month shutdown. The state government introduced a compensation package for affected manufacturing entities, entitling SAL to claim compensation based on the average sales of the preceding three months. To avail of this relief, SAL must submit an application with the necessary figures by May 30, 2025. However, by the time SAL's financial statements were adopted on May 31, 2025, the claim form had not yet been submitted.

Development of customized micronutrient mixture fertilizers for specific crops

After considerable research, SAL developed customized micronutrient mixture fertilizers that are designed to meet specific needs of certain soil type and crop variety. These are specialized fertilizers made by enriching mixing and blending fertilizers along with the crop or soil specific nutrient requirements. They promote growth of healthy crops and enhance soil nutrition. In recent years, in order to improve crop yield and soil productivity, there has been a lot of research and development done on such specialized fertilizers. They are not covered under any

government subsidy scheme. The manufacturer can fix the Maximum Retail Price (MRP) and can also offer discounts as needed.

Recently, SAL has introduced 3 new grades of such fertilizers in the market. All three grades can be primarily used for growing vegetables. SAL has decided to test the market by launching these products in a limited scale.

After the end of the financial year in April 2025, the sales manager Mr. Ray looked up the sales volume report. The SAL had sold 11,000 units of all 3 grades put together during the year, this was more than the budget of 10,000 units for the period. Mr. Ray planned to mention this in his annual performance assessment report in order to get a good bonus for the year. He approaches Mr. Bose, the management account of the company, to help him analyse the sales performance.

The budget for the year 2024-25 projected sales of 2,000 kg for Grade 1, 3,000 kg for Grade 2, and 5,000 kg for Grade 3, totaling 10,000 kg. The average selling price per kg was set at ₹ 500 for Grade 1, ₹ 300 for Grade 2, and ₹ 200 for Grade 3. The direct material cost per kg was budgeted at ₹ 150, ₹ 100, and ₹ 75 for Grades 1, 2, and 3, respectively, while the direct labour cost was projected at ₹ 100, ₹ 60, and ₹ 75 per kg for the three grades. Variable overhead costs were expected to be ₹ 50 per kg for Grade 1, ₹ 40 per kg for Grade 2, and ₹ 10 per kg for Grade 3.

In contrast, actual sales for the year stood at 2,500 kg for Grade 1, 3,100 kg for Grade 2, and 5,400 kg for Grade 3, bringing the total to 11,000 kg. The average selling price per kg realized was ₹ 450 for Grade 1, ₹ 280 for Grade 2, and ₹ 180 for Grade 3. Direct material costs per kg increased to ₹ 170 for Grade 1, ₹ 120 for Grade 2, and ₹ 95 for Grade 3. Meanwhile, direct labour costs remained consistent with the budget at ₹ 100, ₹ 60, and ₹ 75 per kg for Grades 1, 2, and 3, respectively. Similarly, variable overhead costs remained unchanged at ₹ 50, ₹ 40, and ₹ 10 per kg for the respective grades.

The main sales responsibility of Mr. Ray is restricted to these grades of fertilizers. Due to the novelty of these products, the management of SAL decided not to stock up the products as inventory as they want to first test the demand and market conditions. Rather for these products alone, SAL follows Just in Time system for purchasing and production and does not hold any inventory. Mr. Ray co-ordinates as an intermediary with the whole sale dealers in various regions and SAL's production department. Mr. Ray is not in charge of any other function or operation of the manufacturing process.

Sales campaign of customized micronutrient mixture fertilizers for specific crops

The above grades Grade 1, Grade 2 and Grade 3 are of a variety of fertilizers that can substitute one another based on the requirements of the farmer. SAL launched a sales and marketing campaign through social media that helped them reach out to farmers directly all across the country. This campaign was spearheaded by Mr. Ray. This was done to understand how product pricing can impact sales of each of these grades. Since the products are similar, SAL expects

the product price to play a primary role in generating sales. As a threshold for analysis, the company considers a product to be price sensitive only if there is an impact of 5% of sales volume due to a change in price.

During the campaign, SAL offered slightly higher discounts on bulk purchases beyond a certain limit. This helped spur the sales volumes. The additional discount policy was not factored in the budgets. The campaign also helped SAL overcome the problem of good sales personnel who have been hard to find in the recent past. There have been times when there is a sudden spike in demand for a particular grade of fertilizer since the conditions to grow and sell that crop is favourable in that season.

Combined with a successful sales and marketing campaign that spurred sales volume, the procurement department had to procure the raw material from the open market at prevailing prices. Generally, the current prevailing market prices are higher than that agreed with the JIT supplier partners.

Educational and promotional campaign for effective use of fertilizers

Crop yield can be maximized only if the farmers use the fertilizers effectively. There is not much awareness about customized micronutrient mixture fertilizers. The above-mentioned grades of customized micronutrient mixture fertilizers have the potential to improve agricultural productivity of farmers. SAL's management expects the demand for such customized mixture fertilizers to increase in future. Hence it was important to promote the potential such products, educate and spread awareness about them among farmers and agriculturalists.

Sales campaigns such as those above have been helpful in generating preliminary interest in these products. They are more temporary and seasonal in nature. Proper awareness about the application techniques of these fertilizers would generate more regular sales. This requires SAL to be able to connect even better with the farmers by educating them and making them aware about these products. With this in mind, the company bought a plot of agricultural land, which was used exclusively to showcase fertilizer application techniques for farmers. By being able to understand firsthand from the experts at SAL, the farmers can better understand the potential benefits of these fertilizers. These promotional events are held almost all year round, where depending on the season, fertilizers can be customized to suit the crop that requires it. After gaining adequate knowledge, many farmers who attend such events buy such customized fertilizers from the stalls in such events, based on their requirements. No actual agricultural production occurs on this land.

Financial performance

As of 31st March 2025, SAL has a share capital of ₹5 crores; reserves and surplus of ₹4 crores; long term debt of ₹16 crores; trade payables of ₹0.2 crores. SAL has demonstrated strong

financial performance by achieving a profit before interest and tax (PBIT) of ₹9 crores; Interest paid for the financial year is ₹1.12 crores. The corporate tax rate is 30%; the cost of equity is 12.50% and the cost of debt is 4.9%.

To effectively evaluate the company's financial performance and make informed investment decisions, SAL utilizes the weighted average cost of capital (WACC) as a key metric. At all times, the management wishes to keep the average cost of financing the company's operations across all sources of capital (debt and equity) to be below 10%.

Regulatory scrutiny: Refer Annexure 1

Out of the 20 products in its portfolio, SAL sells 3 products that have a red label and 2 products that have a yellow label. Such products generate higher margins and thus far they have contributed around 25% of SAL's annual revenue. Central Insecticide Board (CIB) has periodically raised queries and investigations about these products in the recent years. Due to the increased scrutiny of these harmful products, SAL's management has decided to gradually phase out them from its portfolio. On stopping their production, the revenue is likely to fall by at least 25% in the short term. Meanwhile, SAL plans to invest in R&D to develop more environmentally safe products. PAL which is a competitor of SAL in the same industry also derives around 30% of its annual revenue from sale of red and yellow labelled products. CIB has recently launched an investigation into these highly toxic products that PAL is manufacturing. Yet PAL, on account of them being high margin products, plans to increase its production of these products despite regulatory concerns of imposition of a ban in the near future. PAL expects revenues to grow by at least 10% in the coming year.

Merger with Unlimited Urea Limited (UUL): Refer Annexure 2

SAL (transferee company) decided to acquire UUL (transferor company) by acquiring its shares via a process of takeover under section 235 of the Companies Act, 2013. SAL prepared a scheme by which an offer was made to the shareholders of UUL. The offer was made on 1st August 2024. The offer has remained open for 4 months and was approved by shareholders having 92% value of the shares. Subsequently, SAL gave notice to the remaining dissenting shareholders that it desires to acquire their shares. Such notice was given on 5th January 2025. Certain dissenting shareholders made an application to the Tribunal that acquisition of their shares should not be permitted. However, the application was dismissed by the Tribunal. Hence, SAL acquired shares of 5% of the dissenting shareholders (out of the balance 8%). The shareholding of the remaining 3% shareholders continued to remain with the dissenting shareholders.

Annexure: 1

State Times

Hidden Dangers of Agrochemicals



Jaipur, 21st February 2025 – A bountiful harvest, at affordable prices is the need of the hour to feed the world's growing population. Enter agrochemicals, in particular chemical fertilizers and pesticides which have ensured higher crop yield. Chemical formulations are precise and deliberate, depending on the intended use, and they are relatively cost effective. This has helped farmers across the globe get better control over their crop production. In the short-term farmers can produce more and higher quality crops. However, excessive usage of these fertilizers erodes soil health in the long run. They can seep into groundwater and other water sources leading to contamination, which can be toxic in the long run. Greenhouse gases emitted during the production of nitrogen fertilizers have had a profound impact on climate change and caused immense biodiversity losses.

Human health issues also crop up as due to the use of fertilizers, crops are not as nutritious as they should be. It also increases the risk of developing cancer in adults and children. The nervous, endocrine and immune systems are severely affected by their usage, especially with that of pesticides. Many other health issues have been highlighted by medical fraternity over the past few decades.

The recent months have seen a lot of public outcry and debate over the excessive use of fertilizers in India. There has been increasing pressure on the government to force companies to label their products based on their toxicity. Due to the profound, sometimes adverse impact that agrochemicals (including fertilizers) can have on human health and other natural resources, the Central Insecticide Board (CIB) has categorised agrochemical toxicity levels based on a labelling system – using red, yellow, blue and green labels – where red is the most toxic while green is the least toxic. In addition, to prevent counterfeit products companies are adding barcode or other identifying technologies to identify their product packaging.

Red-labelled products have come under a lot of scrutiny in recent years following public outcry about their harmful effects. The regulatory authorities are severely curtailing the use of these products and are also gradually bringing restrictions for the yellow labelled products as well. It is very likely that they will be banned in the near future as per ESG guidelines. All packages carry labels to help users identify their toxicity level. Despite this certain companies are increasing production of such products since they are highly profitable to them.

Annexure: 2

The Chronicle

Shakti Agrochemicals Limited to Acquire Unlimited Urea Limited in a ₹ 1,000 Crore Deal



Jaipur, 2nd September 2024 – Unlimited Urea Limited (UUL) to change hands by sale of unit to Shakti Agrochemicals Limited (SAL). Unlimited Urea Limited (UUL) based at Gadepan in Kota district of Rajasthan, is set to change hands with the company revealing sale of its entire business to Shakti Agrochemical Limited (SAL) for a total consideration of ₹ 1,000 crores.

The company disclosed the information as part of the mandatory disclosure to the stock exchanges, the BSE and the NSE, under Regulation 30 of SEBI (listing obligations and disclosure requirements) Regulations, 2015. The disclosure states that the board of directors at its recent meeting granted in-principal approval for the sale of its business to SAL. The agreed consideration value is expected to be ₹ 1,000 crores. The notice adds that the sale is subject to approval from shareholders, other regulatory and statutory approvals and financial due diligence.

The acquisition is of particular interest since the Government of India had announced New Investment Policy (NIP) to facilitate fresh investment in the urea sector and to make India self-sufficient in the urea sector. SAL is a well-established player in the fertilizer industry, its portfolio includes both chemical and organic fertilizers and crop nutrition solutions. The acquisition of the urea business of UUL will give a fillip to unlocking value within its business. Recent geo-political tensions have led to supply chain disruptions and sent price of raw materials including that of urea skyrocketing. Having a captively owned urea manufacturing unit will help it mitigate risks of supply chain disruptions and price fluctuations.

I. Multiple Choice Questions

1. Which of the following statements are true?

   (i) One of the reasons for actual material procurement to be higher than the budget is on account of SAL following JIT procurement which had to cater to higher than anticipated demand due to a successful marketing campaign by SAL.

   (ii) Mr. Ray is solely responsible for the contribution generated from sale of each grade of fertilizer.

(iii) JIT production system may not always be suitable since there have been instances of sudden spike seasonal demand for certain products depending on the seasonal conditions for growing crops. Production department may not be able to account for this in their annual planning exercise.

(iv) JIT procurement of raw materials is suitable since production is also done on a just in time basis.

Options

(a) (i) and (iii)

(b) (i), (ii) and (iii)

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

(d) (ii), (iii) and (iv)

2. Referring to sale of highly toxic red and yellow labelled products, which of the following should be the consideration by the auditors of SAL and PAL in the audit of the financial statements?

(i) Auditors of SAL and PAL need to obtain audit evidence regarding compliance with laws and regulations and audit procedures have to be designed accordingly.

(ii) Auditors of SAL and PAL do not need to obtain audit evidence regarding compliance with laws and regulations since these products are not explicitly banned in India.

(iii) Auditors of PAL need to keep in mind SA 250 where non-compliance with laws and regulations may result in fines and litigations or other consequences that may have a material effect on the financial statements.

(iv) Auditors of SAL need to be concerned about the phase out of these products that can impact revenue negatively by 25%. In addition, the company plans to invest in R & D to develop environmentally safe products despite losing revenue following this decision.

Options

(a) (i) and (iv)

(b) (ii) and (iv)

(c) (i) and (iii)

(d) (ii), (iii) and (iv)

3. Based on the sales variance analysis, which product(s) should the management prioritize for future discounts to maximize sales volume while ensuring continued profitability?

   (a) Grade 1 and Grade 2 since they both have increased sales volumes as well as positive net contribution

   (b) Grade 1 and Grade 3 since they both are price sensitive, given the 5% threshold for analysis as considered by the company.

   (c) Grade 1, Grade 2 and Grade 3 since the volume increased in all the cases for the discount that was given

   (d) Grade 1 only as that is the only product that is both price sensitive as well as has the capability of yielding positive contribution due to high margins.

4. Which of the following statements would be true regarding the takeover of UUL by SAL?

   (a) The takeover of UUL by SAL is valid as the Tribunal dismissed the application made by the dissenting shareholders.

   (b) The takeover of UUL by SAL is invalid as even after the Tribunal dismissed the application made by the dissenting shareholders, UUL acquired the shares of only 5% out of the total 8% dissenting shareholders.

   (c) The takeover of UUL by SAL is valid as shareholders having 92% of shareholding value gave approval to the offer and this was done within 4 months of receiving the offer from SAL.

   (d) The takeover of UUL by SAL is invalid as shareholders having 8% of the shareholding value have dissented to the takeover and they cannot be legally bound to surrender their ownership to SAL.

5. How should SAL's income from the sale of such customized micronutrient mixture fertilizers at these stalls be classified under the Income Tax Act, 1961?

   (a) The income qualifies as agricultural income because SAL acquired agricultural land to promote awareness of fertilizer usage in farming.

   (b) The income qualifies as agricultural income only if SAL's fertilizers are applied on the acquired land for agricultural production.

   (c) The income does not qualify as agricultural income and is taxable as business income under "Profits and Gains of Business or Profession," despite acquiring agricultural land.

   (d) The income can be partially considered agricultural if the fertilizers sold by SAL are used by farmers trained on the acquired land.

II. Descriptive Questions

6. ADVISE the appropriate accounting treatment, if any, for the two grants received and the earthquake-related compensation in the books of accounts of SAL as at March 31, 2025.

7. PERFORM a detailed variance analysis of the budgeted and actual contributions. Include a comprehensive breakdown of all elements causing the variances, such as volume differences, variations in selling prices, changes in cost structures, and the impact of discounting strategies.

8. EVALUATE SAL's financial performance based on the given data.

ANSWERS TO THE CASE STUDY 8

I. Answers to the Multiple Choice Questions

1. (a) Statements (i) and (iii) are true.

Reason:

Statement (i) the successful marketing campaign by SAL that reached out directly to customers had resulted in a higher than anticipated sales volume. This would have put pressure on procurement and production systems to cater to this demand immediately. Due to JIT systems, they do not hold any stock to meet sudden spike in demand. Statement (iii) where the production department has to plan the annual production schedule based on demand forecasts. This will allow them to co-ordinate with procurement suppliers who provide raw material in order to operate smoothly. Any unexpected seasonal demand spike due cannot be foreseen, in which case JIT production system may not be suitable.

Statement (ii) is incorrect as Mr. Ray is in charge on only sale of the 3 grades of fertilizers and is not in charge of any other function or operation in the manufacturing process. Hence, he cannot be held accountable for the sudden increase in raw material prices which has led to decrease in actual contribution.

Statement (iv) is incorrect as JIT procurement and production system can function independent of each other. Raw material can be stocked while production can follow JIT system. Similarly, raw material can be procured on a JIT system while production can be made to stock.

2. **(c)** (i) and (iii)

Reason:

Statements (i) and (iii) are considerations that the auditors of SAL and PAL need to consider for their audits of financial statements.

Statements (ii): Incorrect. Even if explicitly banned, the auditor's responsibility for considering compliance remains.

Statement (iv): Incorrect. While evaluating the implications of non-compliance is important, it's not the primary responsibility of the auditor in this specific context.

3. **(d)** Grade 1 only as that is the only product that is both price sensitive as well as has the capability of yielding positive contribution due to high margins.

Reason:

Grade 1 only as the increase in volume was 25% for a 10% discount offered on the price and it contributed positively as the net contribution is ₹ 130. As a high margin product, it could buffer any unexpected cost escalation.

	Grade 1	Grade 2	Grade 3
Reduction in selling price per kg	50	20	20
Reduction in selling price %	10%	7%	10%
Increase in sales (in kgs)	500	100	400
Increase in sales in %	25.00%	3.33%	8.00%
Net contribution per kg (actual)	130	60	-

While Grade 3 can be considered as price sensitive using the 5% threshold limit, the actual net contribution per kg was nil. Hence, it might not be prudent to offer much discount for Grade 3, being a lower margin product. Similarly, Grade 2 is also less price sensitive using the 5% threshold limit. Here a 7% discount in selling price resulted in only a 3.33% increase in sales volume. Hence, Grade 2 sales will not necessarily increase much by price discounts alone.

4. **(b)** The takeover of UUL by SAL is invalid as even after the Tribunal dismissed the application made by the dissenting shareholders, UUL acquired the shares of only 5% out of the total 8% dissenting shareholders.

Reason:

In the given case, since the application made by the dissenting shareholders has been dismissed by the Tribunal, SAL was bound to acquire all the shares of the dissenting shareholders i.e. the entire 8% shareholding. Since SAL acquired only

5% shareholding of the dissenting shareholders, this is in contravention to Section 235 of the Companies Act, 2013. Hence the takeover of UUL by SAL is invalid.

5. **(c)** The income does not qualify as agricultural income and is taxable as business income under "Profits and Gains of Business or Profession," despite acquiring agricultural land.

Reason:

Under Section 2(1A) of the Income Tax Act, 1961, Agricultural income in India primarily encompasses earnings derived from activities related to farming. This includes income generated from renting out agricultural land, cultivating and selling crops, processing agricultural produce for market (such as drying, cleaning, or simple processing), and income earned from farm buildings essential for agricultural operations.

Merely acquiring land to promote awareness or conduct demonstrations does not convert income from fertilizer sales into agricultural income. Land acquired by SAL is being used to promote awareness and conduct demonstrations about their applications of customized micronutrient mixture fertilizer. Farmers attending such promotional events purchase fertilizers that are customized for the crop that it is required for. Sale of such fertilizers is not derived directly from any agricultural activities on the land. Further, the case clearly mentions that no actual agricultural production occurs on this land. Therefore, SAL's sales from such fertilizers are taxable as business income under "Profits and Gains of Business or Profession".

II. Answers to the Descriptive Questions

6 Accounting treatment as per IND AS 20, Accounting for Government Grants and Disclosure of Government Assistance:

1. First Grant of ₹ 5 crore – research on "Soil degradation due to misuse of fertilizers"

   The first grant for "Soil degradation due to misuse of fertilizers" involving research into effects of excessive use of fertilizers on soil quality (acidification, hardening and pollution) based on a specific area from a predominantly agricultural belt in Punjab. Since, the grant is unconditional and no details regarding its refund have been mentioned. Even though research has not started, nor major steps have been completed by SAL to commence the research, yet the grant will be immediately recognized in the profit and loss for the year ended March 31, 2025.

2. Second Grant of ₹ 5 crore - relates to the commercial development of crop-specific nutrition solution that will provide each crop variety with specific nutrients that it will need to grow. As per the information given in the case study, these solutions will be available in the market by April 2026. Hence, by that time, grant relates to

the development of new technological solution (which is an asset) and should be initially recognized as deferred income. The deferred income should be recognized as income on a systematic and rational basis over the useful life of this new technology.

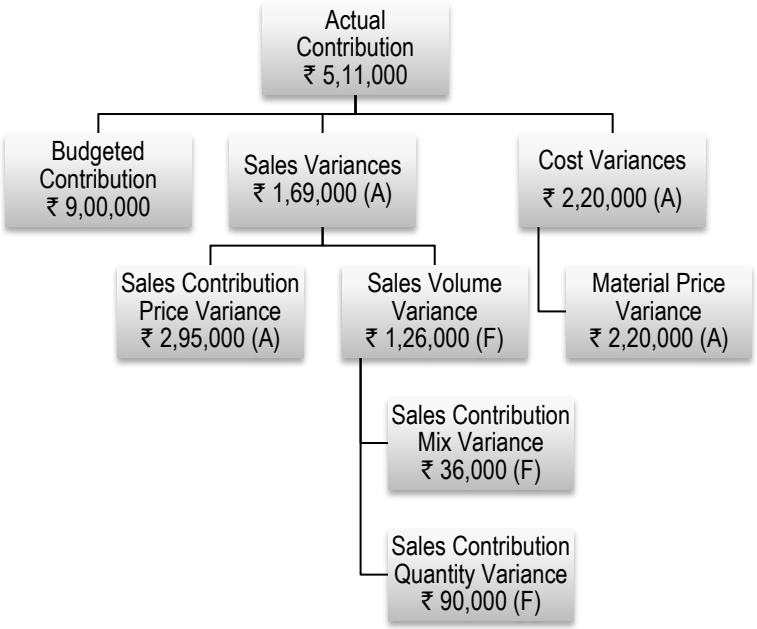
For the grant received of ₹ 5 crores, SAL should recognize a liability in the balance sheet as of March 31, 2025, and March 31,2026. Once the technology is used in the commercial development of crop-specific nutrition, the deferred grant income of ₹ 5 crores should be recognized over the useful life of this new technology to compensate for depreciation costs.

Alternatively, as per Ind AS 20 SAL would be permitted to offset the deferred income of ₹ 5 crores against the cost of development of this technology as at April 1, 2026.

3. Earthquake related compensation – SAL will be able to submit an application form only after May 31, 2025 i.e. in the F.Y. 2025-26. Although the earthquake happened in September 2024 relating to the financial year 2024-25, SAL should recognize the income from the government grant in the year the application is submitted and approved by the government for compensation.

Since in the F.Y. 2024-25, the application form could not be submitted due to adoption of financials with respect to sales figure before earthquake occurred, SAL should not recognize the grant income as it has not become receivable as at March 31, 2025.

7. Reconciliation



Budgeted vs. Actual Contribution

Referring to working notes, the total budgeted contribution for the year 2024-25 was ₹ 9,00,000 while the actual contribution was ₹ 5,11,000. There is hence an adverse variance in terms of contribution = budgeted contribution – actual contribution = ₹ 9,00,000 - ₹ 511,000 = ₹ 389,000 (Adverse).

The actual contribution for all three grades of fertilizers is lower than the budgeted contribution. This is because of 2 reasons: Discount policy (b) Raw material procurement cost. Now let us analyse the variances in detail.

Sales variances (in terms of contribution)

Sales variances in terms of contribution can be classified as sales contribution price variance and sales contribution volume variance.

Sales contribution price variance is calculated as ₹ 2,95,000 (Adverse).

Sr. No.	Sales Contribution Price Variance	Grade 1	Grade 2	Grade 3	Total
1	Actual Contribution (per kg) ** Based on standard cost*	150 [450-300*]	80 [280-200*]	20 [180-160*]	-
2	Standard Contribution (per kg)	200	100	40	-
3	Actual Quantity (kg)	2,500	3,100	5,400	11,000
4	Sales Contribution Price Variance = (Actual Contribution – Standard Contribution) × Actual Quantity [(1 - 2) × 3]	(1,25,000)	(62,000)	(1,08,000)	**(2,95,000)**

SAL's sales and marketing campaign allowed for slightly higher discounts were given on bulk purchases beyond a certain limit. This policy for additional discount was not factored in the standard price (budget), resulting in a difference between actual and budgeted contribution.

Sales contribution volume variance is calculated as ₹ 1,26,000 (Fav).

Sr. No.	Sales Contribution Volume Variance	Grade 1	Grade 2	Grade 3	Total
1	Actual Quantity (kg)	2,500	3,100	5,400	11,000
2	Budget Quantity (kg)	2,000	3,000	5,000	10,000

3	Standard Contribution (per kg)	200	100	40	-
4	Sales Contribution Volume Variance = (Actual Quantity - Budget Quantity) × Standard Contribution [(1 - 2) × 3]	1,00,000	10,000	16,000	**1,26,000**

This is another fundamental metric to assess sales performance. By comparing the actual sales with the budget sales, the company can understand (a) market conditions in which it operates (b) success of any sales and marketing campaigns or even (c) the reasonableness of the company's forecasting capabilities.

In the case of SAL, for the year 2024-25 the actual sales volume of 11,000 units has been higher than the budgeted sales of 10,000 units. A possible reason for this could be the spurt in demand due to its successful sales and marketing campaign for the three new grades that were introduced. This resulted in a favourable variance of ₹ 1,26,000 for the year.

Sales variance in terms of contribution = Sales contribution price variance ₹2,95,000 (Adverse) + Sales contribution volume variance ₹1,26,000 (Favourable) = ₹1,69,000 (Adverse).

This tallies with the overall results as explained above. It can be concluded that while volumes helped buffer the fall, SAL may have given deeper discounts that eventually impacted its profitability. For example, Grade 3 fertilizer, where the actual contribution is nil. Although SAL sold 400 units more than budget of Grade 3 fertilizer, the contribution towards actual profits was nil. This is equally due to discounts that were given as part of the sales and marketing campaign (the impact of material price discussed later). SAL's sales team should realize that such discounts may be unfeasible in the long run. Price sensitivity analysis of how the selling price of each grade impact demand is an exercise the SAL's team can undertake to understand how much discount to give in future.

Analysing sales contribution volume variance in depth

To analyse sales contribution volume variance better, it can be further split up as sales contribution mix variance and sales contribution quantity variance.

Sales contribution mix variance is ₹ 36,000 Favourable.

Products	Actual Quantity (AQ)	Actual Sales in Budgeted Proportion (RAQ)	Difference AQ - RAQ	Standard Contribution per kg	Mix Variance Difference × Standard Contribution
Grade 1	2,500	2,200	300	200	60,000
Grade 2	3,100	3,300	(200)	100	(20,000)
Grade 3	5,400	5,500	(100)	40	(4,000)
Total	**11,000**	**11,000**	**-**		**36,000**

Sales mix variance helps identify which product or product lines are performing well. As per the budget proportion sales volume composition was Grade 1: 20%, Grade 2: 30% and Grade 3: 50%. When applied to actual volume of 11,000 units, the distribution appears in the column RAQ – Revised Actual Quantity. The difference between actual quantity sold and the RAQ shows the variation in the mix / proportion of actual sales as compared to the budgeted proportion.

Accordingly, Grade 1 sold 300 units more, having a higher proportion in the mix. It also has the highest contribution of ₹ 200 per kg as compared to the other 2 grades. This swings the variance to a favourable side. On the contrary, Grade 2 and Grade 3 have a lower proportion in the sales mix, contributing adversely to the sales mix ratio. Overall, the sales mix is positive because SAL sold more of Grade 1 fertilizer which also has a higher contribution as compared to the other 2 grades. Hence, it can be concluded the Grade 1 trends better than the other grades and contributes better towards the profitability of the business.

Sales contribution quantity variance is ₹ 90,000 Favourable.

