identified an opportunity with Suraksha Constructions," Rajesh began. Nisha explained that *Suraksha was a stagnant mid-sized construction firm but integrating it could unlock potential synergies*. After extensive negotiations and due diligence, Aadhya Ltd. announced the acquisition in December. The fair value of Suraksha's total assets excluding liabilities was ₹ 3,060 crore on acquisition, with ₹ 48 crore estimated as costs to sell. The fair value of liabilities stood at ₹ 510 crore. The integration was challenging, but eventually, cost savings and efficiencies materialized. However, Rajesh and Nisha intended to turn around Suraksha and spin it off. By the time, as Aadhya Ltd. explored selling the former Suraksha unit, the fair value of its total assets excluding liabilities had changed to ₹ 3,000 crore, while costs to sell remained ₹ 48 crore and liabilities were valued at ₹ 528 crores. After weighing various offers, they struck a deal with a global private equity firm specialized in construction. While inking the final documents, Rajesh had a pleased expression. The divestment would unlock capital to focus on Aadhya Ltd.'s core competencies. More importantly, it was a learning experience that would shape their approach to future growth opportunities. Nisha too was satisfied with the outcome and looked forward to redeploying resources optimally to create long-term shareholder value.

The month of July 2022 marked a transition of leadership at Aadhya Ltd., one of India's leading conglomerates. Vihaan Mehta, a rising star within the company, was appointed as the new Managing Director, succeeding the long-serving Rajesh Sharma. The boardroom buzzed with excitement as Vihaan took charge, outlining his vision to propel Aadhya Ltd. to new heights through strategic initiatives and operational excellence. However, his remuneration package soon became a subject of debate among certain shareholders. The company had decided to pay Vihaan a competitive compensation suitable to his new role and responsibilities. Rajveer Bhatia, a minority shareholder actively tracking company, sought to inspect the contract detailing Vihaan's remuneration terms. But he was denied access by the company on the grounds that no written contract existed with the new Managing Director.

It was early 2024 when Aadhya Ltd., the prominent Indian conglomerate, found itself under the scanner from some minority shareholders. The company had expanded rapidly into new verticals under the leadership of its newly appointed Managing Director Vihaan Mehta. However, these shareholders raised concerns over certain transactions entered into by Aadhya Ltd. They alleged that these transactions were not fully compliant with the provisions of the Companies Act, 2013 and were potentially prejudicial to the company's interests. Worried by these developments, the shareholders decided to invoke their statutory rights. They moved to make an application to the Central Government in late 2024, seeking appointment of an Inspector to investigate the affairs of Aadhya Ltd. The shareholders were determined to ensure that Aadhya Ltd.'s growth plans didn't come at the cost of governance lapses or violating the legal framework governing the company's operations. Furthermore, a group of members of Aadhya Ltd., holding 12% of the company's issued share capital, has filed a petition before the Tribunal alleging acts

of oppression and mismanagement by the majority shareholders. During the petition's pendency, some members holding 5% of the share capital wish to withdraw. The majority shareholders, along with these withdrawing members, argue that the petition should be dismissed as non-maintainable.

During the last quarter of the financial year 2024-25, the Aadhya Group navigated several complex transactions, focusing on meticulous financial practices and strategic decisions. One notable deal involved Aadhya Ltd. supplying specialized machinery to XYZ Traders for ₹ 2,95,000, inclusive of GST at 18%. In conjunction, XYZ Traders provided materials valued at ₹ 10,000, exclusive of GST, as part of the consideration. Vihaan Mehta, the new MD, keenly monitored this transaction. He convened a meeting with CFO Nisha Patel and COO Rakesh Raghavan to review the details. "*We need to ensure every aspect of this deal is handled meticulously*," Vihaan emphasized. Around the same time, Aadhya Enterprises Ltd., a subsidiary of Aadhya Ltd., supplied the same machinery to another unrelated party for ₹ 2,97,360, inclusive of GST at 18%. This prompted the finance team to discuss the valuation and pricing strategies. Nisha explained, *"For the machinery supplied to XYZ Traders, we must calculate the value before GST and add the value of the additional materials provided."* Rakesh noted, *"Comparing this to the transaction made by Aadhya Enterprises Ltd. will help ensure our pricing strategy is consistent and competitive."* After careful calculation, they concluded that the value of the goods supplied to XYZ Traders needed thorough documentation for accurate financial reporting. This exercise not only clarified the value but also reinforced Aadhya Ltd.'s commitment to meticulous financial practices. Vihaan, satisfied with the outcome, reflected on the importance of detailed evaluations in maintaining the company's reputation for excellence and integrity.

Simultaneously, Aadhya Enterprises Ltd. was also deliberating over two significant loan proposals as part of its strategic focus on employee retention and welfare. The first proposal concerned a substantial personal loan requested by K. Ahuja, one of the company's directors, aimed at financing the construction of his residential property. This loan was being considered in light of Ahuja's long-standing contributions to the company and the potential role such financial assistance could play in ensuring his continued engagement with Aadhya Enterprises Ltd. The second proposal pertained to a loan sought by Bharat Mehta, the company's Whole-Time Director, though the specific purpose for this loan has not been explicitly stated. Despite the lack of clarity on the loan's objective, the Board was weighing carefully the request, considering the importance of supporting Key Managerial Personnel within the organization.

In parallel, Aadhya Ltd. prepared for an important international trade operation, set to import goods worth USD 2 million from an overseas supplier. Typically, the company required 90 days to make the payment. The supplier offered a 60-day interest-free credit period, along with an additional 30-day credit extension at an 8% per annum interest charge. Meanwhile, Aadhya Ltd.'s bankers presented a 30-day loan facility at a 10% per annum interest rate. The finance

team, led by CFO Nisha Patel, evaluated these options against current foreign exchange rates: a spot rate of 1 USD = ₹ 83.50, a 60-day forward rate of ₹ 84.10, and a 90-day forward rate of ₹ 84.50, recognizing the potential impact on the company's financial position.

While addressing these corporate developments, Vihaan also led discussions about the Aadhya Foundation, emphasizing the importance of aligning social responsibility programs with core values and actively engaging with local communities. *"We must adapt our strategies based on their feedback to ensure that our foundation uplifts communities and fosters a lasting legacy,"* he stated.

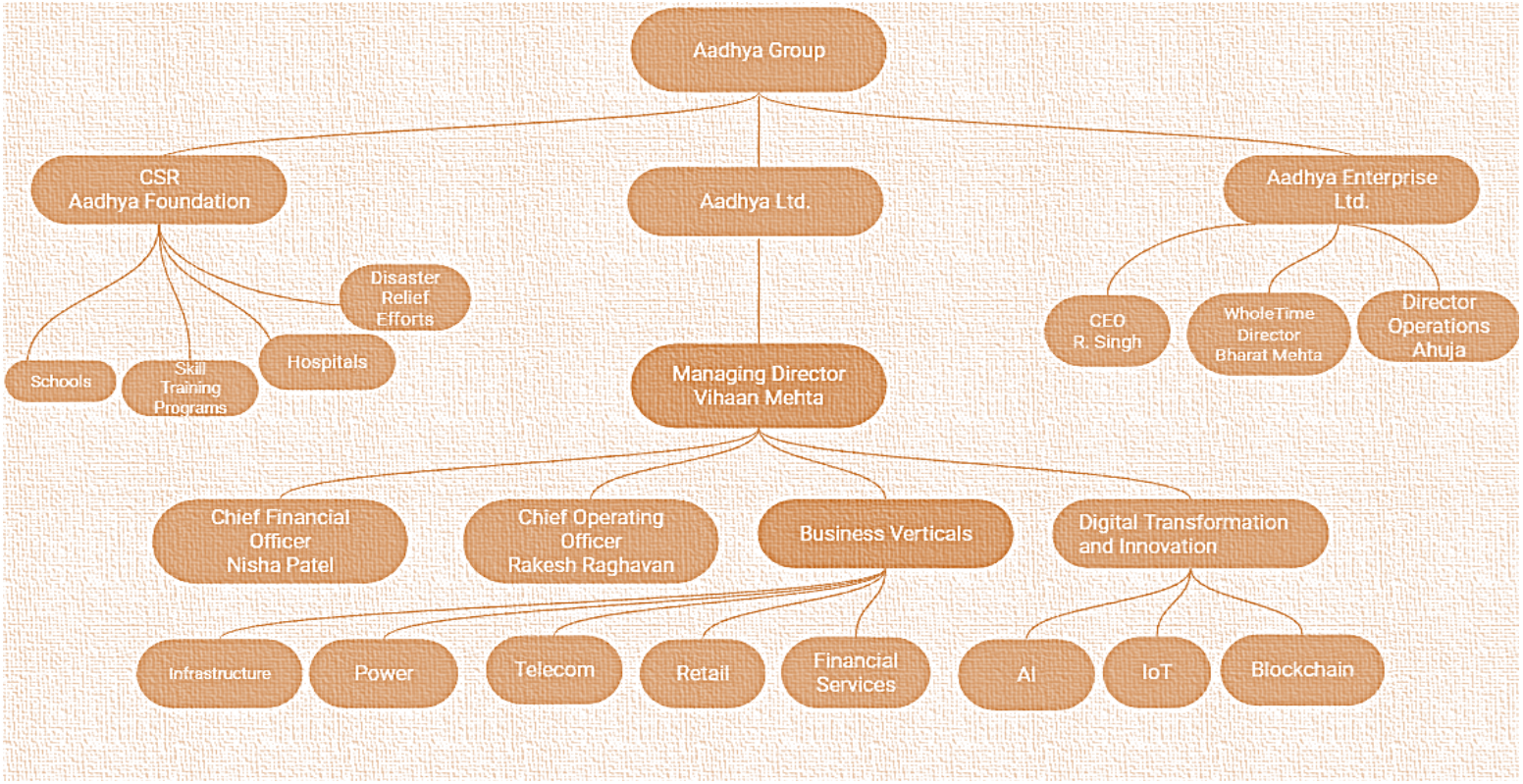
As the financial year 2024-25 near to close, Aadhya Ltd. was gearing up for its annual audit process. Nisha Patel, the Chief Financial Officer, had the accounts payable break-up ready for scrutiny. DRT & Co. were appointed to conduct Aadhya Ltd.'s audit for the year. As they reviewed the accounts payable, one particular vendor – M/s Builders Corp. with a sizable ₹ 14.56 Lakhs payable – caught their attention.

In May 2025, an important financial issue arose that required immediate attention. DRT & Co., the auditors of Aadhya Ltd. for the year ended on 31/03/2025, had signed the audit report on 04/05/2025. The Annual General Meeting was scheduled for August 2025. On 06/05/2025, the company received a communication from the Central Government that an amount of ₹ 20 crore, kept pending on account of incentives pertaining to the financial year 2024-25, had been approved and would be paid before the end of May 2025. When asked about this by the management, Chief Financial Officer Nisha Patel informed them that this amount had not been recognized in the audited financial statements due to uncertainty of receipt before the financial year end. Now, having received confirmation of the amount, the management wished to include it in the financial statements for the year ended 31/03/2025. On 08/05/2025, the management amended the accounts and approved the same. During the intervening period between 04/05/2025 and 08/05/2025, the audited financial statements and audit report were not issued to anybody. The management requested the auditor to consider the situation and issue a fresh audit report on the financial statements for the year ended 31/03/2025.

Aadhya Ltd. recently declared and paid an annual dividend of ₹ 5 per share for the most recent financial year, reflecting its commitment to returning value to shareholders. According to management's guidance, the dividend is expected to experience a robust growth rate of 18% per annum over the next two years, signaling confidence in the company's near-term financial performance and expansion potential. Beyond this period, the growth rate is projected to moderate to a more sustainable 8% per annum indefinitely. With the required rate of return for equity investors in Aadhya Ltd. set at 14%, the company's dividend strategy plays a crucial role in shaping investor expectations and valuation considerations, providing a balanced outlook between short-term growth and long-term stability.

Aadhya Ltd.

Organizational Structure



I. Multiple Choice Questions

1. Aadhya Foundation is applying the Value for Money (VFM) framework to enhance its programs. Which of the following actions best balances the principles of effectiveness, efficiency, and economy?

   (a) The Foundation implements AI to automate patient record-keeping and optimize hospital workflows, resulting in improved care delivery. It also continuously tracks patient recovery rates and uses this data to adjust its healthcare strategies. In addition, the Foundation ensures that it secures quality supplies at competitive rates after comparing several vendors.

   (b) The Foundation partners with Aadhya Ltd.'s R&D team to deploy IoT-enabled tracking systems in its disaster relief supply chains. These systems improve real-time monitoring of resource usage and minimize wastage, while data-driven insights are used to enhance service delivery efficiency, even if it involves higher initial investment.

   (c) Aadhya Ltd. launches a new blockchain-powered solution to manage the Foundation's financial aid programs, prioritizing faster transaction times, but without adequately monitored for potential errors in fund distribution.

   (d) The Foundation expands its skills training programs by focusing on providing courses in emerging technologies like Blockchain, increasing the number of participants, while delaying the introduction of performance metrics to track how many trainees benefited in the long run.

2. Based on the transaction described in the case study, what should be the value of the goods supplied by Aadhya Ltd. to XYZ Traders?

   (a) ₹ 2,52,000

   (b) ₹ 2,95,000

   (c) ₹ 2,97,360

   (d) ₹ 2,50,000

3. The intrinsic value of Aadhya Ltd.'s equity shares using the two-stage dividend growth model shall be approximately _____.

   Note: Use PVF up to 4 decimal points.

   (a) ₹ 106.98

   (b) ₹ 105.57

(c) ₹ 107.34

(d) ₹ 104.98

4. Evaluate the status of petition filed by the group of members of Aadhya Ltd., holding 12% of the company's issued share capital in contention in light of the Companies Act, 2013.

(a) The petition must be dismissed as the petitioners no longer meet the minimum shareholding requirement.

(b) The proceedings shall continue irrespective of the withdrawal of consent by some petitioners.

(c) The Tribunal must consider the current shareholding percentage of the petitioners before making a decision.

(d) The petitioners must file a new petition reflecting the current shareholding situation.

5. DRT & Co. knew they had to thoroughly validate the existence and valuation of the significant liability (M/s Builders Corp.) as on March 31, 2025. But which audit procedure would yield the most reliable evidence?

(a) Inspect each and every journal entry passed in Aadhya Ltd.'s books

(b) Send a standard positive confirmation to M/s Builders Corp. requesting they confirm the outstanding balance directly to the auditor

(c) Inspect the invoices issued by M/s Builders Corp. and the related payments made

(d) Obtain a written management representation letter from the CFO of Aadhya Ltd. confirming the amount and validity of the liability owed to M/s Builders Corp.

II. Descriptive Questions

6. RECOMMEND how the discontinued operation pertaining to Suraksha Constructions was measured and presented in Aadhya Ltd.'s consolidated financial statements:

1. On the **acquisition date**.

2. On the **reporting date** of the divestment.

7. (a) In light of the tenets of corporate governance and shareholder rights enshrined in the Companies Act, 2013, evaluate whether Aadhya Ltd.'s decision to deny Rajveer access to Vihaan's contract was justified. Substantiate your answer with relevant provisions of the Act and principles of transparency and disclosure that a company like Aadhya Ltd. should uphold.

(b) In the context of the two loan proposals by K. Ahuja and Bharat Mehta, analyze the legal permissibility and conditions under the Companies Act, 2013 for a company to grant such loans to its directors.

8. With reference to the information given in the case study, analyze the issues involved and give your views as to whether or not the auditor, DRT & Co., could accept the request of the management.

9. Considering the import transaction, what would have been the most likely recommendation made by the finance team to Vihaan Mehta during the meeting? (Assume 360 days in a year)

ANSWERS TO THE CASE STUDY 17

I. Answers to the Multiple Choice Questions

1. (a) The Foundation implements AI to automate patient record-keeping and optimize hospital workflows, resulting in improved care delivery. It also continuously tracks patient recovery rates and uses this data to adjust its healthcare strategies. In addition, the Foundation ensures that it secures quality supplies at competitive rates after comparing several vendors.

Reason:

Option (a) illustrates a balanced approach to the VFM framework by addressing **effectiveness** through the use of AI for improved care delivery and patient tracking, ensuring the foundation meets its healthcare objectives. It also incorporates **efficiency** by optimizing workflows and **economy** by securing quality supplies at competitive rates. In contrast, option (b) focuses on efficiency and effectiveness but involves higher costs without clear long-term economic benefits. Option (c) prioritizes speed but neglects monitoring, risking errors. Option (d) increases participation without assessing long-term effectiveness, compromising the foundational aim of sustainable outcomes.

2. (a) ₹ 2,52,000

Reason:

In the given case, price is not the sole consideration for the supply. Apart from monetary consideration, the buyer has given some material to the supplier as consideration for such supply. Hence, the value of the supply cannot be determined on the basis of the transaction value in terms of section 15(1) of the CGST Act, 2017. Here, the value will be determined with the help of rule 27 of the

CGST Rules, 2017 which specifies that where the consideration for a supply is not wholly in money, the value will be the open market value. Open market value of a supply means the full value in money, excluding the applicable GST, where the supplier and the recipient of the supply are not related and the price is the sole consideration, to obtain such supply at the same time when the supply being valued is made. Therefore, in the given case, the open market value of the goods supplied is ₹ 2,52,000 (₹ 2,97,360 x 100/118) and is therefore, the value of such goods.

3. (a) ₹ 106.98

Reason:

D_0 = ₹5

D_1 = ₹5 (1.18) = ₹5.90

D_2 = ₹5 $(1.18)^2$ = ₹6.96

D_3 = ₹5 $(1.18)^2$ (1.08) = ₹7.52

$P = D_1/(1+k_e) + D_2/(1+k_e)^2 + TV/(1+k_e)^2$

$TV = D_3/(k_e-g)$

= 7.52/(0.14-0.8)

= 125.33

$P = 5.90/(1+0.14) + 6.96/(1+0.14)^2 + 125.33/(1+0.14)^2$

= 5.90 × 0.8772 + 6.96 × 0.7695 + 125.33 × 0.7695

= 5.18+5.36+96.44

= 106.98

4. (b) The proceedings shall continue irrespective of the withdrawal of consent by some petitioners.

Reason:

The proceedings shall continue irrespective of withdrawal of consent by some petitioners. It has been held by the Supreme Court in Rajmundhry Electric Corporation vs. V. Nageswar Rao, AIR (1956) SC 213 that if some of the consenting members have subsequent to the presentation of the petition withdraw their consent, it would not affect the right of the applicant to proceed with the petition. Thus, the validity of the petition must be judged on the facts as they were at the time of presentation. Neither the right of the applicants to proceed with the

petition nor the jurisdiction of the Tribunal to dispose of it on its merits can be affected by events happening subsequent to the presentation of the petition.

5. **(c)** Inspect the invoices issued by M/s Builders Corp and the related payments made.

Reason:

By scrutinizing the original invoices and cross-verifying the payment trails, auditors could obtain direct evidence validating the existence and accurate valuation of this key accounts payable component in Aadhya Ltd.'s books as on the balance sheet date.

II. Answers to the Descriptive Questions

6. **Guidance from standard:** Ind AS 105 defines a disposal group as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, alongwith liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 80-87 of Ind AS 36, Impairment of Assets, or if it is an operation within such a cash-generating unit.

Analysis and Conclusion: In the given case, Suraksha Constructions was acquired exclusively with a view to sell. Hence, it meets the criteria to be classified as a discontinued operation.

The discontinued operation would be measured in accordance with paragraphs 15 and 16 of Ind AS 105.

- As per para 15, an entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.
- As per para 16, if a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale (see paragraph 11), applying paragraph 15 will result in the asset (or disposal group) being measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Hence, if the asset (or disposal group) is acquired as part of a business combination, it shall be measured at fair value less costs to sell.

Therefore, **on acquisition date**, in line with paragraph 16, Aadhya Ltd. would have measured Suraksha Constructions as a disposal group at fair value less costs to sell which would have been calculated by Adhya Ltd. as:

- Fair value of total assets excluding liabilities on acquisition – Costs to sell = ₹ 3,060 Crores - ₹ 48 Crores = ₹ 3,012 Crores.
- Fair value of liabilities on acquisition= ₹ 510 Crores.

At the reporting date, in line with paragraph 15, Aadhya Ltd. would have remeasured the disposal group at the lower of its cost and fair value less costs to sell, which would have been calculated by Adhya Ltd. as:

- Fair value of total assets excluding liabilities on subsequent reporting date – Costs to sell = ₹ 3,000 Crores -₹ 48 Crores = ₹ 2,952 Crores
- Fair value of liabilities on reporting date = ₹ 528 Crores.

At the reporting date, Aadhya Ltd. would have presented these assets and liabilities separately from other assets and liabilities in its consolidated financial statements.

In the statement of profit and loss, Aadhya Ltd. would have recognized loss on subsequent measurement to fair value less cost to sale of the disposal group i.e. Suraksha Constructions, which equals ₹ 60 crores (₹ 3,060 Crores - ₹ 3,000 Crores).

7. **(a)** No, the company's decision to deny Rajveer Bhatia access to Vihaan's remuneration details was likely not justified.

Section 197(4) expressly requires that the remuneration payable to the directors of a company, including any managing or whole-time director or manager, shall be determined, in accordance with and subject to the provisions of Section 197 of the Companies Act, 2013. Determination of Remuneration can be made either by the articles or by a resolution or if the articles so require, by a special resolution passed by the company in general meeting. The remuneration so determined to be payable is required to be inclusive of the remuneration payable to him for the services rendered by any such director in any other capacity.

As per Section 171(1) of the Companies Act, 2013:

(1) register of directors and key managerial personnel of the company

(A) Shall be open for inspection during business hours and the members shall have a right to take extracts therefrom and copies thereof, on a request by the members, be provided to them free of cost within thirty days; and

(B) Shall also be kept open for inspection at every annual general meeting of the company and shall be made accessible to any person attending the meeting.

Even though a written contract might not exist, the company should still be able to provide details on Vihaan's remuneration package. This could include information like salary, benefits, stock options, and performance-based bonuses.

In conclusion, the company's decision to deny access without proper explanation is likely questionable. Transparency is crucial for maintaining good corporate governance, and shareholders have the right to be informed about such matters.

(b) Section 185 of the Companies Act, 2013 contains provisions which impose restrictions on the loans, etc. being given to directors, etc. According to the provision:

As per sub-section (1), a company is not permitted, directly or indirectly, to advance any loan, or to give any guarantee or provide any security in connection with any loan taken by, -

(a) any director of company, or of a company which is its holding company or any partner or relative of any such director; or

(b) any firm in which any such director or relative is a partner.

Further sub-section (3) states that the above provision shall not apply:

(a) where any loan is given to a managing or whole-time director-

(i) as a part of the conditions of service extended by the company to all its employees; or

(ii) pursuant to any such scheme which is approved by the members by a special resolution.

(b) where a company in the ordinary course of its business:

- provides loans or gives guarantees or securities for the due repayment of any loan; and
- In respect of such loans an interest is charged at a rate not less than the rate of prevailing yield of one year, three years, five years or ten years Government security closest to the tenor of the loan.

Accordingly, following are the answers to the stated problems:

(i) In the first case it would violate section 185(1) of the Companies Act, 2013. Aadhya Ltd. is not permitted to advance any loan, or to give any guarantee or provide any security in connection with any loan taken by K. Ahuja (director) of the company.

(ii) In the second case, as per section 185(3), restrictions imposed in section 185(1), will not apply to giving of loan to Bharat Mehta, the whole-time director if it is given as a part of the conditions of service extended by the company to all its employees.

8. Facts which become known to the auditor after the date of the auditor's report but before the date the financial statements are issued:

As per SA 560, "Subsequent Events", the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

(i) Discuss the matter with management and, where appropriate, those charged with governance.

(ii) Determine whether the financial statements need amendment and, if so,

(iii) Inquire how management intends to address the matter in the financial statements.

If management amends the financial statements, the auditor shall carry out the audit procedures necessary in the circumstances on the amendment. Further, the auditor shall extend the audit procedures and provide a new auditor's report on the amended financial statements. However, the new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

In the instant case, Aadhya Ltd. received an amount of ₹ 20 crore on account incentives pertaining to the year 2024-25 in the month of May 2025 i.e. after finalization of financial statements and signing of audit reports. The management of Aadhya Ltd. amended the accounts, approved the same and requested DRT & Co. (auditor) to consider this event and issue a fresh audit report on the financial statements for the year ended on 31.03.2025.

After applying the conditions given in SA 560, DRT & Co. can issue a new audit report subject to the date of audit report which should not be earlier than the date of approval of the amended financial statements.

9. Possible Options are as under:

(i) Pay the supplier in 60 days

If the payment is made to supplier in 60 days, the applicable forward rate for 1 USD	₹ 84.10
Payment Due	USD 20,00,000

Outflow in Rupees (USD 2,000,000 × ₹ 84.10)	₹ 16,82,00,000
Add: Interest on loan for 30 days @10% p.a.	₹ 14,01,667
Total Outflow in ₹	**₹16,96,01,667**

(ii) Availing supplier's offer of 90 days credit

Amount Payable	USD 20,00,000
Add: Interest on credit period for 30 days @8% p.a.	USD 13,333
Total Outflow in USD	USD 20,13,333
Applicable forward rate for 1 USD	₹ 84.50
Total Outflow in ₹ (USD 2,013,333 × ₹ 84.50)	**₹ 17,01,26,639**

Alternative 1 is better as it entails lower cash outflow.

CASE STUDY 18

Bharat Computers Limited



Bharat Computers Limited (BCL) develops software and provides related support services. Established in the year 2007, the company has its headquarters in Mysore, Karnataka. Mrs. Jyoti Prakash is the founder and managing director of the company since its incorporation. She is a software professional and has vast experience in this field. Earlier, she worked abroad in Sydney as Chief Technology Officer (CTO) in a company Down Under Limited (DUL). In the year 2007, she relocated back to India to establish Bharat Computers Limited (BCL).

The management of DUL were highly impressed by Mrs. Jyoti's work and therefore decided to invest in her company. They also saw it as an opportunity to make strategic investments in the booming Information Technology sector that was driving India's growth at the time of the company's incorporation. As of March 31st, 2025, DUL holds 30% of the shares of BCL. The rest of the shares are owned by promoters, financial institutions and the general public based out of India. Mr. Vijay Prakash is the Chief Executive Officer (CEO), while Mr. Anand Maheshwari is the Chief Financial Officer of the company. Riding on the wave of economic growth, over the years, BCL posted robust growth in revenues and profits and is now considered a mid-sized company in the IT sector.

Arm's Length Pricing of transactions with DUL during Income tax assessment for A.Y. 2025-26

Along with catering to its regular clients, BCL provides software and related support services to DUL. These services include coding, system design, implementation, testing and technical support. BCL's team works closely with DUL to understand their project requirements and deliver customized software solutions that align with their business objectives. During FY 2024-25, BCL billed for software and related support services provided to DUL for 4,000 man-hours at the rate of ₹5,000 per hour. The total cost (both direct and indirect) for executing this work amounted to ₹1.85 crores.

During this same financial year, BCL had provided similar level of manpower to Techno India Limited (TIL), a company in Bangalore India. It is a party for BCL. For this work BCL had billed TIL at the rate of ₹6,000 per hour and earned a gross profit of 40% of its cost.

The transactions of BCL with DUL and TIL are comparable, subject to certain differences. DUL provides technological support to BCL, valued at approximately 15% of normal gross profits, whereas TIL offers no such support. Due to the high volume of business from DUL, BCL extends a quantity discount, estimated at 10% of normal gross profits. Additionally, BCL assumes no risk or marketing expense while servicing DUL. In contrast, BCL bears full marketing responsibilities and associated risks when dealing with TIL, with the cost of these functions estimated at 20% of normal gross profits. Furthermore, BCL offers a one-month credit period to DUL, incurring a cost of 5% of normal gross profits, while no such credit is extended to TIL.

Subcontracting of service to Reliable Service Inc.

During FY 2024-25, BCL contracted with American Enterprises Inc. (AEI), a company based on New York for the provision of software consulting and support related services. The total contract value is US$ 500,000 for the year. Due to some reasons, BCL is unable to supply the entire service from India. Therefore, it asks Reliable Service Inc. (RSI), another company in New York to supply those services on its behalf, thereby sub-contracting part of the work. RSI is not merely an establishment of a distinct person viz. BCL, India in accordance with the Explanation 1 in section 8 of the IGST Act. BCL subcontracts 40% of the work to RSI. For billing and settlement purposes, BCL India raises an invoice for the full contract value, and AEI remits the entire payment directly to BCL.

In a separate but similar arrangement, BCL also signed a contract with Chicago Technologies Inc. (CTI), located in Illinois, USA, to provide IT consultancy and support services for a total value of US$ 300,000. BCL subcontract part of this work also to Reliable Service Inc. (RSI). BCL contracts 30% of the work to RSI. While considering the billing and settlement of services, CTI pays RSI directly for the services it provides, that is for 30% of the work it had contracted with BCL. The balance of 70% is paid to BCL.

Contracts with customers that have multiple element arrangements

BCL enters into contracts with customers to provide multiple types of software and software support services based on the client's needs. Each contract with the client is based on the specific needs which are catered to by BCL. Please refer Annexure 1 that details the contracts with 2 clients, Await India Limited (AIL) and Brain India Limited (BIL). Mr. Jayesh Shah, Sr. Accountant, wants to know how to account for each of these contracts in the financial statements.

Developing strategic products within product portfolio

In recent years, Artificial Intelligence has made a multi-faceted impact on business and society globally. AI's ability to automate tasks, analyze vast databases and make data-driven decisions has increased efficiency, productivity and innovation across different industries. Major IT

companies are investing heavily in artificial intelligence research and development. BCL is also one among them. Please refer to Annexure 2 for details about BCI's pathbreaking software developed for algorithmic trading.

Pricing of "Growing" Algorithmic Trading Platform

BCL received the necessary regulatory approvals to launch "Growing" in the market. Mrs. Jyoti Prakash, Mr. Vijay Prakash and Mr. Anand Maheshwari are in a meeting to finalize the pricing strategy for the product. During the meeting the following discussion took place between them.

> ***Mr. Anand Maheshwari, CFO:*** *Our product "Growing" is truly unique and has received an enthusiastic response in the market. We expect exponential growth in sales and revenue in the next few years. Since we have invested heavily in research and development of the product, let us charge a premium price.*
>
> ***Mrs. Jyoti Prakash, MD & Founder:*** *While I agree that while we have developed this unique product successfully, let us not forget that our competitors are not sitting idle. They too have the capability to manage to code the algorithms efficiently. Although we currently have the first-mover advantage, it's quite possible that within a year or two, a similar product could be launched by one of our competitors.*
>
> ***Mr. Vijay Prakash, CEO:*** *Yes, I agree with Jyoti. It's important to capture the market as much as we can in this initial phase to have a strategic edge. Even if we do not make profits initially, once the users are familiar with our product, we can increase the price as the demand picks up.*

Annexure 1

Contract with AIL (Extracts)

During FY 2024-25, BCL enters in a contract with Await India Limited (AIL) to transfer a software license, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. The entity sells the license, installation service and technical support separately. The installation requires changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

Contract with BIL (Extracts)

During FY 2024-25, BCL enters in a contract with Brain India Limited (BIL) to transfer the goods and services similar to that contracted with AIL. Except that the contract specifies that, as part of the installation service, the software is to be substantially customized to add significantly new functionality to enable the software to interface with other customized software applications used by the customer. The customized installation service can be provided by other entities.

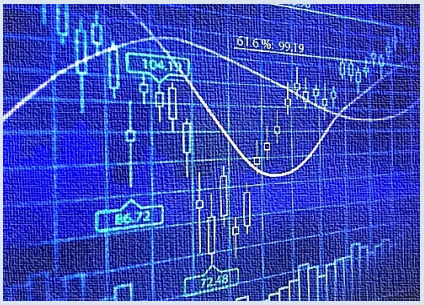
Annexure 2

THE FINTECH NEWS PERIODICIAL

From Emotion to Algorithm: BCL's 'Growing' Transforms Market Trading

FT123News.com | Jul 23, 2025, 11:23:47 AM IST

A new level playing field in stock market trading.



In a surprise announcement, Bharat Computers Limited (BCL) today unveiled its new product portfolio "Growing". BCL has developed a high speed, highly responsive, data driven decision making software that is based on Advanced AI and machine learning algorithms; the trading platform developed by the company is aptly named "Growing". Due to its ability to execute trades in milliseconds, it reduces latency and ensures real-time market responsiveness. This technology enables the user to take advantage of market opportunities much before manual traders can even react. Accuracy and profitability are greatly improved since the algorithms analyze historic data, technical indicators and market trends to make informed trading decisions. This data driven decision model reduces emotional bias that is present in manual trading. High-frequency transactions can also improve liquidity and market accessibility, thereby providing a level playing field for both institutional and retail traders. Identifying arbitrage opportunities, having 24/7 trading capabilities, inbuilt risk management controls that can mitigate impact of market fluctuations, cost efficiencies and lower transaction costs are phenomenal benefits that "Growing" offers.



This unique software product has been indigenously developed in India. Despite being a mid-sized company, BCL has demonstrated its ability to develop such a revolutionary product for the Indian market. A spokesman for the company says that the target customer segment for "Growing" would be large financial institutions like hedge funds, mutual funds, stockbrokers among others. There is a high level of excitement and anticipation from many market participants about the opportunities that "Growing" can present. The formal launch of the product is expected in September this year.

The adoption of technology in every sphere of life, including finance, must be encouraged and welcomed. At the same time, there are few investment protection groups who have voiced their concern about using such algorithm driven software for trading. Concerns have been raised that this can lead to market manipulation, increase market volatility, risk and compliance issues. The Securities Exchange Board of India (SEBI) is already working on developing requisite safeguards and frameworks to address these issues. They have formed a committee of experts to assess the impact of such technology.

I. Multiple Choice Questions

1. With reference to the company's contract with AIL, help Mr. Jayesh Shah determine how many performance obligations BCL have?

   (a) One

   (b) Two

   (c) Three

   (d) Four

2. With reference to the company's contract with BIL, help Mr. Jayesh Shah to determine how many performance obligations does BCL have?

   (a) One

   (b) Two

   (c) Three

   (d) Four

3. With reference to Annexure 2 detailing about the algorithmic trading software "Growing", what type of change is it bringing into the financial markets:

   (a) Low-end disruption

   (b) New-market disruption

   (c) Hyper-competition

   (d) Internet of things

4. Based on the features of the value proposition map, "Growing" has achieved which of the following:

   (a) Problem-solution fit

   (b) Product-market fit

   (c) Customer customization

   (d) Risk reduction

5. Should BCL the software developer and the potential users of the software like hedge funds, mutual funds and stockbrokers give credence to the concerns raised by investor protection group about potential issues that can arise from the use of "Growing":

   (a) No, both BCL and potential users of "Growing" are entities that have been established to maximize investor wealth and profitability. The concerns raised by the investor protection groups can be ignored since they are not immediate stakeholders in their business.

   (b) No, the adoption is technology to improve business processes is inevitable and hence they can ignore the concerns raised by investor protection groups.

   (c) Yes, but it is the sole responsibility of SEBI to assess the impact of product in the market and the society at large.

   (d) Yes, it is important for every business to consider the ethical and non-financial considerations of the impact of its products in the market and society at large.

6. Which pricing policy is **most likely** to be followed for "Growing"?

   (a) Premium Pricing

   (b) Skimming Pricing

   (c) Penetration Pricing

   (d) Target Pricing

II. Descriptive Questions

7. During assessment of tax return for A.Y. 2025-26 of BCL company, the Assessing Officer wants to make adjustments to reflect the Arm's Length Price for the company's transaction with DUL. He wants to use the cost plus method.

   (a) JUSTIFY the Assessing Officer's action of adjusting BCL's taxable income for A.Y. 2025-26 to reflect the Arm's Length Price for the company's transaction with DUL. COMPUTE the Arm's Length Price alongwith income to be adjusted under the cost plus method.

   (b) If BCL had billed DUL at ₹ 5,800 per hour, instead of ₹ 5,000 per hour for 4,000 hours of work done, would your conclusion be any different?

8. With reference to the provision of services to AEI, New York and CTI, Illinois and also the sub-contracting of work to RSI, New York, DISCUSS the implications of these transactions with respect to IGST Act for each of the scenarios.

ANSWERS TO THE CASE STUDY 18

I. Answers to the Multiple Choice Questions

1. (d) Four

Reason:

The correct answer is (d) BCL has Four performance obligations in the contract with AIL.

Mr. Jayesh Shah should assess the goods and services that BCL promised to the customer to determine which goods and services are distinct. It can be observed that the software is delivered before other goods and services and remains functional without updates and technical support. Thus, it can be concluded that AIL can benefit from each of the goods and services either on their own or together with the other goods and services that are readily available.

Mr. Jayesh Shah should consider the factors of Ind AS 115 to determine whether the promise made by BCL to transfer each good and service to AIL is separately identifiable from each of the other promises.

In particular, it can be observed that the installation service does not significantly modify or customize the software itself. As such the software and installation service are separated from the outputs promised by BCL instead of inputs used to produce a combined output.

On the basis of this assessment there are four performance obligations in the contract:

1. Software license
2. Installation service
3. Software updates
4. Technical support.

2. (c) Three

Reason:

The correct answer is (c) BCL has three performance obligations in its contract with BIL. Mr. Jayesh Shah should assesses the goods and services that BCL has promised to the customer to determine which goods and services are distinct. It can be observed that the terms of the contract result in a promise to provide a significant service of integrating the licensed software into the existing software system by performing a customized installation as specified in the contract. In other words, BCL is using the license and the customized installation service as inputs to produce a combined output (i.e. a functional and integrated software system) specified in the contract. In addition, the software is significantly modified and customized by the service. Although the customized installation service can be provided by other entities, it can be determined that within the context of the contract that BCL has with BIL, the promise to deliver the license is not separately identifiable from the customized installation service and therefore the criterion on the basis of the factors is not met. Thus, the software license and the customized installation service are not distinct.

It can be concluded that the software updates and technical support are distinct from other promises in the contract. This is because the customer can benefit from the updates and technical support either on their own or together with the other goods and services that are readily available and because the promise to transfer the software updates and the technical support to the customer are separately identifiable from each of the other promises.