Products	Budget Quantity (BQ)	Actual Quantity in Budgeted Proportion (RAQ)	Difference RAQ - BQ	Standard Contribution per kg	Quantity Variance Difference × Standard Contribution
Grade 1	2,000	2,200	200	200	40,000
Grade 2	3,000	3,300	300	100	30,000
Grade 3	5,000	5,500	500	40	20,000
Total	**10,000**	**11,000**	**1,000**	**-**	**90,000**

A favourable sales contribution quantity variance indicates by how much the contribution has risen exclusively on account of actual sales in a predetermined proportion (i.e.

budgeted) being higher than expectations as per budget. This does not consider any impact on account of the variation in sale price and hence is measured with relation to standard contribution.

The actual sales are redistributed in proportion of their budget estimates to get a revised actual quantity (RAQ) mix. Hence, had the budget sales been 11,000 units, what would have been the proportion of sales of each of these grades of fertilizers? This is shown in the RAQ column. When compared with the original budget estimate of 10,000 units, it can show the impact on standard contribution due to change in the proportion of quantity of units sold.

A rise in the demand side for each grade of fertilizer resulted in positively contributing to the profitability of the company.

Sales contribution volume variance = Sales contribution mix variance is ₹ 36,000 Favourable + Sales contribution quantity variance is ₹ 90,000 Favourable = ₹ 1,26,000 (Favourable)

Higher sales due to spurt in demand (indicated from favourable sales contribution quantity variance of ₹ 90,000) combined with a higher proportion of these sales coming from the profitable Grade 1 fertilizer (indicated from favourable sales mix variance of ₹ 36,000), resulted in a favourable sales contribution volume variance of ₹ 1,26,000.

Cost variances

Increase in costs due to unplanned material procurement at higher rates also adversely contributed.

Material Price variance is ₹ 2,20,000 Adverse.

Sr. No.	Material Price Variance	Grade 1	Grade 2	Grade 3	Total
1	Standard Price (per kg)	150	100	75	-
2	Actual Price (per kg)	170	120	95	-
3	Actual Quantity (kg)	2,500	3,100	5,400	11,000
4	Material Price Variance = (Standard Price - Actual Price) × Actual Quantity [(1) - (2) × 3]	(50,000)	(62,000)	(1,08,000)	**(2,20,000)**

The material procurement cost for all the grades was higher than standard. There have been times when there is a sudden spike in demand for a particular grade of fertilizer combined with a successful sales and marketing campaign that spurred sales volume.

Higher procurement cost from the open market than that agreed with the JIT supplier partners resulted in an adverse impact on actual contribution.

Working Notes

Budget Contribution for the year 2024-25

Sr. No.	Particulars	Grade 1	Grade 2	Grade 3	Total
1	Budget Quantity (kg)	2,000	3,000	5,000	10,000
2	Average Selling Price (per kg)	500	300	200	-
3	Direct Material Cost (per kg)	150	100	75	-
4	Direct Labour Cost (per kg)	100	60	75	-
5	Variable Overhead Cost (per kg)	50	40	10	-
6	Standard Contribution (per kg) [2-(3+4+5)]	200	100	40	-
7	Budgeted Contribution [1 × 6]	4,00,000	3,00,000	2,00,000	**9,00,000**

Actual Contribution for the year 2024-25

Sr. No.	Particulars	Grade 1	Grade 2	Grade 3	Total
1	Actual Quantity (kg)	2,500	3,100	5,400	11,000
2	Average Selling Price (per kg)	450	280	180	-
3	Direct Material Cost (per kg)	170	120	95	-
4	Direct Labour Cost (per kg)	100	60	75	-
5	Variable Overhead Cost (per kg)	50	40	10	-
6	Actual Contribution (per kg) [2-(3+4+5)]	130	60	40	-
7	Actual Contribution [1 × 6]	3,25,000	1,86,000	-	**5,11,000**

8. Evaluation of SAL's Financial Performance

The benchmark WACC that SAL's management wants to maintain is below 10%. The company's actual WACC is 7.636%. SAL has managed to maintain its WACC below the required benchmark primarily on account of its capital structure. Long term debt of ₹16 crores, which is the cheaper source of capital, makes up more than half of the total capital employed of ₹ 25 crores.

SAL's financial performance reflects a strong operational foundation, though its capital structure presents certain financial risks that require careful management.

With 64% of its capital sourced from debt financing, SAL carries a significant financial obligation in the form of ₹1.12 crores in interest payments. While leverage can enhance returns, it also increases financial risk, making strong cash flow management essential for ensuring timely debt repayment and mitigating the risk of financial distress.

Despite this high debt level, SAL has demonstrated strong operational efficiency, achieving an PBIT of ₹ 9 crores. This indicates the company's ability to generate substantial earnings before financial obligations. Additionally, its EVA of ₹ 4.391 crores shows that SAL is earning returns above its cost of capital, confirming that it is creating value for shareholders rather than merely covering financing costs.

To sustain this positive path, SAL must carefully assess new investment opportunities, ensuring they generate returns exceeding its benchmark 10% WACC to drive long-term value creation. Moreover, effective risk management strategies—such as hedging against interest rate fluctuations, optimizing capital allocation, and maintaining a financial buffer—will be crucial in mitigating potential risks and ensuring financial stability.

Overall, SAL's strong operational performance and positive EVA highlight its ability to generate value. However, its high reliance on debt necessitates vigilant financial management. To ensure sustainable growth and maximize shareholder value, SAL should focus on prudent debt management, strategic investment in high-return projects, and robust risk mitigation strategies to navigate potential financial challenges effectively.

Workings

EVA = NOPAT – WACC × Capital Employed

= ₹ 6.3 Cr. – 7.636% × ₹25 Cr. **= ₹ 4.391 Cr.**

Capital Employed = ₹ 5 Cr. + ₹ 4 Cr. + ₹ 16 Cr.= ₹ 25 Cr.

WACC = (5 + 4)/25 × 12.5% + 16/25 × 4.9% = 7.636%

NOPAT = [PBIT- Interest - Tax] + Interest (net of tax)

	₹ in Cr.
PBIT	9.000
Less: Interest	(1.120)
PBT	7.880
Less: Tax @ 30%	(2.364)
PAT	5.516
Add: Interest (net of tax) [1.12 × (1 - 0.30)]	0.784
NOPAT	6.300

CASE STUDY 9

HomeInn Limited

HomeInn Limited is a well established company that runs chains of hotels and resorts across different locations in India.

"HomeInn Budget" hotels

The hotels operate as budget hotels and operate under the brand "HomeInn Budget". It provides accommodation for cost-conscious travellers visiting the city for short stay lasting a day or two. Typically a room in "HomeInn Budget" hotels would provide comfortable beds, high speed internet connection, air conditioning facility, coffee machine, fridge and free television service. Food service based on a limited menu is provided on the premises. It has few conference rooms that provide space for guests to hold business meetings. This saves them precious time otherwise wasted in travelling on congested city roads. The hotel provides free shuttle service to and from the airport at specific times during the entire day. Proximity to the airport, the free shuttle service and convenience of conducting work at the conference rooms have been marketed to attract guests to stay here. The guests also comprise of people who are in transit between airports. Also when there are long-duration delays in flight operations due to which passengers need to be provided overnight accommodation, few airline operators host their guests here. Like all other guests, these airline operators are also interested in for its location and low-cost room rental.

In all, HomeInn Limited has 15 hotel properties spread over 15 cities. All of them function under the "HomeInn Budget" brand catering to cost-conscious travellers. In all these establishments, since the location of the hotel is near the city airport, the real estate cost, both for ownership and rental is very high. Hence, instead of having an in-house establishment for cleaning and food service, the company has outsourced these services to specialized vendors. This will reduce the additional space requirement needed to maintain the facilities to provide these services. This will help to keep its costs of operations within control. Since the hotel property is in the city, there is ample availability of vendors providing this service. Cleaning service includes cleaning of kitchen crockery, bedding, laundry and housekeeping of premises. Similarly, the entire set of activities related to preparation of food has been outsourced. Vendor service has been satisfactory, barring few instances where guests have complained of unhygienic rooms or non-palatable food service. However, due to high guest volume and quick turnover of guests due to short stay periods, this has never been a hindrance to business.

This business model has been profitable since its establishment. HomeInn Limited has a sizeable market share in this segment. Competition has increased in the recent past. Price wars have put pressure on profit margins of the budget hotel segment. Room rates are increasingly being determined by the prevailing market rates in the respective locations.

"HomeInn Comfort" Resorts

The management plans to continue to operate in the budget hotel to maintain its market presence. At the same time, to sustain business in the long term, the management of HomeInn Limited has forayed into developing properties for luxury resorts under a separate new brand called "HomeInn Comfort". Target guest segment are vacationing tourists interested in a enjoying a laid-back time in scenic places. These guests would not mind paying premium for availing good quality service. Maintaining cleanliness of premises and food service are critical activities in the operation of luxury hotels. Unlike cities, the location of these resorts is in more sparsely populated areas. While there are vendors providing cleaning and food services, there are limited options to choose from.

Customer satisfaction is paramount to sustain and grow business in the luxury resort segment. With the ability to post reviews online on booking portals, any negative review (whether justified or not) can reach very easily to a large number of potential guests. This can negatively impact future business.

HomeInn Limited is developing a "HomeInn Comfort" property in Goa. The construction involves several key expenditures essential for acquiring land, preparing the site, procuring materials, labor costs, safety measures, and other associated expenses. The company has invested ₹ 15 crores in land acquisition and ₹ 2 crores for site preparation, including dismantling existing structures. The cost of direct materials amounts to ₹ 8 crores, while labour expenses total ₹ 3 crores, including ₹20 lakh paid during a labour strike. Structural safety testing has been conducted at ₹ 0.5 crores, and legal and architectural consultation fees stand at ₹ 1.5 crores. Additionally, ₹ 0.10 crores has been spent on relocating the resort manager from Mangalore to Goa, and ₹ 0.50 crores has been allocated for administrative and overhead costs. These expenses collectively contribute to the successful development of the HomeInn Comfort resort, ensuring quality construction and operational efficiency.

The property is being acquired from an unrelated party at arm's length transaction value. Five out of the six directors were present at the Board Meeting to consider and pass the resolution to acquire the property.

The operations at the Goa resort started as per the expected timeline. It is in its 3rd year of operations. In a recent management meeting, key financial data was reviewed. The resort reported a Net Operating Profit Before Interest and Tax (NOPBIT) of ₹ 5 crores, with a depreciation expense of ₹ 3 crores. The change in working capital amounted to ₹ 4 crores, while capital expenditure stood at ₹ 5 crores. The total invested capital in the resort is ₹ 20 crores, with a Weighted Average Cost of Capital (WACC) of 8% and a tax rate of 30%.

HomeInn is a renowned hospitality chain with a nationwide presence, providing top-tier accommodations in key metropolitan cities. With a commitment to providing a seamless and comfortable stay experience, HomeInn operates a diverse portfolio of hotels that cater to both business and leisure travellers. One of the key offerings of HomeInn is its combined stay

package, which allows guests to book accommodations in multiple locations under a single consolidated plan. This package is particularly beneficial for travellers with multi-city itineraries, such as business professionals, tourists, and corporate delegations. By bundling stays across its hotels in different states, HomeInn provides convenience, cost-effectiveness, and a hassle-free booking experience. Mr. Vikash Kwatra, a businessman from Mumbai, undertakes a business trip and chooses HomeInn for his accommodation. HomeInn charges a consolidated sum of ₹ 60,000 from Mr. Vikash Kwatra for stay in its two hotels in Delhi and Jaipur, where the stay in Delhi is for 4 nights and the stay in Jaipur is for 2 nights.

I. Multiple Choice Questions

1. For the "HomeInn Budget" properties, identify the listed activities to the five primary activities of Michael Porter's value chain model.

Sr. No.	Listed Activity	Sr. No.	Primary activity as per value chain model
A	Storing vendor delivered freshly laundered crockery, bedding and laundry for future use as per guest requirements	I	Operations
B	Ensuring cleanliness and safety of rooms, working order of facilities offered like TV and internet service, coffee machines.	II	Marketing and Sales
C	The review of food items to remove the ones past expiry to ensure customer satisfaction and safety	III	Inbound Logistics
D	Free shuttle service to attract guests to stay at the hotel	IV	Service
E	Front desk activities handling complaints, customer support	V	Outbound Logistics

Options

(a) A – I, B – III, C – IV, D – II, E – V

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

(c) A – I, B – IV, C – V, D – II, E – IV

(d) A – III, B – I, C – II, D – IV, E – V

2. As regards "HomeInn Comfort" resorts, the parameters relating to high quality cleanliness and food service can be classified under which attribute of the following under the Kano Model?

   (a) Performance attribute

   (b) Delight attribute

   (c) Threshold attribute

   (d) Indifferent attribute

3. Which of the following statements is true as regards to the resolution taken at the Board Meeting to acquire the property in Goa?

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

   (b) When any four directors of HomeInn Limited out of the five attending the meeting consent to the acquisition of property

   (c) When any three directors of HomeInn Limited out of the five attending the meeting consent to the acquisition of property

   (d) When all six directors, representing the total strength of directors at HomeInn Limited should consent to the acquisition of property

4. Calculate the Economic Value Added (EVA) of the "HomeInn Comfort" Goa.

   (a) ₹ 1.60 crores

   (b) ₹ 4.60 crores

   (c) ₹ 0.40 crores

   (d) ₹ 1.90 crores

5. Which of the following statements would most likely to be true?

   (a) HomeInn Limited should outsource all its cleaning and food service operations in all its properties ignoring the risks of outsourcing, if the cost of outsourcing is less than the cost of providing this service in-house. This is because the Economic Value Added (EVA) of the company will be positively impacted despite the risk of outsourcing. (The risk is moderate and within company's risk appetited, as assessed by management).

(b) HomeInn Limited make an absolute comparison of Economic Value Added (EVA) of one property with that of another irrespective of the difference in scale of their respective operations.

(c) HomeInn Limited should reconsider the feasibility of operating properties irrespective the Economic Value Added (EVA).

(d) Economic Value Added (EVA) as a measure takes into account the current purchasing power and adjusts for inflationary trends. Hence, it is a more appropriate measure to track as compared to book profit.

II. Descriptive Questions

6. (a) Explain the risks of outsourcing cleaning and food services for the "HomeInn Comfort" luxury resort properties.

(b) What would your suggestion be, if the management of HomeInn Limited determines that guests experience (primarily influenced by cleanliness of facilities and food service) is a very important critical success factor (CSF)?

(c) How is this risk different from outsourcing cleaning and food services for the "HomeInn Budget" hotel properties with that for "HomeInn Comfort" resorts?

(d) What benefit does HomeInn Limited derive by operating different properties under two separate brands?

7. Identify the total costs to be capitalized under Ind AS 16, Property, Plant and Equipment for the "HomeInn Comfort" resort being developed in Goa.

8. Determine the place of supply and value of supply in respect of accommodation provided to Mr. Vikash under the GST provisions.

ANSWERS TO THE CASE STUDY 9

I. Answers to the Multiple Choice Questions

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

Reason:

A Storing vendor delivered freshly laundered crockery, bedding and laundry for future use as per guest requirements – Inbound Logistics as it relates

to activities of receiving, handling of materials from the supplier and their storage until further use later in operations.

B Ensuring cleanliness and safety of rooms, working order of facilities offered like TV and internet service, coffee machines – Operations as these are activities related to converting inputs into production of output or service.

C The review of food items to remove the ones past expiry to ensure customer satisfaction and safety – Outbound Logistics as it relates to storage and movement of the end product from the production line to the customer.

D Free shuttle service to attract guests to stay at the hotel – Marketing and sales as these are activities related to communicating, selling and delivering the product or service to the customer.

E Front desk activities handling complaints, customer support – Service includes after sale service, handling customer complaints, customer support, training etc. It is one of the most important activities in their value chain model. Good service ensures happy guests.

2. (c) Threshold attribute

Reason:

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

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

Reason:

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

4. (d) ₹ 1.90 crores. EVA = NOPAT less capital charge on invested capital

Reason:

Net Operating Profit After Tax (NOPAT) = Net Operating Profit before Interest and Tax Less Taxes

= ₹5 crores less 30% of ₹5 crores = ₹3.50 crores.

Capital charge on invested capital = WACC * Invested capital = 8% * ₹20 crores = ₹1.60 crores.

Therefore, EVA = ₹3.50 crores less ₹1.60 crores = ₹1.90 crores.

5. (a) HomeInn Limited should outsource all its cleaning and food service operations in all its properties ignoring the risks of outsourcing, if the cost of outsourcing is less than the cost of providing this service in-house. This is because the Economic Value Added (EVA) of the company will be positively impacted despite the risk of outsourcing.

Reason:

HomeInn Limited should reconsider the feasibility of operating properties where the Economic Value Added (EVA) is negative. Negative EVA implies that the profits from the property does not cover the cost of invested capital.

II. Answers to the Descriptive Questions

6. (a) Risks of outsourcing cleaning and food service under the luxury resort model:

In the luxury resort business under the brand "HomeInn Comfort", the target guests are travellers on leisure. The primary feature of this model would be "good quality of service". Maintaining cleanliness of premises and food service are critical activities in the operation of luxury hotels. Therefore, customer satisfaction on these metrics is paramount to sustain and grow business. With the ability to post reviews online on booking portals, any negative review (whether justified or not) can reach very easily to a large number of potential guests. This can negatively impact future business. Hence, "HomeInn Comfort" brand has to deliver the quality of service that it provides in terms of cleanliness and food that should meet and beat the guests' expectation.

Outsourcing these services to well established vendors is advantageous since the focus can remain on improving guest experience. It may also be cost advantageous in many cases. However, there a number of risks in this model.

(1) The required quality of service for "HomeInn Comfort" resort properties should be delivered by these vendors. Detailed service level agreements need to drawn up to ensure this. HomeInn Limited should be able to monitor the performance of these vendors. In cases of non-delivery of the required level of service, the agreement should provide for means of redressal. This could vary from compensation for any loss in business to immediate termination of service.

(2) HomeInn Limited should ensure that it can easily and economically switch service providers if required. For this it has to identify alternate vendors who can provide the same level of service as the current ones. At the same time, since the resorts are in locations where the number of vendors providing these services is limited, it increases the risk of outsourcing these

services. The other risk in outsourcing could be of instances where well performing vendors could go bankrupt and shut shop. In such cases, resort operations could be immediately impacted since such services can no longer be availed from these vendors. Again, list of alternate service providers is a necessary back-up that the hotel should have.

(b) Where the management of HomeInn Limited determines that guests experience (primarily influenced by cleanliness of facilities and food service) is a very important critical success factor (CSF) it may choose not to outsource these activities to outside vendors. Quality control issues and poor customer service may wipe out any cost savings attributed to lower expenses from the outsourcing model. HomeInn Limited would then have to consider developing in-house departments that cater to cleanliness and food service. Control over factors such as input material used, the performance of service, equipment used, training of staff and other essential activities can ensure that the required service quality can be achieved. Better service enhances guest experience through these critical activities. Compared to outsourcing, this might be a costlier option. However, since the guests are ready to pay a premium for service quality, HomeInn Limited could choose to charge higher rates for its resort properties.

(c) The difference between the risk of outsourcing for "HomeInn Comfort" and "HomeInn Budget" driven by the difference in the focus and target customer segment of their respective business models. "HomeInn Budget" focuses on providing value for money to the cost conscious short stay guests while "HomeInn Comfort" focuses on customer experience through quality of service provided to the guests staying on longer vacations.

As regards "HomeInn Budget" due to high real estate cost, both for ownership and rental, the cleaning and food service has been outsourced. This enables HomeInn Hotels to keep the costs of operation low, which is very critical for the business model of "HomeInn Budget". Hence, instances of dis-satisfaction among guests as regards quality of cleaning and food service, within certain limits will not negatively impact business. These activities are non-core and hence can be considered for outsourcing. For "HomeInn Budget", the critical success factor (CSF) is low cost of operations in order to be able to offer guests rooms at reasonable rates.

As regards "HomeInn Comfort" where CSF is guests experience, which is primarily influenced by cleanliness of facilities and food service, these activities become core activities, hence the risks of outsourcing are higher. Therefore, there may need to be a consideration whether to outsource these activities at all. Pricing for

rooms at these resorts can factor any additional costs to be incurred to ensure the delivery of the required quality of service in these resorts.

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

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

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

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

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

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

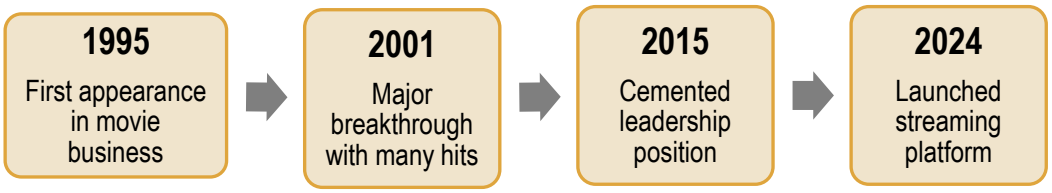
The place of supply in this case is both in the Union territory of Delhi and in the State of Rajasthan and the service shall be deemed to have been provided in the Union territory of Delhi and in the State of Rajasthan in the ratio 4:2 respectively. The value of services provided will thus be apportioned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

CASE STUDY 10

Rahul & Raj Films Ltd.

Journey

The journey of Rahul & Raj Films Ltd. ("R & R") began in 1995, weaving captivating tales that unfolded on small screen, followed by hitting the big screen in 2001. At the helm of this creative enterprise, is Mr. Shah Ratan Kumar, Ms. Rani Kapoor and Ms. Nutan Dubey orchestrated a symphony of talent and vision, propelling R & R to the forefront of India's entertainment industry. Recognized as pioneers in movie production, The company have carved a niche for itself, enchanting viewers with an array of captivating narratives across various mediums and genres.



The company has established strong Board of Directors comprising seasoned professionals from diverse backgrounds, who bring their expertise and guidance to steer the company towards sustainable growth. The Board exercises prudent oversight, ensuring strategic alignment, risk management and adherence to corporate governance standards. The Board of Directors and senior management details are given as per Annexure -A.

India's Film Industry: A Growing Giant

India's film industry is one of the largest in the world with more than 2,000 motion picture films ('movies') release per year viewed by over 3 billion moviegoers annually. It is ₹ 260 billion industry and is expected to grow to ₹ 600 billion by 2040. The Indian Film Industry comprises of motion picture films produced across India. This industry enjoys mass appeal and is probably the most important content feeder to other businesses in the Media & Entertainment space. Opportunity in the industry lies in meeting the demands of the new age consumer who seeks customized content tailored to their preferences. This shift in consumer behaviour presents a favourable environment for the company to thrive and capitalize on emerging opportunities. The industry is witnessing the following megatrends:

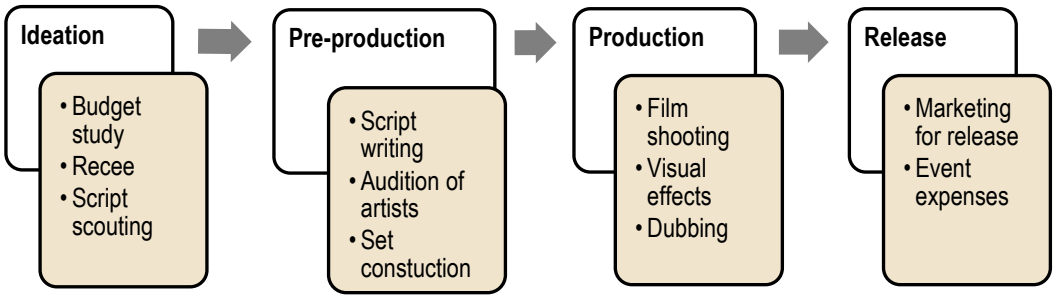
Megatrend 1: Witnessing the adoption of emerging technologies to offer immersive viewing experiences. Virtual Reality and Augmented Reality are being leveraged.

Megatrend 2: With the rise of digitalized communities, brands and platforms are actively incorporating features like 'go live' to build online communities.

Megatrend 3: The globalization of media and entertainment services presents new opportunities for content creators, distributors and advertisers.

Key Business Strategies: Expanding Horizons

R & R, remains committed to producing engaging content, leveraging experience and expertise and expanding customer base. The focus on quality, adaptability and innovation continues to drive success in the dynamic world of entertainment. Movie making broadly involves the following steps:



The key business strategies of R & R are as follows:

- **Expanding into Non-Fiction:** The company also enhances its focus towards non-fiction content and successfully launched 'Locked in' in the current year, which emerged as the highest-watched movie, showcasing the extensive reach of its business. This success encourages to continue emphasizing transforming passive audiences into engaged prospects by striving to bring more out-of-the-box content-led movies.
- **Quality over Quantity:** The company driven by fundamental principle of choosing quality over quantity when it comes to content. With decades of experience, the enhanced industry knowledge and ability to gauge ongoing and emerging trends have helped the company serve better. The company have built a better understanding of the choices and

preferences of audience, enabling it to consistently deliver content that resonates with them.

- **Enhancing User Experience:** While the emphasis remains on connecting with more people in better way The company also stay aligned with the need of the time to adapt to the surrounding changes. Technological upgradation has become an integral part of our business as the company continue to cater to the entertainment needs of audiences through digital platforms. Refer Annexure B for customer feedback.

Box office hits of the current year



New Projects and Strategic Decisions

The movie 'Simran' is currently being conceptualised, where the primary focus is on gathering detailed information and developing a solid foundation for the storyline. The project aims to explore the theme of woman empowerment. The objective at this stage is to ensure the story is grounded in accurate, relevant, and engaging content. This includes examining historical contexts, cultural elements, scientific data, or other relevant fields to enhance the authenticity and depth of the narrative. The next steps involve synthesizing the gathered information into a coherent storyline, developing character profiles, and creating a detailed plot outline. Collaboration with subject matter experts will continue to ensure the highest level of accuracy and authenticity in the portrayal of the chosen themes.

The company decided to abandon the movie 'Kaleen Bhaiya'. The decision to abandon the movie project was primarily due to the story not meeting the desired standards. Despite multiple revisions and considerable effort from the writing team, the narrative failed to captivate and engage in the way that was envisioned. The lack of a compelling and cohesive storyline made it difficult to move forward with production. The team agreed that it would be best to discontinue the project rather than invest further resources into a script that did not meet the creative expectations.

Music Rights and Revenue Growth

In India, music is an important feature of motion picture films. Music rights are generally sold to music companies during the production stage itself. As music plays an important role in the marketing of a motion picture film, music companies release the soundtrack prior to the

theatrical release. These rights are generally assigned to the music company in perpetuity for a fixed fee. Where the producer has right to future royalty after achievement of threshold sales by the music company, royalty income is recognized as earned, when communicated/ confirmed by the music company.

On 1st September 2024, the company grants music rights of its three upcoming movies to 'GOLD', a music company for ₹ 3,000 lakhs receivable on date of contract signing. The contract condition stipulates that proportionate amount shall be refunded in case of non-release of music of any of the three movies. The music rights are made available to the music company for the first film on 1st December 2024, second film on 1st January, 2025 and for the third film on 1st July, 2025.

During the F.Y. 2024-25, R & R continued to thrive across various mediums, delivering captivating content that resonated with the audiences. The Group reported 76% increase in revenue to ₹ 593 crores vis-à-vis ₹ 337 crores in the previous financial year. Cost of production also increased to ₹ 511 crores vis-à-vis ₹ 327 crores in the previous financial year in line with increase in production hours, crossing the milestone of producing more than 1,000 hours of content during the fiscal year. EBIDTA loss at ₹ 19 crores was narrowed by 84% in the current financial year over loss of ₹ 122 crores in the previous financial year. The company has improved its accounts receivable collection efficiency, reducing the sales outstanding from 164 to 160 days

Auditor Engagement and Concerns

Ranveer and Ranbir LLP are appointed as auditors of the company since last 4 years. The firm's audit & assurance practise in different sectors including Media & Telecommunications is dedicated to delivering exceptional quality and innovative solutions with team of experienced professionals who offer in-depth industry expertise and insightful audits, ensuring that clients receive the highest level of assurance. The firm is an auditor to many of the country's most recognizable brands in the market today.

Considering the continuance of audit, the engagement partner is deliberating whether a new engagement letter should be sent for the audit of the current F.Y. ended 31st March, 2025. Till last year, an engagement letter was sent for audit of every F.Y. despite no change of laws and regulations, auditors/management responsibilities.

During the audit engagement, the auditor observed that the days outstanding are significantly higher than industry averages and decided to obtain independent balance confirmations of trade receivables. The confirmation letter requests the customer to respond directly to the auditor indicating whether the party agrees or disagrees with the information in the request or provide the requested information. Based on previous experience, the auditor believed that the responses to the confirmation requests would be insufficient. This is primarily due to the fact the company works in an unorganised sector and every customer may not readily maintain

updated books and records. Also due to lack of interest, customers may generally be reluctant in confirming balances.

Subsidiary Operations and Market Position

R & R operates movie theatres in different parts of the country through the following group entities:

Mangla Talkies Ltd.

Established 10 years ago in Mumbai with the strategic objective to identify movie theatres at different parts of the country and secure time slot of exhibitions and other logistical aspects. At the moment logistical related aspects of about 50% of the movies exhibited by R & R is handled by this subsidiary. In recent years, competition between theatre owners has intensified. It has been estimated that total annual turnover for the movie exhibition in the country has fallen by 5% in the past two years. The estimated market share of Mangla Talkies, which operates the fifth largest movie logistics management company, has fallen from 14% to 13% in the same period. It has a low-profit margin.

Prospects for the entertainment industry is uncertain, partly because of lower box office collections but also because of availability of alternate entertainment avenues. OTT platforms have limited the number of movies that are released each year. There is concern that the OTT platform will reduce movie production over time.

Sangam Theatres Ltd.

Sangam Theatres was acquired about 20 years ago when it was a newly established company. At the moment about 50% of the movies released by R & R is exhibited by Sangam Theatres. R & R used government grants, available at the time (but no longer) to invest in modernisation of the theatre. Sangam Theatres is now a leading theatre operator, and it attracts a large amount of its business from other companies, partly because of its operating capabilities but also because of its relatively low costs. The low costs are achievable because Sangam Theatres uses relatively modern equipments having larger capacities. The market is fairly static, increased in size by just 2% in the past two years. Annual turnover for Sangam Theatres has risen by 8% in the same period, and its profits are also rising. Sangam Theatre also exhibits movies of other movie producers.

Payal Movies Ltd.

Payal was acquired 7 years ago as a strategic response to the declining regional movie market. It operates several movie theatres at various states. R & R has experienced problems with Payal Movies since its acquisition. Operating costs have been higher than expected. Over the past 2 years the market has increased by 20%. Annual revenue of has risen by 12% in the same period, but its annual profits have risen only slightly.

Vijay Screens Ltd.

R & R established a subsidiary company - Vijay Screens to create a platform for documentaries and similar movies created by the upcoming directors. Competition in the business is strong, and profit margins for Vijay Screens are narrow, but R & R considered that owning a platform for documentary movies would give it greater control over its movies' portfolio.

Annexure: A

The Board of Directors of R&R comprises of following persons:

	Mr. Shah Ratan Kumar ***Promoter and Non-Executive Chairman***	A celebrated movie star and starring in more than 200 movies in his career of 50 years. He is particularly popular as a romantic lead. He is also a reputed film producer. He has won a number of prestigious awards, including the Lifetime Achievement Award, as well as Dadasaheb Phalke Academy Award
	Ms. Rani Kapoor ***Promoter and Managing Director***	Has been in charge of company's operational management and efficiency and in controlling 'on set' activity. She has won a number of prestigious awards including CEO of the Year and Businesswoman of the Year. Earlier the position was held by Mr. A. Suleiman.
	Ms. Nutan Dubey ***Promoter and Joint Managing Director***	Undertakes the day-to-day creative direction of movies produced by the company. She has won a number of prestigious awards, including the Businesswoman of the Year and Entrepreneur of the Year.
	Ms. Sanna Mukherjee ***Independent Director***	An industry veteran with over three decades of experience in the media and entertainment business. Appointed as CEO of Vianet19 to drive its transition into a truly integrated media company across broadcast and digital, and across entertainment and sports in over 8 languages. Her initial appointment as an Independent Director was for 1 year and was then reappointed for another term of 5 years which would end on 30th July, 2025. The Board proposes to appoint her for another term of 5 years. If her appointment proposal is accepted as per applicable laws and regulations, Ms. Sanna will attain 68 years of age on completion of her third term.
	Mr. S. Dutt ***Independent Director***	Chartered Accountant by profession and is a Life & Fellow Member of the Institute of Chartered Accountants in England and Wales and a Fellow Member of the Institute of Chartered Accountants of India. He was a partner at CA firm, Salman & Aamir from 1970 and was the Senior Partner (Chairman) of the firm from 1990 till 2000.
	Mr. Prem Naryan Chopra ***Group CFO***	A Chartered Accountant by profession and is a Life & Fellow Member of the Institute of Chartered Accountants in Australia and a Fellow Member of the Institute of Chartered Accountants of India. He also served as the Chairman of the Direct Taxation Committee of the Southern India Chamber of Commerce & Industry and was a member of the Board of Governors of the Doon School, Dehradun. Earlier this position was held by Amrish Nath till last year.
	Ms. Juliya Jain ***Group Head – Secretarial***	Joined the company in the current year and holds a Bachelor's Degree in Commerce and a Bachelor's Degree in Law from the University of Delhi. She has over 36 years of rich experience in the Finance, Capital Markets, Banking, General Corporate Advice and Regulatory Practices. She was a Senior Partner at BZA Legal, Executive Vice President and Head of Legal & Compliance Department at Credit Bank Ltd. Previously this position was held by Ms. Deepika Singhal.

Annexure: B

EXTRACTS FROM CUSTOMER'S FEEDBACK
Yusuf J., Friday, 4:00 p.m., August 15, 2025
At Rahul & Raj, I believe that the movie-going experience doesn't end when the credits roll. Every visit to Sangam Theatres is an opportunity to create lasting memories, and I'm committed to making each one better than the last. ★★★
Thank you so much for your kind words! We're thrilled to hear that you had such a positive experience at Sangam Theatres. We've worked hard to make sure every visit is as seamless and enjoyable as possible; from the moment you park to the end.
Tina M., Friday, 2:30 p.m., August 15, 2025
While I've always enjoyed watching movies at Mangla Talkies, my recent visit left me with mixed feelings. The movie itself was fantastic, but I noticed that the service quality has slipped a bit. The concession stand took longer than usual, and the seating wasn't as comfortable as I remembered. ★☆☆
Thank you for sharing your experience. We truly appreciate your loyalty to Mangla Talkies and sorry to hear that your recent visit didn't meet your expectations. Your feedback is invaluable, and we want you to know that we're taking it seriously. We're already looking into the service delays at the concession stand and the seating comfort, and we're committed to making improvements. We hope you'll notice the difference on your next visit, and We look forward to welcoming you back to a better experience soon.

I. Multiple Choice Questions

1. Should the auditor send an engagement letter for the audit of the current financial year of R & R? Choose the correct statement.

   (a) New engagement letter should be sent if there is recent change of senior management or similar at R & R.

   (b) New engagement letter should be sent every year including recurring audit engagements under the Companies Act, 2013.

   (c) It is optional to obtain to new engagement letter for recurring audit engagements as envisaged under SA 210.

   (d) The Companies Act, 2013 mandates auditors to obtain an engagement letter for every audit.

2. What type of confirmation request has been designed by the auditor while auditing trade receivables?

   (a) Negative confirmation request

(b) Positive confirmation request

(c) Hybrid confirmation request

(d) Blank confirmation request

3. What amount of revenue from music rights be recognised in the financial statements of FY 2024-2025?

(a) ₹ 2,000 lakhs

(b) ₹ 3,000 lakhs

(c) ₹ 1,000 lakhs

(d) ₹ 593 crores

4. Can Ms. Sanna Mukherjee be reappointed as an independent director for another term of 5 years?

(a) Under the Companies Act, 2013, an independent director can be appointed for a maximum period of 10 years. Ms. Sanna Mukherjee can be reappointed as an independent director for the remaining period of 4 years.

(b) Under the Companies Act, 2013, an independent director can be appointed for 2 consecutive terms – each term being 5 years (i.e. 10 years). Ms. Sanna Mukherjee can be reappointed as an independent director for another term of 5 years since her first term was lesser period (i.e. 1 year instead of 5 years) as provided under the Companies Act, 2013.

(c) Under the Companies Act, 2013, an independent director can be appointed for maximum 2 consecutive terms – each term can be upto 5 years (i.e. 10 years). Ms. Sanna Mukherjee cannot be reappointed as an independent director since she would attain 68 years of age on completion of the proposed term of 5 years. Any person attaining 68 years of age cannot be appointed as an independent director.

(d) Under the Companies Act, 2013, an independent director can be appointed for maximum 2 consecutive terms – each term can be upto 5 years (i.e. 10 years). Ms. Sanna Mukherjee cannot be reappointed as an independent director since she has completed 2 consecutive terms. Appointment for a term less than 5 years is treated as one term.

5. Whether the cost of production of 'Kaleen Bhaiya' can be claimed as a deduction while filing ITR by the company?

   (a) Cost of production of abandoned movie can be claimed as a deduction while filing ITR by the company as a capital expenditure.

   (b) Cost of production of abandoned movie can be claimed as a deduction while filing ITR by the company as revenue expenditure.

   (c) Deduction of cost of production cannot be claimed under Rule 9A of the Income Tax Rules 1962, since the movie was not certified for release by Board of Censors.

   (d) Deduction of cost of production can be claimed under Rule 9A of the Income Tax Rules 1962, since the cost of production did not exceed the monetary limit of ₹ 500 crores prescribed in aforesaid Rule.

II. Descriptive Questions

6. EVALUATE the intricate value chain of R & R, focusing on the production, acquisition, distribution, and exhibition of movies. DISCUSS the operational challenges in each stage and how they affect the company's efficiency and overall success.

7. Whether the production of the movie 'Simran' is at the research or development stage under the relevant Ind AS. Explain the accounting treatment for the cost incurred till date with respect to the said movie?

8. Explain the reason for obtaining independent confirmation prescribed under SA 505? What alternate procedures should the auditors, Ranveer and Ranvir LLP, perform if the response of independent confirmation of trade receivable was inadequate?

ANSWERS TO THE CASE STUDY 10

I. Answers to the Multiple Choice Questions

1. **(a)** New engagement letter should be sent if there is recent change of senior management or similar at R & R.

Reason:

Paragraph A29 of SA 210 provide that the auditor may decide not to send a new audit engagement letter or other written agreement each period unless factors

exist (e.g. a recent change of senior management) to make it appropriate to revise the terms of audit engagement.

2. (b) Positive confirmation request

Reason:

The auditor has designed a positive confirmation request. A positive external confirmation request asks the confirming party to reply to the auditor in all cases, either by indicating the confirming party's agreement with the given information, or by asking the confirming party to provide information. A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence.

3. (a) ₹ 2,000 lakhs

Reason:

Accounting year	Particulars	Revenue (₹ in lakhs)
YE 31 March 2025	Music of first and second movie made available during the year ended 31st March, 2025	2,000
YE 31 March 2026	Music of third movie made available to the music company on 1st July, 2025*	1,000

*Had the third movie been shelved during the year ended 31 March 2025, the amount of ₹ 1,000 lakhs would have been refundable to the music company.

4. (d) Under the Companies Act, 2013, an independent director can be appointed for maximum 2 consecutive terms – each term can be upto 5 years (i.e. 10 years). Ms. Sanna Mukherjee cannot be reappointed as an independent director since she has completed 2 consecutive terms. Appointment for a term less than 5 years is treated as one term.

Reason:

MCA has clarified that an independent director can be appointed for a term of less than 5 years. However, any appointment whether of 5 or less than 5 years will be regarded as 'one term'. Section 149 (11) of the Companies Act, 2013 clearly stipulates that no person can hold office as an independent director for more than 'two consecutive terms'. Thus, irrespective of the duration of each of the two terms

(whether the same aggregates to 10 years or less) a person holding office for two consecutive terms shall be eligible for re-appointment only after the expiry of three years of ceasing to become an independent director.

5. (b) Cost of production of abandoned movie can be claimed as a deduction while filing ITR by the company as revenue expenditure.

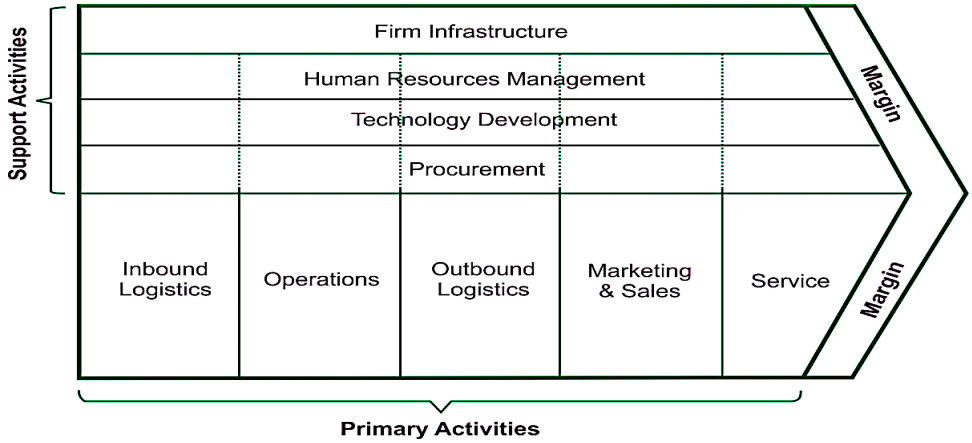
Reason:

CBDT has clarified vide *Circular No. 16, dated 6.10.2015* that Rule 9A does not apply to abandoned feature films and that the expenditure incurred on such abandoned feature films is not to be treated as a capital expenditure. The cost of production of an abandoned feature film is to be treated as revenue expenditure and allowed as per the provisions of section 37 of the Income-tax Act, 1961.

II. Answers to the Descriptive Questions

6. Evaluation of the Value Chain of Rahul & Raj Films Ltd.

The value chain of R & R can be assessed by analyzing its primary and support activities that contribute to creating value and maintaining a competitive advantage in the entertainment industry. R & R engages in the production and acquisition of movies as well as distribution and exhibition.



Primary Activities

Inbound Logistics

In the context of R & R, inbound logistics plays a critical role in the company's ability *to consistently deliver high-quality content*.

The company's strategy of prioritizing quality over quantity is reflected in their meticulous approach to inbound logistics, where *careful planning and resource allocation are paramount*. Efficient management of these resources allows R & R to maintain a streamlined production process, minimizing delays and optimizing costs, which is crucial in an industry where time-to-market can significantly impact a film's success. This robust inbound logistics framework supports the company's overarching strategy of delivering captivating and innovative content, thereby strengthening its position in the competitive Indian film industry.

Operations

R & R has a strong presence in movie production and exhibition, largely due to its ownership of Sangam Theatres and Mangla Talkies. Sangam Theatres, a successful acquisition, has been modernized to improve profitability, while Mangla Talkies handles logistical operations for movie exhibitions (Outbound Logistics). The vertical integration of these operations ensures smooth transitions from production to exhibition, enhancing the company's control over its value chain.

Outbound Logistics

R & R's outbound logistics are crucial, particularly in the **distribution of movies** through its theatre chains and digital platforms. A key player in this process is Mangla Talkies, which manages the distribution logistics and ensures that movies are released on time and in an efficient manner. The company's integration across different stages of the value chain has significantly enhanced its ability to oversee and manage the distribution process effectively.

However, despite the strong performance of Sangam Theatres, the decline in Mangla Talkies' market share indicates a need for the company to reassess its distribution strategies. This reassessment is vital not only for maintaining its current market coverage but also for expanding it in the increasingly competitive landscape.

The rise of OTT platforms further complicates the situation, posing a substantial challenge to traditional movie exhibition operations. To maintain relevance and effectively compete with online platforms, it is crucial for the company to modernize its theatres and integrate digital technology into its operations. This modernization will ensure that R & R remains competitive in a rapidly evolving industry.

Marketing and Sales

R & R has built a strong brand in the Indian film industry, particularly through its focus on quality content and diversification into regional and niche markets. The company's

strategic positioning in the movie exhibition space allows it to leverage its brand for both mainstream and niche content.

The company's ventures into niche markets through Vijay Screens demonstrate an effort to cater to diverse audience preferences. However, with the growing influence of OTT platforms, the company needs to enhance its marketing strategies, possibly integrating digital marketing and *partnerships with online platforms* to reach broader audiences.

Service

For R & R, the after-sale service value chain is a strategic tool that not only enhances customer satisfaction but also differentiates the brand in a competitive landscape. Maintaining an ongoing dialogue with customers through personalized communication, whether via email newsletters or social media interactions, helps in keeping them connected with the brand. This engagement fosters a loyal customer base that is more likely to return for future screenings.

The feedback from customers like Yusuf J. and Tina M. highlights the critical role that after-sales service plays in the overall value chain at R & R. At Sangam Theatres, the commitment to enhancing the movie-going experience from start to finish has resulted in positive customer experiences, reinforcing the importance of maintaining high standards in service quality, convenience, and comfort. However, the feedback from Mangla Talkies suggests areas where service can be strengthened, particularly in addressing service delays and seating comfort. These insights underscore the need for continuous improvement in customer engagement, issue resolution, and facility upgrades.

By actively responding to customer feedback and making necessary adjustments, R & R can ensure that every visit, whether to Sangam Theatres or Mangla Talkies, leaves a lasting positive impression, ultimately strengthening its position in the competitive entertainment industry.

Support Activities

Firm Infrastructure

The company's strategic acquisitions and vertical integration are key components of its infrastructure. However, the management must address inefficiencies in regional operations and adapt to the changing technological landscape to sustain growth.

The modernization of Sangam Theatres has been successful, but similar efforts may be needed across other subsidiaries, particularly those struggling with operational inefficiencies. While the company has seen revenue growth, particularly in regional markets, the higher-than-expected operating costs suggest a need for better financial management practices, especially in cost control and resource allocation.

Human Resource Management

The success of R & R's operations depend on its ability to attract and retain skilled professionals in movie acquisition, production, distribution, and exhibition. Investment in training and development is crucial for maintaining high operational standards and adapting to industry changes.

With challenges in managing operating costs at Payal Movies, there may be a need for improved human resource management practices to enhance employee efficiency and reduce costs.

Technology Development

The company's ability to integrate new technologies into its operations, such as digital projectors in theatres and partnerships with OTT platforms, is critical for maintaining competitiveness. Investment in R&D for innovative exhibition formats and digital platforms could create additional value.

Procurement

The process begins with ***securing top-tier scripts and story ideas, which serve as the foundation for the company's productions***. Given the company's focus on both fiction and non-fiction genres, the selection and acquisition of compelling narratives are vital. This includes purchasing rights to intellectual properties, collaborating with accomplished directors, and bringing on board renowned actors, all of which are essential inputs in the filmmaking process.

The company's procurement strategies for acquiring content and technology are essential for maintaining quality standards. Developing strong relationships with content producers and technology suppliers can ensure access to high-quality inputs at competitive prices.

The higher operating costs at Payal Movies highlight the importance of effective procurement strategies in managing expenses and maximizing profitability.

Conclusion

R & R has established a comprehensive value chain that integrates multiple stages of the film industry, from content acquisition to exhibition. The company's strategic acquisitions and modernization efforts have created value across its primary and support activities. However, challenges in managing operational costs, particularly in regional markets, and adapting to technological shifts suggest areas for improvement. By enhancing its technology development, human resource management, and procurement

strategies, Rahul & Raj can strengthen its value chain and sustain its competitive advantage in the evolving entertainment industry.

7. Determination of research and development assumes significance for self - generated intangible assets as capitalisation of cost are permitted only from such time as recognition criteria Ind AS 38 are met. Under Ind AS 38, research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Whereas development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

As per paragraph 57 of Ind AS 38, no intangible asset arising out of research phase of an internal project should be recognised. Thus, an intangible asset can be recognised only on the commencement of the development stage where the intangible asset can be identified, and the entity can demonstrate that future economic benefits are probable from the asset. Further, as per para 58 of Ind AS 38, an intangible asset arising from development or from the development phase of an internal project demonstrates that the asset will generate future economic benefits because development phase is further advanced than the research phase.

In a movie production cycle, the ideation phase is likely to be 'research' that is undertaken with the prospect of understanding the potential market for such a movie. Expenses, incurred prior to the date of the finalization of concept should be expensed considering the same as a cost in the research phase. This is because in the research phase of a project, it cannot be demonstrated that an intangible asset exists from which future economic benefits are probable.

In the extant case, there is no identification of key cast and crew or the location. The filming set is also being deliberated and have not yet been finalised. Booking of the lead star cast is pending. Date of shooting has not been frozen. Accordingly, the production of movie 'Simran' is at the research phase. Thus, cost incurred till date cannot be capitalised and should be expensed out in the statement of Profit and Loss when it is incurred.

8. External confirmation procedures are an effective and efficient way to obtain audit evidence about financial statement assertions such as trade receivable with number of days outstanding – being significantly higher than industry average. External confirmations also help auditor obtain audit evidence from third parties with a high level

of reliability when responding to significant risks. Decision whether to use external confirmation procedures requires significant judgement as envisaged in SA 505 including the objectivity of the confirming party and the willingness of the confirming party to respond.

The auditor should exercise an appropriate level of professional skepticism throughout the confirmation process. Professional skepticism is important in designing the confirmation request, performing the confirmation procedures and evaluating the results of the confirmation procedures.

When the auditor do not receive replies to positive confirmation requests, the auditor as required under SA 505 apply alternative procedures to the non-responses to obtain the evidence necessary to reduce audit risk to an acceptably low level. The nature of alternative procedures to be performed varies according to the account and assertion.

Alternative procedures related to the confirmation of trade receivables may include examination of subsequent cash receipts or other entity documentation to provide evidence for the existence assertion. The auditor should evaluate the combined evidence provided by the confirmations and the alternative procedures performed to determine whether it is sufficient to achieve our audit objectives and if it is relevant and reliable.

If the combined evidence provided by the confirmations, alternative procedures and other procedures is not sufficient, the auditor should request additional confirmations or perform other tests, such as tests of details or analytical procedures, to the extent needed to obtain the desired audit evidence.

CASE STUDY 11

Dev Products Ltd.

A Journey of Strategic Growth

Founded in the heart of India's industrial hub, Lucknow, in the early 1980s, Dev Products Ltd. (DPL) began its journey as a modest manufacturing unit specializing in agricultural implements. The company's entrepreneurial spirit and a keen understanding of rural India's needs propelled its initial growth. Recognizing the burgeoning construction sector, DPL expanded its product line in the late 1990s to include basic building materials. This strategic move proved to be a cornerstone in solidifying the company's position in the market.

Over the decades, DPL consistently reinvested its profits into research and development, enabling it to diversify its product portfolio. The early 2000s witnessed DPL's foray into the consumer durables market with the introduction of essential home appliances. This expansion was driven by the growing middle class and the increasing demand for modern conveniences. The company's commitment to quality and affordability quickly garnered a loyal customer base. By the mid-2010s, DPL had established itself as a formidable force in the Indian manufacturing industry. The company's ability to adapt to evolving market trends and consumer preferences allowed it to navigate economic challenges and emerge stronger. A strategic focus on building a robust distribution network and prioritizing customer satisfaction further cemented DPL's position as a trusted brand.

The company’s product portfolio is strategically categorized to cater to different market segments, offering a comprehensive range of building materials essential for various construction projects, including pipes, wires, electrical fittings, and prefabricated building components. In the home appliances sector, DPL meets the needs of modern households with a selection of essential appliances like refrigerators, washing machines, and water purifiers, potentially expanding to include smaller appliances like kettles or toasters. Recognizing the importance of long-lasting consumer durables, DPL’s offerings in this category include products like bicycles, furniture, and even electronics like televisions. Beyond product diversification, DPL prioritizes exceptional customer service and has established a robust distribution network across North India, ensuring easy product availability for retailers and consumers. Additionally, DPL emphasizes responsive after-sales support through a network of service centres, fostering customer satisfaction and brand loyalty.

Strategic Acquisition of BDM Ltd.

In a strategic move to enhance synergy and expand its market presence, Dev Products Ltd. (DPL) acquired BDM Ltd. BDM Ltd. is projected to generate an expected free cash flow of ₹ 2 crores for the upcoming year, with a forecasted growth rate of 5%. The company's cost of equity is calculated at 12%, while the after-tax cost of debt stands at 6%. Notably, the market value of BDM Ltd.'s equity is estimated to be three times its book value, whereas the book value as well as the market value of its debt is equivalent to book value of equity.

The acquisition process saw significant milestones, beginning with the receipt of the certified copy of the order of amalgamation from the National Company Law Tribunal (NCLT) on 26th April 2024. This document, dated 25th April 2024, was subsequently filed with the Registrar of Companies (ROC) for registration on 2nd May 2024, within the stipulated timeline. The amalgamation was officially registered by the ROC on 10th May 2024, with the scheme of amalgamation indicating an appointed date of 5th May 2024.

Initially, BDM Ltd. was valued at ₹50 crores by an analyst for the purpose of amalgamation. However, a registered valuer of DPL later discovered that the analyst had utilized the book values of debt and equity in his calculations, which necessitated a revision of BDM Ltd.'s value in the amalgamation scheme. As a part of the acquisition, DPL also gained two valuable trade secrets from BDM Ltd. — 'Design A,' a patented interlocking bricks design, and 'Design B,' which pertains to the internal component design of bricks but lacks legal protection.

Legal Challenges and Risk Management

To commemorate two significant milestones—the successful acquisition of BDM Ltd. and the 25th anniversary of its founding—Dev Products Ltd. (DPL) hosted a grand celebration for the major shareholders of both companies. However, the festive atmosphere was soon overshadowed by a controversy that emerged in the media, shedding light on legal issues involving a former director of BDM Ltd. This unexpected revelation posed a significant legal challenge for DPL, as the company had to address the complexities surrounding the personal liability of directors for actions taken before the acquisition.

Following the acquisition, DPL's management prioritized strengthening its internal controls to ensure smooth integration of the merged entities and to mitigate potential risks. As part of this initiative, DPL's management met with their statutory auditors, LR & Co., to discuss implementing a risk-based audit approach. To further bolster its internal controls, particularly in Accounts & Finance, DPL purchased standardized finance software at a list price of ₹15 lakhs, paying ₹0.25 lakh towards non-refundable purchase tax. The company was also granted a trade

discount of 5% on the initial list price and incurred a cost of ₹3.5 lakhs for customizing the software for its intended use. Additionally, DPL secured a 5-year maintenance contract with the vendor company for ₹ 1 lakh.

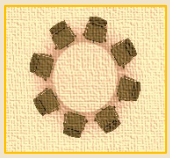
Audit and Financial Reporting

During the audit of DPL's consolidated financial statements for the FY 2024-25, which are required to be prepared in accordance with Division II of Schedule III to the Companies Act, 2013, CA Lokesh, the engagement partner from LR & Co., noticed important details. The notes to the accounts in respect of consolidated financial statements disclosed additional information pertaining to the holding company and its subsidiaries. This included percentages of consolidated net assets, consolidated profit and loss, and total comprehensive income, along with their respective amounts. Additionally, during the FY 2024-25, goodwill of ₹10 crores arose from the acquisition of a subsidiary, with no impairment loss as of the balance sheet date. Adjustments were made in the consolidated financial statements concerning intra-group indebtedness and harmonizing different accounting policies adopted by the parent and its subsidiaries.