On the basis of this assessment, there are three performance obligations in the contract that BCL has with BIL:

(a) customized installation service (that includes software license)

(b) software updates

(c) technical support.

3. (b) New-market disruption.

Reason:

The correct answer is (b) New-market disruption. “Growing” is a unique product that is a disruptive innovation as it offers greater value to market traders compared to the current trading platforms that support only manual trading. Stock trading is being made faster, cheaper with opportunities for earning higher profits for the users of this program. Being a unique product, it is a new-market disruption targeting large financial institutions like hedge funds, mutual funds and stockbrokers who have never before used such a software trading platform in their business. Therefore, this is a new-market disruption.

4. (a) Problem-solution fit.

Reason:

The correct answer is (a) Problem-solution fit. "Growing" the algorithmic trading platform aligns with the need of clients who wish to execute faster and more accurate trades that will yield higher profits. This innovation has led to an enthusiastic response from the target audience like hedge funds, mutual funds and stockbrokers. This shows that the product is capable of taking care of some of their pains. Once the market validates the capabilities of the product and the value proposition gets traction with actual customers, it will be a product-market fit. At present, customer customization and risk reduction are not the value proposition being offered.

5. (d) Yes, it is important for every business to consider the ethical and non-financial considerations of the impact of its products in the market and society at large.

Reason:

The correct answer is (d) Yes, it is important for every business to consider the ethical and non-financial considerations of the impact of its products in the market and society at large.

Not just the market regulator SEBI, but also the developers of software and its users need ethical and non-financial considerations while conducting its business. The effect of the trading should ensure fairness and transparency in its working; this would be an ethical consideration. Similarly, corporate social responsibility to ensure fair trading practices ensuring risk management and compliance is also a non-financial consideration. These factors can impact on the ability of both BCL and its users to remain profitable in the long run and maintain sustainable business.

6. (c) Penetration Pricing.

Reason:

The correct answer is (c) Penetration Pricing. Mrs. Jyoti Prakash points out that this product, while it is unique, there is a possibility of a similar product to be developed by BCL's competitors. Mr. Vijay Prakash's opinion that we need to capture market share at the earliest implies that "Growing" should be sold in large volumes. For this, the pricing should also be attractive. Hence, penetration pricing would most likely be the preferred strategy. Mr. Vijay also points out that BCL has the capability of increasing the price once the product is established in the market and demand picks up. Mr. Anand Maheshwari's suggestion of charging premium pricing may not be very helpful in generating demand in a competitive environment. If the sales are low, not only can the initial R&D cost not be recouped, but there is a possibility of losing the market share to a competitor in the due course of time.

II. Answers to the Descriptive Questions

7. (a) Two enterprises are deemed to be associated enterprises where one enterprise, directly or indirectly holds shares carrying not less than 26% of the voting power in the other enterprise.

In this case, DUL the company based in Australia holds 30% of the equity shares in BCL, an Indian company. Therefore, DUL and BCL are deemed to be associated enterprises. Since the transaction of developing software and providing related support service by BCL to DUL is an international transaction between associated enterprises, the provisions of transfer pricing would be attracted in this case. Therefore, the Assessing Officer is justified in adjusting BCL's taxable income to reflect the Arm's Length Price for the company's transaction with DUL.

Computation of Arm's Length Price as per Cost Plus Method:

Particulars	**%**	**%**
Gross Profit mark-up on cost in case of TIL (an unrelated party)		40%
Less: Adjustments for functional and other differences:		
- Value of technology support (DUL provides technology support, but TIL does not provide such support. Therefore, the value of technology support shall be adjusted) [15% of 40% of gross profit]	6%	
- Quantity discount to DUL (Quantity discount of allowed to DUL as it gives business in large volumes, but the same is not provided to TIL. Therefore, it shall be adjusted.)[10% of 40% of gross profit]	4%	
- Risk and cost associated with marketing (BCL has to bear all the risks and costs related to marketing function in case of TIL, while there is no such risk in case of services to DUL. Therefore, market risk and cost shall be adjusted) [20% of 40% of gross profit]	8%	18%
Add: Cost of credit to DUL (BCL has provided credit of 1 month to DUL but not to TIL, the unrelated party. Therefore, adjustment for the cost of such credit has to be carried out to arrive at the Arm's Length Price.) [5% of 40% being gross profit]		2%
Arm's length gross profit mark up to cost		**24%**
Cost incurred by BCL for executing DUL's work		1,85,00,000
Add: Adjusted gross profit (₹1,85,00,000 × 24%)		44,40,000
Arm's length billed value		**2,29,40,000**
Less: Actual Billed income from DUL (4000 hours × ₹5,000)		2,00,00,000
Total income of BCL will increase by		**29,40,000**

(b) The Arm's length billed value as calculated above is ₹2,29,40,000. Had BCL billed DUL at the rate of ₹5,800 per hour, the actual billed income from DUL would have been (4000 hours × ₹5,800 per hour) = ₹2,32,00,000. Here, while computing taxable income, if the substitution for the Arm's length price is made, it has the effect of reducing BCL's income chargeable to tax. In such cases, transfer pricing provisions would not be applicable.

8. For the contract with AEI:

BCL, the service provider, is based in Mysore, India while AEI, the recipient is based in New York. BCL is exporting its services to AEI. Due to some reasons, BCL sub-contracts 40% of its work to RSI, New York. The total contract value for services provided by BCL to AEI is US$500,000 for the year.

For the contract with AEI, BCL raises the invoice for the entire contract amount.

BCL will be the exporter of services for the entire value if the invoice for the entire amount is raised by BCL, India. The services provided by RSI, New York to AEI, New York shall be import of services by BCL, India and it would be liable to pay IGST on the same under reverse charge and also be eligible to take ITC of the IGST so paid.

For the contract with CTI:

CTI pays RSI directly for the services it provides, that is for 30% of the work it had contracted with BCL. The balance of 70% is paid to BCL.

Further, if the provisions contained in section 2(6) of the IGST Act are not fulfilled with respect to realization of convertible foreign exchange, that is only 70% of the consideration is received in India, pertaining to the part of service provided by BCL and the remaining amount is paid by CTI directly to RSI; even in such a scenario, 100% of the total contract value shall be taken as consideration for the export of services by BCL, India provided

(I) IGST has been paid on the import of service on the part of the services provided by RSI, New York directly to CTI and

(II) RBI (by general instruction or by specific approval) has allowed a part of the consideration for such exports to be retained outside India.

In other words, in such cases, the export benefit will be available for the total realization of convertible foreign exchange by BCL, India and RSI, New York. Thus, the total value of services as agreed to in the contract between BCL and CTI, Illinois, USA will be considered as export of services if all the conditions laid down in section 2(6) read with section 13(2) are satisfied.



Concept Insight

As per section 2(6), "export of services" means the supply of any service when,-

(i) the supplier of service is located in India;

(ii) the recipient of service is located outside India;

(iii) the place of supply of service is outside India;

(iv) the payment for such service has been received by the supplier of service in convertible foreign exchange [or in Indian rupees wherever permitted by the Reserve Bank of India]; and

(v) the supplier of service and the recipient of service are not merely establishments of a distinct person in accordance with *Explanation* 1 in section 8.

Section 13(2) states, Place of supply of services where location of supplier or location of recipient is outside India, In such a case place of supply of services except the services specified in sub-sections (3) to (13) shall be the location of the recipient of services, Provided that where the location of the recipient of services is not available in the ordinary course of business, the place of supply shall be the location of the supplier of services.

Further Circular No. 78/52/2018 GST dated 31.12.2018 has clarified the implications of sub-contracting of services by an exporter of services to another person located outside India.

Where an exporter of services located in India is supplying certain services to a recipient located outside India, either wholly or partly through any other supplier of services located outside India, the following two supplies are taking place:-

(i) Supply of services from the exporter of services located in India to the recipient of services located outside India for the full contract value;

(ii) Import of services by the exporter of services located in India from the supplier of services located outside India with respect to the outsourced portion of the contract.

Thus, the total value of services as agreed to in the contract between the exporter of services located in India and the recipient of services located outside India will be considered as export of services if all the conditions laid down in section 2(6) of the Integrated Goods and Services Tax Act, 2017 (IGST Act for short) read with section 13(2) of the IGST Act are satisfied.

It is clarified that the supplier of services located in India would be liable to pay integrated tax on reverse charge basis on the import of services on that portion of services which has been provided by the supplier located outside India to the recipient of services located outside India. Furthermore, the said supplier of services located in India would be eligible for taking input tax credit of the integrated tax so paid.

Thus, even if the full consideration for the services as per the contract value is not received in convertible foreign exchange in India due to the fact that the recipient of services located outside India has directly paid to the supplier of services located outside India (for the outsourced part of the services), that portion of the consideration shall also be treated as receipt of consideration for export of services in terms of section 2(6)(iv) of the IGST Act, provided the:

(i) Integrated tax has been paid by the supplier located in India for import of services on that portion of the services which has been directly provided by the supplier located outside India to the recipient of services located outside India; and

(ii) RBI by general instruction or by specific approval has allowed that a part of the consideration for such exports can be retained outside India.

CASE STUDY 19

Green Energy Ltd.

Green Energy Ltd. (GEL) based in Chennai is well established player in manufacturing and export of power storage equipment. GEL was incorporated in August, 2011 with technology driven business model in mechanical engineering founded by energetic entrepreneurs by name Vijay and Rishi. Vijay is a management graduate from leading management institute in India and Rishi who is slightly older, is a person with engineering background and holding MBA qualification from an American university. They were childhood friends and they thought that their educational background would have synergetic effect to success and glory in the long run. Considering the thrust of the Government of India in green energy to make our country power surplus and reduce environmental damage happening through traditional coal based power generation method, the duo decided to do backend support as their contribution to nation building by engaging in the business of manufacturing of solar panels and solar modules, for storing solar power.

Product of GEL would provide enormous comfort and support to companies moving to green energy to have reasonable power cost with efficient long-term operations and survival. However, the trickle-down effect of the venture is in nascent stage and the business is poised for making giant strides in near future. The time period between the purchase of raw materials and completion of final product to make the buyers ready for power storage would take 10 months for GEL. Customers purchased them immediately once they were ready for installation but the payment was made with a credit period of 6 months. The company took a long-term loan from ABC Ltd. for managing capital expenditure pertaining to new project. However, the installments due in the financial year 2024-2025 could not be paid on time and as a consequence the loan became repayable on demand on 31st day of March, 2025. GEL negotiated in June, 2025 with the lender ABC Ltd for not demanding the entire payment of loan as a consequence of its breach. The lending institution appreciated the attitude and aptitude of entrepreneurs and wanted their journey to blossom in to a great success story. It was decided between the borrower and the lender before approval of audited financial statements of GEL, such that the lender ABC Ltd. will not demand repayment of loan in spite of the breach of repayment terms by GEL.

The duo thought over the matter of having some financial crunch and considering many elite international business houses prefer to support such new angel units decided to raise funds through External Commercial borrowing (INR denominated) by issuing Non-Convertible Debentures with maturity period of 7 years. The foreign investors who will be subscribing to the said debentures requested for interim financial report (to be prepared as per IND AS). GEL instructed GM Finance to prepare the same and provide a copy of the same to auditors for overall review. On reviewing the same, one of the audit team members, Robin, observed the

following and is of the view that the treatment/disclosure done for all four issues mentioned below in interim financial report is not as per guidelines prescribed under IND AS :

- one item of extraordinary nature has not been shown (Issue I)
- reversal of impairment loss recognized in a previous interim period in respect of goodwill (Issue II)
- disclosure of only basic earnings per share has been made (Issue III)
- Insignificant changes in contingent ·liabilities has not been disclosed (Issue IV)

GEL submitted the same interim financial report to investors and went ahead with ECB issue.

Proceeds from issue (INR 4 Crores) will be used for repayment of outstanding balance of Loan of ABC Ltd. (INR 2.50 Crores and working capital purposes INR 1.50 Crores). GEL however did not hedge the exposure of ECBs (principal as well as the coupon) and used the exchange rate prevailing on the date of settlement (01.06.2025) for conversion to rupee as against the exchange rate on the date of agreement (20.05.2025).

GEL is working continuously on improving the production efficiency for a particular product "SAT". SAT was an innovative product introduced for the first time by GEL in the market. Market accepted the product with both hands and company received regular orders for the same. However, existence of competitive products recently has forced GEL not to increase the price for some time. In order to maintain good margin, GEL adopted change in technology. For labour, the cost structure underwent notable changes due to the technological improvements implemented by GEL. Under the original standards (ex-ante), the production of 1,100 units of the product "SAT" was expected to require 1 hour of labour per unit at a rate of ₹ 10 per hour. This resulted in a standard labour cost of ₹ 11,000. However, following the adoption of new technology—introduced after the preparation of the original budget—the labour efficiency improved significantly. The revised standards (ex-post) reflected a 25% enhancement in efficiency, reducing the standard labour requirement to 0.80 hours per unit while maintaining the same labour rate of ₹ 10 per hour. Accordingly, the revised standard labour cost was reduced to ₹ 8,800. In contrast, the actual performance for the period showed that GEL utilized 1,200 hours of labour at a lower actual rate of ₹ 8.50 per hour, leading to an actual labour cost of ₹ 10,200. This detailed comparison highlights the impact of efficiency improvements and wage adjustments on overall labour cost performance for the specific period.

Bottom of Form

While implementing new technology, GEL availed the technical services of Mark Ltd., UK on 20th December, 2024 who raised the invoice for GBP 1,00,000 on 28th December, 2024. GEL made payment on 22nd January, 2025.

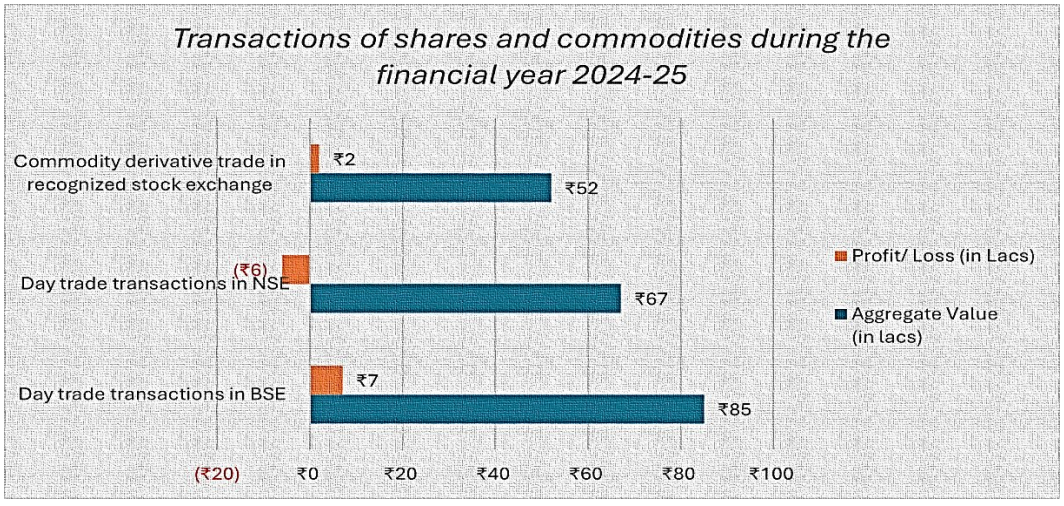
Once the efficiency was established by costing department of GEL, company started filing its quotations with various government departments for supply of 'SAT' at a price par with its

competitors. One of the friends of Rishi, Raman, who has been working with Kerala State Electricity Board (KSEB) for last few years met him in the market and invited him to his office. To his surprise, Raman was heading the purchase department and asked him to submit the quotation for supply of 'SAT' with KSEB. After getting the required approvals, officials of KSEB issued a purchase order and entered into a contract with GEL for supply of twenty lakh units of product with total supply value of ₹ 20 Crores. GEL supplied the product as per terms and conditions of the purchase order and that too· before the deadline. KSEB withheld ₹ 2 Crores which is payable after 12 months and paid the balance after deducting TDS under the Income-tax Act and under GST. GEL earned net profit of ₹ 2 Crores from this supply.

Vijay always had passion in stock market operations. He thought that close study of stock market provided enough and more ideas to improve his overall business acumen and appreciate macro-economic variables. Further the rising level of stock market made him like fear of missing out (FOMO) on making quick money. He could not curb his FOMO and did the transactions of shares and commodities during the financial year 2024-25 in recognized stock exchange. For transactions refer Annexure.

After getting some experience of stock and commodity market, Vijay formed a view that professionals only could handle the investments and there is no point in burning the hard earned money through unprofessional techniques. Accordingly, he discussed the same with Rishi and proposed that a portfolio may be created of the profit earned by GEL from supplies made to KSEB and CA. Kiran, who is an expert in handling such portfolios, should be appointed for managing it. The terms of his remuneration will be that CA. Kiran is eligible for 0.20% of portfolio as fee. Also, he is eligible for a fee incentive @ 1% which will be linked to gross return in excess of the portfolio maximum value since its inception. The Maximum value of the portfolio reached ₹ 2.20 Crores in last 6 months.

Annexure



I. Multiple Choice Questions

1. How income of Vijay from day trade in shares and commodity derivatives trade is liable to tax under the Income-tax Act, 1961?

   (a) Regular business income (non-speculation income) ₹ 3,00,000

   (b) Business income (non-speculation) from commodities derivative ₹ 2,00,000 and speculation business income from day trade in share ₹ 1,00,000

   (c) ₹ 3,00,000 being speculation income consisting of both day trade in shares and commodities derivative trade

   (d) Non-speculation business income from day trade in shares ₹ 1,00,000 and business income being speculation income from commodities derivative ₹ 2,00,000

2. Which of the following statements is/are correct in relation to ECBs raised by GEL?

   I. Use of ECB proceeds for repayment of Loan of ABC Ltd. is not permitted.

   II. Use of ECBs proceeds for working capital is not permitted.

   III. GEL has not followed the guidelines by not hedging the ECB exposure.

   IV. Exchange rate as on 20.05.2024 should have been used for conversion.

   Options

   (a) Only Statement I

   (b) Statement I and III

   (c) Only Statement II

   (d) Statement I, II and IV

3. Whether the issues raised by Robin on interim financials submitted were valid and required changes in such interim report?

   (a) Only Issue I and IV have been validly raised and required changes in interim financial report

   (b) All the issues raised were valid and the effect of all four issues required changes in interim financial report

   (c) Only Issue II and Issue III have been validly raised and required changes in interim financial report

   (d) Only Issue I have been validly raised and required changes in interim financial report

4. If returns on the portfolio for the specified period is 20%, how much fee is payable by GEL to CA. Kiran?

   (a) ₹ 60,000

   (b) ₹ 2,04,000

   (c) ₹ 68,000

   (d) ₹ 86,000

5. How much of the amount would have been deducted by KSEB as TDS under Income-tax Act and under the applicable GST law?

   (a) ₹ 36,00,000 each under the Income tax Act, 1961 and under the IGST Act.

   (b) ₹ 1,95,000 under the Income-tax Act, 1961 and ₹ 36,00,000 under the IGST Act.

   (c) ₹ 40,00,000 each under the Income tax Act, 1961 and under the IGST Act.

   (d) ₹ 36,00,000 under the Income-tax Act, 1961 and, ₹ 19,50,000 under the IGST Act.

II. Descriptive Questions

6. Will you classify the inventory and trade receivables of GEL as current assets?

   Would your answer be different if the production time is 13 months and the credit period allowed to the customers is 15 months?

   How would you classify the liability due to ABC Ltd. as on 31st March, 2025 in spite of the default in repayment of installment of loan?

7. Do you think that transaction between GEL and Mark Ltd. attracts any GST under Goods and Service Tax Act? If Yes, then who has to deposit GST and in which month? If no, state the relevant legal provision for the same.

8. COMMENT the impact of the technological change on labour efficiency for product SAT. How has the change influenced the standard and actual labour performance?

ANSWERS TO THE CASE STUDY 19

I. Answers to the Multiple Choice Questions

1. (b) Business income (non-speculation) from commodities derivative ₹ 2,00,000 and speculation business income from day trade in share ₹ 1,00,000

Reason:

Business income (non-speculation) from commodities derivatives in MCX ₹ 2,00,000 and speculation business income from day trade in shares ₹ 1,00,000.

2. (c) Only Statement II

Reason:

Since maturity period is 7 years.

3. (c) Only Issue II and Issue III have been validly raised and required changes in interim financial report

4. (a) ₹ 60,000

Reason:

The total fee amounts to ₹ 60,000, which includes both fixed and incentive components. The fixed fee is calculated at 0.2% of ₹ 2 crores, amounting to ₹ 40,000. The fund value, a 20% return on ₹ 2 crores, is ₹ 2.40 crores. The excess value, over the benchmark of ₹ 2.20 crores, is ₹ 0.20 crores. An incentive fee of 1% on this excess amount results in ₹ 20,000. Therefore, the total fee payable, combining both fixed and incentive components, is ₹ 60,000.

5. (b) ₹ 1,95,000 under the Income-tax Act, 1961 and ₹ 36,00,000 under the IGST Act.

Reason:

As far as the answer to GST law is concerned, TDS is required to be deducted under GST law is ₹ 36 lakhs under the IGST Act. In respect of Income tax law, KSEB entered into a contract with GEL for the supply of 20 lakhs unit of product "SAT" with total value of ₹ 20 crores. There should be a work contract to deduct tax u/s 194C. However, in this case, since there is no information regarding usage of the raw material provided by KSEB for manufacturing the product, this contract is a contract for 'sale'. Hence, tax u/s 194C would not be deducted. For purchase of goods, section 194Q cast a responsibility on any person, being a buyer who is responsible for paying any sum to any resident-seller for purchase of goods of the value or aggregate of such value exceeding ₹ 50 lakhs in a previous year, to deduct tax at source @0.1% of such sum exceeding ₹ 50 lakhs. In this case, KSEB is required to deduct tax at source u/s 194Q @0.1% on ₹ 19,50,00,000, being the sum exceeding ₹ 50 lakhs. Tax to be deducted is ₹ 1,95,000.

II. Answers to the Descriptive Questions

6. (i) Inventory and debtors need to be classified in accordance with the requirement of Ind AS 1, which provides that an asset shall be classified as current if an entity expects to realise the same or intends to sell or consume it in its normal operating

cycle. In this case, time lag between the **purchase of inventory and its realisation into cash is 16 months** [10 months + 6 months]. Both inventory and the debtors would be **classified as current if the entity expects to realise these assets in its normal operating cycle**.

(ii) **No, the answer will be the same** as the classification of debtors and inventory depends on the expectation of the entity to realise the same in the normal operating cycle. In this case, **time lag between the purchase of inventory and its realisation into cash is 28 months**

[13 months + 15 months]. Both inventory and debtors would be classified as current if the entity expects to realise these assets in the normal operating cycle.

(iii) As per para 74 of Ind AS 1, where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, **if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach**.

In the given case, ABC Ltd. (the lender) agreed not to demand payment after the reporting date but before the financial statements were approved for issuance. Hence, **the liability should be classified as non-current** in the financial statement as at 31st March, 2025.

7. In the given case, the since service provider – Mark Ltd. is outside India, and the service recipient – GEL is in India and given service does not get covered under any of the specific provisions of section 13, place of supply will be governed by the default provision, i.e**. location of recipient of service, which in this case is Chennai (India)**.

Further, the given case is import of service as the supplier of service is located outside India, the recipient of service is located in India and the place of supply of service is in India.

Since the services are imported for a consideration from an unrelated person, the **same tantamounts to supply and are liable to GST.**

As per *Notification No. 10/2017 IT(R) dated 28.06.2017*, if a service is supplied by a person located in a non-taxable territory to a person located in the taxable territory, other than non-taxable online recipient**, the tax is payable by the recipient of service under reverse charge.**

Therefore, **GEL Ltd. will pay GST under reverse charge** on ₤ 1,00,000 paid by it to Mark Limited in UK.

The time of supply of services taxable under reverse charge is the earlier of the following:

- Date of payment, or
- Date immediately following 60 days since issue of invoice by the supplier.

Thus, time of supply is **22nd January, 2025.**

Since tax liability arises in January, 2025, payment is to made in the month of **February, 2025.**

8. Comment

In this case, the separation of the labour cost variance into operational and planning components shows a *large problem in the area of labour efficiency* that might otherwise have been indicated. The operational variances are based on the revised (ex post) standard, and this gives a more meaningful performance benchmark than the original (ex-ante) standard.

Workings

(a) Traditional Variances

Efficiency Variance	=	(1,100 hrs. – 1,200 hrs.) × ₹ 10= ₹ 1,000 (A)
Rate Variance	=	(₹ 10 – ₹ 8.50) × 1,200 hrs. = ₹ 1,800 (F)
Total Variance	=	₹ 1,000 (A) + ₹ 1,800 (F) = ₹ 800 (F)

(b) Planning & Operational Variances

Operational Variances

Efficiency Variance	=	(880 hrs. – 1,200 hrs.) × ₹ 10.00 = ₹ 3,200 (A)
Rate Variance	=	(₹ 10.00 – ₹ 8.50) × 1,200 hrs. = ₹ 1,800 (F)
Total Variance	=	₹ 3,200 (A) + ₹ 1,800 (F) = ₹ 1,400 (A)

Planning Variances

Efficiency Variance	=	(1,100 hrs. – 880 hrs.) × ₹ 10 = ₹ 2,200 (F)
Rate Variance	=	(₹ 10 – ₹ 10) × 880 hrs.= ₹ 0
Total Variance	=	₹ 2,200 (F) + ₹ 0 = ₹ 2,200 (F)

CASE STUDY 20

Diamond Limited

Diamond Limited, a listed company is a leading player in India's organised jewellery retail sector, known for its diversified business in the trade, manufacture, and sale of diamonds, precious stones, diamond-studded jewellery, as well as articles. The Company offers a broad range of jewellery items, with a particular focus on certified diamond jewellery. Their offerings cater to various market segments, including wedding jewellery, party wear, and daily wear, providing a comprehensive selection for customers across different occasions. This focus on certified diamonds is central to the Company's value proposition, ensuring quality and trust for its customers.

Business Structure and Strategy

Diamond Limited, as the holding company, oversees a diverse portfolio of subsidiaries, joint ventures, and associates, leveraging its presence across various regions to gain a competitive edge. The Company follows a decentralized management structure, delegating daily operational and decision-making responsibilities to designated personnel within its divisions or branches. This approach promotes autonomy and accountability while ensuring that each division's objectives align with the Company's overarching strategic goals. By operating as responsibility centres, managers are held accountable for the performance, results, and profitability of their respective divisions. This structure enables Diamond Limited to manage its diverse operations efficiently while staying aligned with its broader business vision.

As part of its strategic expansion and supply chain optimization, Diamond Limited has undertaken various acquisitions. A few years ago, the company acquired Zircon Limited, a company specialized in the retail segment, through a forward integration strategy. This acquisition allowed Diamond Limited to leverage Zircon Limited's specialized retail expertise, strengthening the brand's presence in the final consumer market. By integrating Zircon's capabilities, Diamond Limited enhanced its ability to effectively market and sell its jewellery products, ensuring a seamless flow from manufacturing to retail.

Global Expansion and Product Alignment

Diamond Limited strengthened its global footprint in 2023 by acquiring Retail Gems S.p.A., a renowned Italy-based company. The Company is currently evaluating whether Retail Gems should procure Gem-Indo, diamond-studded jewellery item manufactured by Diamond Limited's Ahmedabad Division. The Ahmedabad Division has an annual production capacity of 1,20,000 units of Gem-Indo, while Retail Gems, with its smaller manufacturing capacity, can produce a similar item Gem-Milano, up to 50,000 units annually. In the Italian market, the local purchase price for an item similar to Gem-Milano is €1,600 (equivalent to ₹ 1,44,000) per unit. However,

Diamond Limited is exploring the feasibility of transferring its item (i.e., product), suitably adapted to meet Italian cultural preferences, from the Ahmedabad Division to Retail Gems. The cost to the Italy division for such a transfer would be €1,700 (equivalent to ₹ 1,53,000) per unit. This price includes all associated costs, such as duties, taxes, and handling charges. For external sales in India, Gem-Indo is priced at ₹ 1,08,000 per unit. When sold to Retail Gems in its suitably modified version, the transaction is carried out at an arm's length price of €1,400 per unit. A total of 50,000 units of Gem-Milano are being transferred to Retail Gems, representing a significant portion of the Ahmedabad Division's annual production capacity. The current sales volume of the Ahmedabad Division is 1,00,000 units. The per-unit variable cost for Gem-Indo in India is ₹ 80,000 for external sales. However, for the transfer of Gem-Indo to Retail Gems, the variable cost per unit is ₹ 74,000, reflecting potential efficiencies or savings from the internal transfer arrangement. Additionally, an adoption cost of ₹ 24,000 per unit is incurred to modify the item for Italian cultural preferences, primarily due to minor design changes. The tax rates applicable to both entities differ and significantly influence the profitability of the transaction. The Ahmedabad Division is subject to a tax rate of 30%, while Retail Gems in Italy operates under a higher tax rate of 40%. These tax rate differences could impact the financial outcomes for both entities, particularly with respect to profitability and tax liabilities. It is assumed that the exchange rate will remain consistent in the near short term.

Sustainability and Life Cycle Costing

Aligned with its commitment to sustainability, Diamond Limited integrates life cycle costing into its product strategies. This methodology accounts for all costs throughout an item's life cycle, including investment, operation, maintenance, and disposal. For its flagship item "Aurora," the Company employs a comprehensive life cycle costing approach, covering all costs incurred throughout the item's lifecycle. These costs include ₹ 460 lakh for materials, ₹ 100 lakh for research, ₹ 50 lakh for distribution, ₹ 300 lakh for development, ₹ 380 lakh for labour, ₹ 500 lakh for overheads, ₹ 30 lakh for disposal, ₹ 500 lakh for training, ₹ 170 lakh for maintenance, ₹ 85 lakh for warranty claims, ₹ 200 lakh for design and testing, and ₹ 70 lakh for environmental cleanup. This holistic approach underscores the company's commitment to sustainability, innovation, and operational excellence.

Audit and Financial Oversight

Amit and Amod LLP, Chartered Accountants, have been appointed as the statutory auditors of Diamond Limited for the financial year 2024-25. Amit and Amod LLP recognize that related party transactions, common in business operations, pose potential risks of material misstatement or fraud in financial reporting. To address these risks, the auditor sent an email to Ms. Ratna Mullick, the CFO of Diamond Limited, requesting a comprehensive list of related parties and the Company's related party policy.

The following response was received via email:

Ratna Mullick/ Chief Finance Officer / Diamond Limited

From:	"Ratna Mullick" < ratna@dltd.com >
Sent:	15th April 2025 10:00
To:	"partner-1" < amit@aallp.in >
Cc:	"Manik Paul" <paul@dltd.com>
Subject:	Related Party Disclosure
Attachments:	Group Chart - Ind AS 24.pdf; Related party policy.pdf

CA. Amit Gupta,

Trust you are doing well!

We have received your email relating to related parties and related party transactions of our Company.

Diamond Limited, in ordinary course of business, enters into transactions with a Related Party or parties. These related parties have been identified as per applicable laws/ accounting requirements. Please refer to the attachment for the Group Chart as per the requirements of Ind AS 24.

The Company has also formulated a policy on Related Party Transactions which regulates all transactions between the Company and its Related Parties. Relevant excerpts from the related party policy of the Company are enclosed.

We hope that the above email provides the necessary information. You can also connect with Mr. Manik Paul, Senior Finance Officer if you have any further queries.

Regards,

Ratna Mullick

The following day, the auditors met with Mr. Manik Paul and requested a comprehensive list of related party transactions undertaken during the current and previous financial years. Mr. Paul promptly provided the requested details, which are included in the attached Annexure. Subsequently, the auditors designed and executed procedures to gather sufficient and appropriate audit evidence to verify that the related party relationships and transactions were properly identified, accounted for, and disclosed in the entity's financial statements, in compliance with the requirements of Ind AS 24. Upon completing these procedures, the auditors sent an email to Mr. Manik Paul and Ms. Ratna Mullick.

CA. Amit Gupta/ Partner / Amit and Amod LLP

From:	"partner-1" < amit@aallp.in >
Sent:	20th April 2025 10:00
To:	"Ratna Mullick" < ratna@dltd.com >
Cc:	"Manik Paul" < paul@dltd.com>; "Team 1" <audit_1@aallp.in>
Subject:	Preliminary Audit Observations: Related Party
Date:	20th April 2025

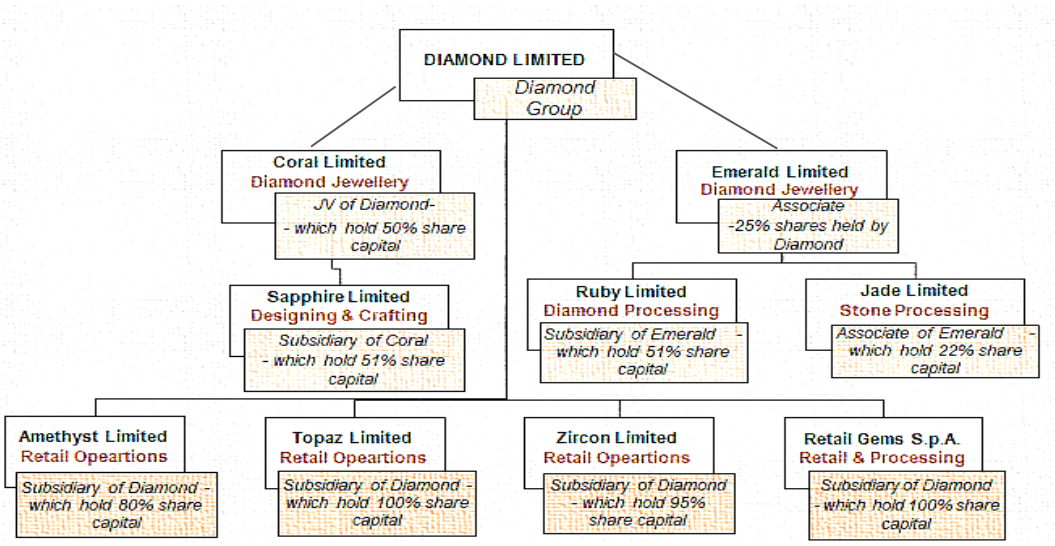
Ms. Ratna Mullick and Team,

We appreciate the support provided by your team in our audit of financial statements. During our audit, we have observed the following matters:

Sapphire Limited not identified as a related party	From the Group Chart shared, we understand that Sapphire Limited is a subsidiary of Coral Limited (i.e. joint venture). Under Ind AS 24 a subsidiary of a joint venture is a related party. Request you to please consider the requirements of Ind AS 24 - especially paragraph 12 of Ind AS 24.
Audit Committee approval not obtained	The above analogy should be extended to Jade Limited – a step-down associate of Emerald Limited (company's associate). The company though its associate (Emerald Limited) would be able to exercise significant influence on the step-down associate - Jade Limited, as well. During the year, the Company has purchased stone items worth ` 595 lakhs from Jade Limited. These related party transactions should have been entered into with prior approval of the Audit Committee as provided under Regulation 23 of SEBI Listing Regulations. The approval would be required despite that Jade Limited is not material entity for Emerald Limited.
Non-monetary benefit to KMP	Ms. Ratna Mullick, key managerial personnel, uses company owned car and should be disclosed as a related party transaction in the financial statements. Relevant details are as follows: Purchase price of the car - ₹ 380 lakhs Value of perquisite under the Income Tax Act, 1961 - ₹ 35 lakhs Depreciation recognised in the financial statements i.e. ₹ 76 lakhs
Sales not at market rate	During the year the company has sold diamond-studded jewellery items amounting to ` 20 lakhs to Zircon Limited – a subsidiary. During the year sales of the same quantity of items made to unrelated party amount to ` 25 lakhs. It appears that the related party transaction was not at arm's length. Further, it is important to note that Zircon Limited is not eligible for a full input tax credit (ITC).

We solicit your responses to the above at the earliest, so that we can proceed further.
Regards,
Amit Gupta

Group Chart - Ind AS 24.pdf



There has been no change in the shareholding structure during the current and previous financial years.

Related party policy.pdf

 Identification of Related Parties and Related Party Transactions	Every promoter, director and key managerial personnel (KMP) of the Company and its subsidiaries/ associate/ Joint venture shall: • at the time of appointment; • periodically – as required by the company or applicable law • whenever there is any change in the information already submitted, provide requisite information about his / her relatives and all firms, companies, body corporates, or other association of individuals, in which such promoter, director or KMP is interested, whether directly or indirectly, to the company or the subsidiary/ associate/ Joint venture (as the case may be). Every such promoter, director and KMP shall also provide any additional information about the transaction, that the Board/ Audit Committee may reasonably request.
 Review and approval of Related Party Transactions	All the transactions which are identified as Related Party Transactions and subsequent modifications thereof, shall be approved by the Audit Committee in the manner specified under the applicable laws and regulations. The Audit Committee shall consider all relevant factors while deliberating the Related Party Transactions for its approval. Any member of the Audit Committee who has a potential interest in any Related Party Transaction shall recuse himself and abstain from discussion and voting on the approval of the Related Party transaction. A Related Party Transaction which is (i) not in the ordinary course of business, or (ii) not at arm's length basis, would require approval of the Board or of shareholders. In case any Related Party Transactions are referred by the Company to the Board for its approval due to the transaction being (i) not in the ordinary course of business, or (ii) not at an arm's length basis, the Board will inter alia consider factors such as, nature of the transaction, material terms, the manner of determining the pricing and the business rationale for entering into such transaction and any other information the Board may deem important/ relevant for taking decision on a proposed transaction. On such consideration, the Board may approve the transaction or may require such modifications to transaction terms as it deems appropriate under the circumstances. Any member of the Board who has any interest in any Related Party Transaction will recuse himself and abstain from discussion and voting on the approval of the Related Party Transaction. If a Related Party Transaction is (i) a material transaction as per the Listing Regulations, or (ii) not in the ordinary course of business, or not at arm's length basis and exceeds certain thresholds prescribed under the Companies Act, then such Related Party Transaction and any subsequent Material modification thereto, shall require shareholders' approval by a resolution. In such case, any member of the Company who is a Related Party, irrespective of being related to the said transaction or not, shall not vote on resolution passed for approving such Related Party Transaction.