DPL's journey from a small manufacturing unit to a leading player in multiple sectors showcases its strategic foresight and adaptability. The recent acquisition of BDM Ltd. and the company's ongoing efforts to strengthen internal controls reflect DPL's commitment to sustainable growth and strong governance.

Annexure

City Times



Lucknow, May 15, 2025 — In the aftermath of a high-profile corporate amalgamation, Mr. Ashok, a former director of BDM Ltd., finds himself embroiled in a legal controversy that could have significant implications for corporate governance and accountability. The amalgamation, which saw BDM Ltd. being acquired by Dev Products Ltd. (DPL), has brought to light a series of alleged offenses committed by Mr. Ashok in violation of the Companies Act, 2013.

Mr. Ashok, who was a key figure in BDM Ltd. before the company's amalgamation with DPL, is now under scrutiny for actions that reportedly breached corporate regulations. The offenses, which include several violations of the Companies Act, 2013 were committed prior to the completion of the amalgamation. However, Mr. Ashok is attempting to distance himself from the legal consequences of these actions, arguing that since the offenses occurred before the amalgamation, he should not be held liable for any resulting penalties or punishments.

Legal experts are closely watching the case, as it raises important questions about the extent of personal liability for directors in the context of corporate mergers and acquisitions. The key issue at hand is whether a director can be absolved of responsibility for actions taken before amalgamation simply because the company has changed ownership or structure.

I. Multiple Choice Questions

1. From the following options you are required to choose the correct 'effective date' of amalgamation:

   (a) 25/04/2024

   (b) 26/04/2024

   (c) 10/05/2024

   (d) 05/05/2024

2. Under McKinsey's 7S framework, DPL's acquisition of BDM Ltd. and subsequent efforts to strengthen internal controls would most likely be classified under:

   (a) Strategy and Systems

   (b) Shared Values and Skills

   (c) Structure and Staff

   (d) Style and Strategy

3. At what cost the intangible asset i.e. the finance software will be recognised by DPL?

   (a) ₹ 17.95 lakhs

   (b) ₹ 18 lakhs

   (c) ₹ 18.2 lakhs

   (d) ₹ 17.75 lakhs

4. Considering disclosure of additional information in consolidated financial statements, which of the following statements is correct?

   (a) The said disclosure is not proper as percentage of consolidated revenue from operations along with respective amount pertaining to holding company and its subsidiaries is also required.

   (b) The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.

(c) The said disclosure is not proper as percentages of consolidated revenue from operations as well as other comprehensive income along with their respective amounts pertaining to holding company and its subsidiaries are also required.

(d) The said disclosure is proper.

5. Which of the following statements best reflects the proper treatment of goodwill and the other consolidation adjustments within the context of these financial statements?

(a) Goodwill represents current period consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments.

(b) Adjustments relating to goodwill, intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by parent and its subsidiaries represent current period consolidation adjustments.

(c) Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments.

(d) Goodwill and adjustments relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments. Adjustments relating to intra-group indebtedness represent current period consolidation adjustments.

II. Descriptive Questions

6. How should DPL APPLY the relevant Indian Accounting Standards (Ind AS) to account for the acquisition of Design A and Design B and at what amount?

7. Determine the accurate valuation of BDM Ltd. as calculated by the registered valuer of DPL, and provide an ANALYSIS based on the revised valuation.

8. Can Mr. Ashok be absolved of responsibility for actions taken prior to the acquisition solely because the company has undergone a change in ownership or structure? COMMENT.

ANSWERS TO THE CASE STUDY 11

I. Answers to the Multiple Choice Questions

1. (d) 05/05/2024

Reason:

Section 232(6) of the Companies Act, 2013, the scheme under this section shall clearly indicate an appointed date from which it shall be effective and the scheme shall be deemed to be effective from such date and not at a date subsequent to the appointed date.

Here, the scheme of such amalgamation had indicated an 'appointed date' - 05/05/2024 and accordingly, the effective date' of amalgamation would be 05/05/2024.

2. (a) Strategy and Systems

Reason:

Under McKinsey's 7S framework, "Strategy" refers to the plan devised to maintain and build a competitive advantage over the competition. DPL's acquisition of BDM Ltd. is a strategic move aimed at enhancing synergy, expanding market presence, and strengthening its product portfolio. This aligns with the "Strategy" aspect of the 7S framework.

"Systems" refers to the processes and procedures used to manage the organization. The efforts to strengthen internal controls post-acquisition—such as implementing a risk-based audit approach and purchasing standardized finance software—are related to the "Systems" aspect. These efforts are aimed at ensuring smooth integration of the merged entities and improving governance.

Therefore, the acquisition and subsequent focus on internal controls fit within the "Strategy and Systems" elements of McKinsey's 7S framework.

3. (b) ₹ 18 lakhs

Reason:

In accordance with Ind AS 38 'Intangible Assets', the cost of a separately acquired intangible asset is its purchases price and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of

preparing the asset for its intended use. Therefore, the initial cost of the intangible asset should be:

Particulars	₹
List price	15,00,000
Less: Trade discount (5%)	(75,000)
Non-refundable purchase tax	25,000
Customisation cost	3,50,000
Total cost	18,00,000

The maintenance contract of ₹ 1,00,000 is an expense and therefore should be taken as a prepaid expense and charged to profit and loss over a period of 5 years.

4. (b) The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.

Reason:

In addition to the information required pursuant to Schedule III to the Companies Act, 2013 ('general instructions for the preparation of consolidated financial statements') following information is also required to be disclosed in the consolidated financial statements separately for the parent and each of its components (including foreign component) which has been consolidated:

(i) amount of net assets and net assets as a percentage of consolidated net assets;

(ii) amount of share in profit or loss and the percentage share in profit or loss as a percentage of consolidated profit or loss;

(iii) amount in other comprehensive income (OCI) and the percentage of OCI as a percentage of Consolidated OCI.

5. (c) Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments.

Reason:

Permanent consolidation adjustments are those adjustments that are made only on the first occasion or subsequent occasions in which there is a change in the

shareholding of a particular entity which is consolidated. Examples are determination of goodwill or capital reserve, equity attributable to minority shareholders.

Current period adjustments are those adjustments that are made in the accounting period for which the consolidation of financial statements is done like elimination of intra-group transactions and account balances.

II. Answers to the Descriptive Questions

6. Ind AS 38, "Intangible Assets," provides detailed guidance on the recognition, measurement, and disclosure of intangible assets, which are non-monetary assets without physical substance. The standard emphasizes the importance of identifying intangible assets distinctly from goodwill, particularly in the context of a business combination.

Identifiability of Intangible Assets

Paragraphs 11 and 12 of Ind AS 38 set out the criteria for an asset to be recognized as an intangible asset:

1. Separable Criterion: An asset is considered identifiable if it is separable, meaning it can be separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset, or liability, regardless of whether the entity intends to do so.
2. Contractual-Legal Criterion: An asset can also be identifiable if it arises from contractual or other legal rights, irrespective of whether those rights are transferable or separable from the entity or from other rights and obligations.

Application to Design A and Design B

In the context of a business combination, the identification of intangible assets is critical because they must be recognized separately from goodwill. Goodwill represents the future economic benefits that arise from other assets acquired in a business combination that are not individually identified and separately recognized.

Design A:

Contractual-Legal Criterion: Design A is protected by a patent, which means it arises from legal rights that are enforceable. According to Ind AS 38, an asset that arises from contractual or other legal rights is identifiable as an intangible asset, regardless of whether these rights are transferable or separable. Therefore, Design A meets the

contractual-legal criterion and must be recognized as a separate intangible asset in the business combination.

Design B:

Separable Criterion: Although Design B is not protected by a patent and does not meet the contractual-legal criterion, it still qualifies as an intangible asset under the separable criterion. The separable criterion emphasizes that an asset is identifiable if it can be separated from the entity and sold, transferred, licensed, or exchanged. In practice, unpatented designs like Design B can often be exchanged, licensed, or leased to others. This ability to be separated and dealt with independently of the entity fulfills the separable criterion. Consequently, Design B should also be recognized as a separate intangible asset in the business combination.

Measurement

Once identified, these intangible assets must be measured at their fair value at the acquisition date, as per Ind AS 103, "Business Combinations," which is closely aligned with Ind AS 38. The fair value reflects the price that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

7. Step 1: Calculate Correct Weights

- Let E = Market value of equity and D = Market value of debt = Book value of equity
- Total market value (V) = E + D = 3B + B = 4B (where B is book value of equity)
- Weight of equity (W_e) = E / V = 3B / 4B = 0.75
- Weight of debt (W_d) = D / V = B / 4B = 0.25

Step 2: Calculate Correct WACC

- WACC = $W_e \times K_e + W_d \times K_d$ = 0.75 × 12% + 0.25 × 6% = 10.5%

Step 3: Calculate Correct Firm Value

- Firm value (V_0) = $FCFF_1$ / (WACC - g) = ₹2 crores / (0.105 - 0.05) = ₹ 36.36 crores

Conclusion

The correct valuation of BDM Ltd. is ₹ 36.36 crores. This figure is notably lower than the initial valuation of ₹ 50 crores provided by the analyst, who incorrectly relied on book values rather than market values in the Weighted Average Cost of Capital (WACC) calculation. This discrepancy underscores the critical importance of using accurate market value weights when determining the value of a company, especially in strategic

acquisitions like that of BDM Ltd. by DPL. The revised valuation provides a more realistic assessment, aligning with DPL's commitment to prudent financial management and informed decision-making during the acquisition process.

8. Section 240 of the Companies Act, 2013 states that notwithstanding anything in any other law for the time being in force, the liability in respect of offences committed under this Act by the officers in default, of the transferor company prior to its merger, amalgamation or acquisition shall continue after such merger, amalgamation or acquisition.

In the given case, Mr. Ashok, who was a key figure in BDM Ltd. before the company's amalgamation with DPL, is under scrutiny for actions that reportedly breached corporate regulations. The offenses, which include several violations of the Companies Act, were committed prior to the completion of the amalgamation. However, Mr. Ashok is attempting to distance himself from the legal consequences of these actions, arguing that since the offenses occurred before the amalgamation, he should not be held liable for any resulting penalties or punishments.

With reference to the above quoted section and the given case, the contention of Mr. Ashok is not correct since the liability in respect of offences committed under the Companies Act 2013 by the officers in default, of the transferor company prior to its merger, amalgamation or acquisition shall continue after such merger, amalgamation or acquisition.

CASE STUDY 12

Doormato Ltd.

Company Overview

Founded by Manish Jha and Keyur Vasai in 2006, Doormato is a public company whose shares are traded on a stock exchange. The company has developed a multifaceted business model within the food and restaurant industry, incorporating various revenue streams and services. Despite facing stiff competition both domestically and internationally, Doormato's ability to adapt, diversify its services, and leverage technology has secured its strong position in the market. The company utilizes AI across multiple aspects of its operations.

Understanding that trust is paramount in the online food delivery business, Doormato has introduced the "food soldier" program. This initiative goes beyond data security, involving representatives who personally interact with restaurant partners to address concerns and foster positive relationships. Additionally, Doormato's user-driven review system creates a sense of community where users can share their food experiences and engage in creating stories. This engagement builds a community centered around shared culinary experiences, encouraging users to return to the platform and explore new restaurants.

Doormato's user base of over 20 million, which includes both restaurants and individual consumers, fuels a powerful network effect. The platform's value to each user increases as more participants join. For users, a vast pool of restaurants ensures a diverse selection of cuisines, while restaurants benefit from a wider customer reach and increased order volume. This cycle of growth and satisfaction enhances user loyalty and enables Doormato to negotiate better deals with restaurants, offering more competitive options to customers.

Revenue Streams

One of Doormato's primary revenue streams is the commission it charges restaurants for each order placed through its food delivery service. When a user orders food from a restaurant via the Doormato app, the restaurant pays a percentage of the order value as a commission to Doormato. This commission varies but is typically in the range of 15% to 25% of the order amount, depending on the restaurant's agreement with Doormato. Also, Doormato earns a commission from the restaurant for each successful reservation made through its platform.

In addition to the commission received from restaurants, Doormato imposes delivery fees charged directly to customers at checkout. These fees are not a flat rate, but rather a calculated amount that considers several factors to ensure fairness and affordability. The primary

determinant is the order value itself. Larger orders, with a higher order subtotal, typically incur proportionally lower delivery fees compared to smaller orders.

Furthermore, Doormato recognizes the impact of location on delivery logistics. Delivery fees may be slightly higher in areas with greater geographical spread or limited delivery personnel, reflecting the additional cost of fulfilling the order. This dynamic pricing approach allows Doormato to maintain a competitive edge while ensuring the sustainability of their extensive delivery network. Ultimately, transparency in delivery fee calculation fosters trust with customers, who can make informed decisions based on their order details and location.

Beyond connecting users with restaurants, Doormato offers a robust suite of advertising and promotional services designed to enhance a restaurant's presence on the platform. Restaurants can leverage these services to gain a competitive edge by featuring their listings more prominently in search results, running targeted ad campaigns to specific customer segments, and offering enticing deals to attract new patrons. This focus on restaurant visibility translates into a significant revenue stream for Doormato, as restaurants are willing to invest in promoting themselves to the platform's vast user base.

One such customer-centric initiative by Doormato is the voucher program. Here, users can purchase a voucher for ₹1,000 that unlocks a value of ₹1,200 worth of food credit. This effectively provides a 20% discount on any food items from participating restaurants within a 3-month validity period. This program incentivizes users to explore new restaurants and potentially spend more due to the increased credit value, ultimately benefiting both Doormato and participating restaurants by increasing order volume.

Furthermore, many restaurants listed on Doormato operate their own loyalty programs, allowing customers to earn points on each order. These points can then be redeemed for future discounts, further enhancing customer loyalty and encouraging repeat business. Imagine a scenario where a customer has accumulated enough points through Doormato's loyalty program with a specific restaurant to earn ₹ 200 discount on their next order. If their current bill amount at the same restaurant is ₹900, they can seamlessly combine the discount with the Doormato voucher, effectively reducing their final bill to just ₹700. This combination of promotional efforts by Doormato and individual restaurants creates a win-win situation for all parties involved – users enjoy significant savings, restaurants attract new customers and retain existing ones, and Doormato benefits from increased platform activity.

Doormato Gold is a subscription-based loyalty program that offers members exclusive discounts and perks at partner restaurants. Users pay a subscription fee to access these benefits. While a portion of this fee is passed on to the partner restaurants, Doormato retains a share, contributing to its revenue. Subscription to Doormato Silver provides customers with a printed copy a high-quality magazine focusing on food and health, that will be delivered to their doorstep each month and access to the magazine’s online content.

Strategic Expansion Consideration

In lieu of strategic expansion, management wants to place an agenda in its coming meeting to acquire a company **"African Eats"**. African Eats is an online food ordering and delivery platform. The meals are delivered by couriers using various methods, including cars, scooters, bikes, or on foot. It is operational in over 60 cities in 5 African countries. These countries use common currency 'African Rand'. In 2024, the company was sued for antitrust price manipulation, from forcing restaurants to charge the same price for delivery as for dine-in if the restaurant wants to be listed on the African Eats app, along with charging fees of 13–40% of revenue. The exchange rate for the African Rands is extremely volatile. The rate of inflation in this African Region is presently 10% a year. Inflation in India is currently 5% a year. Management of Doormato expects these rates likely to continue for the foreseeable future. Estimated projected cashflows, in real terms, for the first three years of the project are as follows:

	Year–0	Year–1	Year–2	Year-3
Cash flows in Indian ₹ (000)	-1,00,000	-3,00,000	-4,00,000	-50,000
Cash flows in African Rand (000)	-4,00,000	+5,00,000	+6,50,000	+7,50,000

Doormato assumes the year 3 nominal cash flows will continue to be earned each year indefinitely. It evaluates all investments using nominal cash flows and a nominal discounting rate. The present exchange rate is African Rand 4.5 to ₹ 1.

Audit Considerations

JS & Associates are at a crossroads regarding their audit approach for Doormato for the financial year ending March 31st, 2025. Historically, they have identified management override of controls and revenue recognition as significant risks. However, their audits in the past 2 financial years yielded clean reports with no issues detected in these areas.

This absence of recent red flags presents a dilemma. On one hand, maintaining a conservative approach suggests continuing to assess these areas as significant risks. This ensures a thorough examination and mitigates the chance of missing potential issues that could arise due to unforeseen circumstances or changes within Doormato.

On the other hand, consistently clean reports raise the question of continued significance. JS & Associates might consider performing a more focused assessment or reducing the emphasis on these risks while still acknowledging their potential impact. This could streamline the audit process without compromising effectiveness.

As part of a risk-based audit approach, JS & Associates focus on areas with a higher likelihood of material misstatement.

Annexure

The New Age

Food Presentation Discrepancy Sparks Trust Concerns Among Customers on Doormato App



In a recent development, Shyam, a loyal customer of Doormato, has raised concerns about the disparity between the food images displayed on the Doormato app and the actual dishes served by restaurants. This issue, which has been described as a breach of trust between customers and restaurants, has sparked a broader discussion on the authenticity of food presentation in online food delivery services.

Ravi, a prominent figure in the culinary industry, expressed his concerns over the misleading nature of these images. He pointed out that while the images were initially intended to enhance the visual appeal of dishes and attract customers, they have inadvertently led to dissatisfaction and disappointment when the reality does not match expectations. Doormato is yet to comment on the issue, but industry experts believe that addressing this concern promptly will be crucial in preserving customer loyalty and trust.

I. Multiple Choice Questions

1. Assuming Doormato is planning to acquire hyper-local delivery company "Kit-Kit', which enables to order grocery, fruits & vegetables, and other daily essential products with intention to diversify in this field. "Kit-Kit' has over the period 10 million registered users throughout the country. However, "Kit-Kit' does not have any intention to sell the customer list. Should this customer list be recorded as an intangible in such a business combination?

   (a) Such customer list should be recorded as an intangible in a business combination as "Kit-Kit' has the ability to transfer it.

   (b) Such customer list should not be recorded as an intangible in a business combination as "Kit-Kit' has not the ability to transfer it.

   (c) Such customer list should be recorded as an intangible in a business combination as it gives rise to legal or contractual right.

   (d) The recording of such customer list depends upon the business combination agreement between both the companies.

2. As part of a risk-based audit approach, JS & Associates focus on areas with a higher likelihood of material misstatement. Which of the following statements best describes the concept of significant auditor attention in the context of scenario given in the case study?

(a) JS & Associates will spend an equal amount of time reviewing all sections of Doormato's financial statements

(b) JS & Associates will prioritize audit procedures for areas with a lower risk of material misstatement.

(c) JS & Associates will design the audit procedures based on their assessment of risks that could potentially cause errors in the financial statements of Doormato.

(d) JS & Associates will rely solely on past audit results to determine the scope of their procedures.

3. Under GST, what is the time of supply and taxable value for Doormato at the time of voucher purchase of ₹ 1,000?

(a) Time of supply is date of issue of the voucher and taxable value is ₹ 1,000 (face value of voucher)

(b) Time of supply is date of issue of the voucher and taxable value is ₹ 1,200 (credit value of voucher)

(c) Time of supply is date of redemption of the voucher and taxable value is ₹ 1,200 (credit value of voucher)

(d) Time of supply is date of redemption of the voucher and taxable value is ₹ 1,000 (face value of voucher)

4. Considering the above scenario, which of the following statements is MOST ACCURATE regarding the dynamic QR code and invoice for ₹ 900 meal order, where a customer has accumulated enough points through Doormato's loyalty program with a specific restaurant to earn a ₹ 200 discount on their next order?

(a) The QR code will only display the final payable amount of ₹ 700 (after ₹ 200 discount). No mention of the original bill amount or discount details will be shown.

(b) The QR code will display the final payable amount of ₹ 700 and reference of ₹ 200 discount on a separate invoice, but the invoice won't mention the original bill amount.

(c) The QR code will display the final payable amount of ₹ 700. The invoice will mention the original bill amount of ₹ 900, ₹ 200 discount details (including reference to the loyalty program), and the final payable amount.

(d) The QR code cannot be generated in this scenario because the discount reduces the taxable value, requiring a revised invoice without the discount information.

5. According to Ind AS 115 - Revenue from Contracts with Customers, how many performance obligations does Doormato have relating to the Doormato Silver subscription?

   (a) One performance obligation: The overall subscription service.

   (b) Two performance obligations: The delivery of the printed magazine and providing access to online content.

   (c) Three performance obligations: Delivery of the printed magazine, access to online content, and customer support.

   (d) No performance obligations, as the services are not distinct.

II. Descriptive Questions

6. To place agenda regarding Strategic Acquisition African Eats before the board it was required to:

   i. To CALCULATE the net present value (NPV) of the proposed investment. While the nominal discount rate used by Doormato is 8% but considering risk nature of the project, 6% risk premium is required to be considered. Notes - (1) Taxation to be ignored in this calculation (2) PVF and exchange rates to be considered upto four decimal (3) final calculations to be rounded off the whole number.

   ii. EVALUATE the external environment for Doormato's strategic acquisition of African Eats, considering the non-financial factors. (HINT- How do political, economic, social, cultural, technological, legal, and ethical factors influence the success of this investment? What strategies should Doormato implement to address these challenges and ensure a successful acquisition?)

7. i. ADVISE on how to address and maintain customer trust and relationships in response to the concerns raised in the recent newspaper article.

   ii. How can blockchain technology be APPLIED by Doormato and finance professionals in the following areas:

      (a) Supply chain operations

      (b) Audit processes

      (c) Managing sensitive customer data

8. DRAW a Business Model Canvas of Doormato.

ANSWERS TO THE CASE STUDY 12

I. Answers to the Multiple Choice Questions

1. (a) Such customer list should be recorded as an intangible in a business combination as "Kit-Kit' has the ability to transfer it.

Reason:

In this situation, the customer database does not give rise to legal or contractual right. Accordingly, the assessment of its separability will be assessed. The database can be useful to other players and "Kit-Kit' has the ability to transfer this to them. Accordingly, the intention not to transfer will not affect the assessment whether to record this as an intangible or not. Hence customer list should be recorded as an intangible in a business combination.

2. (c) JS & Associates will design the audit procedures based on their assessment of risks that could potentially cause errors in the financial statements of Doormato.

Reason:

As per SA 701

The concept of significant auditor attention recognizes that an audit is risk-based and focuses on identifying and assessing the risks of material misstatement of the financial statements, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. Options (a), (b), and (d) do not accurately represent the emphasis on risk assessment in a significant auditor attention approach.

3. (c) Time of supply is date of redemption of the voucher and taxable value is ₹ 1,200 (credit value of voucher)

Reason:

As per section 13(4) of the CGST Act, 2017, the time of supply of vouchers is -

Date of issue of the voucher, if the supply that it covers is identifiable, at that point, or

Date of redemption of the voucher in other case

Here, food ordering credit voucher can be used on any food items and so the time of supply of vouchers is the date of redemption of the voucher.

In terms of rule 32(6) of the CGST Rules, 2017 relating to valuation, the value of a voucher is equal to the money value of the goods or services redeemable against it. Therefore, though the voucher is sold for ₹1,000, its value is ₹1,200.

4. (c) The QR code will display the final payable amount of ₹ 700. The invoice will mention the original bill amount of ₹ 900, ₹ 200 discount details (including reference to the loyalty program), and the final payable amount.

Reason:

When the part-payment for any supply has already been received from the customer/ recipient, either in advance or by adjustment (e.g. using a voucher, discount coupon etc.), before the dynamic QR Code is generated, then the dynamic QR code may provide only the remaining amount payable by the customer/ recipient against "invoice value". The details of total invoice value, along with details/ cross reference of the part payment/ advance/ adjustment done, and the remaining amount to be paid, should be provided on the invoice.

Accordingly, the QR code will display the final payable amount of ₹ 700. The invoice will mention the original bill amount of ₹ 900, ₹ 200 discount details (including reference to the loyalty program), and the final payable amount.

5. (b) Two performance obligations: The delivery of the printed magazine and providing access to online content.

Reason:

Under **Ind AS 115 - Revenue from Contracts with Customers**, a performance obligation is defined as a promise to transfer a distinct good or service to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and

(b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

In the case of the Doormato Silver subscription:

- **Monthly delivery of the printed magazine** is a distinct good, as customers can benefit from the magazine independently each month.
- **Access to the online content** is a distinct service that provides additional value separate from the physical magazine.

Since both the printed magazine and online content meet the criteria for being distinct goods or services, they are considered separate performance obligations under **Ind AS 115**.

Therefore, Doormato has **two performance obligations** related to the Doormato Silver subscription:

1. Delivery of the printed magazine.
2. Providing access to the online content.

This approach ensures that each distinct service is accounted for and recognized in line with the benefits provided to the customer.

II. Answers to the Descriptive Questions

6. (i) Calculation of NPV

Year	0	1	2	3
Inflation factor in India	1.00	1.05	1.1025	1.1576
Inflation factor in Africa	1.00	1.10	1.21	1.331
Exchange Rate (as per IRP)	4.50	4.7143	4.9388	5.1741
Cash Flows in ₹'000				
Real	-1,00,000	-3,00,000	-4,00,000	-50,000
Nominal (1)	**-1,00,000**	**-3,15,000**	**-4,41,000**	**-57,880**
Cash Flows in African Rand'000				
Real	-4,00,000	5,00,000	6,50,000	7,50,000

Nominal	-4,00,000	5,50,000	7,86,500	9,98,250
In Indian `'000 (2)	**-88,889**	**1,16,666**	**1,59,249**	**1,92,932**
Net Cash Flow in `'000 (1) + (2)	**-1,88,889**	**-1,98,334**	**-2,81,751**	**1,35,052**
PVF@14%	1	0.8772	0.7695	0.6750
PV	-1,88,889	-1,73,979	-2,16,807	91,160

NPV of Terminal value = 1,35,052/ 0.14 × 0.6750 = 6,51,144 (₹ '000)

NPV of 3 years = -4,88,515 (₹ '000)

Total NPV of the Project = -4,88,515 (₹ '000) + 6,51,144 (₹ '000) = 1,62,629 (₹ '000)

Note: There can be a slight difference in exchange rate in 3rd year. Accordingly, the final answer may be slightly varied.

(ii) Recommendations for Strategic Consideration

When evaluating the strategic acquisition of African Eats, Doormato must consider a range of non-financial factors that could impact the success of the investment. These factors are crucial for understanding the broader implications of the acquisition beyond the immediate financial metrics. Below is an elaboration on each relevant point:

Political Environment

The political environment in the countries where African Eats operates can significantly influence the business's operational stability. Doormato needs to *assess the risk of political instability, such as changes in government, civil unrest, or policy shifts that could disrupt business operations*.

In countries with unstable governments, there is a *higher risk of unexpected regulatory changes*. A thorough understanding of the regulatory landscape in each country is necessary. This includes the ease of doing business, regulatory requirements for foreign investments, and potential barriers to entry. *Uncertain or frequently changing regulations can create challenges in compliance and increase operational costs*.

Economic Factors

The extreme volatility of the exchange rate in the African country where African Eats operates poses a significant risk. Currency fluctuations can erode profit margins, especially when revenues are earned in a depreciating currency while costs or financial obligations are in a stronger currency. Doormato should consider hedging strategies or other financial instruments to mitigate this risk.

With an inflation rate of 10% in the African Region and 5% in India, Doormato must assess how these rates will affect both the costs and revenues of African Eats. High inflation can lead to increased operational costs, reduce consumer purchasing power, and impact demand for services. The company should explore pricing strategies that account for inflation while maintaining competitiveness.

Moreover, evaluating the broader economic environment in the target countries is essential. This includes assessing the potential for economic growth, consumer spending trends, and the overall demand for online food delivery services. Economic downturns or recessions could reduce disposable income, impacting the frequency and volume of orders on the platform.

Social and Cultural Factors

Understanding the cultural distinctions in each of the countries where African Eats operates is crucial for customer engagement and brand positioning. Doormato must ensure that its marketing strategies, customer service, and overall business approach are culturally sensitive and resonate with local consumers. Misunderstanding cultural norms or preferences can lead to reputational damage and lost market opportunities. Language plays a significant role in communication with customers, partners, and employees. Ensuring that the platform is available in local languages and that customer support can effectively communicate in these languages is critical for building trust and loyalty.

Doormato should also consider how social trends, such as consumer attitudes toward food delivery, and health consciousness, might vary across the region. Understanding these trends can help tailor the service offerings to meet local preferences and increase market penetration.

Technological Considerations

African Eats' business model relies heavily on technology, including mobile apps, online payment systems, and delivery logistics. Doormato needs to evaluate the

technological infrastructure in each country, such as internet penetration rates, mobile network coverage, and availability of reliable payment gateways. Poor infrastructure can lead to operational inefficiencies and limit the platform's reach.

The success of an online food delivery platform depends on the willingness of consumers and restaurants to adopt and use the technology. Doormato should assess the level of technological adoption among the target population, including the prevalence of smartphones and familiarity with online ordering systems.

Moreover, operating in multiple countries exposes African Eats to a range of cybersecurity threats. Doormato should ensure robust cybersecurity measures are in place to protect sensitive data, including customer information and payment details. Data breaches or cyber-attacks could severely damage the platform's reputation and lead to legal liabilities.

Legal and Regulatory Environment

Each country may have its own set of laws and regulations governing online businesses, consumer protection, labor practices, and competition. Doormato must ensure that African Eats complies with all relevant legal requirements in each market. Failure to comply could result in fines, legal disputes, or even the suspension of operations.

African Eats was previously sued for antitrust price manipulation, which highlights the importance of understanding and complying with competition laws in the target countries. Doormato needs to evaluate the legal implications of continuing or altering African Eats' pricing strategies and business practices to avoid future legal challenges.

In addition, Doormato should also consider the local labor laws, including those related to employment contracts, worker rights, and minimum wage requirements. Given that African Eats employs delivery personnel in various countries, it is crucial to ensure compliance with these laws to avoid legal disputes and maintain a positive relationship with the workforce.

Moreover, some African countries may impose restrictions on the repatriation of profits, making it challenging to transfer earnings back to India. Doormato needs to understand the legal and regulatory framework governing profit repatriation and plan accordingly. This might involve exploring alternative methods of moving funds, such as reinvesting profits locally or negotiating special agreements with

the host government. While taxation has been ignored in the NPV calculation, it is important to consider the local tax laws for repatriating profits. Double taxation treaties, withholding taxes, and local tax rates could all affect the net returns from the investment.

Ethical Considerations

In some African countries, issues like child labor or poor working conditions may be prevalent. Doormato must ensure that African Eats adheres to ethical labor practices, not only to comply with international standards but also to maintain its corporate social responsibility (CSR) image. Moreover, this can help mitigate the risk of reputational damage. Engaging in CSR activities that benefit local communities can enhance Doormato's brand image and foster goodwill among consumers. This could include initiatives such as supporting local farmers, reducing the environmental impact of delivery operations, or contributing to social causes in the regions where African Eats operates.

Conclusion

While the financial analysis indicates a positive NPV for the acquisition, the strategic benefits of entering the African market may still be compelling. However, Doormato must carefully consider the non-financial risks and challenges associated with this acquisition. Conducting thorough due diligence, addressing potential legal, cultural, and ethical issues, and implementing robust risk management strategies will be critical for the success of the acquisition. A comprehensive understanding of the external environment will enable Doormato to make an informed decision and potentially mitigate the risks associated with expanding into the African market.

7. (i) This situation serves as a reminder that while marketing and presentation are vital, maintaining customer trust through authenticity is equally, if not more, important. Customers expect honesty, and when there is a significant difference between what they see and what they receive, it can damage the relationship between the restaurant and the customer. The company should plan to actively remove AI-generated images (if any) from menus by as earliest as possible and should also reject new submissions of such images. CEO should urge restaurant partners and Doormato's internal marketing team to cease using AI-generated images for promotional purposes. Instead, Doormato's should provide free real food photography service and encourage restaurants to avail this service. This service may be given at no profit or loss basis. In addition, Doormato should give a

clarification like “At Doormato, we use various forms of AI, to make our workflows efficient. However, one place where we strongly discourage the use of AI is images for dishes in restaurant menus. AI-generated food/dish images are misleading” This decision highlights the growing concern surrounding the ethical implications, particularly in contexts where authenticity and accuracy are paramount. Doormato's proactive approach aims to restore trust and ensure a more transparent experience for its users.

(ii) **(a)** With blockchain technology, Doormato can create a decentralized ledger that records every step of the supply chain process, from picking food package from the restaurants to final product delivery. Each transaction is securely recorded on the blockchain, providing real-time visibility and transparency to all stakeholders involved. The finance professional can easily access the blockchain to verify the authenticity and accuracy of transactions, ensuring compliance with regulatory requirements and building trust with customers, investors, and auditors.

(b) Traditionally, audits involve manually reviewing numerous financial transactions and reconciling data from different sources, which can be time-consuming and prone to errors. However, with blockchain technology, the e-commerce platform, Doormato, can implement a blockchain-based payment system that automatically records and timestamps every transaction. During the audit process, the finance professional can access the blockchain ledger to instantly verify transaction details, reconcile data, and ensure compliance with accounting standards and regulatory guidelines. This streamlined approach improves audit efficiency, reduces the risk of human error, and enhances the accuracy of financial reporting.

(c) By utilizing blockchain technology, Doormato can implement a secure and encrypted blockchain network to store and share customer data. The finance professional can ensure the integrity and security of the data by leveraging blockchain's cryptographic algorithms and consensus mechanisms. This eliminates the risk of unauthorized access, data tampering, or data loss. With blockchain, the finance professional can confidently handle customer data, knowing that it is protected by a robust and transparent system, enhancing data privacy, and maintaining the trust of customers and regulatory bodies.

8. Business Model Canvas of Doormato

Key Partners	Key Activities	Value Proposition	Customer Relationship	Customer Segments
▪ Partnership with restaurants for food delivery ▪ Delivery personnel ▪ Technology companies offering payment gateways, app development, and data security ▪ Restaurants offering loyalty programs and deals via Gold and Silver Subscription (Subscription Partners)	▪ Platform Management to ensure smooth operation of the Doormato app and website ▪ Managing logistics and delivery of food orders ▪ Addressing customer and restaurant partner concerns ▪ Promoting restaurants and running targeted ad campaigns ▪ Fostering a user-driven review system and customer engagement **Key Resources** ▪ Over 20 million users (restaurants and individual consumers) ▪ Technology Infrastructure i.e., robust app and website platform ▪ Trusted name in the food delivery industry	▪ Convenience i.e., easy and quick food ordering, reliable delivery, transparent delivery fee calculation ▪ Wide selection of cuisines and restaurant options ▪ Discounts through vouchers, loyalty programs, and subscription benefits	▪ User-generated reviews and stories ▪ Responsive customer service ▪ Personal interaction through "Food Soldiers" **Channels** ▪ Desktop/ Mobile/ Laptops ▪ Push notifications , and in-app messages	▪ Users ordering food ▪ Companies looking to reach Doormato's extensive user base ▪ Businesses seeking visibility

Cost Structure ₹	Revenue Streams ₹
▪ Maintaining and upgrading the app and website ▪ Costs associated with delivery personnel and operations ▪ Operating a customer service team ▪ Costs related to the "Food Soldier" program and partner relationships	▪ Commission from restaurants on food delivery orders ▪ Charged to customers, varying based on order size and location ▪ Revenue from restaurants promoting their listings ▪ From Doormato Gold and Doormato Silver memberships ▪ Revenue from users purchasing vouchers for discounts on food orders ▪ Commission from the restaurant for each successful reservation

This Business Model Canvas outlines how Doormato operates, generates revenue, and delivers value to its customers and partners. The company's focus on trust, community, and variety, along with its multifaceted business model, positions it strongly in the competitive food delivery and restaurant aggregation market.

CASE STUDY 13

EcoTech Innovations Pvt. Ltd.

Emergence of Green Entrepreneurship

India's remarkable economic progress, marked by its position as the fastest-growing major economy, has been driven by a comprehensive strategy that emphasizes entrepreneurship and self-employment. The government's policies have fostered an environment conducive to starting businesses, particularly in emerging sectors like sustainability and renewable energy.

Amidst this entrepreneurial renaissance, the story of Priya and Arjun stands out. Both graduates from a prestigious engineering college, they shared a passion for environmental conservation and a desire to contribute to a greener future. Inspired by the government's initiatives to promote clean technologies and the growing global demand for eco-friendly solutions, Priya and Arjun decided to take the entrepreneurial leap. In 2022, they founded EcoTech Innovations Pvt. Ltd., a company dedicated to developing cutting-edge technologies for sustainable energy generation and waste management.

Guided by their mission "to pioneer innovative, sustainable technologies that drive environmental conservation, enhance waste management efficiency, and contribute to a cleaner future for all," and their vision "to become a global leader in sustainable energy and waste management solutions" Priya and Arjun aimed to build their company that not only thrived in the market but also made a significant positive impact on the environment.

Growth, Expansion, and Strategic Partnerships

The waste management industry, where EcoTech operates, is on a robust growth trajectory, projected to exceed $500 billion globally by 2026. With urbanization and industrialization surging, the industry is witnessing rapid advancements in AI, IoT, and recycling technologies. In 2024, the global waste management market was valued at approximately $380 billion, highlighting significant expansion potential. Government regulations and initiatives, such as the European Union's Circular Economy Action Plan and India's Swachh Bharat Mission, are driving improvements in waste desegregation, recycling rates, and plastic waste reduction. Public-private partnerships are also increasing, enhancing infrastructure and innovation. This sector is becoming crucial in achieving global environmental sustainability and resource efficiency goals.

Initially, Priya and Arjun were the sole shareholders and directors of EcoTech Innovations Pvt. Ltd. However, as the business grew, they brought on board their friend, a sustainability expert, Rahul, as a co-shareholder with a 15% stake. Priya and Arjun each retained 42.5% ownership. To navigate the complexities of finance, accounting, and compliance, they appointed their trusted friend Megha as the Chief Financial Officer (CFO).

As EcoTech experienced rapid growth and expansion, the need for a new state-of-the-art head office became evident. The construction of the new office building commenced on 1st September, 2024 and continued until 31st December 2024. At the beginning of September month, the directly attributable expenditure on this asset was ₹ 1,00,000. However, as construction progressed, the costs increased, with the company incurring ₹ 2,50,000 in each of the subsequent months from October to December 2024. Although EcoTech Innovations Pvt. Ltd. did not take any specific borrowings to finance the construction, the company incurred finance costs on its general borrowings during the construction period. To meet its capital requirements, EcoTech issued 10% debentures with a face value of ₹ 20 lakhs during the year.

Additionally, the company had an existing overdraft facility of ₹ 5,00,000, which was increased to ₹ 7,50,000 in December, 2024. The interest rate on the overdraft was 15% until 1st October, 2024, after which it was increased to 16%. Megha was tasked with ensuring proper accounting treatment and compliance with the relevant accounting standards for the capitalization of borrowing costs related to the construction of the new head office building during the construction period. Her expertise in finance was crucial in navigating these complex financial decisions.

In addition to its domestic operations, EcoTech also exports its eco-friendly solutions to European and Middle Eastern countries. During FY 2024-25, EcoTech Innovations Pvt. Ltd. acquired a 55% equity stake in GreenWave Ltd., a company engaged in manufacturing and selling a product named 'EcoClean.' The fair value of GreenWave Ltd.'s identifiable net assets as per the relevant Ind AS is ₹ 12 crore, and its paid up share capital is ₹ 10.50 crore. For the acquistion, EcoTech paid a cash consideration of ₹ 10 crore, with the fair value of the non-controlling interest on the date of acquisition being ₹ 3 crore. GreenWave Ltd. appointed Mr. Rahul as its whole-time company secretary and Mr. Arjun as its managing director, positions they also held at EcoTech Innovations Pvt. Ltd. On 25th August, 2024, GreenWave Ltd. sold two of its machines to Mr. Arjun out of which one machinery was exchanged for a vehicle owned by Mr. Arjun, and the other was sold for cash consideration.

Compliance Challenges

EcoTech Innovations Pvt. Ltd. has been self-funded since its inception, relying on the founders' expertise, determination, and the support of environmentally conscious investors. The company's innovative solutions have garnered recognition both domestically and internationally, exemplifying the potential of Indian entrepreneurship to drive sustainable development while contributing to the nation's economic growth. To further expand their operations and accommodate their growing team, EcoTech Innovations Pvt. Ltd. entered into a lease agreement for a new office space in April 2024. The lease term is 10 years, with a single lease payment of ₹ 1,00,000 payable at the beginning of each year. According to the lease contract, the annual lease payments will increase by the rate of SOFR. Megha highlighted the importance of accurately measuring the lease liability as per the relevant Ind AS. This financial decision

would play a crucial role in ensuring accurate financial reporting and compliance, which are vital for the company's continued success and growth.

Priya and Arjun understood the intricate interplay between inflation, project costs, demand patterns, and financing implications. They realized the importance of conducting comprehensive project appraisals that account for these factors. They appreciated Megha's expertise in guiding them through the complexities of project evaluation, ensuring that EcoTech Innovations Pvt. Ltd. made well-informed decisions about its future growth strategies. During a board meeting in April 2024, Megha informed the directors that the company's financial statements for the current year would be prepared in accordance with the Indian Accounting Standards (Ind AS). Priya and Arjun expressed their growing concerns to Megha about the lack of progress following the company's recent decentralization efforts. Despite granting greater autonomy to local managers in hopes of boosting performance and fostering innovation, the anticipated improvements had not materialized. They sought Megha's expertise and strategic insight on how to navigate this complex situation, improve local managers' engagement, and ensure the company's growth trajectory remained on track. Megha's role as CFO and her understanding of the company's financial health and strategic goals positioned her uniquely to provide the guidance needed to overcome this significant hurdle.

EcoTech Innovations Pvt. Ltd. had an outstanding interest liability of ₹ 1 crore towards a loan payable to GreenFinance Ltd., a public financial institution that had been a crucial supporter in the early stages of the company's growth. To manage this liability more effectively and preserve cash flow, EcoTech issued debentures of ₹ 275 lakhs carrying an interest of 7.5% to GreenFinance Ltd. in lieu of the outstanding interest as well as for the outstanding loan payable to it. This strategic move allowed the company to defer the immediate cash outflow and focus on its operational needs. While computing the profits and gains of business for the A.Y. 2025-26, EcoTech Innovations Pvt. Ltd. deducted the said interest, anticipating it would be a legitimate business expense. However, the Assessing Officer rejected the deduction of interest on the loan claimed by EcoTech, creating an unexpected challenge for the financial team.

Additionally, EcoTech achieved a gross profit of ₹ 18 crores and incurred indirect expenses of ₹ 4 crores for the financial year, reflecting its robust financial performance despite the complexities in interest liability management. During the annual audit of EcoTech Innovations Pvt. Ltd., the tax consultant raised a concern regarding a notice issued by the Commissioner of Income-tax. The Commissioner had initially issued a notice to revise the order passed by an Assessing Officer under section 143. While the proceedings were ongoing before the Commissioner, based on material gathered during a survey under section 133A after the issuance of the first notice, the Commissioner of Income-tax issued a second notice with different contents from the first notice. The tax consultant questioned whether the action of the Commissioner in issuing the second notice with divergent contents was justified.

Finally, in a separate event, EcoTech Innovations Pvt. Ltd. imported a machine from France for ₹ 180 lakh during March 2024, paying all duties of customs. Due to a technical manufacturing

defect, the machine was sent back to the supplier for repairs in October 2024 and re-imported in August 2025 without any re-manufacturing or reprocessing, after repairs. Since the machine was under warranty, the repairs were carried out free of cost, although the fair cost of repairs would have been ₹ 5 lakh (excluding the cost of material, which was ₹ 10 lakh). The actual insurance and freight charges (to and from) were ₹ 5 lakh (₹ 2.50 lakh each way). The ownership of the machinery did not change during this period.

I. Multiple Choice Questions

1. Referring to the lease transaction in the case study, at the date of commencement of the lease, SOFR is 2 percent and the interest rate implicit in the lease is 5 percent. The amount of lease liability to be recognized initially will be (use discounting factors rounded to three decimal places) _____.

   (a) ₹ 8,60,789

   (b) ₹ 8,80,889

   (c) ₹ 8,75,645

   (d) ₹ 8,74,889

2. Comment upon the validity of the action of the Assessing Officer on rejecting the deduction of interest on loan claimed by EcoTech.

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

   (b) The interest so converted into debentures shall be deemed as actual payment, and hence, would be allowed as deduction but while computing 'Income from other sources' for A.Y.2025-26 even though the liability to pay is deferred to a future date. Thus, the action of the Assessing Officer is partially correct, as the said interest though not allowed while computing profits and gains of business but would be allowed as deduction while computing 'Income from other sources'.

   (c) 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. The action of the Assessing Officer is correct.

   (d) The interest so converted into debentures shall be deemed as actual payment as in the given case loan is provided by a public financial institution and hence, would be allowed as deduction while computing its profits and gains of business for A.Y.2025-26. The action of the Assessing Officer is not correct.

3. Whether there was any statutory requirement for GreenWave Ltd. to appoint a whole-time Company Secretary (CS) and whether Mr. Rahul was eligible to be appointed as its whole-time Company Secretary?

   (a) No, as its paid-up capital had not exceeded the prescribed limit and also Mr. Rahul was not eligible as he was already holding office as a whole-time CS in one other company i.e. EcoTech Innovations Pvt. Ltd.

   (b) Yes, as its paid-up capital had exceeded the prescribed limit and also Mr. Rahul was eligible to be appointed as its whole-time CS in GreenWave Ltd. as it was the subsidiary company of EcoTech Innovations Pvt. Ltd.

   (c) Yes, as its paid-up capital had exceeded the prescribed limit. However, Mr. Rahul was not eligible to be appointed as its whole-time CS as he was already holding office as a whole-time CS in one other company i.e. EcoTech Innovations Pvt. Ltd.

   (d) No, as its paid-up capital had not exceeded the prescribed limit. However, Mr. Rahul was eligible to be appointed as its whole-time CS as it was the subsidiary company of EcoTech Innovations Pvt. Ltd.

4. What will be the capitalization rate for construction period of four months for computation of borrowing cost in accordance with the relevant Ind AS related to the construction of a new office building?

   (a) 3.987%

   (b) 3.756%

   (c) 2.607%

   (d) 3.188%

5. What shall be the value of goodwill for EcoTech Innovations Pvt. Ltd. on the acquisition of 55% shares of GreenWave Ltd. as per the fair value method and proportionate share method?

   (a) ₹ 1,00,00,000, ₹ 7,40,00,000

   (b) ₹ 2,00,00,000, ₹ 3,40,00,000

   (c) There is no goodwill arising but there is a gain on bargain purchase of ₹ 1,00,00,000

   (d) ₹ 1,00,00,000, ₹ 3,40,00,000

II. Descriptive Questions

6. EcoTech Innovations Pvt. Ltd. owns 30% of the share capital in GreenTech Solutions Pvt. Ltd. and has the ability to exercise significant influence over it. GreenTech Solutions Pvt. Ltd. holds the following investments:

   70% of the share capital of its subsidiary, SustainCo Ltd., and 30% of the share capital of EcoEnergy Pvt. Ltd., with the ability to exercise significant influence. EcoTech Innovations Pvt. Ltd. transacts with SustainCo Ltd. and EcoEnergy Pvt. Ltd.

   Should EcoTech Innovations Pvt. Ltd. disclose these transactions as related party transactions in its separate financial statements? Also, explain the disclosure of such transactions in the financial statements of SustainCo Ltd. and EcoEnergy Pvt. Ltd. as related party transactions.

7. Priya and Arjun, the founders of EcoTech Innovations Pvt. Ltd., were concerned about the potential implications of this notice on the company's tax compliance. They sought guidance from their Chief Financial Officer, Megha. Accordingly, examine whether the action of the Commissioner is justified as to the second notice.

8. You are required to advice EcoTech Innovations Pvt. Ltd. on the concessions (if any) available for importation of the machinery after repairs, also state the conditions to be satisfied for availing such concession. Also compute the customs duty and integrated tax payable (if any) on the re-import of the machine after repairs. The rate of basic customs duty is 15% and integrated tax is 12%. Ignore Agriculture infrastructure and development cess.

9. Whether there were any restrictions for GreenWave Ltd. to sell its machinery to Mr. Arjun in exchange for a vehicle and if yes, then what legal requirements would have been followed by it?

ANSWERS TO THE CASE STUDY 13

I. Answers to the Multiple Choice Questions

1. (b) ₹ 8,80,889

Reason:

As per Ind AS 116, the lease payments should initially be measured using SOFR of 2 percent as at the commencement date. Therefore, while measuring the lease liability, each year the payments will be increased by 2 per cent, as follows:

Year	Lease Payment	Discount Factor	PV of lease payments (₹)
1	1,00,000	1	1,00,000
2	1,02,000	0.952	97,104
3	1,04,040	0.907	94,364
4	1,06,121	0.864	91,689
5	1,08,243	0.823	89,084
6	1,10,408	0.784	86,560
7	1,12,616	0.746	84,012
8	1,14,869	0.711	81,672
9	1,17,166	0.677	79,321
10	1,19,509	0.645	77,083
		Total	**8,80,889**

Therefore, the lease liability will initially be measured at ₹ 8,80,889.

2. (c) 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. The action of the Assessing Officer is correct.

Reason:

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 the Assessing Officer is correct.

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 debenture or any other instrument by which the liability to pay is deferred to a future date, the interest so converted shall not be deemed as actual payment*, and hence, would not be allowed as deduction. In this case, since EcoTech has converted the interest of ₹ 1 crore payable to GreenFinance 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 the loan claimed by EcoTech while computing its profits and gains of business for A.Y. 2025-26, is correct.

3. (b) Yes, as its paid-up capital had exceeded the prescribed limit and also Mr. Rahul was eligible to be appointed as its whole-time CS in GreenWave Ltd. as it was the subsidiary company of EcoTech Innovations Pvt. 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 ₹ 10 crore or more *or*

Private company having paid up share capital of ₹ 10 crore or more shall have a Whole time Company Secretary.

Bar on multiple appointments- A whole-time key managerial personnel shall not hold office in more than one company at the same time except in its subsidiary company. [Section 203(3)]

4. (c) 2.607%

Reason:

Since the entity has only general borrowing, hence first step will be to compute the capitalisation rate. The capitalisation rate of the general borrowings during the period of construction is calculated as follows-

Particulars	**Amount (in ₹)**
Finance cost on ₹ 275 lakhs 7.5% debentures during September-December 2024	6,87,500
Finance cost on ₹ 20 lakhs 10% debentures during September-December 2024	66,667
Interest @15% on overdraft of ₹ 5,00,000 in September 2024	6,250
Interest @16% on overdraft of ₹5,00,000 in October and November 2024	13,333
Interest @16% on overdraft of ₹ 7,50,000 in December 2024	10,000
Total finance cost during September-December 2024	**7,83,750**

Weighted average borrowings during period

= [(2,75,00,000 × 4) + (20,00,000 × 4) + (5,00,000 × 3) +(7,50,000 × 1)]/4

= ₹ 3,00,62,500

Capitalisation Rate for 4 months period = Total finance costs during the construction period/ Weighted average borrowing cost during the construction period

= 7,83,750 /3,00,62,500

= 2.607%

5. (d) ₹ 1,00,00,000, ₹ 3,40,00,000

Reason:

Fair Value Method	**Amount (in ₹)**
Fair value of cash consideration transferred	10,00,00,000
Fair value of non-controlling interest	3,00,00,000
	13,00,00,000
Less: Value of subsidiary's identifiable net assets as per Ind AS 103	12,00,00,000
Goodwill	**1,00,00,000**

Proportionate Share Method	**Amount (in ₹)**
Fair value of cash consideration transferred	10,00,00,000
Proportional share of non-controlling interest in the net identifiable assets of acquiree (12,00,00,000 x 45%)	5,40,00,000
	15,40,00,000
Less: Value of subsidiary's identifiable net assets as per Ind AS 103	12,00,00,000
Goodwill	**3,40,00,000**

II. Answers to the Descriptive Questions

6. Disclosure by EcoTech Innovations Pvt. Ltd.: Under Ind AS 24, "Related Party Disclosures," related parties are defined as entities or individuals that have the ability to exercise control or significant influence over the reporting entity, or vice versa. In this scenario, EcoTech Innovations Pvt. Ltd. owns 30% of the share capital in GreenTech Solutions Pvt. Ltd., which gives it the ability to exercise significant influence over GreenTech. This significant influence extends to the subsidiaries of GreenTech as well, making SustainCo Ltd. a related party to EcoTech Innovations Pvt. Ltd. because

SustainCo Ltd. is a subsidiary of GreenTech Solutions Pvt. Ltd. Therefore, any transactions between EcoTech Innovations Pvt. Ltd. and SustainCo Ltd. are considered related party transactions and must be disclosed in EcoTech Innovations Pvt. Ltd.'s separate financial statements.

Disclosure of Transactions with EcoEnergy Pvt. Ltd.: Although GreenTech Solutions Pvt. Ltd. holds 30% of the share capital in EcoEnergy Pvt. Ltd. and has significant influence over it, EcoTech Innovations Pvt. Ltd. neither directly own any share capital in EcoEnergy Pvt. Ltd. nor it have significant influence or control over EcoEnergy Pvt. Ltd. Therefore, according to Ind AS 24, EcoEnergy Pvt. Ltd. is not considered a related party to EcoTech Innovations Pvt. Ltd. The mere fact that EcoTech Innovations Pvt. Ltd. transacts with EcoEnergy Pvt. Ltd. through its associate GreenTech Solutions Pvt. Ltd. does not establish a related party relationship under Ind AS 24. Consequently, EcoTech Innovations Pvt. Ltd. is not required to disclose transactions with EcoEnergy Pvt. Ltd. as related party transactions in its financial statements.

Disclosure by SustainCo Ltd.: SustainCo Ltd. is required to disclose its transactions with EcoTech Innovations Pvt. Ltd. in its financial statements. According to Ind AS, a related party relationship exists between SustainCo Ltd. and EcoTech Innovations Pvt. Ltd. because EcoTech Innovations Pvt. Ltd. has significant influence over GreenTech Solutions Pvt. Ltd., which is the parent company of SustainCo Ltd. This creates a relationship where EcoTech Innovations Pvt. Ltd. can influence the decisions of SustainCo Ltd., making it a related party. As a result, any transactions between SustainCo Ltd. and EcoTech Innovations Pvt. Ltd. must be disclosed in SustainCo Ltd.'s financial statements as related party transactions.

Disclosure by EcoEnergy Pvt. Ltd.: EcoEnergy Pvt. Ltd. is not required to disclose its transactions with EcoTech Innovations Pvt. Ltd. as related party transactions. Under Ind AS, for entities to be considered related parties, there must be a direct or indirect control, joint control, or significant influence. In this case, EcoTech Innovations Pvt. Ltd. does not exert control or significant influence over EcoEnergy Pvt. Ltd. through GreenTech Solutions Pvt. Ltd. Therefore, no related party relationship is established between EcoEnergy Pvt. Ltd. and EcoTech Innovations Pvt. Ltd. As a result, EcoEnergy Pvt. Ltd. does not need to disclose its transactions with EcoTech Innovations Pvt. Ltd. as related party transactions in its financial statements.

7. The action of the Commissioner in issuing the second notice is not justified. The term "record" has been defined in clause (b) of Explanation 1 to section 263(1) of the Income Tax Act, 1961. According to this definition "record" shall include and shall be deemed always to have included all records relating to any proceeding under the Act available at the time of examination by the Commissioner. In other words, the information, material, report etc. which were not in existence at the time the assessment was made and came into existence afterwards can be taken into consideration by the Commissioner for the

purpose of invoking his jurisdiction under section 263(1). However, at the same time, in view of the express provisions contained in clause (b) of Explanation 1 to section 263(1), such information, material, report etc. can be relied upon by the Commissioner only if the same forms part of record when the action under section 263 is taken by the Commissioner.