Annexure: Details Provided by Mr. Manik Paul

	31 March 2025 (₹ lakhs)	31 March 2024 (₹ lakhs)
Sales of diamond-studded jewellery items to Topaz Limited – Subsidiary	17,076	14,340
Sales of diamond-studded jewellery items to Zircon Limited- Subsidiary	20	25
Sales of diamond-studded jewellery items to Amethyst Limited- Subsidiary	36	15
Purchase of diamond-studded jewellery items from Emerald Limited – Associate	11,990 – including purchase of equipment for ₹6,960	Nil
Purchase of stone items from Jade Limited – Associate of Emerald Limited which is an associate of the company	595	Nil
Purchase of diamond items from Ruby Limited – Subsidiary of Emerald Limited which is an associate of the company	80	75
Purchase of diamond-studded jewellery items from Coral Limited – Joint venture	1,416	Nil
Sale of diamond-studded jewellery items to Sapphire Limited – Subsidiary of the Joint Venture (i.e. Coral Limited)	186	230

I. Multiple Choice Questions

1. Is Sapphire Limited a related party of Diamond Limited as per Ind AS 24?

   (a) Yes, under Ind AS 24, a subsidiary (i.e., Sapphire Limited) of a joint venture (i.e., Coral Limited) is a related party of Diamond Limited.

   (b) Yes, under Ind AS 24, all step-down (second level) entities are related parties.

   (c) Yes, under Ind AS 24, all step-down (second level) subsidiaries (i.e., Sapphire Limited) are related parties.

   (d) Yes, under Ind AS 24, Diamond Limited controls the subsidiary (i.e., Sapphire Limited) of a joint venture (i.e., Coral Limited).

2. At what amount should Diamond Limited disclose the non-monetary benefit (i.e. company owned car) provided to the key managerial personnel in its related party disclosures?

   (a) Purchase price of the car - ₹ 380 lakhs

(b) Value of perquisite under the Income Tax Act, 1961 – ₹ 35 lakhs

(c) Nil since on the car is used primarily for the performance of official duties

(d) Depreciation recognised in the financial statements i.e. ₹ 76 lakhs

3. Diamond Limited needs to determine the value of supply of diamond-studded jewellery to compute GST on its sale to Zircon Limited for the financial year ending March 31, 2025 based on the given data:

i. Invoice Value – ₹ 20 lakhs

ii. Value of supply of goods of like kind and quality – ₹ 21 lakhs

iii. Open Market Value – ₹ 25 lakhs

iv. 90% of the Price Charged for supply of goods of like kind and quality by Zircon Ltd. to its unrelated customers – ₹ 20.7 lakhs

v. 110% of cost of supplies – ₹ 20.9 lakhs

The value of supply of diamond-studded jewellery is _____, at the option of the supplier - Diamond Limited.

(a) i or ii

(b) ii or iii

(c) iii or iv

(d) iv or v

4. The Company is expected to incur certain cost throughout its life cycle. Choose the correct statement?

(a) Design stage (₹ 600 lakhs); Manufacturing stage (₹ 2,000 lakhs), Operations stage (₹ 100 lakhs) and End of Life stage (₹ 245 lakhs)

(b) Design stage (₹ 600 lakhs); Manufacturing stage (₹ 2,010 lakhs), Operations stage (₹ 135 lakhs) and End of Life stage (₹ 100 lakhs)

(c) Design stage (₹ 580 lakhs); Manufacturing stage (₹ 1,880 lakhs), Operations stage (₹ 15 lakhs) and End of Life stage (₹ 470 lakhs)

(d) Design stage (₹ 80 lakhs); Manufacturing stage (₹ 110 lakhs), Operations stage (₹ 1,500 lakhs) and End of Life stage (₹ 1,255 lakhs)

5. Which of the following is most likely to be true about Diamond Limited's management structure and strategy?

(a) Reduces top management's operational burden while aligning divisional goals with strategic objectives.

(b) The decentralized management structure promotes autonomy and accountability, enabling divisional managers to align their decisions with the Company's strategic goals.

(c) Responsibility centres operate independently of the company's strategic vision, with managers focusing solely on achieving short-term profitability targets.

(d) By delegating operational responsibilities, Diamond Limited most likely achieves a balance between regional adaptability and the alignment of divisional objectives with its overarching strategic goals.

II. Descriptive Questions

6. PREPARE the disclosure of related party transactions in compliance with the requirements of Ind AS 24.

7. PROVIDE a brief summary of audit procedures to mitigate the risk of unidentified or undisclosed related parties?

8. Do transactions with Jade Limited require the approval of the Audit Committee? ANALYSE.

9. Would Diamond Limited benefit if Italy branch purchases from India branch? COMMENT.

ANSWERS TO THE CASE STUDY 20

I. Answers to the Multiple Choice Questions

1. (a) Yes, under Ind AS 24, a subsidiary (i.e., Sapphire Limited) of a joint venture (i.e., Coral Limited) is a related party.

Reason:

As per para 9(b)(ii) of Ind AS 24, an entity is related to a reporting entity if one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

Furthermore, as per paragraph 12 of Ind AS 24, in the definition of a related party, a joint venture includes its subsidiaries. Therefore, the subsidiary of a joint venture and the investor that has joint control over such a joint venture are considered related parties under Ind AS 24.

Accordingly, Sapphire Limited (being a subsidiary of the joint venture - Coral Limited) and Diamond Limited (as an investor in Coral Limited) are related parties under Ind AS 24.

2. (d) Depreciation recognised in the financial statements i.e. ₹ 76 lakhs

Reason:

Para 9 of Ind AS 19 specifies employee benefits include non-monetary benefits. The cost of providing non-monetary benefits (including free or subsidised goods or services) should be recognised according to the same principles as benefits payable in cash.

Further, Para 9 of Ind AS 24 requires disclosure of compensation paid to key managerial personnel including non-monetary benefits. Such disclosure should include an estimation of the benefit to the key managerial personnel. This might be calculated, for example, by reference to the depreciation charge – i.e. ₹ 76 lakhs.

3. (c) iii or iv

Reason:

According to **Section 15(1) of CGST Act**, the transaction value should be the price actually paid or payable if the supply is between *unrelated parties* and the *price is the sole consideration*. Under section 15(4) where the value of the supply of goods or services or both cannot be determined under sub-section (1), the same shall be determined in such manner as may be prescribed.

Rule 28(1) outlines the valuation of transactions (goods or services or both supplied) between related persons or distinct persons as specified under Section 25(4) and (5). The value should be determined as follows:

(a) The *Open Market Value* of such supply.

(b) If the open market value is unavailable, *the value of goods or services of like kind and quality* should be considered.

(c) If neither of the above can be determined, valuation should be done as per Rule 30 (e.g., 110% of cost of supply) or Rule 31 (e.g., by other reasonable means).

However, as per the **first proviso to Rule 28**, if the goods are intended for further *supply as such* by the recipient, the supplier has the option to value them at *90% of the price charged for the supply of goods of like kind and quality by the recipient to his customer, provided the customer is not a related person*.

Since Zircon Limited primarily operates in retail, it is evident from the divisional structure that the jewellery items are intended for further supply (as such). Therefore, Diamond Limited can opt for either:

- The open market value of ₹ 25 lakhs

- ❖ 90% of the price charged for the supply of diamond studded jewellery items (of like kind and quality) by Zircon Limited to its customers, i.e., ₹ 20.7 lakhs, not being a related person

Furthermore, since Zircon Limited is not eligible for a full input tax credit, the *invoice value cannot be deemed the open market value* under the second proviso to Rule 28.

Conclusion

For GST computation, Diamond Limited can opt for either ₹25 lakhs (open market value) or ₹ 20.7 lakhs (90% of the price of like kind and quality), as per the valuation methods prescribed under Rule 28.

4. (b) Design stage (₹ 600 lakhs); Manufacturing stage (₹ 2,010 lakhs), Operations stage (₹ 135 lakhs) and End of Life stage (₹ 100 lakhs)

Reason:

Following is the computation of stage wise cost to be incurred across the life cycle of the "Aurora":

Design stage ₹ lakhs		
Research	100	**600**
Development	300	
Design and testing	200	
Manufacturing stage ₹ lakhs		
Material	460	**2,010**
Labour and overheads	880	
Training	500	
Maintenance	170	
Operations stage ₹ lakhs		
Distribution	50	**135**
Warranty claims	85	
End of life stage ₹ lakhs		
Environmental clean up	70	**100**
Disposal	30	
Total	**2,845**	**2,845**

5. **(d)** By delegating operational responsibilities, Diamond Limited most likely achieves a balance between regional adaptability and the alignment of divisional objectives with its overarching strategic goals.

Reason:

Diamond Limited's decentralized structure emphasizes regional adaptability while ensuring that divisions operate in alignment with the broader corporate strategy, making Option D the most likely scenario. Options C contradict the decentralized approach, and Option A and B are accurate but less comprehensive than Option D.

II. Answers to the Descriptive Questions

6. In accordance with the requirement of Indian Accounting Standard (Ind AS) 24 "Related Party Disclosures", name of the related parties, related party relationships, transactions and outstanding balances including commitments where control exist and with whom transactions have taken place during the reported period are as follows:

List of related parties

Subsidiaries

Name	Principal Activities	Country of Incorporation	% Equity Interest	
			31 March 2025	31 March 2024
Amethyst Limited	Retail Operations	India	80	80
Zircon Limited	Retail Operations	India	95	95
Topaz Limited	Retail Operations	India	100	100
Retail Gems S.p.A.	Retail & Processing	Italy	100	100

Associate

Dimond Limited holds a 25% interest in Emerald Limited (as of 31 March 2024: 25%). Emerald Limited, in turn, owns a 51% stake in its subsidiary, Ruby Limited (as of 31 March 2024: 51%).

Joint Arrangement in which the Group is a Joint Venturer

Dimond Limited holds a 50% interest in a joint venture, Coral Limited (as of 31 March 2024: 50%). Coral Limited, in turn, owns a 51% stake in its subsidiary, Sapphire Limited (as of 31 March 2024: 51%).

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

Key management personnel (KMP)

Key Management Personnel (KMP) of Diamond Limited includes:

- Ms. Ratna Mullick, Chief Financial Officer (CFO).

Transactions and Outstanding Balances (including commitments where control exists and with whom transactions have taken place)

₹ lakhs

Related Party	Financial Year	Balance outstanding at the year end	Sales to related parties (diamond-studded jewellery items) *	Purchases from related parties (property plant and equipment)	Purchases from related parties (diamond-studded jewellery items)	Purchases from related parties (diamond Items)	Short Term Employee Benefits
Subsidiaries:							
Topaz Limited	31 March 2025	—	17,076	—	—	---	---
	31 March 2024	—	14,340	—	—	---	---
Other subsidiaries*	31 March 2025	—	56 (incl. ₹ 20 lakhs which is not at arm's length)	—	—	---	---
	31 March 2024	—	40	—	—	---	---
Associate and its subsidiary:							
Emerald Limited	31 March 2025	—	---	6,960	5,030	---	---
	31 March 2024	—	---	—	—	---	---
Ruby Limited	31 March 2025	—	---	---	---	80	---
	31 March 2024	—	---	---	---	75	---
Joint venture and its subsidiary:							
Coral Limited	31 March 2025	—	—	---	1,416	---	---

	31 March 2024	—	—	---	---	---	---
Sapphire Limited	31 March 2025	—	186	---	---	---	---
	31 March 2024	—	230	---	---	---	---
Key management personnel:							
Ms. Ratna Mullick	31 March 2025	—	—	—	—	---	76
	31 March 2024	—	—	—	—	---	---
Entities where significant influence is exercised by KP/ Directors and/ other relatives having transactions with the Company:							
---	31 March 2025	---	---	---	---	---	---
	31 March 2024	---	---	---	---	---	---
**As per Ind AS 24, Para 24, items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity. Further, Para 24A states that disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of property, plant and equipment. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure.*							

Note- For the purpose of disclosure, transactions given in the Case Study have only been considered.

7. An entity might enter into arrangement that involve a formal or informal agreement between the entity and another party in order to establish a business relationship through vehicles or structures or conduct of certain types of transactions under specific terms and conditions. Arrangements that may indicate the existence of related party relationships or transactions that management has not identified or disclosed to auditors.

SA 550 requires the auditor to obtain sufficient appropriate audit evidence about whether the related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements. When performing audit procedures, auditor pays particular attention to related parties that are in a position to exercise dominant influence over the entity or its management, by virtue of their ability to exert control or significant influence.

During the audit, the auditor shall remain alert, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor. In particular, the auditor shall inspect the following for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor −

- Bank, legal and third-party confirmations obtained as part of the auditor's procedures;
- Minutes of meetings of shareholders and of those charged with governance; and
- Such other records or documents as the auditor considers necessary in the circumstances of the entity.

If the auditor identifies arrangements or information that suggests the existence of unidentified related party relationships or transactions, the auditor should determine whether the underlying circumstances confirm the existence of those relationships or transactions. If the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor should −

- Promptly communicate the relevant information to the other members of the engagement team.
- Request management to identify all transactions with the newly identified related parties for the auditor's further evaluation.
- Inquire as to why the entity's controls over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions.
- Perform appropriate substantive audit procedures relating to such newly identified related parties or significant related party transactions.
- Reconsider the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary; and
- If the non-disclosure by management appears intentional (and therefore indicative of a risk of material misstatement due to fraud), evaluate the implications for the audit.

8. As per Regulation 2(zb) of SEBI (LODR) Regulations, 2015, a "related party" is defined as:

- A related party under sub-section (76) of Section 2 of the Companies Act, 2013; *or*
- A related party under the applicable accounting standards.

Additionally, it considers:

(a) Any person or entity forming part of the promoter or promoter group of the listed entity; or

(b) Any person or any entity, holding equity shares:

(i) of 20% or more, or

(ii) of 10% or more (effective April 1, 2023),

in the listed entity, either directly or indirectly, on a beneficial basis as per Section 89 of the Companies Act, 2013, at any time, during the immediate preceding financial year; shall be deemed to be a related party.

Analysis

As per the Companies Act, 2013

Section 2(76)(viii) defines a related party to include:

- A holding, subsidiary, or associate company of the listed entity;
- A subsidiary of a holding company to which the listed entity is also a subsidiary;
- An investing company or the venturer of the listed entity.

However, this clause does **not** extend the definition to include an *associate of an associate*.

- Emerald Limited, being a direct associate of Diamond Limited (holding 25%), qualifies as a related party.
- Jade Limited, being an associate of Emerald Limited (holding 22%), does **not** qualify as a related party to Diamond Limited under the Companies Act, 2013, as the definition under Section 2(76)(viii) does not extend to include an *associate of an associate*.

As per Regulation 2(1)(zb) of SEBI LODR) Regulations, 2015

The regulation specifies that any entity holding 10% or more equity shares in the listed entity (effective April 1, 2023) is deemed as a related party.

- There is no indication that Jade Limited holds any equity in Diamond Limited.
- Furthermore, there is no mention of whether Jade Limited is a listed entity. Therefore, Jade Limited does not meet the criteria for being classified as a related party under this regulation.

As per Ind AS 24

Paragraph 9(b)(ii) of Ind AS 24 states that an entity is related to a reporting entity if one entity is an associate or joint venture of the other entity or an associate/ joint venture of a member of the group of which the other entity is a member.

Paragraph 12 clarifies that an associate includes subsidiaries of the associate. However, an *associate of an associate* does not fall under the definition of a related party under Ind AS 24.

Accordingly, Jade Limited (being an associate of Emerald Limited, which is itself an associate of Diamond Limited) is **not** a related party to Diamond Limited under Ind AS 24.

Conclusion

Since Jade Limited is not a related party under the Companies Act, 2013, Ind AS 24, or Regulation 2(1)(zb) of the SEBI LODR) Regulations, 2015, the proposed transaction does **not** require the approval of the Audit Committee of Jade Limited.

9. Problem Definition: If Retail Gems buys from Division Ahmedabad, will it benefit the company as a whole?

Key Considerations: Contribution p.u. under external and internal sale options and the tax impact.

Methodology:

Part 1: Benefit to Division Ahmedabad

Currently external sales are 1,00,000 units. If Division Ahmedabad accepts to cater to Retail Gems's requirements, external sales have to be curtailed by 30,000 units. The sales mix would be external sales 70,000 units and internal transfer 50,000 units. (refer working note 1).

Division Ahmedabad was previous producing 1,00,000 units. On accepting Retail Gems's order, it is operating at full capacity of 1,20,000 units, an additional 20,000 units are being produced. As per working note 2, contribution from each option is the same at ₹ 28,000 p.u.

Additional Contribution

= 20,000 units × ₹ 28,000 p.u.

= ₹ 56,00,00,000

Division Ahmedabad pays tax in India at 30%.

Hence, the Net Tax Contribution

= ₹ 56,00,00,000 × (100% - 30%)

= ₹ 39,20,00,000

Part 2: Net Additional Cost to Retail Gems

Retail Gems is currently purchasing item similar to Gem-Milano within Italy at ₹ 1,44,000 p.u. (₹ equivalent value). If it purchases from Division Ahmedabad, it will pay ₹ 9,000 p.u. extra.

Additional Purchase Cost

= 50,000 units × (₹ 1,53,000 - ₹ 1,44,000)

= ₹ 45,00,00,000

However, this extra cost is tax deductible at a rate of 40%, the tax rate in Italy. Hence Additional Cost (net of tax)

= ₹ 45,00,00,000 × (100% - 40%)

= ₹ 27,00,00,000

Part 3: Overall benefit (after tax) to the company

Division Ahmedabad benefits by ₹ 39,20,00,000 while Retail Gems incurs an extra cost of ₹ 27,00,00,000. Hence, the net after tax benefit to the company is ₹ 12,20,00,000. Therefore, Retail Gems should purchase Gem-Milano internally from Division Ahmedabad.

Working Notes

1. Statement of Capacity Utilization of Division Ahmedabad

Sr. No.	Particulars	Number of units
1	Maximum Capacity	1,20,000
2	External Sales	1,00,000
3 = 1 - 2	Spare Capacity	20,000
4	Retail Gems's Requirement	50,000
5 = 4 - 3	External Sales Curtailed to meet Retail Gems 's Demand = Retail Gems 's Requirement - Spare Capacity Available = 50,000 units - 20,000 units	30,000

From the above table it can be seen that Division Ahmedabad has a spare capacity of 20,000 units currently. However, if it has to cater to Retail Gems's requirements, external sales have to be curtailed by 30,000 units.

2. Statement of Contribution p.u. Figures in ₹

Sr. No.	Options	External Sale	Internal Sale
1	Selling Price p.u.	1,08,000	1,26,000
2	Variable Cost p.u.	80,000	74,000
3	Modification Cost p.u.	---	24,000
4 = 1 – 2– 3	Contribution p.u.	28,000	28,000

CASE STUDY 21

Classic Dealership

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



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

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

Customer profile for imported bikes

Age analysis of customers taken by CD reveals a general statistical estimate that a person may become the first customer by buying a bike when he attains 20 years of age and rides bikes until he reaches the age of 40 years and 3 months. It is further observed that the "Good" category customers would not prefer waiting to purchase the bike beyond 5 years.