Issuance of a notice under section 263 succeeds the examination of record by Commissioner. In the present case, the Commissioner initially issued a notice under section 263, after the examination of the record available before him. The subsequent second notice was on the basis of material collected under section 133A, which was totally unrelated and irrelevant to the issues sought to be revised in the first notice. Accordingly, the material on the basis of which the second notice was issued could not be said to be "record" available at the time of examination as emphasized in clause (b) of the Explanation 1 to section 263(1).

8. As per *Notification No. 45/2017 Cus. dated 30.06.2017*, duty payable on re-importation of goods which had been exported for repairs abroad is the duty of customs which would be leviable if the value of re-imported goods after repairs were made up of the fair cost of repairs carried out including cost of materials used in repairs (whether such costs are actually incurred or not), insurance and freight charges, both ways. However, following conditions need to be satisfied for availing this concession:

(a) goods must be re-imported within 5 years, extendable by further 2 years, after their exportation;

(b) exported goods and the re-imported goods must be the same;

(c) ownership of the goods should not change.

Since all the conditions specified above are fulfilled in the given case, the customs duty payable on re-imported goods will be computed as under:

Particulars	**₹**
Value of goods re-imported after exports [Cost of materials ₹10 Lakh + fair cost of repairs ₹ 5 Lakh + actual insurance and freight ₹ 5 lakh]	20,00,000
Add: Basic Customs duty @ 15% …(A)	3,00,000
Add: Social Welfare Surcharge @ 10% on ₹ 3,00,000 …(B)	30,000
Value for computing integrated tax	23,30,000
Integrated tax @ 12% (₹ 23,30,000 x 12 %) …(C)	2,79,600
Customs Duty and integrated tax payable …[(A) + (B) + (C)]	**6,09,600**

9. According to Section 192(1) of the Companies Act, 2013, no company shall enter into an arrangement by which:

(a) A director of the company or its holding, subsidiary, or associate company, or a person connected with him, acquires or is to acquire assets for consideration other than cash from the company; or

(b) The company acquires or is to acquire assets for consideration other than cash from such director or person so connected.

The above restriction is relaxed under certain conditions. A company may enter into an arrangement involving non-cash transactions as stated above if prior approval for such arrangement is accorded by a resolution of the company in a general meeting. Furthermore, if the director or connected person is a director of its holding company, approval must also be obtained by passing a resolution in the general meeting of the holding company.

The notice for approval of the resolution in the general meeting issued by the company or holding company must include:

- The particulars of the arrangement.
- The value of the assets involved in such arrangement, duly calculated by a registered valuer.

In the given instance, GreenWave Ltd. entered into a non-cash transaction with its managing director, Mr. Arjun, by selling its machinery in exchange for a vehicle. To comply with Section 192(1) of the Companies Act, 2013, GreenWave Ltd. would have needed to:

Obtain prior approval for such an arrangement through a resolution in its general meeting.

Since Mr. Arjun is also a director of its holding company, EcoTech Innovations Pvt. Ltd., prior approval would also need to be obtained by passing a resolution in the general meeting of EcoTech Innovations Pvt. Ltd.

By following these legal requirements, GreenWave Ltd. and EcoTech Innovations Pvt. Ltd. would ensure compliance with the Companies Act, 2013, regarding non-cash transactions involving directors and connected persons.

CASE STUDY 14

A Ltd.

A Ltd., an established player in the hospitality industry, oversees its subsidiary B Ltd., which specializes in the tourism sector, contributing to synergies between hospitality and tourism through interconnected services and offerings. In a strategic move to bolster its operational capabilities, A Ltd. undertook a significant expansion by purchasing a new building and pre-installed office furniture and fixtures from P Ltd., a well-known construction company that operates under two distinct divisions: commercial real estate and residential real estate, managed by Manager 1 and Manager 2 respectively.

A Ltd.'s purchase of the new building from P Ltd. marks a significant enhancement in its infrastructure, directly impacting its ability to deliver superior services in the hospitality sector. The integration of state-of-the-art facilities and high-quality furnishings ensures that A Ltd. can offer a first-rate experience to its clients, setting a benchmark in the industry. This strategic move also positions A Ltd. to better accommodate the growing demands and complexities of the modern businesses, which increasingly values seamless, high-quality service delivery.

Moreover, this also facilitates greater collaboration between A Ltd. and its subsidiary, B Ltd., fostering an ecosystem where both entities can thrive through mutual support and shared resources. For instance, the new building could also serve as a central hub for both managing operations and hosting client meetings, workshops, and corporate events, thereby enhancing the synergy between A Ltd.'s hospitality services and B Ltd.'s tourism offerings.

P Ltd. is recognized for its diversified portfolio, catering to a broad spectrum of clients. The commercial real estate division, under the leadership of Manager 1, focuses on developing and selling properties tailored for businesses, such as office spaces and commercial complexes. This division is renowned for its turnkey solutions, providing clients with ready-to-use spaces that are modern, functional, and well-equipped. The residential real estate division, managed by Manager 2, deals with housing projects ranging from high-rise apartments to luxury villas, emphasizing comfort, aesthetics, and community living.

P Ltd.'s ability to deliver such tailored real estate solutions stems from its robust relationships with suppliers like Q Ltd., whose high-quality materials are crucial for the construction and maintenance of premium properties. Their materials are pivotal in ensuring the structural

integrity and aesthetic quality of buildings. This relationship highlights the importance of a reliable supply chain in maintaining the quality and reliability of real estate developments. P Ltd.'s strategic choice of materials ensures durability and aesthetic appeal, which are critical for properties serving the high expectations of the hospitality and tourism sectors. Q Ltd.'s commitment to quality and timely delivery helps P Ltd. maintain its reputation for reliability and excellence in the construction industry.

As A Ltd. continues to grow and adapt to the changing dynamics of these industries, the strategic foresight demonstrated in such acquisitions will be pivotal. By aligning its physical assets with its service goals, A Ltd. enhances its competitive edge and cements its reputation as a leader in providing comprehensive hospitality and tourism experiences. This strategic alignment not only benefits A Ltd. but also sets a standard for operational excellence and integration within the industry, ultimately leading to sustained growth and success in a competitive marketplace.

Overall, the interconnections between these companies exemplify a well-integrated supply chain and strategic business relationships that span different sectors, each contributing to the final delivery of quality real estate solutions tailored to the specific needs of industries such as hospitality and tourism.

The case centres around A Ltd., where a cashier committed fraud by absconding with the company's funds. The Chief Accountant of A Ltd. was unaware of the fraudulent activity until the audit had been completed. The audit, conducted in an unfocussed and haphazard manner, failed to detect the fraud, which was only discovered by the Chief Accountant post-audit. An investigation later found that the auditor had not exercised proper skill and care.

Soon, another scandal follows. The Income-tax department collected documents from ABC Bank which revealed that B Ltd. had remitted substantial amounts abroad. The documents collected include Form 15CB issued by the Chartered Accountant, list of passengers, copy of their passports, date of travel and invoice raised by the foreign party. On enquiring from the passengers and verifying their passports, it is found that they did not travel abroad during the dates mentioned in the documents. Further, the passengers denied any sort of transactions with B Ltd. The department, therefore, concluded that the amounts were remitted abroad on the basis of false invoices and for wrong reasons, leading to FEMA violations and that the Form 15CB issued by the Chartered Accountant facilitated such violations. During the nine-month period in question, the chartered accountant had issued 150 certificates in Form 15CB approximately involving remittances of 40 crores in favour of B Ltd.

The Chartered Accountant submitted that he had issued Form 15CB based on invoices produced by the company and verifying the KYC documents of the signatory to the invoices. He

however, failed to bring on record the invoices. He further submitted that since he was not the statutory auditor of the company, he did not examine the books of account before issuance of Form 15CB or conduct due diligence of its business activities. He had charged ₹ 4,000 per certificate. Mostly, the fee was collected in cash. Some part of the fee was credited to his bank account.

In the wake of such huge scandals, A Ltd. wants to know the provision for applicability to conduct secretarial audit as they never conducted secretarial audit thinking they don't have enough business transactions to consider these requirements earlier. Company provides you information: Paid-up Share Capital ₹ 45 crore, Turnover ₹ 170 crore and Outstanding Loans and Borrowings of ₹ 120 crore from banks.

A Ltd has decided to appoint Mr. Anurag as Chief Internal Auditor to lead the internal audit function for the Company. The CEO of the Company has asked the HR head to define the reporting structure of the Chief Internal Auditor, so that he can discharge his duties objectively.

Further, CEO is also sceptical regarding the provisions of the Companies Act, 2013, applicable with respect to the constitution of the audit committee, he accordingly discussed his understanding with you and asked him to rectify in case he is not correct. He told you that he has the following understanding with respect to the provisions applicable for Audit Committee −

- *Any senior member of the company having expertise of accounting and financial management can be appointed as the chairperson of the Audit Committee.*

As discussed earlier, P Ltd. procures its raw materials from Q Ltd., a supplier specializing in metals. P Ltd. has recently decided to invest in an Electronic Data Interchange system that will enable P Ltd. to automatically place orders with its major suppliers. Currently, P Ltd.'s purchasing department staff have to place orders using postal mails and telephone to the company's suppliers, which is slow and inefficient.

Q Ltd. began its operations in 1991, starting as a modest enterprise and gradually transforming into a key player in the metal supply sector. Over the years, it has become an essential resource for a variety of industries, now supporting more than twelve distinct sectors with its extensive range of metal products. These sectors include Wood & Panel Products Manufacturing, Hearth Products, Site Furnishings, and both Commercial and Residential Construction, among others. This diversity has not only broadened Q Ltd.'s market presence but has also enhanced its expertise in delivering tailored solutions across various fields.

The growth of Q Ltd. can largely be attributed to its unwavering commitment to its clientele. The company has always prioritized customer satisfaction, ensuring that each client receives

personalized service and support tailored to their specific industry needs. This customer-centric approach has been pivotal in fostering strong, long-lasting relationships and in securing a loyal customer base. Moreover, Q Ltd. prides itself on its dedication to quality. Each product in their extensive catalogue is a testament to meticulous craftsmanship, designed to meet the highest industry standards.

Employing a team of experts, Q Ltd. ensures that each sector it serves is backed by professionals with deep knowledge and specialized skills. These experts not only understand the unique demands of their respective industries but are also equipped to advise and assist customers in selecting the best materials for their specific applications. This level of expertise is critical in industries where the quality and specifications of materials can significantly influence the overall success of a project.

The operational structure of Q Ltd. is divided into two main divisions: Division 'F' and Division 'G'. Division 'F' focuses on serving industrial and commercial construction needs, providing robust materials that are essential for large-scale construction projects. This division is known for its ability to supply large volumes of materials reliably and efficiently, thereby supporting some of the most demanding construction timelines and project specifications.

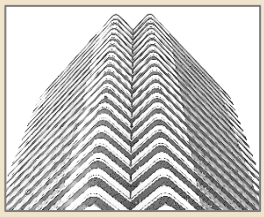
On the other hand, Division 'G' caters more to specialized industries like Hearth Products and Site Furnishings, offering bespoke solutions that often require a finer attention to detail and aesthetics. This division combines technical expertise with creative design, ensuring that even the most aesthetically driven projects benefit from the highest standards of structural integrity and material excellence.

Each division works as an investment centre separately. The salary of each divisional manager is ₹ 7,20,000 per annum with the addition of an annual performance-related bonus based on divisional return on investment (ROI). A minimum ROI of 12% p.a. is expected to be achieved by each divisional manager. If a manager only achieves the 12% target, he will not be rewarded with a bonus. However, for every whole 1% point above 12% which the division achieves for the year, a bonus equal to 3% of annual salary will be paid subject to a maximum bonus of 20% of annual salary. The figures belonging to the year ended 31 March 2025 are given in Annexure. During the financial year 2024-25, PAO, manager of Division 'G' invested ₹ 13.6 million in new equipment including an advanced cutting machine, which will increase productivity by 10% per annum. BAO, manager Of Division 'F', has made no investment during the year, even though its computer system needs updation. Division 'F's manager has already delayed payments of its suppliers due to limited cash & bank balance although the cash balance at Division 'F' is still better than that of Division 'G'.

Annexure

The News

A Ltd. Expands Infrastructure with Strategic Acquisition of State-of-the-Art Building from P Ltd.



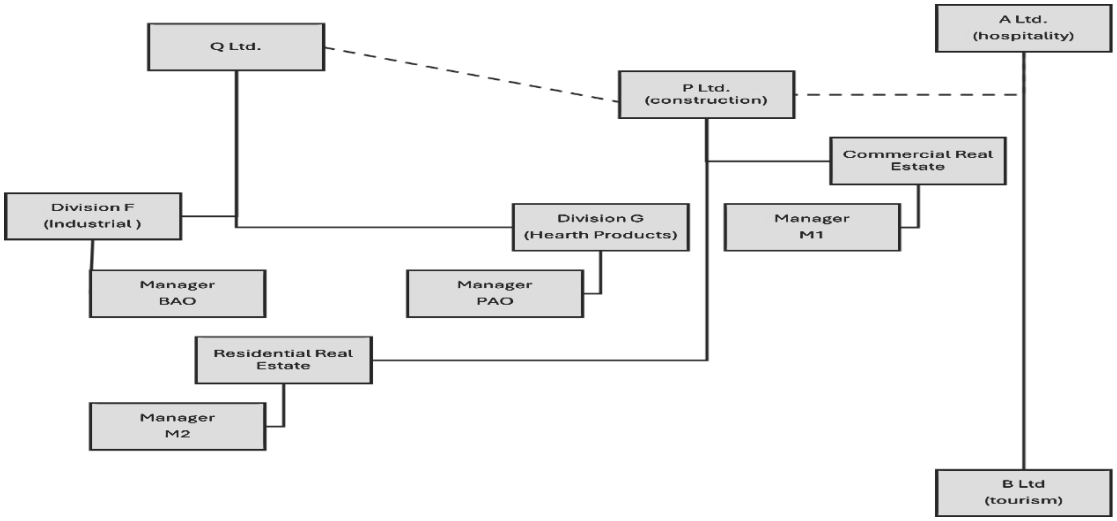
Gurugram, 20th April 2025 – In a major step towards enhancing its infrastructure and broadening its service offerings, A Ltd. has successfully acquired a state-of-the-art building from P Ltd. This acquisition is a key element of A Ltd.'s Future Ready Action Plan, aimed at revolutionizing its ability to deliver top-tier services in the hospitality sector and reinforcing its status as an industry leader.

The newly acquired building will house modern conference spaces, food labs, beverage research and development facilities, and versatile common areas. These cutting-edge additions will make conferences, virtual offices, and collaborative workspaces more accessible, affordable, and relevant, providing businesses with the tools they need to thrive in an increasingly competitive market.

With these advanced facilities and high-quality furnishings, A Ltd. is set to offer an unparalleled experience to its clients, setting new standards in the hospitality industry. This strategic investment not only reflects A Ltd.'s unwavering commitment to excellence in service delivery but also positions the company to meet the evolving demands of the modern business market.

As the complexities of the hospitality industry grow, A Ltd. is well-prepared to address the needs of today's businesses, who prioritize seamless and high-quality service. This expansion marks a pivotal moment in A Ltd.'s growth journey, underscoring its dedication to providing exceptional hospitality experiences and solidifying its future-ready approach.

Ecosystem



Financial Performance and Asset Overview of Division F and Division G

(₹ in '000)

	Division F	Division G
Revenue	30,000	17,500
Profit	5,200	4,000
Less: head office cost	(2,500)	(1,400)
Net profit	2,700	2,600
Non-current assets	19,500	30,000
Cash, inventory and trade receivables	5,000	6,500
Trade payable	6,200	2,800
Manager responsible	**BAO**	**PAO**

I. Multiple Choice Questions

1. Which of the following statements accurately characterize the situation of fraud committed by the cashier and the subsequent action:

   (i) The auditor exhibited due diligence and careful conduct.

   (ii) Clause (7) Of Part I of Second Schedule to the 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 to be guilty of professional misconduct based on clause (7) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.

   Options

   (a) Only (iv)

   (b) Both (ii) & (iv)

   (c) Both (ii) & (iii)

   (d) Both (i) & (iii)

2. The Board of directors of A Ltd. appointed you to analyse the business of the organisation and advise whether they are contravening the provision of the Companies Act 2013 with respect to Secretarial Audit.

   (a) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of outstanding loans and borrowings of rupees 100 crore or more.

   (b) No, A Ltd. is not required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. does not cross the threshold limit of outstanding loans and borrowings of rupees 200 crore or more.

   (c) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of Paid-up share capital of rupees 25 crore or more.

   (d) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of Turnover of rupees 100 crore or more.

3. Whether the understanding of CEO of A Ltd. is correct with respect to the appointment of chairperson of the Audit Committee?

   (a) No, as only the company secretary of the company can be appointed as the chairperson of the Audit Committee.

   (b) No, as the Chairperson of the Audit Committee shall be an independent director.

   (c) Yes

   (d) Partly correct as the chairperson should have expertise of accounting and financial management, however he should be a Chartered Accountant also.

4. With respect to the purchases made by A Ltd. from P Ltd., which of the following is correct regarding the GST liability?

   (a) There will be no GST liability on purchase of building while Office furniture and fixtures will be liable to GST.

   (b) There will be no GST liability on purchase of building and Office furniture and fixtures.

   (c) There will be GST liability on both purchase of building and Office furniture and fixtures.

   (d) There will be GST liability on purchase of building while Office furniture and fixtures will be not liable to GST.

5. Given the diverse functionalities of EDI systems in automating and standardizing transactional data across different departments and stakeholders, which specific area

within P Ltd.'s value chain is expected to see the most significant improvement due to the implementation of this new EDI system?

(a) Infrastructure since it supports to perform primary activities.

(b) Inbound Logistic since it is directly involved in the transformation of a product or provisioning of a service.

(c) Procurement since it supports to perform primary activities.

(d) Outbound Logistic since it is directly involved in the transformation of a product or provisioning of a service.

II. Descriptive Questions

6. ADVISE the ideal reporting structure of the Chief Internal Auditor that HR head may propose to the Managing Director?

7. EXAMINE the ethical implications of the chartered accountant's issuance of Form 15CB without proper verification and due diligence in this case.

8. For each division of Q Ltd., COMPUTE, ROI for the year ending 31 March 2025. JUSTIFY the figures used in your calculation also COMPUTE bonus of each manager for the year ended 31 March 2025. DISCUSS whether ROI provides a justifiable basis for computing the bonuses of managers and the problems arising from its use at Q Ltd. for the year ended 31 March 2025.

9. DISCUSS how the strategic acquisition of a state-of-the-art building from P Ltd. will provide A Ltd. with a competitive advantage in the hospitality industry.

ANSWERS TO THE CASE STUDY 14

I. Answers to the Multiple Choice Questions

1. **(c)** Both (ii) & (iii).

Reason:

In the given case, during the 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 the Clause (7) of Part I of Second Schedule of the 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 scepticism. 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 the Chartered Accountants Act, 1949 and SA 240, it is clear that the auditor is guilty of professional misconduct.

2. (a) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of outstanding loans and borrowings of rupees 100 crore or more.

Reason:

In given case, A Ltd. crosses the threshold limit of outstanding loans and borrowings of rupees 100 crore or more for getting Secretarial Audit conducted. Accordingly, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013.

[In terms of clause (c) of Rule 9(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, for the purposes of sub-section (1) of section 204, Every Company having outstanding loans or borrowings from banks or public financial institutions of 100 crore rupees or more.]

3. (b) No, as the Chairperson of the Audit Committee shall be an independent director.

Reason:

As per Regulation 18(1)(d) of LODR Regulations, the chairperson of the Audit Committee shall be an independent director and he shall be present at Annual General Meeting to answer shareholder queries.

4. (a) There will be no GST liability on purchase of building while office furniture and fixtures will be liable to GST.

Reason:

There will be no GST liability on purchase of building as sale of building is covered under Schedule III to the CGST Act, 2017. However, Office furniture and fixtures will be liable to GST.

5. **(c)** Procurement since it supports to perform primary activities.

Reason:

The EDI system will improve the system for sourcing and purchasing materials. This is procurement. Note that inbound logistics refers to inventory management - not the purchasing of inventory itself.

II. Answers to the Descriptive Questions

6. HR Head needs to evaluate multiple options and identify the most suitable option in light of the relevant provisions, guidance and overall governance of the organization. HR head also needs to evaluate different options for his administrative reporting and various options for functional reporting of Chief Internal Auditor. The possible options to be considered and evaluated may include the Board of Directors, Audit Committee, Managing Director of the Company, Chief Executive Officer or Chief Financial Officer.

As per section 138 of the Companies Act 2013, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in the practice or not), or such other professional as may be decided by the Board to conduct an internal audit of the functions and activities of the company.

As per ICAI's Framework Governing Internal Audits, Internal audit is defined as - "Internal audit provides independent assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives".

The Internal Auditor shall be free from any undue influences which force him to deviate from the truth. This independence shall be not only in mind but also in appearance. Also, the internal auditor shall resist any undue pressure or interference in establishing the scope of the assignments or the manner in which these are conducted and reported, in case these deviate from set objectives.

As per the requirement of the above stated provision, Chief Internal Auditor needs to be independent of the operational activities and report of Audit Committee / Board of Directors to enjoy his true status of independent auditor. He may administratively report to CEO or Managing Director for his administrative reporting purpose or any other similar authority till the time it is approved by Board of Directors, and it does not impact his independence to be able to perform his duties and report to audit committee / Board of Director independently.

7. Form 15CB is a certificate of an accountant wherein he certifies that he has examined the agreement between the remitter and the beneficiary requiring such remittance as well as the relevant documents and books of account required for ascertaining the nature of remittance and for determining the rate of deduction of tax at source. The chartered accountant certifying the form undertakes to have verified the agreement between the

remitter and the beneficiary as well as the relevant documents and books of account to ascertain the nature of remittance and determine the rate of TDS. In this case, however, the chartered accountant mentioned that he had only verified KYC of signatory to invoice and the invoices thereof, He had not only failed to justify as to how verification of invoices was considered as sufficient compliance for certifying the forms but also failed to bring on record the said invoices. Thus, he failed to provide any basis on which he relied for issuing Form 15CB certificates to the company. On account of such failure, clauses (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 for failure to exercise due diligence in discharging his professional responsibilities and failure to obtain sufficient information may be invoked.

8. ROI

ROI expresses divisional profit as a percentage of the assets employed in the division. Assets employed can be defined as total divisional assets, assets controllable by the divisional manager, or net assets. ROI is a common measure and thus ideal for comparison across corporate divisions for companies of similar size and in similar sectors.

Division 'F'

controllable profit = ₹ 5,200K

Net Assets = ₹19,500k + ₹ 5,000K - ₹ 6,200K = ₹18,300K

ROI = 28.42%

Division 'G'

Controllable profit = ₹ 4,000K

Net Assets = ₹ 30,000K + ₹ 6,500K - ₹ 2,800K = ₹ 33,700K

ROI = 11.87%

Responsibility accounting advocates that managers performance shall be judged based upon how well he or she manages the items under his or her control, hence in computation Of ROI of division, controllable profit has been taken into consideration, because head Office costs are not controllable by divisional managers. Figures of non-current and current assets apart from the current liabilities have been taken into consideration as they are such items over which divisional managers have complete control.

Bonus

Bonus to be paid for each whole percentage point is ₹ 21,600 (₹ 7,20,000 x 3%). But there is ceiling limit as well, i.e. 20% of salary hence the maximum Bonus be ₹ 1,44,000 (₹ 7,20,000 x 20%).

Division 'F'

Divisional ROI is 28.42%, which results in 16 whole percentage points above the minimum required ROI of 12%. Hence the bonus according to each whole percent of excess ROI will be ₹ 3,45,600 (16 x ₹ 21,600). But there is upper cap of ₹ 1,44,000. Therefore, BAO be paid the bonus of ₹ 1,44,000.

Division 'G'

Divisional ROI is 11.87%, since same is less than the minimum required ROI of 12%, hence PAO will not be rewarded with a bonus.

PAO will not receive any bonus since he has not earned any point above minimum percentage. This is due to the larger investment base on which the ROI figure has been computed. Total investment of Division 'G' is almost 1.84 times to that of Division 'F'. The major reason behind this is that Division 'G' invested ₹ 13.6 million (₹ 13,600K) in new equipment during the year. Ignoring this investment of division D is just 0.91 times to that of division 'F' and net Investments would have been only ₹ 20,100K and the ROI for Division 'G' would have been 19.9% resulting in payment of a bonus ₹ 1,44,000 (7 × ₹ 21, 600 i.e. ₹ 1,51,200 but subject to upper cap of ₹ 1,44,000) rather than the nothing. So, PAO is being penalized for making investment decisions which are in the best interests of his division and company, because new investment enhance productivity which will support customer loyalty, dedication to customer services and quality, the CSFs for Q Ltd. It is very surprising that he decided to invest where he knew that he would receive a lesser bonus subsequently. On the other hand, BAO has benefited from the fact that he has not invested in anything even though it was needed for computer system updation. This is an example of sub-optimal decision making.

Further, Division 'F''s trade payables are more than double those of Division 'G'. In part, one would expect this due to higher sales (almost 71% more than Division 'G') and low cash levels at Division 'F'. Higher trade payable leads to a reduction in net assets figures. The fact that Q Ltd. is rewarding BAO with a bonus, even though relationships with suppliers may be badly affected, is again a case of sub-optimal decision making.

If the profit margin (excluding head office cost) as percentage of sales is calculated, it comes to 17.33% (₹ 5,200 / ₹ 30,000) for division 'F' and 22.86% (₹ 4,000 / ₹ 17,500) for division 'G'. Therefore, it can be seen that division 'G' is performing better if capital employed is ignored. ROI is simply distorting the division 'G''s performance.

PAO might feel extremely disappointed by getting nothing and in the future, he may opt to postpone the investment to increase the bonus. Non- investing in new technology and equipment will mean that the Q Ltd. will not be kept updated with industry changes and its overall future competitiveness will be affected.

Briefly, the use of ROI results in sub-optimal decision making and a lack of goal congruence i.e. what is good for the managers is not necessarily good for the company too and vice versa. Hence ROI is not a justifiable basis to for computing the bonuses of divisional managers and also cause problem for Q Ltd.

9. The acquisition of the state-of-the-art building from P Ltd. offers A Ltd. several competitive advantages that can significantly enhance its position in the hospitality industry:

1. **Enhanced Service Offerings**: The new building will include modern conference spaces, food labs, beverage research and development facilities, and common areas. These additions allow A Ltd. to diversify its services, catering to a broader range of clients, including business travellers, corporate clients, and event organizers. By offering comprehensive, high-quality amenities, A Ltd. can attract new customer segments and retain existing ones, giving it a competitive edge over other players in the market.
2. **Differentiation in the Market**: The integration of cutting-edge facilities and high-quality furnishings sets A Ltd. apart from its competitors. In an industry where customer experience is paramount, the ability to provide state-of-the-art accommodations and services positions A Ltd. as a premium provider. This differentiation can lead to increased brand loyalty and the ability to command higher prices, further strengthening the company's market position.
3. **Future-Proofing and Innovation**: By incorporating food labs and beverage R&D facilities, A Ltd. is positioning itself as a leader in hospitality innovation. These facilities enable the company to experiment with new offerings and trends, staying ahead of market demands and setting trends rather than following them. This proactive approach to innovation helps A Ltd. maintain relevance in a rapidly evolving market.
4. **Operational Efficiency and Cost Savings**: The acquisition allows A Ltd. to consolidate its operations into a single, well-equipped location, leading to potential cost savings in terms of logistics, maintenance, and management. Efficient operations can improve profit margins and provide the financial flexibility needed to invest in further growth or offer competitive pricing.
5. **Attracting High-Profile Clients and Events**: The availability of modern conference spaces and advanced facilities makes A Ltd. an attractive venue for high-profile clients and large-scale events. Hosting such events not only generates significant revenue but also enhances the company's reputation, leading to positive word-of-mouth and further business opportunities.
6. **Scalability and Growth Opportunities**: With an expanded and upgraded infrastructure, A Ltd. can scale its operations more effectively. Whether it's

expanding into new markets, launching new services, or increasing capacity, the acquisition provides the physical and operational foundation needed for sustained growth.

7. **Strategic Positioning**: As part of A Ltd.'s Future Ready Action Plan, this acquisition aligns with the company's long-term strategy of making conferences, virtual offices, and collaborative workspaces more accessible. This strategic alignment ensures that A Ltd. remains competitive in the face of evolving market trends, particularly in response to the increasing demand for hybrid and virtual work environments.

In summary, the acquisition offers A Ltd. a comprehensive set of competitive advantages, from enhanced service offerings and market differentiation to innovation, operational efficiency, and strategic growth. These factors collectively strengthen A Ltd.'s market position, ensuring it remains a leader in the hospitality industry.

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

CASE STUDY 15

SarTaj Hotels Limited

The hospitality industry is a dynamic and multifaceted sector that plays a pivotal role in the global economy, encompassing a wide range of services including lodging, food and beverage, tourism, and event management. Known for its emphasis on customer service and experience, the industry thrives on creating memorable and personalized experiences for guests, whether through luxurious accommodations, exceptional dining, or unique recreational offerings. Despite challenges like high job mobility and evolving consumer preferences, the hospitality industry continues to innovate through advancements in technology, sustainability practices, and the adoption of ESG (Environmental, Social, and Governance) principles.

SarTaj Hotels Limited, the country's largest listed hospitality company, continues to demonstrate industry-leading growth with consistency and conviction. This is reflected in its exceptional financial and non-financial performance, including portfolio expansion and the scaling of new businesses. The company achieved this while aligning with its sustainability commitment and ESG initiative. These attributes accentuate its remarkable journey and the ways it creates value for all stakeholders. SarTaj's consistency stems from its conviction in values and commitment to excellence.

With over 120 years of leadership in the industry, SarTaj Hotels is renowned for its exclusive properties, flawless service, and distinctive brands. These, all embodying the cherished notion of 'SarTajness,' create unforgettable experiences for guests. The company's deeply rooted values and rich legacy provide the confidence to re-imagine the future, enabling SarTaj to grow its ecosystem with greater speed, synergy, and success, bringing delight to its customers and driving enhanced value for all stakeholders. The company has evolved from a branded house into a House of Brands, offering a portfolio that includes luxury, upscale, lean luxe segments, and budget stays. This hospitality ecosystem is further strengthened by innovation and service excellence.

Hotel food service has historically been an integral part of the hotel business. Food service provide guests with food for consumption, business related functions, entertainment and celebrating events, and for some hotels food acts as an attraction in its own right.

Food service production

Food service production in hotels is primarily based on fresh produce. The perishable nature of this produce poses a challenge for hotels, further complicated by the presence of multiple food

outlets and supply chain activities within each hotel. Additionally, hotel food is not designed to be stored for extended periods. Once prepared, it is expected to be consumed immediately or soon thereafter. The production of fresh food varies depending on the type of food services offered by individual hotels.

In terms of food sourcing, two main groups of food production are prevalent: 'push production' and 'pull production.'

Push production refers to services that have not been paid for in advance. These food services are available in restaurants, bars, guest rooms, or any other outlets where food can be ordered on demand. The number of these outlets varies depending on the hotel's designated food outlets and other areas where food may be served. Pull production caters to services such as functions, conferences, and other events that have been reserved in advance, with specific details provided (e.g., number of attendees, types of food required, and the venue). Payments for pull production services are typically made in advance, either partially or in full.

When it comes to food sourcing, push and pull productions have different conditions. Push production presents a greater challenge due to demand uncertainties. The data indicates that push production often involves a 'guessing game.' Accurately forecasting demand is considered difficult, and incorrect forecasts can result in either insufficient food to sell or excessive food wastage. In contrast, pull production is a more straightforward task in terms of planning for both the type and quantity of food to source.

Head chef as creator, memory and processer

The head chef plays a crucial role in hotel food service supply chains, being involved from the initial stage of product development through to the production stage. The extent to which the head chef influences supply chain activities depends on the configuration of the hotel's food service supply chain, which is shaped by the hotel's organizational characteristics. Head chefs are valuable resources of expertise and knowledge necessary for the smooth operation of the "production plant"—the kitchen—and all related activities. They function as creators, memory keepers, and processors who oversee production. Additionally, head chefs are responsible for key management areas beyond production, such as purchasing and inventory management.

The role of the head chef as a creator, stems from their responsibility for writing the menu. Menu writing is a form of product development, and in hotel food service, this development often appears to be intuitive. Several concepts emerged from the data that characterize the product development process. Menus not only serve as product offerings but also function as a tool to achieve target gross profit. Chefs view menu writing as more than just a job requirement; they think about it even outside working hours and see it as a creative task. Menus were frequently changed, with some chefs updating their menus daily. These changes were not only based on inventory availability or the chef's imagination but were also adjusted according to the price of raw materials. The frequency of menu changes is based on the chef's judgment rather than following a fixed schedule, as is common in many hotel companies.

Another critical management area, inventory management, is often referred to as a "guessing game." The head chef's knowledge and experience are crucial for managing the hotel's food supply. The head chef is the person who holds the information regarding inventory management. Common practices in hotels include maintaining a minimum stock level, also known as "reserve" or safety stock, and using a "run out and replace" strategy, which involves replenishing stock when it runs low. Hotels that offer food service around the clock, such as restaurants, bars, and room service, must always have food in stock. If raw materials are unavailable in the market or deliveries are delayed, the hotels need to maintain a certain amount of food to ensure production continuity. Once the inventory drops below the level "guessed" by the head chef, an order is placed to restock to the minimum level. While some hotels can afford to use a "lean" strategy, which involves running out of stock and then ordering more, this approach is found in only a few hotels; most maintain a minimum stock level at all times.

Collaboration with suppliers

Suppliers not only play a crucial role in providing raw materials, but some SarTaj hotels also use their suppliers in menus and brochures to add value and differentiate their product offerings from competitors. It's interesting to note that SarTaj hotels maintain both traditional arm's-length relationships and long-term cooperative relationships with their suppliers.

SarTaj's foodservice outlets leveraged fresh produce and their supplier partnerships as key selling points. The company highlighted collaborations with local suppliers and producers, as well as those offering specialty, high-quality ingredients, to showcase the uniqueness of its offerings. The strong relationships between chefs and suppliers were communicated effectively to customers, reinforcing SarTaj's commitment to sourcing excellence and supporting local communities.

While lower raw material costs were constantly pursued, mainly for dry goods, prices were compared across various suppliers, with the cheapest options often being selected. SarTaj used a spreadsheet to track prices and select the best deals from different suppliers, which was seen as an advantage as the hotel was able to buy products at the lowest price.

In addition to making suppliers compete on price, SarTaj employed a "two-supplier strategy" to ensure the quality and price of certain products remained consistent. For instance, SarTaj had two suppliers for certain goods and alternated between them, as suppliers often raised prices or failed to maintain quality.

Use of technology

The exploitation of information technology in SarTaj group hotels is minimal, with a high degree of manual-based supply chain activities. Pen and paper are the primary tools used for product planning. Although some SarTaj hotels use electronic data interchange with their suppliers, it is limited to basic operational tasks, such as placing orders. The hotels rarely retain their point-of-sale data, and sharing such information with suppliers is almost non-existent. Demand forecasting for business volume may be supported by computer programs, but forecasting demand variants remains a "guessing game".

Additionally, stock checking for raw materials is manually performed by physically counting inventory items. While some larger hotels utilize online ordering channels, most rely on telephone communication for placing orders. The widespread use of telephone ordering in the hotel sector is attributed to the shorter ordering time, suppliers' lead times, and the fact that telephoning offers two-way communication, allowing for discussion of product availability.

Even though some hotels employ computer-generated demand forecasting, it only helps estimate the overall volume of food required by hotel guests and other markets related to push production. However, uncertainty remains regarding demand for restaurant food, which is further complicated by variations in food requirements.

In house activities

While in-house production facilities offer many benefits, they also require significant investment in infrastructure, equipment, and skilled labour. Having a captive model makes it easier to implement design changes and customize products according to specific customer requirements. As a result, the company is less reliant on external suppliers and manufacturers, reducing risks associated with supply chain disruptions. Additionally, the company uses in-house teams of highly trained hotel staff for food preparation, which is a time- and labour-intensive process. However, rising staff costs and the increasing cost of high-volume food items are putting pressure on margins.

Several years ago, SarTaj appointed Mr. Ramakrishnan as the company secretary, recognizing his extensive experience in the hotel industry and expertise in handling regulatory compliance. At the time of his appointment, the company promised him an annual salary hike ranging between 15% and 25% of his total compensation package (CTC). Over the past few years, Mr. Ramakrishnan’s performance has been exceptional, consistently exceeding expectations and contributing significantly to the company's operational success, particularly in navigating complex compliance matters. His expertise has been instrumental in managing regulatory challenges and addressing cost pressures associated with labour.

During the audit planning meeting, the auditor was informed that the entity generates a substantial portion of its revenue through cash sales, with annual revenue amounting to ₹ 1,000 crores. Key managerial personnel and senior management often face intense pressure to meet or exceed financial targets set by investors or analysts, and their remuneration is based on achieving these performance targets. The internal auditor assessed the internal control system and did not observe any deficiencies in the revenue recognition process. Based on this assessment, the auditor concluded that revenue is not susceptible to fraud risk and, accordingly, did not associate any fraud risk with revenue in the audit strategy.

SarTaj has a policy of providing loans to employees at a 5% annual interest rate, with the loan amount to be repaid in five equal annual installments. The market rate of interest (not a Level 1 input) for comparable loans is 10% p.a. On April 1, 2025, an employee took out a loan of ₹10 lakhs from SarTaj, with an annual EMI of ₹2.31 lakhs. SarTaj recognized the financial asset at ₹ 10 lakhs on April 1, 2025, accrued interest at 5% for the year, and received the EMI payment.

The auditor raised concerns about the accounting treatment adopted by the entity for recognizing the financial assets.

The auditor also plans to communicate with the Audit Committee for several important reasons. Regular and open communication fosters a culture of transparency and builds trust between auditors and those charged with governance. This trust is crucial for the auditor to perform their duties without obstruction and for governance to have confidence in the audit process.

SarTaj has an overseas subsidiary, Black Pearl LLC. Under the FEMA (Overseas Investment) Regulations, 2022, SarTaj is required to file an Annual Performance Report (APR) with the Reserve Bank of India (RBI). The APR is part of the compliance framework to ensure that investments made by Indian entities abroad are monitored and reported accurately.

By adhering to these regulations and maintaining open communication with the Audit Committee, SarTaj Hotels fosters a culture of transparency, building trust between auditors and those charged with governance. This trust is essential for the smooth functioning of the audit process and ensures confidence in the financial oversight of the company.

Annexure

Brand Portfolio of SarTaj

			
Kings Korner	**Hocus Pokus**	**Stories**	**Silverline**
India's strongest across sector, spacious suites with premium furnishings and state-of-the-art technology	Exclusive, agile upscale hotels	Simply better! Simple and functional design, focusing on practicality	Exclusive wellness experiences such as organic spa treatments or nature immersion activities
₹ 936 crores of revenue	*₹ 195 crores of revenue*	*₹ 48 crores of revenue*	*₹ 90 crores of revenue*
110 hotels	*96 hotels*	*91 hotels*	*8 hotels*
17,000 keys	*11,200 keys*	*9,000 keys*	*3,000 keys*

The SarTaj Hotels Limited

PARTICULARS OF EMPLOYEES

Information under Section 197 of the Companies Act, 2013 read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

a. The ratio of the Remuneration of each Director to the median Remuneration of the employees of the Company for the financial year and percentage increase in Remuneration of each Director, Chief Executive Officer, Chief Financial Officer, or Manager, if any, in the financial year:

Name	% Increase of Remuneration in 2025 as compared to 2024	Ratio to median Remuneration
Non-Executive Directors		
Mr. Chandrasekaran T.@	-	-
Mr. Krishna Gupta	17%	21.95
Mr. Srinath Mehta	16%	18.96
Ms. Angel Gupta	15%	20.33
Mr. Sharad Aggarwal *	***	***
Mr. Ravi Gupta	32%	18.59
Executive Director		
Mr. Puneet Jaiswal – MD & CEO	28%	570.0
Chief Financial Officer		
Mr. Giridhar Krishnan – EVP & CFO	6%	-

*@As a policy, Mr. Chandrasekaran T., Chairman, has abstained from receiving commission from the Company. *Retired as Director w.e.f. May 22, 2024. ***Since the remuneration is only for part of the year (either in CY or PY), percentage increase in remuneration and the ratio of their remuneration to median remuneration is not comparable and hence not stated.*

b. The percentage increase in the median remuneration of employees in the past 6 months was 5.5%.

c. The number of employees as on March 31, 2025 was 5,756.

d. Average Percentile increase already made in the salaries of employees other than the Managerial Personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration:

- During FY 2024-25, the average percentage increase / (decrease) in salary of the Company's employees, excluding Key Managerial Personnel ('KMP') was 8.8%.
- During FY 2024-25, the average percentage increase / (decrease) in salary of the KMP was 42%.

e. It is affirmed that the Remuneration is as per the Remuneration policy for Directors, Key Managerial Personnel, and other employees adopted by the Company.

I. Multiple Choice Questions

1. Whether the engagement partner is correct in claiming the presumptive risk of revenue recognition?

   (a) No. Risk of fraud risk exists in revenue. Remuneration based on achievement of performance targets can incentivize employees to manipulate revenue. Greater risks of fraud exist where a substantial portion of revenues are through cash sales.

   (b) Yes. Risk of fraud risk does not exist since revenue is more than SEBI prescribed limit of ₹ 500 crores.

   (c) Yes. Risk of fraud risk does not exist in revenue. Performance based service conditions are common in Indian industries. It does not necessarily lead to a fraud in revenue.

   (d) Yes. Risk of fraud risk does not exist in revenue. Performance based service conditions and concentration of cash sales are common in hotel industries. These conditions do not necessarily lead to a fraud in revenue.

2. Should SarTaj obtain audited financial statements of Black Pearl LLC while filing its Annual Performance Report under FEMA (Overseas Investment) Regulations, 2022? Which is the MOST appropriate answer?

   (a) Filing of Annual Performance Report can be based only on audited financial statements of the Black Pearl.

   (b) Filing of Annual Performance Report can be based only on reviewed financial statements of the Black Pearl.

   (c) Filing of Annual Performance Report should be based on unaudited financial statements since the laws of the host country do not provide for mandatory audit.

   (d) Filing of Annual Performance Report should be based on audited financial statements of the Black Pearl since Black Pearl is controlled by SarTaj.

3. Whether giving of loans to employees is in accordance with the requirements of the Companies Act, 2013?

   (a) The Company should have obtained special resolution before giving loans since section 185 of the Companies Act, 2013 requires special resolution before giving loan to any person including employees. Section 186 of the Companies Act, 2013 permits charging concessional rate of interest for loans given to employees.

   (b) Section 185 of the Companies Act, 2013 does not cover loans to employees (not being directors). Section 186 of the Companies Act, 2013 permits charging concessional rate of interest for loans given to employees. Accordingly, the employee loans are in accordance with the requirements of Companies Act, 2013.

(c) Section 185 of the Companies Act, 2013 does not cover loans to employees (not being managing or whole-time director). Section 186 of the Companies Act, 2013 does not cover loans to any employees (director or otherwise). Accordingly, the employee loans are in accordance with the requirements of the Companies Act, 2013.

(d) The Company should have obtained special resolution before giving loans since section 185 of the Companies Act, 2013 requires special resolution before giving loan to any person including employees. Charging interest at concessional rate is specifically prohibited under Section 186 of the Companies Act, 2013.

4. Why has SarTaj Hotels opted for different brands such as Kings Korner, Hocus Pokus, Stories, and Silverline within its portfolio?

(a) To increase operational efficiency by standardizing services across all hotel brands

(b) To focus solely on high-end customers and luxury travellers

(c) To minimize investment in the food and hospitality sector

(d) To target different customer segments by offering a variety of experiences ranging from luxury to budget accommodations

5. Which of the following information is NOT in line as required under Section 197 of the Companies Act, 2013, read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014? Refer with the extract.

(i) The number of employees as on March 31, 2025

(ii) The percentage increase in the median remuneration of employees

(iii) The percentage increase in remuneration of each Director, if any, in the financial year

(iv) The percentage increase in remuneration of Company Secretary, if any, in the financial year

(v) The ratio of the remuneration of CFO to the median remuneration of the employees of the company for the financial year

(vi) Affirmation that the remuneration is as per the remuneration policy

Options

(a) i, ii, iii

(b) i ,ii, iv

(c) ii, iii ,iv

(d) iii, iv, vi

II. Descriptive Questions

7. RECOMMEND the correct accounting treatment (initial and subsequent) as per Ind AS 109 of the loans given to employees at concessional rate.

8. EVALUATE the supply chain of SarTaj, identifying its current weaknesses and recommendations to overcome them.

ANSWERS TO THE CASE STUDY 15

I. Answers to the Multiple Choice Questions

1. (a) No. Risk of fraud risk exists in revenue. Remuneration based on achievement of performance targets can incentivize employees to manipulate revenue. Greater risks of fraud exist where a substantial portion of revenues are through cash sales.

Reason:

Paragraph 26 of SA 240 provides a presumption that there are risks of fraud in revenue recognition. Further paragraph A29 of SA 240 provides that there may be pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition in the case of listed entities when, for example, performance is measured in terms of year-over-year revenue growth or profit. Similarly, for example, there may be greater risks of fraud in revenue recognition in the case of entities that generate a substantial portion of revenues through cash sales.

2. (d) Filing of Annual Performance Report should be based on audited financial statements of the Black Pearl since Black Pearl is controlled by SarTaj.

Reason:

The Annual Performance Report should be based on audited financial statement of Foreign Entity. Under Form APR relaxation is provided from audited financial statement if the Indian person does not have control and local laws of foreign entity do not require mandatory audit. Thus, it is important to note that audit shall be required where Indian resident has control even if host country does not mandate it.

3. (c) Section 185 of the Companies Act, 2013 does not cover loans to employees (not being managing or whole-time director). Section 186 of the Companies Act, 2013 does not cover loans to any employees (director or otherwise). Accordingly, the employee loans are in accordance with the requirements of the Companies Act, 2013

Reason:

Section 185 inter alia covers loans given to directors and loans to "any person in whom any of the director of the company is interested". In the present case provisions of section 185 is not triggered since loans have neither been given to employees nor to "any person in whom any of the director of the company is interested" - as employees are not covered within this expression.

Section 186 inter alia provides that no loan should be given to any 'person' at a rate of interest lower than the prevailing yield of 1-year, 3-year, 5-year or 10-year Government Security closest to the tenor of the loan. Explanation to Section 186(2) specify that the expression "person" does not include any individual who is in the employment of the company. Thus, giving of loans to these employees is not covered under section 186 of the Companies Act, 2013.

4. (d) To target different customer segments by offering a variety of experiences ranging from luxury to budget accommodations.

Reason:

To target different **customer segments** by offering a variety of experiences ranging from luxury to budget accommodations.

SarTaj Hotels has opted for different brands within its portfolio—such as Kings Korner, Hocus Pokus, Stories, and Silverline—to target **varied customer segments**. Each brand caters to a distinct market:

- **Kings Korner** focuses on a premium, upscale experience with a large hotel network
- **Hocus Pokus** targets agile, upscale hotel experiences for mid-range travellers
- **Stories** provides budget-friendly yet quality stays
- **Silverline** offers an exclusive, high-performance experience with fewer hotels and a niche market

By diversifying its brand portfolio, SarTaj can cater to a wider range of customers, from luxury travellers to budget-conscious guests, ensuring broader market coverage and maximizing business growth opportunities. This aligns with **Customer Segments** in the Business Model Canvas, where different brands serve distinct customer needs and preferences.

5. **(b)** i ,ii, iv

Reason:

i. The number of **permanent** employees, not all employees, on the rolls of the company as of March 31, 2025 should be disclosed.

ii. The percentage increase in the median remuneration of employees should be provided for the entire **financial year**, not just based on 6 months.

iii. The percentage increase in remuneration of each Director is correctly disclosed.

iv. The percentage increase in remuneration of the **Company Secretary** should also be disclosed.

v. The ratio of the remuneration of the CFO to the median remuneration of employees is **not required** to be disclosed. Only the ratio of each Director's remuneration to the median remuneration of employees is required.

vi. Affirmation that the remuneration is in line with the remuneration policy is correctly disclosed.

The above explanation aligns with the disclosure requirements under Section 197 of the Companies Act, 2013, read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.

II. Answers to the Descriptive Questions

6. In the given case, SarTaj has provided loan at 5% p.a. whereas market rate of interest is 10% p.a. This represents that the loan is provided at off-market terms. Hence, the loan will be recognized at a fair value. Transaction price of providing a loan is ₹ 10 lakhs. However, the fair value of loan is ₹ 8.76 lakhs as shown in table below: *(₹ lakhs)*

Year	Cash flow - ₹	PV @ 10%	PV - ₹
2025-2026	2.31	0.909	2.10
2026-2027	2.31	0.826	1.91
2027-2028	2.31	0.751	1.74
2028-2029	2.31	0.683	1.58
2029-2030	2.31	0.621	1.43
Total	**11.55**		**8.76**

The difference between transaction price and fair value is ₹ 1.24 lakhs (₹ 10 lakhs – ₹ 8.76 lakhs).

In the stated case, SarTaj has provided a loan of ₹10 lakhs having fair value of ₹ 8.76 lakhs, it reflects the benefit provided to employees. Also, SarTaj Ltd has to pay ₹ 1.24 lakhs excess amount which will be amortized over the period of loan.

In view of Para B5.1.2A of Ind AS 109, accounting treatment should be as follows:

Initial Recognition:

- Financial Asset at fair value of ₹ 8.76 lakhs
- Prepaid Staff Expenses ₹ 1.24 lakhs

Subsequent Recognition:

- Interest @10% p.a. will be accrued on the outstanding balance of financial asset every year till completion of the loan account.
- Prepaid staff expense to be amortized in Statement of Profit and Loss over the tenure of the loan.

7. Current Weaknesses in SarTaj Hotels' Supply Chain

Demand Forecasting and Knowledge Reliance on Head Chefs

The supply chain's heavy reliance on the head chef for demand forecasting presents significant risks. Demand forecasting, especially with respect to product variants and business volume, is not data-driven but relies on the chef's "common sense" and guesses based on factors such as the business cycle, location, and clientele.

Due to the lack of formal data tracking, there is an absence of historical trends or customer usage information to inform accurate forecasting.

High Job Mobility of Head Chefs and Knowledge Retention Issues

Head chefs tend to change jobs frequently, leading to a loss of key operational knowledge. This results in inefficiency when new chefs join and have to begin from scratch, employing trial and error to gauge inventory requirements, leading to inconsistencies and inefficiencies in food production.

Low Technology Adoption

Despite basic use of technology, such as the Internet in product planning, overall supply chain processes rely heavily on manual activities. Demand forecasting remains a guessing game, with little integration of technology to predict demand variants and optimize supply chain processes.

Manual inventory checks further hinder efficiency, as stock counts are done by physically counting items, which is prone to errors and inefficiencies.

Time-Consuming and Costly In-House Food Preparation

The in-house food preparation process requires significant time, labour, and capital investment. While it allows for customized food offerings, the high labour costs and fluctuating raw material prices put pressure on margins and overall profitability.

Recommendations to Overcome Challenges

Data-Driven Forecasting

SarTaj Hotels should implement a data-driven approach to demand forecasting. This can be achieved by collecting and storing information on past product offerings, sales history, customer preferences, and inventory levels at each hotel. Utilizing this data will enable the company to move from a "guessing game" approach to data-backed decision-making.

By analyzing historical trends and customer demand patterns, SarTaj can better align its inventory management practices with actual demand, reducing both food wastage and stockouts.

Improving Knowledge Retention

A *formalized knowledge management system* should be implemented to capture the operational knowledge of head chefs, including their approach to menu development, inventory management, and customer preferences. This will ensure that when a new chef is appointed, they can build on previous knowledge rather than starting from scratch.

This system could include *standardized documentation* of food supply chain procedures, customer preferences, and sales data that new chefs can easily access and use.

Increased Use of Technology in Supply Chain Processes

SarTaj should digitize its supply chain processes, *introducing an integrated platform* for data sharing between hotels and suppliers. This platform would facilitate online ordering, real-time inventory tracking, and automated demand forecasting.

By sharing data with suppliers, SarTaj can reduce lead times and ensure better coordination between supply and demand. This can also help implement a jointly managed inventory system, reducing the overall cost of inventory management throughout the supply chain.

Transitioning to digital tools for inventory checks, menu planning, and ordering will streamline operations and allow head chefs to *focus more on creative aspects of their role*, rather than manual administrative tasks.

Outsourcing Part of Food Preparation

SarTaj Hotels could consider *outsourcing certain aspects of food preparation, particularly for high-volume, standardized food items* such as bread, desserts, or frozen goods. This

would allow SarTaj to reduce in-house labour costs and invest more in creating a distinctive, high-quality dining experience for items that require bespoke preparation.

By *outsourcing routine or labour-intensive processes*, the hotels can reduce costs, improve efficiency, and focus on enhancing the unique elements of their menu that differentiate their brand.

Supplier Collaboration and Dual-Sourcing Strategy

SarTaj should maintain strong, cooperative relationships with its suppliers, especially for perishable items. Dual-sourcing strategies should continue to be employed, as they allow SarTaj to manage supplier risks, ensuring both quality and cost efficiency.

Engaging suppliers in a *more collaborative partnership*, including integrating their expertise into menu development and allowing for joint planning of inventory, will strengthen supply chain resilience and add value to the hotel's offerings.

Increasing Efficiency with Outsourced or Hybrid Models

SarTaj could consider adopting a hybrid approach by combining *in-house production for signature items with outsourced options for more standardized offerings*. This model will allow for efficiency in operations while maintaining the brand's focus on delivering unique customer experiences.

Outsourcing routine tasks, such as bulk food preparation for events and conferences, can free up resources and staff time, allowing hotels to *focus on delivering exceptional service in high-impact areas*.

Conclusion

The SarTaj Hotels' supply chain has significant potential for improvement, especially in leveraging data for demand forecasting, increasing the use of technology, and optimizing labor costs through outsourcing. By addressing these weaknesses, SarTaj can enhance its supply chain efficiency, reduce operational costs, and continue to deliver high-quality service, further strengthening its position as a leader in the hospitality industry.

CASE STUDY 16

Fastest Finger Limited

As a sunrise sector, India's skill-based online gaming industry could play a crucial role in making India a US$5 trillion economy by 2026. Online games may be categorized into two broad categories basis the involvement of element of skill and chance – skill-based games (i.e. where the outcome is mostly dependent upon player's skills, knowledge, training, etc. with less/minimal dependence on chance factor) and chance-based games (i.e. games where the outcome is primarily dependent upon chance and wherein player's skills, knowledge, etc. have limited influence over the same). The online skill-based gaming industry in India may be categorised into real money games (RMG) (a game where a user makes a deposit in cash or kind with the aim of earning winnings on the deposit) and non-real money games (non-RMG). Skill based games are played in one of the following formats, namely – casual games, card games, fantasy sports, etc.