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

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

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

Dealership of Electric Bikes

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

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

Strategy to maintain sustained customer relationship for electric bikes

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

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

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

each per month. The partnership deed was amended on 1st April 2024 to allow for salary payment of ₹ 5,00,000 each per month payable to Ravi and Raju. The current amended partnership deed also allowed for a salary payout of ₹ 25,00,000 each to Ravi and Raju as extra payment towards salary of the previous years that is prior to F.Y. 2024-25.

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

As proposed, CD started a dealership of electric bikes- manufactured by Coco Motors Limited, Zoho Motors Limited and Polo Motors Limited from April 1, 2026. During the warranty period CD replaces certain parts or provides services to its customers on behalf of the manufacturers.

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

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

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

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

Extended warranty

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

Mr. Ravi has recently won a lottery prize this year and wishes to remit USD 30,000 from his lottery winnings to his son abroad. Also, he intends to obtain USD 50,000 to facilitate the travel

expenses of a cultural troupe that he plans to send on a tour of the United States. Mr. Ravi approached CA. Abhishek Makkar, a well renowned expert and practitioner in foreign currency transactions and corporate laws, seeking consultation on above two important matters.

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

Summary Analysis of Sale price and Profit margin from sale of imported bikes:

Type of customer	Periodicity of buying	Selling Price per bike	Service/Maintenance charges
Good	1 bike every 5 years	₹ 6,00,000	₹ 1,00,000 per bike
Excellent	7 bikes as a whole from the date of his first buying	₹ 9,00,000	₹ 1,20,000 per bike per year

Profit margin:

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

Annexure: 2 – Project details of dealership in electric vehicles

Dealership in Electric Vehicles

Project Overview:

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

Key Financials:

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

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

Strategic Highlights:

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

I. Multiple Choice Questions

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

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

Options

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

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

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

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

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

(i) No TDS is required to be deducted on salary and interest payments made to the working partners

(ii) With respect to salary paid to the working partners, Ravi and Raju for the financial year 2024-25, the maximum allowable deduction under section 40(b)(v) is ₹ 1.098 crores for A.Y. 2025-26

(iii) The extra salary payment made to Ravi and Raju as additional salary of the previous years that is prior to F.Y. 2024-25 is a deductible expense in A.Y. 2025-26 as it has been approved by the partnership deed on 1st April 2024

(iv) With respect to salary paid to the working partners, Ravi and Raju for the financial year 2024-25, the maximum allowable deduction under section 40(b)(v) is ₹ 91.80 lakhs for A.Y. 2025-26

Options

(a) (i), (ii) and (iii)

(b) (i) and (iv)

(c) (iii) and (iv)

(d) (i), (iii) and (iv)

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

   (a) In case of arrangement with Coco Motors Limited, GST would be payable by CD to the manufacturer.

   (b) In case of arrangement with Zoho Motors Limited, no GST is payable on such replacement by the manufacturer.

   (c) In case of arrangement with Polo Motors Limited, tax liability may be adjusted by the manufacturer subject to the condition that CD has reversed the ITC availed against the bike/parts

   (d) In case of provision of repair services on behalf of all the manufacturers, no GST is payable by CD as such service is being done without charging consideration from the customer during the warranty period.

4. Which of the following statements is true with respect to the customer's purchase of extended warranty?

   (i) When the customer purchases extended warranty from CD at the time of original supply, it would be treated as a supply of service distinct from the original supply. CD would be liable to discharge GST liability applicable on such supply of services.

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

   (iii) When the customer purchases extended warranty from CD at a time after/different from the original supply, the same shall be treated as a composite supply, the principal supply being the supply of the bike and GST would be payable accordingly.

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

Options

(a) (i) and (iv)

(b) (ii) and (iv)

(c) (ii) and (iii)

(d) (iii) and (iv)

5. While placing the order for a bike at CDs showroom, a customer has to present certain documents for verification. At times, the sales person asks for the same documents like driver's license, identity and address proof repeatedly for using it for different forms. As per Kano model which of the following quality or attribute does this repetitive request for the same document represent?

(a) Performance attribute

(b) Threshold attribute

(c) Reverse quality

(d) Indifferent quality

II. Descriptive Questions

6. Based on the CD's operation, Answer the following:

(a) In light of Ravi Sinha's opinion that a business must be able to know the net profit attributable to the future relationship with a customer, RECOMMEND steps that can be used to determine the Customer Lifetime Value (CLV) of a particular customer.

(b) CALCULATE the life time value of a "Good" customer who is 20 years of age.

(c) CALCULATE the life time value of an "Excellent" customer who is 25 years of age.

(d) ADVISE whether the brand endorsement program is worth ₹ 25 crores.

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

7. The Company is interested in the sensitivity analysis of key financials related to the dealership of electric bikes, ADVISE which among the three factors except project life is most sensitive factor assuming an adverse change of 10%.

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

ANSWERS TO THE CASE STUDY 21

I. Answers to the Multiple Choice Questions

1. (a) (i) – C, (ii) – A, (iii) – D and (iv) – B

Reason:

(i) Offering attractive options to exchange old electric bikes for newer one. – Customer Retention

(ii) Target youth and young professionals below 35 years – Customer Selection

(iii) Digital marketing to reach out to customers across India – Customer Acquisition

(iv) Cross selling annual maintenance contracts at attractive rates once the warranty period is over. – Customer Extension

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

Reason:

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

The extra additional salary payment relating to previous years prior to 1st April, 2024 is not deductible even though it has been approved in the partnership deed amended as on 1st April 2024. Section 40(b)(3) disallows any remuneration paid to working partner or interest to a partner authorized by deed but relates to an earlier period.

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

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

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

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

Particulars	**₹**
On first ₹ 6,00,000 of book profit (₹ 6,00,000 x 90%)	5,40,000
On the balance ₹ 1.74 crores of book profit (₹ 1.74 crores x 60%)	1,04,40,000
Maximum allowable salary as per section 40(b)(v)	**1,09,80,000**

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

3. (d) In case of provision of repair services on behalf of all the manufacturers, no GST is payable by CD as such service is being done without charging consideration from the customer during the warranty period.

Reason:

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

4. (b) (ii) and (iv)

Reason:

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

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

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

5. (c) Reverse quality

Reason:

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

II. Answers to the Descriptive Questions

6. (a) Steps to ascertain the customer lifetime value of a particular customer

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

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

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

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

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

Total profit margin from sale of 1 bike = ₹1,50,000 + ₹50,000

= ₹ 2,00,000 per bike.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Therefore, customer lifetime value of "excellent customer" aged 30 years

= ₹ 18,90,000 + ₹ 7,38,000 = ₹ 26,28,000.

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

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

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

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

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

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

7. Calculation of NPV **₹ (in crores)**

Calculation of Net Present Value (NPV) for the electric bike dealership	
Present Value of annual cash inflows (₹ 5 crores × 3.169 the PVIFA @ 10% cost of capital for 4 years)	15.845
Initial project cost	(13)
Net Present Value (NPV)	**2.845**
If the initial project cost is varied adversely by 10%	
Present Value of annual cash inflows	15.845
Revised estimate of initial project cost (13 crores ×110%)	(14.3)
Revised Net Present Value (NPV)	**1.545**
Change in NPV	1.3
Percentage change in NPV (₹ 2.845 crores - ₹ 1.3 crores)/ 2.845 crores	54.31%
(Therefore, NPV changes adversely by 54.31% when initial project cost is varied adversely by 10%.)	
If annual cash inflow is varied adversely by 10%	
Revised annual cash inflow (₹ 5 crores × 90%)	4.5
Revised PV of annual cash inflows (₹ 4.5 crores × 3.169)	14.2605
Initial project cost	(13)
Revised Net Present Value (NPV)	**1.2605**
Percentage change in NPV (₹ 2.845 crores – ₹ 1.2605 crores)/2.845	55.69%

(Therefore, NPV changes adversely by 55.69% when annual cash inflow is varied adversely by 10%.)	
If cost of capital is varied adversely by 10%	
Revised cost of capital (10% × 110%)	11.00%
Revised PV of annual cash inflows (₹ 5 crores × 3.103)	14.2605
Initial project cost	(13)
Revised NPV of project with cost of capital 11% for 4 years	**2.515**
Percentage change in NPV (₹ 2.845 crores – ₹ 2.515 crores)/2.845	11.60%
(Therefore, NPV changes adversely by 11.60%, when Cost of capital is varied adversely by 10%.)	

ADVISE

As per the information given in the problem, the net present value of the dealership venture would be ₹ 2.845 crores. If initial project cost is varied adversely by 10%, the cost increases from ₹ 13 crore to ₹ 14.30 crores. Accordingly, the NPV for the project would decrease from ₹ 2.845 crores to ₹ 1.545 crores. This is a decline by 54.31%. If the annual cash inflow is varied adversely by 10%, the cash inflow would reduce from ₹ 5 crores per annum to ₹ 4.5 crores per annum. Accordingly, the NPV for the project would decrease from ₹ 2.845 crores to ₹ 1.2605 crores. This is a decline by 55.69%. If the cost of capital is varied adversely by 10%, the cost of capital would increase from 10% to 11%. Accordingly, the NPV for the project would decrease from ₹ 2.845 crores to ₹ 2.515 crores. This is a decline by 11.60%.

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

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

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

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

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

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

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

CASE STUDY 22

Rathvaan Pvt. Ltd.

Founding Vision and Team Expansion



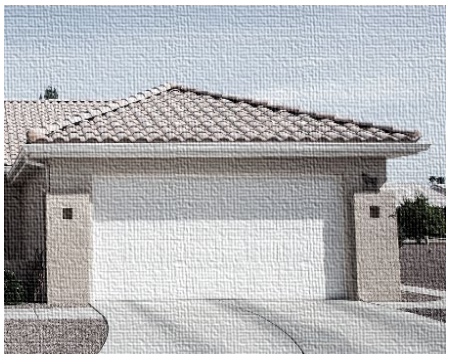
When Rahul Mehta, CEO of Rathvaan Pvt. Ltd., returned to his hometown of Agra after completing his mechanical engineering in Delhi, he envisioned a full-service automotive company that could serve urban families, corporate fleets, and commercial clients alike. Early in his career, Mehta led efficiency-driven projects at a leading OEM supplier, refining assembly workflows and quality controls. Motivated by the challenge of delivering dependable vehicles across India's diverse markets, he founded Rathvaan Pvt. Ltd. in Agra in 2003 with a small team of engineers and a basic workshop. Today, the company employs hundreds of people and is governed by a Board of ten directors. Considering this rapid growth, the Board of Rathvaan Pvt. Ltd. resolved to induct six more directors, including two designated as independent directors pursuant to an internal governance charter adopted by the Board and a shareholders' agreement signed by all existing members.

The company convened an Extraordinary General Meeting on April 15, 2025, with notice dated 6th April 2025, to pass a special resolution to approve these appointments. The notice was published in vernacular and English newspaper and uploaded on the company's website but not dispatched to members and no explanatory statement accompanied the notice. The two independent director appointees were not registered in the databank at the time of the EGM but had applied for registration by 15th May 2025. DIR-12 filings for all six appointees were made on 30th April 2025, with attachments including the Board resolutions and consents. The Articles of Association limited the number of directors to 12 at the time of appointment. A special resolution to approve the appointments was passed unanimously at the EGM.

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

have contravened the provisions of the Companies Act, 2013 in respect of non-approval of the appointment of Mr. Ranvir and his office tenure.

Operational Model and Service Portfolio



Leveraging its talented leadership bench and workforce, Rathvaan has streamlined operations and introduced a broader array of services. This foundation has propelled the company over the past two decades to become a leading manufacturer of cars in India's automotive sector and a registered supplier in Agra, known for its end-to-end vehicle design, production, and delivery services. The Company oversees a comprehensive ten-month operational cycle from the procurement of raw materials to the completion of passenger-vehicle assembly and final delivery while customers settle their dues after a period of 10 months from the date of sale. Rathvaan offers a diverse lineup of vehicles, with a particular focus on fuel-efficient family sedans, compact SUVs, and light commercial vans, complemented by garage-door solutions (details of Garage door installation services provided by Rathvaan are attached as **Annexure I**) for residential and commercial clients. Their offerings meet the needs of individual, fleet, and corporate clients, providing tailored financing and after-sales support. This disciplined production and payment structure is central to the Company's value proposition, ensuring predictable cash flows and long-term customer trust and aligns with its ambitious expansion plans to venture into new service domains.

Expanding Services Through Acquisition of Yatrik



As part of its strategic expansion and service-chain optimization, Rathvaan Pvt. Ltd. has undertaken a targeted acquisition in the travel sector. Rathvaan decided to acquire Yatrik, a tour-operations company specializing in curated travel packages, adventure tours, and end-to-end trip management services across India. This forward integration move is aimed at integrating Yatrik's platform with Rathvaan's vehicle sales and after-sales services to create bundled mobility and leisure offerings. Through this acquisition, Rathvaan said it hopes to enhance its service portfolio and operational efficiency by leveraging its nationwide dealer network alongside Yatrik's core technological

capabilities. Rathvaan initially acquired 8% of the equity share capital of Yatrik On 1st April 2023, for ₹92,000. Rathvaan accounts for its investment in Yatrik at Fair Value through OCI. On 31st March 2024, Rathvaan carried its investment in Yatrik at fair value and reported an unrealised gain of ₹ 8,000 in other comprehensive income, which was presented as a separate component of equity. On 1st April 2024, Rathvaan obtains control of Yatrik by acquiring the remaining 92 percent of Yatrik. After acquiring Yatrik, the founder, Rahul Mehta, turned his attention to Rathvaan's own manufacturing capabilities, prioritizing capacity expansion and equipment upgrades.

Modernizing Infrastructure and Equipment Upgrades



Rathvaan's aging IT infrastructure and plans to expand its car manufacturing operations led the company to invest ₹ 5 lakh on 1 May 2020 in several new computers of the latest models. All equipment was insured with United Bharat Assurance Ltd. against fire, flood, earthquake, and other risks under a reinstatement clause requiring the insurer to pay the computers' value as of the date of fire etc., in case of destruction or loss. By 1 April 2024, the written-down value of these assets stood at ₹ 2,12,150. In August 2024, a fire broke out in Rathvaan's facility, destroying all computer systems, which remained unreplaced as of 31 March 2025 because Rathvaan awaited the release of newer models. Rathvaan received the full ₹5 lakh insurance payout on 15 March 2025, but no additional computers were purchased during FY 2024-25.

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

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

Details of Sales Made to Key Customers and Related Outcomes

 High-Performance Engines Sold to Chola Ltd.	During the year 2024-25, Rathvaan sold 10 high-performance petrol engines to Chola Ltd., a long-standing client in the logistics and distribution industry, for a total consideration of ₹5 lakhs. The payment is receivable in three instalments: ₹ 1,66,666 on 1st April 2024, ₹ 1,66,667 on 31st March 2025, and ₹ 1,66,667 on 31st March 2026. The company is offering a discount of 5 % (i.e. ₹ 25,000) if payment is made in full at the time of sale. The sale agreement reflects an implicit interest rate of 5.36% p.a. The total consideration to be received from such sale is at ₹ 5 Lakhs and hence, the management has recognised the revenue from sale of goods for ₹ 5 lakhs for the year 2024-25.
 Delivery Vans Supplied to Trackon Pvt. Ltd.	On 20th March 2025, Rathvaan issued tax invoice for two light commercial delivery vans valued at ₹ 10 lakh each (excluding GST 28%) to Trackon Pvt. Ltd., a registered courier and logistics provider based in Firozabad. However, no underlying supply of vans was made. Subsequently, ITC was availed based on said invoice by Trackon Pvt Ltd. and utlised for payment of its tax liability in respect of its outward supplies of taxable goods.
 SwiftEx Sedan Sold to Mr. Amber	On 30 September 2024, Rathvaan supplied a Rathvaan SwiftEx sedan to Mr. Amber. On 1 January 2025, the company was notified that Mr. Amber had initiated legal action against the company in respect of a financial losses allegedly caused by defects in the vehicle. Rathvaan defended the case but considered, based on the progress of the case up to 31st March 2025, that there was a 75% probability they would have to pay damages of ₹ 8 lakhs to the customer. However, the accountant of Rathvaan has not recorded this transaction in its financial statement as the case is not yet finally settled. The financials have been approved by the Board of Directors in its meeting held on 18th May 2025. **(The Supreme Court's judgment on this case has been widely reported in the newspapers-see Annexure II.)**

Annexure: I

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

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

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

Annexure: II

The State News

Supreme Court Directs Rathvaan to Pay ₹10 Lakh Compensation for Defective Car



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

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

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

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

I. Multiple Choice Questions

1. Based on facts given, you are required to determine, which of the following options is/are most appropriate with respect to invoice issued to Trackon Pvt Ltd. without underlying supply of vans.

   i. Penalty under section 122(1)(ii) of the CGST Act, 2017 is leviable on Rathvaan since it has issued invoice without underlying supply of goods.

   ii. Rathvaan is liable to demand and recovery of the tax payable on supply of delivery vans along with penal action under section 74A of the CGST Act, 2017, along with applicable interest under provisions of section 50.

iii. Trackon Pvt Ltd. is eligible to avail ITC since it was in the possession of the tax invoice.

iv. Trackon Pvt Ltd. is liable to demand and recovery of ITC fraudulently availed and utilised and along with penal action under section 74A of the CGST Act, 2017, along with applicable interest under provisions of section 50.

v. Trackon Pvt Ltd. is liable to demand and recovery of ITC fraudulently availed and utilised and along with penal action under section 74A and section 122(1)(vii) of the CGST Act, 2017, along with applicable interest under provisions of section 50.

Options

(a) (i) and (iii)

(b) (ii) and (iv)

(c) (i) and (v)

(d) (i) and (iv)

2. How should Rathvaan account for its initial 8% investment in Yatrik upon acquiring the remaining 92% and obtaining control of Yatrik on 1st April 2024?

(a) Reclassify the ₹ 8,000 gain from OCI to the income statement.

(b) Retain the ₹ 8,000 gain in OCI as per Ind AS 109 and include the fair value of the 8% investment and the new acquisition in acquisition accounting.

(c) Remeasure the 8% investment at cost and transfer the gain to retained earnings.

(d) Ignore the ₹ 8,000 gain entirely as it has no impact on the acquisition accounting.

3. Analyse the tax treatment with reference to destruction of computer systems by fire.

(Cost inflation index for financial year 2020-21 and 2024-25 are 301 and 363, respectively)

(a) Short term capital gains: ₹2,87,850

(b) Long term capital gains: ₹2,87,850

(c) Short term capital loss: ₹1,02,990

(d) Long term capital loss: ₹1,02,990

4. Analyse whether the accounting treatment made by the accountant with respect to legal action taken by the Mr. Amber against Rathvaan is in compliance of the Ind AS.

(a) Not in compliance, A provision of ₹ 6 lakhs (₹ 8 lakhs × 75%) should have been recognised at the reporting date, with no further adjustment.

(b) Not in compliance, An initial provision of ₹ 8 lakhs should have been recognised at 31 March 2025, and, as an adjusting event, the provision should then be increased to ₹10 lakhs and recognised as a current liability.

(c) In compliance, The matter is a contingent liability until the court ruling, therefore, no provision or adjustment is necessary.

(d) Not in compliance, An initial provision of ₹ 6 lakhs (₹ 8 lakhs × 75%) should have been recognised at 31 March 2025, and, as an adjusting event, the provision should then be increased to ₹ 10 lakhs and recognised as a current liability.

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

(i) The auditor exhibited due diligence and careful conduct

(ii) Clause (7) of Part I of Second Schedule to Chartered Accountants Act, 1949 and SA 240 are relevant in this situation

(iii) The auditor failed to plan and perform the audit with an attitude of professional skepticism

(iv) A Chartered Accountant in practice will be deemed guilty of professional misconduct based on clause (7) of Part II of the second schedule to Chartered Accountants Act, 1949

Options

(a) Only (iv)

(b) Both (ii) & (iv)

(c) Both (ii) & (iii)

(d) Both (i) & (iii)

II. Descriptive Questions

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

7. Required:

   (i) With reference to the garage door installation services provided by Rathvaan Pvt. Ltd. during the month of April 2024, carry out a Pareto Analysis (80/20 rule) of Total Parts.

   (ii) Using the same data carry out the second level Pareto Analysis on the type of services with respect to Motors only.

   (iii) Give your RECOMMENDATIONS on the basis of your calculations in (i) and (ii) above.

   (Do calculations to two decimals only)

8. DISCUSS the validity of action taken by AO in the matter of disallowance of depreciation.

9. ANALYSE whether the appointments were legally valid in light of the Companies Act, 2013 and relevant rules.

   (a) The board's appointment of six directors

   (b) The board's appointment of Mr. Ranvir to fill the casual vacancy

ANSWERS TO THE CASE STUDY 22

I. Answers to the Multiple Choice Questions

1. (d) (i) and (iv)

Reason:

Circular No. 171/03/2022 GST dated 06.07.2022 clarifies the applicability of demand and penalty provisions under the CGST Act, 2017, in respect of the transactions involving fake invoices. Where a registered person "A" has issued tax invoice to another registered person "B" without any underlying supply of goods or services or both and 'B' avails ITC on the basis of the said tax invoice and utilises this ITC for payment of his tax liability in respect of his said outward supplies, the circular clarifies that since there has only been an issuance of tax invoice by the registered person 'A' to registered person 'B' without the underlying supply of goods or services or both, therefore, such an activity does not satisfy the criteria of "supply", as defined under section 7 of the CGST Act, 2017.

As there is no supply by 'A' to 'B' in respect of such tax invoice in terms of the provisions of section 7, no tax liability arises against 'A' for the said transaction,

and accordingly, no demand and recovery or penal action is required to be made against 'A' under the provisions of section 74A in respect of the same.

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

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

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

Thus, in the given case, no demand can be initiated against Rathvaan, he is liable to penalty under section 122(1)(ii) of the CGST Act, 2017. Further, Trackon Pvt Ltd. is liable to demand and recovery of ITC fraudulently availed and utilised and along with penal action under section 74A of the CGST Act, 2017, along with applicable interest under provisions of section 50. However, as per section 75(13) of the CGST Act, 2017, no further penalty for same act i.e. for the said fraudulent availment and utilization of ITC, can be imposed on Trackon Pvt Ltd. under any other provisions of the CGST Act, 2017 including penalty under section 122(1)(vii).

2. (d) (i), (iii) and (v)

Reason:

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

3. (a) Short term capital gains: ₹ 2,87,850

Reason:

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

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

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

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

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

4. (b) Not in compliance, an initial provision of ₹8 lakhs should have been recognised at 31 March 2025, and, as an adjusting event, the provision should then be increased to ₹10 lakhs and recognised as a current liability.

Reason:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Further, following the principles of Ind AS 10 'Events after the Reporting Period' evidence of the settlement amount is an adjusting event. Therefore, the amount

of provision created shall be increased to ₹ 10 lakhs and accordingly be recognised as a current liability. Since, the decision of the court is before approval of Financial Statements by the Board.

5. **(c)** Both (ii) & (iii)

Reason:

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

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

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

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

II. Answers to the Descriptive Questions

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

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

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

Year	Consideration (Instalment)	Present value factor	Present value of consideration
Time of Sale	1,66,666	-	1,66,666
End of 1st year	1,66,667	0.949	1,58,167

End of 2nd year	1,66,667	0.901	1,50,167
Total	**5,00,000**		**4,75,000**

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

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

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

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

Statement of Profit and Loss (extracts) for the year ended 31st March, 2025 and 31st March, 2026

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

Balance Sheet (extracts) as at 31st March, 2025 and 31st March, 2026

Assets	**As at 31st March, 2025**	**As at 31st March, 2026**
Financial Assets:		
Trade Receivables	1,58,194	XXX

7. (i) Statement Showing "Pareto Analysis of Total Parts"

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

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

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

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

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

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

best efforts and develop specific expertise to solve these problems in the best interest of the customer.

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

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

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

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

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

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

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

9. **(a)** Under Section 149(1) of the Companies Act, 2013 every company shall have a Board of Directors consisting of individuals as directors and shall have a minimum number of 3 directors in the case of a public company, 2 directors in the case of a private company, and one director in the case of a One Person Company. The maximum number of directors shall be 15. The First Proviso to Section 149(1)

states that a company may appoint more than 15 directors after passing a special resolution.

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

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

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

1. By serving individual notices through electronic mode to such members who have provided their e-mail addresses for communication purposes and in writing to all other members; and

2. By placing notice of such candidature on its website, if any.

When there is no need to serve notices individually:

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

(a) At least once in a vernacular newspaper in the principal vernacular language of the district in which the registered office of the company is situated, and

(b) At least once in English in an English-language newspaper circulating in that district.

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

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

However, if a private company voluntarily chooses to appoint any director as an "independent director", then all statutory provisions applicable to

independent directors, including eligibility under Section 149(6) and the requirements of Section 150 and Rule 6 of the Companies (Appointment and Qualification of Directors) Rules, 2014 must be complied with.

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

Rule 6(1) of the Companies (Appointment and Qualification of Directors) Rules, 2014 (as amended) provides that every individual being appointed as an independent director in any company must apply online to the data bank maintained by the institute, and such appointment is only valid if the individual is so registered at the time of appointment. The appointment of an independent director whether in a public or private company must be approved by the company in a general meeting as provided in **Section 152(2)**, and the explanatory statement annexed to the notice for such meeting must specify the justification for choosing the appointee for appointment as an independent director, as per **Section 150(2)**.

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

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

Analysis and conclusion

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

Also, the notice for EGM to be held on April 15, 2025, with notice dated 6th April 2025, was published in vernacular and English newspaper and uploaded on the company's website but not dispatched to members. Since the notice was duly published in vernacular and English newspaper, there is no need to serve notices

individually to all members and hence the company has not violated any law in this regard.

However, for the two independent director appointments, the notice lacked the mandatory explanatory statement as required by the proviso to Section 152(5) and Section 150(2) of the Companies Act, 2013. Although private companies are not required by law to appoint independent directors, if they do so voluntarily, **all procedural requirements, including the inclusion of an explanatory statement justifying the appointment, must be complied with.** In addition, under Section 150(1) and Rule 6 of the Companies (Appointment and Qualification of Directors) Rules, 2014, any individual being appointed as an independent director must have their name included in the data bank at the time of appointment. **Omission of the explanatory statement and failure to comply with the data bank registration requirements both render the independent director appointments invalid and non-compliant with the Act.**

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

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

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

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

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

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

'interested director', his 'interest' cannot be attached to the new director filling the casual vacancy.

Analysis and conclusion

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

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

CASE STUDY 23

RQ Ltd.

Established in 2004, RQ Ltd. (RQL), headquartered in the vibrant coastal city of Kochi, Kerala, has evolved from a humble startup into a formidable global brand in the T-shirt industry. Founded by a team of textile professionals and visionary entrepreneurs, RQL was conceived with a singular vision—***to build a distinctly Indian apparel brand that upholds international standards of quality while championing ethical and locally integrated manufacturing practices***.

The inspiration behind RQL stemmed from a recognized gap in the Indian apparel market—a growing demand for premium T-shirts that combine comfort, modern aesthetics, and long-lasting quality. Leveraging Kerala's deep-rooted textile heritage and skilled labor force, the founders laid a strong foundation for a brand that would resonate with discerning customers in both domestic and international markets.

RQL began its journey with a modest production setup and a lean team, launching its proprietary brand, "RK". From inception, the "RK" brand focused on delivering T-shirts that were not just visually appealing, but also offered exceptional comfort and a refined tactile experience. A steadfast commitment to product quality, consumer-centric innovation, and responsiveness to feedback propelled the brand's rapid growth. Word-of-mouth appreciation and a strong base of loyal customers played a key role in transforming RQL into a nationally recognized name in casual wear.

Today, RQL stands as a symbol of excellence and innovation. Its manufacturing infrastructure includes a state-of-the-art facility in India, equipped with cutting-edge machinery and governed by stringent quality control protocols. In addition, RQL has expanded its manufacturing footprint to several African countries, leveraging regional strengths and fostering inclusive growth. This global production network forms the backbone of RQL's overseas supply chain, enabling efficient delivery and scalability while ensuring consistent product quality across markets.

Every "RK" T-shirt is crafted using premium materials and reflects meticulous attention to detail, ensuring durability, comfort, and contemporary style. This unwavering quality assurance has earned RQL the trust of its domestic customers and positioned it as a reliable and preferred supplier in competitive international markets.

In a dynamic and ever-evolving fashion landscape, RQL demonstrates a deep understanding of shifting consumer preferences. The company's product range includes a wide variety of styles,

colors, and designs that cater to diverse demographics and fashion trends. Through continuous innovation and frequent collection refreshes, RQL ensures that the “RK” brand remains at the forefront of the global T-shirt market.

Looking ahead, RQL remains firmly committed to sustainable global growth. The company is actively exploring new international markets and entering strategic partnerships to expand its global footprint. Simultaneously, RQL is embracing eco-friendly practices across its operations—prioritizing responsible sourcing, adopting sustainable manufacturing methods, and minimizing its environmental impact. These initiatives reflect RQL’s deep-rooted commitment to corporate social responsibility and ethical business practices.

With a growing global presence, an integrated supply chain spanning continents, and an unwavering focus on innovation, sustainability, and quality, RQL is well-positioned to strengthen its role as a leading player in the international T-shirt industry.

As part of its overseas operations, RQL has an export exposure of JPY 10,00,000 in receivables from its Japanese customers as of 31st March 2025. Since the Japanese Yen (JPY) is not directly quoted against the Indian Rupee (INR), cross-currency valuation is carried out using USD as the intermediary. The prevailing spot rates are INR/USD at ₹83.33 and JPY/USD at JPY 141.14. It is estimated that by the settlement date, the Yen will depreciate to 144 against the USD, while the INR is expected to depreciate to ₹84 per USD. The available forward rates for March 2025 are INR/USD at ₹85.66 and JPY/USD at JPY 145.45. RQL is closely monitoring these currency movements as part of its foreign exchange risk management strategy.

Meanwhile, during the financial year 2024–25, RQL entered into a contract with JD Ltd. (JDL)—a summary of which is provided in **Annexure-1**. Subsequently, in October 2024, JDL acquired DC Ltd. (DCL). Between October and December 2024, RQL sold an additional 960 T-shirts to JDL. As a result of this development, RQL anticipates that the total purchases made by JDL will exceed the threshold of 1,600 T-shirts during the specified period. Consequently, RQL expects to retrospectively revise the price per T-shirt to ₹270, as per the contractual terms.

Amidst these developments, RQL is evaluating a strategic decision—the potential acquisition of JDL through a merger. This move is driven by the prospects of substantial synergy benefits, which could significantly enhance RQL's growth trajectory and competitive market positioning.

The synergies expected from the merger are multifaceted. First, integrating the manufacturing capabilities of both companies could lead to economies of scale—allowing for more efficient use of resources, streamlined operations, and cost savings. Shared expertise could further optimize production processes and enable faster response to market demands. Enhanced production capacity would also position RQL to meet a wider range of customer requirements and support entry into new markets.

The financial data relevant to this strategic consideration are as follows:

- RQL reported after-tax earnings of ₹10 crores, with 10,00,000 equity shares outstanding and a market price of ₹75 per share.
- JDL recorded after-tax earnings of ₹3 crores, with 2,50,000 equity shares, each trading at a market price of ₹60.

As part of the proposed consolidation, the management teams of RQL and JDL are discussing potential changes in JDL's shareholding structure. These deliberations aim to align both organizations' long-term strategic objectives and facilitate a smooth and value-accretive integration.

While these strategic developments are underway, the statutory audit of RQL for the financial year 2024–25 is being conducted by CA. Urvashi Bisht and her engagement team. During the course of her audit, CA. Urvashi is specifically reviewing the export revenues reported by the company. She verifies the transactions recorded under the "Export Sales" account by matching them with corresponding export invoices. These exports are made on payment of IGST, with automatic refunds credited to the company's account post-shipment.

Upon further inquiry with the internal audit team regarding the revenue recognition policy, she is informed that RQL recognizes export revenue based on the issuance date of the Bills of Lading. However, CA. Urvashi finds this treatment questionable. She notes that four export invoices dated March 2025, totaling ₹130 lakhs, have not been recorded in the revenue for the year, solely because their respective Bills of Lading were issued in April 2025. In her professional judgment, this does not reflect a proper application of revenue recognition principles under the accrual basis of accounting.

Adding to her concerns, CA. Urvashi recalls that a similar misstatement relating to export revenues was identified in the previous year's audit, which the management has still not corrected in the current year's financial statements. Despite issuing an unmodified audit opinion last year, she is now evaluating the cumulative impact of the uncorrected misstatements on the financial reporting framework.

In the midst of these audit procedures, another significant financial transaction was noted. On 31st March 2025, RQL issued debentures to DFC Ltd., for which the company claimed an interest deduction. However, this deduction was subsequently disallowed by the Assessing Officer, as detailed in **Annexure-2**. Post issuance, RQL's total outstanding debt stands at ₹3 crores, while it maintains surplus funds of ₹5 crores. For the year, the company reported a gross profit of ₹18 crores and incurred indirect expenses amounting to ₹ 4 crores. These financial elements, including the tax disallowance and surplus liquidity, are material to the auditor's evaluation of the company's financial position, disclosures, and audit opinion.

Annexure: 1

	Relevant Contract Information **RQL and JD Ltd.**
Date: April 23, 2024	
Parties: Seller: RQ Ltd. (RQL); Buyer: JD Ltd. (JDL)	
Subject Matter: Sale of T-shirts	
Initial Price: ₹300 per T-shirt	
Volume Discount Clause: If JDL's cumulative purchases of T-shirts exceed 1,600 units by March 31, 2025, the price per T-shirt will be retrospectively reduced to ₹270 per unit for all units purchased.	
Status (as of September 2024): RQL has sold 152 T-shirts to JDL.	
RQL's Estimate: RQL anticipates that JDL's total purchases will not meet the 1,600 T-shirt threshold by March 2025.	
Quality and Specifications: All T-shirts shall conform to the mutually agreed specifications in terms of fabric, size range, stitching, and packaging.	
Governing Law: This Agreement shall be governed by and construed in accordance with the laws of India.	

Annexure: 2

INCOME TAX DEPARTMENT
OFFICE OF THE ASSESSING OFFICER
Circle: xxx
Date of Order: xxx
Assessment Order u/s xxx of the Income-tax Act, 1961*

Assessment Year: 2025–26
Name of Assessee: RQ Ltd.
Address: xxx
PAN: xxx
Status: Company
Nature of Business: Garment Manufacturing and Export

1. Background and Proceedings

The return of income for A.Y. 2025–26 was filed by the assessee, M/s RQ Ltd., declaring income under the head "Profits and Gains from Business or Profession." The case was selected for scrutiny through CASS and statutory notices u/s xxx and xxx of the Income Tax Act, 1961, along with questionnaires were issued and duly served upon the assessee. In response, authorized representatives appeared from time to time and filed the necessary submissions, books of accounts, and other supporting documents, which have been examined on test-check basis.

2. Issue under Consideration

During the course of assessment proceedings, it was observed that the assessee has claimed a deduction of ₹1,00,00,000 under the head "Interest on Loan" in respect of borrowings from **DFC Ltd.**, a public financial institution.

Upon further examination, it was found that the said interest liability of ₹1 crore, **outstanding as on 31.03.2025**, was not settled through payment by account payee cheque or bank transfer. Instead, the assessee had **issued debentures of an equivalent value** to DFC Ltd. in satisfaction of the said liability.

3. Findings and Disallowance

On perusal of the submission and supporting documentation, the following findings are recorded:

- The assessee has **not made actual payment.**
- The **conversion of interest liability into debentures**, as per the terms of agreement with DFC Ltd.
- Section xxx clearly provides that any sum payable by the assessee by way of interest on any loan or borrowing from a public financial institution shall be xxx as a deduction only if xxx.
- Since **no monetary payment has been made** in the instant case and the liability has merely been deferred by issue of debentures, the condition under Section xxx has not been satisfied.

Accordingly, the amount of ₹1,00,00,000 claimed as deduction on account of interest payment to DFC Ltd. is **disallowed** and added back to the total income of the assessee.

4. Computation of Total Income

Particulars	**Amount (₹)**
Income as per Return of Income	xxx
Add: Disallowance of Interest u/s ……..	1,00,00,000
Assessed Total Income	xxx

5. Conclusion

In view of the above, the total income of the assessee is assessed at ₹ xxx under Section xxx of the Income-tax Act, 1961. Issue demand notice and challan as per above.



(Assessing Officer)
Income Tax Officer
Ward: xxx
City: xxx
Date: xxx
Place: xxx

**** This content is prepared solely for the purpose of the case study. The actual assessment order may differ in form or content.***

Annexure 3

The Time

The New Age "RK" Faces Scrutiny Over Child Labour and Unethical Practices in Overseas Supply Chain



June 1, 2025, Thiruvananthapuram - Recent reports from several Third World countries have uncovered alarming instances of child labour within factories linked to global supply chains, including those associated with "RK", a leading global apparel brand. Despite child labor being illegal in these nations, it has been reported that factories outsource work to contractors who, in turn, illegally hire children, bypassing local law enforcement.

Although "RK" itself has not directly engaged in these practices, acting only as a customer for these factories, its lack of initial intervention has drawn criticism. Working conditions in many of these factories are described as unhygienic and oppressive, with the exploitation of vulnerable workers being a widespread issue.

Based on above case study, answer the following questions: -

I. Multiple Choice Questions

1. RQL has observed that a segment of its customers prefers to purchase "RK" T-shirts exclusively through RQL's official website rather than through third-party marketplaces. When surveyed, these customers cited consistent quality, and trust in the brand as key reasons for avoiding other platforms. Which type of customer segmentation does this scenario best reflect?

   (a) Psychographic

   (b) Geographic

   (c) Demographic

   (d) Behavioural

2. Calculate the Equity Value of RQL if the applicable EBITDA multiple is 5:

   (a) ₹ 74 crores

   (b) ₹ 72 crores

   (c) ₹ 58 crores

   (d) ₹ 53 crores

3. If the merger goes through by exchange of equity shares between RQL and JDL and the exchange ratio is set according to the current market prices, what is the post merger earnings per share of RQL?

   (a) ₹ 83.33

   (b) ₹ 130

   (c) ₹ 104

   (d) ₹ 108.33

4. Certain adjustments would be required to be made to account for the change in the shareholding of JDL in case of consolidation. These adjustments are known as:

   (a) Memorandum adjustments, primarily for internal reconciliation purposes.