The online game industry has undergone a significant evolution from its humble beginnings of pixelated arcade games in the 1970s to ~US$ 200 billion industry with cutting-edge graphics, immersive gameplay, and an ever-expanding audience. With an estimated 3 billion active players worldwide, the gaming industry has a massive and growing audience. In fact, approximately 50% of these active players are also active buyers of in-game assets, such as virtual goods. This highlights the significant economic potential of the gaming industry and its ability to generate substantial revenue through in-game purchases and other related transactions. Gaming is rapidly emerging as the future of entertainment, with its market size already surpassing that of the global music and movie industries. In fact, the gaming industry is currently 7 times larger than the global music industry and 5 times larger than the global movie industry, making it a major player in the entertainment landscape.

India's online gaming segment is experiencing remarkable growth, indicating substantial economic potential. With a robust gaming community consisting of approximately 42.5 crore gamers—second globally after China − the sector has potential to accelerate Foreign Direct Investment inflows, job creation, and investments across various sectors. For the segment to truly thrive, a stable regulatory and legal framework is imperative. Uncertainties can impede the realization of its full potential and hinder rapid scalability. Over the past three years, the online gaming industry has grown at a CAGR of 28%, reaching ₹ 16,000 crore in F.Y.2024-25 and is likely to reach ₹ 32,000 crore by F.Y.2028-29. This boost is largely attributed to factors like widespread smartphone penetration, improved internet connectivity, a growing youth population, and the development of local gaming content. Over the course of time as younger generations become the key customers, the spending patterns and the market is expected to shift to become a core gaming market. Additionally, the pandemic played a significant role in

driving up mobile game downloads as people sought digital entertainment. India continues to be a 'mobile first' market, with 94% of its gamer base engaging in mobile gaming. Despite the rapid increase in game consumption, India's online gaming revenue is still merely 1.1% of global online gaming revenue.

As online gaming continues to catalyse ancillary sectors like fintech, cloud services, data analytics, and cybersecurity, India takes a significant leap in its digital economy landscape. The growth of this segment poses an enabling environment for future investments and potential economic development. Guidelines by the Ministry of Electronics and Information Technology have been instrumental in removing ambiguity, bolstering investor sentiment, attracting funding, and encouraging innovations in India's digital economy, while prioritising user safety. India is witnessing increasing financial and digital inclusion boosting the growth of the gaming industry. The growth mainly is driven by the following factors:

- India, with the highest population in the world at 1.4 billion also boasts of one of the largest markets for smartphones. This increased digital penetration catalysed by the affordability of mobile data and accessibility of smartphones is further supporting the expansion of the skill-based online gaming industry in India. Another pertinent development is the burgeoning production of smartphones in India that has led to the availability of advanced specifications of smartphones at an affordable rate.
- As 5G services are rolled out throughout the country, it may unlock a new era of cloud gaming, super-fast downloads, high-quality live streams, and seamless multiplayer online gaming. 5G may also enable more realistic Extended Reality (XR) and empower large-scale, platform-agnostic events and social experiences with seamless interactions between users.
- In absolute numbers, India may have a working-age population of more than a billion by 2031. With the largest youth population in the world, the median age in the country is just 28 years. A young demographic means an increasing inclination towards various types of gaming products and services available in the market.

Fastest Finger Limited (FFL) founded by Mr. Viper Armstrong has embarked on the mission to enhance India’s footing in the global landscape. With innovation and adaptability at core, FFL is positioned to not only match the pace of change in the gaming world but to take the lead as it undergoes a massive transformation. FFL is a diversified gaming and sports media platform headquartered in Bangalore, with a presence in both developing and developed global markets such as Africa and North America. FFL is confident in shaping the future and expanding its leadership, both in India and globally, with operational efficiencies and industry-leading mindset. Refer annexure for details on FFL’s popular games.

F.Y. 2024-25 has proven to be another year of progress for the company, FFL continue to rank among the popular companies worldwide. While FFL faced certain challenges that tested its resilience, FFL emerged triumphant but delivered muted results.

FFL's existing business strategy comprise the following:

Segment	Organic growth	Inorganic growth
Gaming 	Focus on driving organic growth through strategic investments in user acquisition with a strong emphasis on sustainable unit economics. Consistently update product features and content to improve user retention, engagement, and satisfaction, fostering long-term customer loyalty.	Expand the gaming vertical by acquiring games with valuable intellectual properties (IPs) that demonstrate high growth potential and the ability to deliver a 20% EBITDA margin. Leverage existing expertise in user acquisition and analytics to maximize the post-acquisition performance and accelerate market presence.
eSport 	Fuel non-linear EBITDA growth by enhancing internal capabilities, expanding the local ecosystem, and consolidating leadership in the Indian market. Strengthen brand positioning through internal innovation, community engagement, and organic market penetration.	Develop a comprehensive 360-degree eSports ecosystem by exploring acquisitions of specialized brands or capabilities, particularly in the US sports sector. These strategic acquisitions will help diversify FFL's portfolio and expand its market reach globally.

Mr. Viper Armstrong, the CEO, is concerned about FFL's prospects for the future. FFL is suffering from strategic drift and has no clear vision about its purpose or direction. It is active in the domestic and international markets but is consistently losing its dominant presence. There are no plans to put more investment into promoting foreign revenue.

A particular concern is a long-term contract to provide Teen Patti (i.e., premium online new games) facilities to a major theme park in India. This five-year contract is due to end next year, and although it may be renewed, the CEO suspects that the customer may switch its business to a larger competitor. Loss of this contract would have a serious impact on FFL's business, reducing annual profit by as much as 10% and almost certainly leading to some redundancies among the work force.

The CEO is aware from lengthy discussions with the product development team that FFL could invest in developing a more engaging and revamped type of premium online gaming experience for the domestic market. Developing this new gaming experience would, however, require a substantial capital investment. It would also mean having to resort to from external designers/

resources. It would also mean having to appoint some experienced personnel to research and development unit, because FFL does not currently have resources with sufficient knowledge of the new technology.

The product development team are all in favour of the new investment, and the CEO believes that such investing will give FFL a much clearer strategic vision of what it should be trying to achieve. Some colleagues disagree strongly. The Operations Director sees no need to change the offering that FFL has been making successfully and the Sales and Marketing Director believes that the contract with the major customer will be renewed next year. Human Resources relations are also not good in FFL, following strike action last year in support of a claim for a pay rise and against planned redundancies amongst the staff. No one seems to understand the need for a new product, or the reason for change.

The achievement of the above objectives would entail significant funding. Considering the quantum of investment required FFL decided to list its shares on the recognised Indian stock exchanges. The Initial Public Offer would comprise of fresh issue of equity shares, aggregating up to ₹ 500 crores. FFL would utilize the Net Proceeds towards funding the following objects:

- The business is working capital-intensive, and FFL funds its working capital requirements in the ordinary course of business from internal accruals and financing from various banks and financial institutions. As of 31 December 2024, FFL had a total sanctioned limit of working capital facilities of ₹ 350 crores on a consolidated basis, including fund based and non-fund based sub-limits, and had an aggregated outstanding borrowing of ₹ 215 crores on a consolidated basis. FFL proposes to utilize an amount of up to ₹ 100 crores of Net Proceeds, towards working capital requirements of FFL in F.Y.2025-26 and F.Y. 2026-27.
- FFL seeks to continue expanding its offerings to include emerging areas such as Metaverse leveraging artificial intelligence, and ancillary services. FFL intends to expand into these new verticals through strategic partnerships and acquisitions. By diversifying into new related verticals, FFL seeks to be able to attract more users to its platforms, increase user engagement and serve as a comprehensive 'one-stop' solution. In addition to growing business organically, FFL have in the past and may continue to pursue targeted acquisitions or investments that complement its service offerings, strengthen or establish presence in target market or help in gaining access to new markets, technology and teams. FFL expects to utilize the remaining of the Net Proceeds towards funding inorganic growth segment through unidentified acquisitions and other strategic initiatives and general corporate purposes.

Since FFL is in the process of being listed, Companies Act, 2013 would require it to prepare its financial statements under Ind AS. The first set of financial statements under Ind AS which comprise the balance sheet as at the end of the financial year, statement of profit and loss, statement of cash flow for the financial year; statement of changes in equity; and any explanatory note annexed to. The first set of Ind AS financial statements would also include

three balance sheets i.e., balance sheets as at 31stMarch 2025, 31stMarch 2024 and 1stApril 2023.

First time implementation of Ind AS posed many challenges including determination of comparative information including opening balance sheet and reconciliations as at the transition date. Accordingly, CFO was given the responsibilities to identify the GAAP differences and suggest the transition options. The CFO suggested as follows:

- Elected the deemed cost exemption in accordance with the relevant Ind AS which permits to continue with the carrying value for all of its property, plant and equipment as per the previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.
- Entity, being the first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind ASs).

The CFO also mentioned that FFL had made certain investments in Dream Play Limited's convertible debt instruments. The conversion rights are substantive rights and would provide FFL with a controlling stake over Dream Play. FFL has evaluated that Dream Play Limited would be treated as its subsidiary under Ind AS and, hence, would require consolidation in its Ind AS based consolidated financial statements. Dream Play Limited was not considered as a subsidiary, associate or a joint venture under previous GAAP.

Under the latest GST norms, the CFO's snapshot of amount received towards online money is as follows:

- The total amount received from online bets is ` 35 crores after 1st October, 2024. After accounting for refunds amounting to ` 1 crore and unused or returned amounts totaling ` 4 crores, the amount utilized for the purpose of placing online bets is ` 30 crores.
- FFL also received a demand cum show cause notice from the GST department alleging that non-payment of GST of ` 50 crores in the previous years. FFL filed an appeal by 31st March 2025 against the demand notice.

On 15th April,2025, a Board Meeting was called to discuss the matters on hand. This included matter related to FFL's listing on 28th March,2025 and approval of financial statements for the F.Y.2024–25. Mr. Viper Armstrong, the CEO of FFL attended the Board Meeting through video conference. Other directors attended the Board Meeting physically.

Annexure

Extract of Statement on Matters Specified in paragraphs 3 and 4 of the Companies (Auditors Report) Order, 2020 from the Independent Auditor's Report

vii) (a) According to the information and explanations given to us, and based on the audit procedures performed by us, in our opinion, amounts deducted/ accrued in the books of account in respect of undisputed statutory dues including Goods and Services Tax ('GST'), Provident fund, Employees' State Insurance, Income-Tax, Duty of Customs, Profession Tax, Cess and other statutory dues have been regularly deposited by the Company with the appropriate authorities wherever applicable, and there are no such outstanding dues as at March 31, 2025, for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us and on the basis of our examination of the records of the Company, statutory dues relating to Goods and Services Tax ('GST') which have not been deposited on account of any dispute are as follows:

Name of Statute	Nature of dues	Amount not deposited on account of demand (In crore)
Goods and Service Tax, 2017	GST	50.00

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FFL's Popular Games

Chakde India	Teen Patti	Z Sports	NOX-A
▪ World's largest cricket simulation game with 1.5 million daily active users and 9 million monthly active users ▪ Revenue grew by 7% (last year: 10%) ▪ Shows reduced retention metrics with Day 1 retention of 46%, Day 7 retention of 18% and Day 30 retention of 7% in F.Y. 2024-25	▪ Classic card games. A Premium offering by FFL ▪ Revenue grew by 8% (last year: 12.5%) ▪ FFL is further strengthening its position in this sector	▪ Multi-sports destination. Dominant position in key markets ▪ Revenue grew by 14% (last year: 25%) ▪ Strong customer loyalty followed with high unique customer additions	▪ This innovative game is having a life cycle of less than one year ▪ Currently, it is in the introduction stage of its life cycle and is generating significant unit profits ▪ FFL adopted a market skimming pricing policy ▪ FFL expects that other companies will try to join the market very soon

I. Multiple Choice Questions

1. Which of the following statements is correct with respect to the Ind AS transition option chosen by Fastest Finger Limited for the property, plant and equipment?

   (a) Not a carve out – Like IFRS 1, Ind AS 101 also does not provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.

   (b) Carve out – Unlike IFRS 1, Ind AS 101 provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.

   (c) Carve out – Unlike IFRS 1, Ind AS 1 provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.

   (d) Not a carve out – IFRS 1 and Ind AS 101 are identical with no changes in any of the paragraphs and provisions.

2. Date of transition to Ind AS for Fastest Finger Limited is_____?

   (a) 31st March, 2025

   (b) 1st April, 2024

   (c) 31st March, 2024

   (d) 1st April, 2023

3. In the Board Meeting, Mr. Viper Armstrong expressed his concern that approval of financial statements for the year ended 31st March,2025 cannot be approved through video conferencing. Do you agree?

   (a) Disagree. Since there is quorum in a meeting through physical presence of directors, Mr. Viper Armstrong can participate through video conferencing on the matters relating to approval for annual financial statements as permitted under section 173 to the Companies Act, 2013.

   (b) Partially Agree. Since there is quorum in a meeting through physical presence of directors, Mr. Viper Armstrong can participate in discussion through video conferencing but cannot approve the annual financial statements as it is not permitted under section 173 to the Companies Act, 2013.

   (c) Agree. Rule 4 of the Companies (Meetings of Board and its Powers) Rules,2014 prohibits approval of annual financial statements in a Board Meeting conducted through video conferencing.

(d) Disagree. Section 173 to the Companies Act, 2013 does not prohibit approval of annual financial statements in a Board Meeting conducted through video conferencing. Meeting quorum through physical presence of directors is not necessary.

4. The amount of GST liability in respect of the amount received from online bets is_____.

(a) ₹ 5.81 crores

(b) ₹ 11.30 crore

(c) ₹ 9.80 crores

(d) ₹ 30.11 crores

5. With reference to Paragraph 3(vii)(b) of CARO 2020, Whether reporting under CARO is appropriate (refer Annexure):

(a) Reporting is appropriate. The extract includes all the information prescribed under CARO, 2020.

(b) Reporting is appropriate. The extract includes all the information prescribed under CARO, 2020, to the extent considered material by the auditor.

(c) Reporting is inappropriate. CARO, 2020, requires the auditor to also report the period to which the amount relates and the forum where the dispute is pending.

(d) Reporting is inappropriate. CARO, 2020, requires the auditor to also report the forum where the dispute is pending.

II. Descriptive Questions

6. How should Dream Play Limited be consolidated on transition to Ind AS considering that Fastest Finger Limited has opted to avail the exemption from retrospective restatement of past business combinations as permitted under the relevant Ind AS?

7. How can Fastest Finger Limited (FFL) realign its strategic direction and address internal conflicts APPLYING McKinsey's 7S Framework to drive innovation, enhance compliance, and secure its competitive position in the gaming industry?

8. Briefly describe the relevant provisions that would have been considered for the conduct of Board meeting through video conference on 15th April, 2025 as Mr. Viper Armstrong attending it through such mode?

9. ANALYSE, with reasons, the changes, if any, to the unit selling price and the unit production (development) cost that could occur when NOX-A moves from the previous stage into each of the following stages of its life cycle in the context of the online gaming industry:

   (i) Growth

   (ii) Maturity

ANSWERS TO THE CASE STUDY 16

I. Answers to the Multiple Choice Questions

1. (b) Carve out – Unlike IFRS 1, Ind AS 101 provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.

Reason:

Paragraph D7AA of Ind AS 101 has been added to provide for transitional relief from the retrospective application of Ind AS 16: Property, Plant and Equipment. Paragraph D7AA, provides an entity option to use carrying values of all such assets as on the date of transition to Ind ASs, in accordance with previous GAAP as an acceptable starting point under Ind AS.

2. (d) 1st April,2023

Reason:

The date of transition will be 1st April, 2023 being the beginning of the earliest comparative period presented. To explain it further, Fastest Finger Limited is required to adopt Ind AS for F.Y.2024-25, and it will provide comparatives for F.Y.2023-24. Accordingly, the beginning of the comparative period i.e. 1st April,2023 will be considered as date of transition.

3. (a) Disagree. Since there is quorum in a meeting through physical presence of directors, Mr. Viper Armstrong can participate through video conferencing on the matters relating to approval for annual financial statements as permitted under section 173 to the Companies Act, 2013.

Reason:

The participation of Directors in a meeting of the Board may be either in person or through video conferencing or other audio visual means, as may be prescribed, which are capable of recording and recognising the participation of the Directors

and of recording and storing the proceedings of such meetings along with date and time.

4. **(c)** ₹ 9.80 crores

Reason:

Under Rule 31B of the CGST Rules, 2017 any amount returned or refunded by the supplier to the player for any reasons whatsoever, including player not using the amount paid or deposited with the supplier for participating in any event, should not be deductible from the value of supply of online money gaming. Accordingly, GST @28% is payable on the entire amount of ₹ 35 crores.

5. **(c)** Reporting is inappropriate. CARO, 2020, requires the auditor to also report the period to which the amount relates and the forum where the dispute is pending.

Reason:

Where statutory dues have not been deposited on account of any dispute, then the name of statute, nature of dues, amount not deposited, period and the forum where dispute is pending should be mentioned in auditor's report under CARO. [Paragraph 3(vii)(b) of CARO 2020]. The auditor has not disclosed the period and forum where the dispute is pending.

II. Answers to the Descriptive Questions

6. Appendix C to Ind AS 101 prescribes an optional exemption from retrospective restatement in relation to past business combinations. Paragraph C(4)(j) of Appendix C to Ind AS 101 prescribes that when the past business combinations are not restated and a parent entity had not consolidated an entity as a subsidiary in accordance with its previous GAAP (either because it was not regarded as a subsidiary or no consolidated financial statements were required under previous GAAP), then the subsidiary's assets and liabilities would be included in the parent's opening consolidated financial statements at such values as would appear in the subsidiary's separate financial statements if the subsidiary were to adopt the Ind AS as at the parent's date of transition.

It may be noted here that the above exemption is available only under those circumstances where the parent, in accordance with the previous GAAP, has not presented consolidated financial statements for the previous year; or where the consolidated financial statements were prepared in accordance with the previous GAAP, but the entity was not treated as a subsidiary, associate or joint venture under the previous GAAP. As such, if the consolidated financial statements were required to be prepared and there is a change in classification of the entity from subsidiary to associate or vice versa in accordance with Ind AS, then the above exemption does not apply.

In the present case, the subsidiary's separate financial statements would be prepared as if it was a first-time adopter of Ind AS i.e. after availing relevant first-time adoption

mandatory exceptions and voluntary exemptions. The parent will adjust the carrying amount of the subsidiary's assets and liabilities to the amounts that Ind ASs would require in the subsidiary's balance sheet.

The deemed cost of goodwill equals the difference at the date of transition between:

(a) the parent's interest in those adjusted carrying amounts; and

(b) the cost in the parent's separate financial statements of its investment in the subsidiary.

The measurement of non-controlling interest and deferred tax follows from the measurement of other assets and liabilities.

7. Applying McKinsey's 7S Framework to **Fastest Finger Limited (FFL)** highlights several areas where improvement is necessary for achieving strategic success.

Strategy: FFL is experiencing strategic drift, with unclear direction and resistance to new initiatives. To address this, the strategy must be communicated effectively to all managers and employees involved. The current approach, combining organic and inorganic growth, needs refinement, particularly in innovation and managing risks associated with the **Teen Patti** contract. A clearer focus on product development and enhancing the premium online gaming experience will help restore FFL's competitive edge.

***Structure**:* FFL operates in domestic and international markets with a structure that supports diverse gaming and e-Sports segments. However, misalignment across functional units threatens the success of the change program. To support its growth and innovation objectives, FFL must streamline its structure to promote cross-functional collaboration and align with its strategic goals.

***Systems**:* The company is transitioning to **Ind AS** and dealing with **GST compliance** issues, both of which are critical for managing growth and regulatory requirements. FFL needs robust financial systems to handle these complexities, and addressing compliance issues will be essential for maintaining investor confidence.

***Shared Values**:* There is a lack of consensus on the need for new product development and strategic direction. This disconnects between leadership and staff underscores the importance of shared values. The CEO's concerns about the company's future have not been communicated clearly, leaving employees uncertain. Fostering a culture of innovation and ensuring alignment on strategic goals across the organization will help overcome resistance to change and drive growth.

***Skills**:* FFL lacks expertise in new gaming technologies, which is critical for developing new products and maintaining competitiveness. The company must invest in hiring senior resources for research and development and possibly engage external designers. Strengthening its technical capabilities will be essential for supporting innovation and future product development.

***Style**:* Internal disagreements over FFL's direction and investment strategies are causing friction. The CEO has not secured commitment from key managers, such as the operations and sales directors, who are skeptical about the need for technological advancements. To move forward, leadership must resolve these conflicts and create a collaborative environment that encourages innovation and adaptability.

***Staff**:* FFL faces human resource issues, including potential redundancies and dissatisfaction among operations staff. The reliance on external resources and technical experts may be seen as a threat to existing employees. Additionally, the failure to coordinate the new program with the sales team could undermine its success. Effective HR management, clear communication about strategic changes, and investment in talent acquisition and development are crucial to maintaining morale and productivity.

Conclusion

Fastest Finger Limited needs to realign its strategic direction by refining its growth strategy, revising its organizational structure, and investing in key skills and technologies. Clear communication and fostering a shared vision are essential to overcoming resistance to change. By resolving internal conflicts and creating a collaborative environment, FFL can drive innovation, ensure compliance, and secure its competitive position in the gaming industry.

8. Section 173(2) of Companies Act, 2013 read with Rule 3 of the Companies (Meetings of Board and its Powers) Rules, 2014, provide that participation of directors in a meeting of the Board may be either in person or through video conferencing or other audio-visual means as may be prescribed, which are capable of recording and recognizing the participation of the directors and of recording and storing the proceedings of such meetings along with date and time. Chairman of the Meeting and Company Secretary should safeguard the integrity of the meeting by ensuring sufficient security and identification procedures, ensure availability of proper video conferencing or other audio visual equipment or facilities for providing transmission of the communications for effective participation of the directors and other authorised participants at the Board meeting and other matters as prescribed in the above Rule.

The **notice of the meeting** shall be sent to all the directors 7 days in advance as per section 173 (3) of the Act and the notice shall inform the directors regarding the option available to them to participate through video conferencing mode or other audio-visual means and shall provide all the necessary information to enable the directors to participate through video conferencing mode or other audio-visual means.

Key points to be observed before/ during the meeting are as follows:

STEP 1: Roll Call

At the commencement of the meeting, a Roll Call should be taken by the Chairperson when every director participating through video conferencing or other audio-visual means shall state, for the record, the prescribe matters including name; location from where

participating and that he has received the agenda and all the relevant material for the meeting

STEP 2: Considerations for the Chairman or Company Secretary

The Chairperson / Company Secretary would then read out the names of persons (other than the Directors who are present at the meeting) to assist/guide/witness the proceedings of the Meeting the Board. The **attendance register shall be deemed to have been signed by the directors** participating through electronic mode, if their attendance is recorded by the Chairman or FFL Secretary in the attendance register and the minutes of the meeting.

STEP 3: Requirement of Quorum

The Chairperson / Company Secretary should confirm that the **required quorum** is present throughout the meeting.

The statutory registers which are required to be placed in the Board meeting should be placed at the scheduled venue of the meeting.

STEP 4: Transaction during Meeting

Each item of business should be taken up one by one as per the agenda specified in the notice. If a motion is objected to and there is a need to put it to vote, the Chairperson shall call the roll that is to say that he shall first announce that he shall be doing the roll call and call out the name of each director who shall identify himself while casting his vote and the Chairperson shall then note the vote of each director. The Chairperson shall then **announce the summary of the decision** taken on such item along with names of the directors, if any, who dissented from the decision taken by majority.

9. (i) Growth

(ii) Maturity

Growth Stage

Compared to the introduction stage, the likely changes for NOX-A in the online gaming industry are as follows:

Unit Selling Prices (In-game purchases or subscriptions): The prices for in-game purchases or subscription fees *may reduce* for several reasons:

- *Competitors are likely to enter the market* with similar games, pushing NOX-A to reduce prices to stay competitive.
- To increase its user base and discourage new entrants, NOX-A might adopt *aggressive pricing strategies, offering discounts or promotions*.
- As the player base expands, lowering prices might make the game accessible to a wider audience, driving growth in terms of both revenue and user engagement.

Unit Production (Development) Costs: Development and operational costs are *likely to decrease* due to:

- Economies of scale: Larger player volumes lead to more efficient server utilization and *reduced per-user maintenance costs*.
- Improved efficiency in game updates: As the development team becomes more familiar with the game mechanics and platform, the *learning curve effect helps in streamlining production processes*.
- Bulk purchasing of cloud and IT services: With increased demand, NOX-A can negotiate better deals for cloud hosting, IT infrastructure, and other development resources, *reducing overhead costs*.

Maturity Stage

Compared to the growth stage, the changes in the maturity stage for NOX-A are as follows:

Unit Selling Prices (In-game purchases or subscriptions): At this stage, the game has likely captured a significant share of the market. Hence:

- Prices are likely to stabilize as NOX-A has now established itself in the online gaming community. There may be occasional promotions or limited-time offers, but overall pricing remains consistent.
- There might be less pressure to lower prices further as the focus shifts to customer retention rather than rapid expansion.

Unit Production (Development) Costs: Costs are likely to *Stable or Slightly Increasing Costs due to:*

- The efficiency gains from the learning curve and scale have plateaued, leading to more stable development costs.
- Direct development costs may remain constant but could also rise due to ongoing investment in keeping the game relevant with new features, content, and user experience improvements.
- As the game reaches a stable player base, additional resources might be needed for customer service, moderation, and security, particularly as user expectations evolve.

Conclusion

In conclusion, during the **growth stage**, the key trend for NOX-A is *likely a reduction in both unit selling prices and production costs* as it seeks to expand its user base and benefit from economies of scale. However, in the **maturity stage**, *prices tend to stabilize* while *production costs could slightly increase or remain constant* as the focus shifts to retaining players and maintaining the game's relevance through continuous development.

CASE STUDY 17

Aadhya Ltd.

From humble beginnings as a small trading business in 1970s Mumbai, Aadhya Ltd. has emerged as one of India's most prominent and diversified conglomerates. What started as a family-run operation is today a professionally managed group with a multinational presence and over 5,000 employees. Headquartered in a towering glass edifice in Mumbai's business district, Aadhya Ltd.'s operations span multiple verticals – infrastructure, power, telecom, retail and financial services. The company takes immense pride in its stellar senior leadership drawn from India's premier institutes.

At the helm is Rajesh Sharma, who rose through the ranks to become the Chairman and Managing Director in 2017. Assisting him is a dynamic top management team that includes Chief Financial Officer Nisha Patel and Chief Operating Officer Rakesh Raghavan. ***"Our vision is to build a globally respected Indian conglomerate that creates sustainable value through ethical business practices, innovation and operational excellence,"*** Rajesh articulates the group's driving philosophy. This vision extends beyond just financial growth to include environmental sustainability and holistic societal impact.

The group's entrepreneurial culture and diversity & inclusion policies have made it a dream employer, consistently ranked among India's best companies to work for. At the heart of Aadhya Ltd.'s operations is its state-of-the-art digital transformation journey cutting across business verticals. From smart factories and intelligent supply chains to mobile-first retail offerings, the conglomerate has thoroughly embraced emerging technologies. Its in-house R&D and innovation labs are at the cutting edge of fields like AI, IoT, Blockchain and more. However, Aadhya Ltd.'s impact transcends just business. The Aadhya Foundation runs skills training programs, schools, hospitals and disaster relief efforts that have uplifted lakhs of underprivileged lives across India. The group is a pioneer in corporate social responsibility, deploying both human and financial capital to drive sustainable development initiatives.

Aadhya Ltd. is gearing up for its next phase of global growth, led by forward-thinking leadership and a motivated workforce. As a homegrown giant, it's set to create a lasting legacy as a leading Indian multinational. Its remarkable success stands as a testament to the entrepreneurial spirit and ambition of India.

It was a crisp autumn morning in October 2021 when Rajesh Sharma, the MD of Aadhya Ltd., stepped into the boardroom to meet his leadership team including Nisha Patel, the CFO. *"We've*