   (b) Current period consolidation adjustments, reflecting operational intercompany eliminations.

   (c) Permanent consolidation adjustments, establishing the initial basis for non-controlling interests and goodwill/bargain purchase.

   (d) Temporary period consolidation adjustments, for reclassifying specific revenue and expense accounts.

5. Guide CA Urvashi on the audit opinion considering the fact that the last year's misstatement pertaining to export revenues has been identified in the current year and unmodified opinion was issued in the last year.

   (a) CA. Urvashi should give unmodified opinion, but include other matters paragraph in the audit report as last year's profit is being reflected in reserve and surplus.

   (b) CA. Urvashi should seek legal opinion.

   (c) CA. Urvashi should give unmodified opinion, but last period's unmodified opinion should be highlighted in Emphasis of matter paragraph.

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

6. Comment upon the validity of the action of the Assessing Officer on rejecting the deduction of interest on loan claimed by RQL.

   (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 Assessing Officer is correct.

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

(c) 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 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'.

(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 Assessing Officer is not correct.

II. Descriptive Questions

7. ANALYSE and state how the revenue should be recognised in respect of sale of T-shirts by RQL to JDL.

8. DISCUSS from what sources CA. Urvashi can obtain reliable audit evidence in respect of the export revenues particularly for the four export invoices of current year. How can she challenge management's assertion regarding the completeness of export revenues for the F.Y. 2024-25?

9. (i) CALCULATE the expected loss, if the hedging is not done. How the position will change, if the firm takes forward cover?

(ii) If the spot rates on March 31, 2025 are:

INR/US $ = ₹ 80.80

JPY/US $ = JPY 143.50

Is the decision to take forward cover justified?

Note: For cross rate of ₹/¥ round off up to 4 decimal points.

10. "Why should RQL address supply chain issue, and what actions can the company take to effectively resolve it?" ADVISE.

ANSWERS TO THE CASE STUDY 23

I. Answers to the Multiple Choice Questions

1. (d) Behavioural

Reason:

This scenario relates to behavioural segmentation, as it focuses on customer purchase behaviour and brand loyalty. The customers' preference for buying directly from RQL's platform (due to trust and assurance of quality) highlights a behavioural pattern, not their location (geographic), age/gender (demographic), or personality/lifestyle (psychographic).

2. (b) ₹ 72 crores

Reason:

Equity Value of Company

	(₹ 000)
EBITDA (₹ 18,00,00,000 - ₹ 4,00,00,000)	1,40,000
EBITDA Multiple	5
Capitalized Value	7,00,000
Less: Debt	(30,000)
Add: Surplus Funds	50,000
Equity Value	7,20,000 (i.e. ₹72 crores)

3. (d) ₹ 108.33

Reason:

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

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

4. **(c)** Permanent consolidation adjustments establishing the initial basis for non-controlling interests and goodwill/bargain purchase

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.

Here, it is proposed that certain changes in the shareholding of JDL would be made in case of consolidation with RQL, as per the discussion between the management of the two companies, RQL & JDL. Accordingly, these adjustments are known as Permanent consolidation adjustments.

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

Reason:

SA 710 - Para 12

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

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

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

Reason:

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

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

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

II. Answers to the Descriptive Questions

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

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

RQL estimates that the consideration in the above contract is variable. Therefore, in accordance with paragraphs 56 and 57 of Ind AS 115, RQL is required to consider the constraints in estimating variable consideration. RQL determines that it has significant experience with this product and with the purchasing pattern of the JDL. Thus, if RQL

concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (i.e. ₹ 300 per unit) will not occur when the uncertainty is resolved (i.e. when the total amount of purchases is known), then the RQL will recognise revenue of ₹ 45,600 (152 T-shirts × ₹ 300 per T-shirt) for the half year ended 30th September, 2024.

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

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

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

In accordance with the above, in the month of October 2024, due to change in circumstances on account of JDL acquiring DCL and consequential increase in sale of T-shirts to JDL, RQL estimates that JDL's purchases will exceed the 1,600 T-shirts threshold till March 2025 for the period and therefore, it will be required to retrospectively reduce the price per T-shirt to ₹ 270.

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

Particulars	**Amount in ₹**
Sale of 960 T-shirts (960 T-shirts x ₹ 270 per T-shirt)	2,59,200
Change in transaction price (152 T-shirts × ₹ 30* price reduction) for the reduction of revenue relating to units sold till September 2024	(4,560)
Revenue recognised for the quarter ended December 2024	**2,54,640**

*₹ 300 - ₹270 = ₹ 30

8. She can obtain reliable audit evidence by going through GST returns filed by the company on GST portal and correlating the same with e-way bills. She can obtain audit evidence about how company has reflected its export sales in its GST returns and whether export sales pertaining to four invoices having total value of ₹130 lakhs are reflected in such returns.

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

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

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

₹/$ x $/¥ = ₹/¥

83.33/141.14 = 0.5904

Spot rate on date of export 1¥ = ₹ 0.5904

Expected Rate of ¥ for March 2025 = ₹ 0.5833 (₹ 84/¥144)

Forward Rate of ¥ for March 2025 = ₹ 0.5889 (₹ 85.66/¥145.45)

(i) Calculation of expected loss without hedging

Value of export at the time of export (₹ 0.5904 × ¥10,00,000)	₹ 5,90,400
Estimated payment to be received on March 2025 (₹ 0.5833 × ¥10,00,000)	₹ 5,83,300
Loss	₹ 7,100

Hedging of loss under Forward Cover

Value of export at the time of export (₹ 0.5904 × ¥10,00,000)	₹ 5,90,400
Payment to be received under Forward Cover (₹ 0.5889 × ¥10,00,000)	₹ 5,88,900
Loss	₹ 1,500

By taking forward cover loss is reduced to ₹ 1,500

(ii) Actual Rate of ¥ on March 2025 = ₹ 0.5631 (₹ 80.80/¥143.50)

Value of export at the time of export (₹ 0.5904 × ¥10,00,000)	₹ 5,90,400
Payment to be received on March 2025 (₹ 0.5631 × ¥10,00,000)	₹ 5,63,100
Loss	₹ 27,300

The decision to take forward cover is still justified.

10. Work can be outsourced to locations in countries on the other side of the globe in order to achieve a *low-cost advantage*. A company *may not be directly responsible* for the faulty practices of its suppliers. However, modern organizations have a *moral duty* of care to a *wider range of stakeholders* who may not directly be related to the company. In this case, it owes a duty of care towards employees hired by factories within its *supply chain*. The issue it is dealing with relates to the exploitation of child workers by factories, perpetrated by subcontracting work to third party workers. While RQL has *not done anything illegal*, it owes *moral responsibility* towards these children. Children have a right to education, because of which child labor is illegal in most countries. Since children are employed directly on account of the work that has been outsourced, RQL should attempt to address this issue. Also, any negative news about how its products are made could *impact its business*.

RQL should aim to manufacture its products responsibly by implementing ethical and sustainable practices throughout its supply chain. One key step is to develop a comprehensive Code of Conduct that outlines acceptable business standards, including fair hiring practices (e.g., minimum age requirements), workplace safety, and environmental sustainability. RQL should require all suppliers to adhere to this Code and comply with relevant laws, while also agreeing to periodic inspections to ensure compliance. Additionally, RQL can establish an internal audit team to conduct regular audits during both pre-sourcing and post-sourcing stages, ensuring that only compliant factories are engaged. Suppliers found in violation of the Code should face penalties or contract termination for serious breaches. To enhance transparency, RQL can also disclose a list of its suppliers by location on its website, including details such as product types, average worker age, and workforce diversity. This openness allows third-party watch groups to monitor the supply chain and alert the company to any labour-related concerns, thereby promoting accountability and responsible sourcing.

CASE STUDY 24

FrontRunner Pvt. Ltd.

Company Background

FrontRunner Pvt. Ltd. (FPL) traces its origins back to its beginnings as a proprietorship firm founded by Hansraj several decades ago. What started as a modest venture has grown steadily over the years, evolving into a prominent trucking company specializing in transporting commercial goods across various destinations within the state of Gujarat. FPL is a registered Goods Transport Agency (GTA). Recognizing the competitive landscape in which it operates, FPL has consistently aimed at maintaining high-quality delivery standards to establish its reputation in the market.

Due to its sustained growth and expanding operations, FPL transitioned from a proprietorship firm to a registered private limited company. This transformation allowed the company to formalize its structure, enhance operational efficiency, and position itself strategically within the logistics and transportation industry in Gujarat. Today, FPL continues to uphold its commitment to excellence in service delivery, leveraging its experience and infrastructure to meet the logistical needs of its diverse clientele effectively. This historical evolution underscores FPL's journey from humble beginnings to its current standing as a respected player in the competitive transportation sector of Gujarat, driven by a dedication to quality and customer satisfaction.

Overview of FPL's Current Operations

FPL operates its fleet of 9 trucks from Ahmedabad (Refer Annexure for the information about the 9 trucks it owns). The shipments are primarily focused on B2B deliveries, that is one business enterprise to another business enterprise within the state of Gujarat. The business enterprises are mid-size companies that have to make frequent shipments to their clients. Once the goods are delivered at the destination, the company uses the services of agents who can arrange to have a shipment for the return journey back to Ahmedabad.

In trucking jargon, a truck on the road without carrying any load is called "deadheading". A trucking company will try to minimize the kilometres covered in a deadhead because it is unproductive. Therefore, the company has agents on the ground, who can find appropriate shipments within a few days' time. This way the utility of the truck and productivity of each shipment journey improves.

All shipments thus far have been "Full Truck Load" (FTL) shipments. This means that the entire truck is booked for the shipment of goods of just one client. The goods collected from the client are delivered directly to the destination. Advantages of FTL shipments are→ minimum handling of goods, loading and unloading will be from that single vehicle and fast delivery of goods with minimum damage. Due to low fuel prices, the company has been enjoying reasonable profits from this business. However, fuel prices have increased over the last few months. Due to stiff competition, the number of shipments have been stagnant for a while. Clients have different transporters to choose from, resulting in a possibility downtrend in the number of shipments for FPL in the coming year.

Introducing LTL Shipments for Competitive Advantage

To gain a competitive edge, FPL plans to offer "Less than Truck Load" (LTL) shipments to many of its clients. Here, shipments by the clients will be larger than a parcel carrier can handle, but not enough to require an FTL shipment. Shipment loads from various clients will be collected at a common collection area in Ahmedabad. Once the truck load is filled, shipments will be made to the respective destinations of each of the clients. Given the piecemeal orders that are aggregated to form a full truck load (FTL), typically an LTL client is willing to wait for maximum 7 days from the time goods are handed over for delivery to the actual delivery at the designated destination. Like the FTL model, the LTL model also focuses on mid-sized companies that need to make small shipments to their clients on a regular basis.

The advantage of LTL of shipment is that it facilitates smaller consignments to be shipped at economical cost to the company. This brings flexibility in operations to the business. At the same time smaller shipments provide an opportunity of widening the clientele base. Presently, it typically takes 4 days to get an FTL order. Due to the increase in volume of shipments on account of a wider clientele base under the LTL model, the full truck load capacity is achieved in 3 days' time instead.

This decision to introduce LTL shipments in addition to FTL shipments has been a strategic change for the business. At present, FPL handles about 15% of the total consignments that are made from within Gujarat. It wants to maintain and if possible, grow its market share using both the FTL as well as LTL models. However, competition is stiff in this sector. To get a larger clientele base, it has increased its advertising spend to make its presence known in the market. Advertisement in specific trade publications, membership on trucking load boards that help to find clientele online, participating in trade association events etc. The company plans to target mid-sized companies as customers that can give shipment loads at regular intervals. Where the client requires, FPL can provide packing services to help the client manage its outbound shipments efficiently. Also, where the client requires, FPL is also planning to offer transport insurance advisory services that will help its clients choose an appropriate plan as per its requirements. This will be done for a small fee payable to FPL along with the invoice value for transportation.

For both FTL and LTL shipments, the senior management has targeted:

- Cost-per-kilometre rate of ₹ 500.

- Revenue per kilometre rate of ₹ 800.
- Average accounts receivables collection period of 10 working days.
- Average customer lifetime value: ₹ 20 lakhs and above.

The senior management acknowledges the need to track non-financial metrics to sustain and improve the business. Proposed operational metrics to be collated separately for FTL and LTL include:

(a) Customer claims filed for damaged goods (absolute numbers and % of shipments).

(b) Time taken to resolve the above claims (days from date of customer filing claim).

(c) Delays in delivery beyond the agreed delivery time (% of shipments made).

(d) Number of days truck was not on the road (due to maintenance or insufficient load).

(e) Average time taken to get exclusive FTL orders as well as full truck load under LTL (days).

(f) Deadheads (kilometres): Kilometres during journeys when the truck had no load to carry.

(g) Number of orders turned down due to non-availability of trucks.

(h) Ability to deliver within 7 days from the date of receiving client's goods under the LTL system (% of shipments under the LTL system).

Lease Agreement

To manage increasing rental costs, FPL had on April 1, 2021, entered into a 5-year lease with Spaces Pvt. Limited (SPL) for 2,000 square meters of area to be used as parking lot for its trucks. The lease payments of ₹10,00,000 is payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. FPL's incremental borrowing rate at the commencement date is 6% p.a. At the beginning of Year 4, FPL and SPL agree to amend the original lease by extending the contractual lease term by 3 years. The annual lease payments are unchanged (i.e. ₹10,00,000 payable at the end of each year from Year 4 to Year 8). FPL's incremental borrowing rate at the beginning of Year 4 is 7% p.a. FPL wants to reduce the administrative burden of maintaining books of account for Income Tax purpose.

Operational Challenges

It has now been a few years since the implementation of FTL and LTL shipments, and business volumes for FrontRunner have picked up. Two years ago, the company hired R. Venkatesh to manage the truck operations. The operations team, which consists of truck drivers, laborers for loading and unloading deliveries, and maintenance personnel, currently has 20 members.

R. Venkatesh implemented Total Quality Management (TQM) within the operations to meet internal performance benchmarks and service delivery quality standards. However, adherence to these benchmarks for truck utilization and delivery standards has left very little time for periodic truck maintenance and repair. Minimizing downtime and deadheads requires the trucks to be constantly on the road. Due to the small size of the operations team, there is only one person available who can handle maintenance: Mr. Soni. Because of the lack of appropriate

training and tools, truck drivers are not equipped to handle maintenance work themselves, creating a high dependence on Mr. Soni's availability.

It has also been observed that R. Venkatesh was not always available to oversee the truck loading process. Consequently, truck drivers tended to overload the trucks to expedite deliveries, which has led to some negative publicity and put the company in a less favorable light. Refer to Annexure for the news article about this issue.

The management has called an urgent meeting, and the Chairman has asked R. Venkatesh to attend as well. During the meeting, the Chairman says, *"I understand that you have successfully implemented TQM in our operations. If that is the case, why are we still facing breakdown problems despite having TQM in place?"*

R. Venkatesh replies, "Since the operations have been running smoothly, there was no perceived need for preventive maintenance. Such activities incur costs and result in loss of time, which could otherwise be used to keep the trucks on the road."

Annexure

Ahmedabad Daily

Motorway chaos disrupts travelers' plans



Beware! Travelers heading to Ahmedabad Airport should prepare for potential delays caused by oversized trucks blocking the motorway. These moving obstacles belong to FrontRunner, the logistics company, and are frequently seen on National Highway 8, the crucial route connecting the city to the airport.

Yesterday, passengers faced an excruciating two-hour wait due to a major traffic jam caused by two FrontRunner trucks carrying oversized loads. The delay occurred because the trucks, which were scheduled to depart at 5:30 AM, experienced a mechanical issue that postponed their departure by two hours. This unexpected breakdown not only delayed their journey but also caused a significant ripple effect on the surrounding traffic. As a result, the trucks and their escorts were on the road during the busy morning rush hour, exacerbating traffic congestion near the airport. The situation was further compounded by the fact that the oversized loads required special escort vehicles, which took additional time to navigate through the already congested area. Consequently, the influx of vehicles and the slow-moving convoys created a bottleneck that impacted travelers and local businesses alike.

Strict regulations govern the transport of oversized loads on public roads. These include requirements for drivers to be accompanied by attendants, trucks to be equipped with marker boards and additional lighting, and the provision of escort vehicles to ensure road users maintain a safe distance from the load. There are also specific limits on the maximum size and weight of loads.

Ahmedabad Police confirmed they were aware of the situation and noted that FrontRunner had complied with all relevant regulations. Despite no reported accidents, there is growing public concern about frequent road congestion and safety issues caused by these oversized trucks. A traveler remarked, when "FrontRunner" runs in "front" we are left to lag behind!

Fleet of Trucks

Truck	Gross Vehicle Weight (in Kilograms)	Number of trucks	Date of purchase
	7,000 kilograms	3	April 1, 2021
	10,000 kilograms	2	April 1, 2021
	15,000 kilograms	3	April 1, 2022
	20,000 kilograms	1	April 1, 2024

The 20,000 kilogram truck needed some modifications to be done. It was put to use on June 1, 2024.

I. Multiple Choice Questions

1. Which of the following statements would be correct for the services that FPL provides to its mid-sized companies, all of whom are registered under the GST law?

   (i) Where FPL exercises the option to pay GST itself and it pays the tax under forward charge at the rate of 12%, there is no restriction on availing ITC on the goods and services used in supplying the GTA service.

   (ii) Where FPL exercises the option to pay GST itself and it pays the tax under forward charge at the rate of 5%, there is no restriction on availing ITC on the goods and services used in supplying the GTA service.

   (iii) Where FPL opts for the reverse charge mechanism, the recipient of the service shall pay GST at 5% which can be availed as ITC by the recipient.

   (iv) Where FPL opts for the reverse charge mechanism, the recipient of the service shall pay GST at 5% which can be availed as ITC by the FPL.

   Options

   (a) (i) and (iii)

   (b) (i) and (iv)

   (c) (ii) and (iii)

   (d) (ii) and (iv)

2. Calculate the presumptive income of FPL chargeable to tax for A.Y. 2025-26.

   (a) ₹ 810,000

   (b) ₹ 468,000

   (c) ₹ 11,90,000

   (d) ₹ 12,30,000

3. An example of value-added service by FPL would be:

   (a) Maintenance of the goods for orders already accepted while waiting the truck to be filled under LTL shipments

   (b) Periodic inspection and maintenance of trucks

   (c) Offering packing and insurance advisory services to clients for a fee whenever required

   (d) Goods delivery time to their final destination

4. Based on the above scenario and using McKinsey's 7S Framework, which element should Frontrunner Pvt. Ltd. focus on to ensure its strategic change to introduce LTL shipments is successful and meets customer expectations effectively?

   (a) Modifying the organizational structure to support both FTL and LTL operations efficiently

   (b) Implementing robust systems to track operational metrics and improve delivery times

   (c) Enhancing the skills of agents to secure return shipments and reduce deadheading

   (d) Aligning the company's values towards customer satisfaction and flexibility in service offerings

5. Match FPL's decisions to various components of Customer Relationship Management (CRM):

Sr. No.	FPL's decisions	Sr. No.	Component of CRM
1	Target customers whose CLV is ₹ 20 lakh and above	I	Customer Acquisition
2	Advertising on trucking load boards, trade publications	II	Customer Retention
3	On time delivery with nil to minimum damage	III	Customer Selection
4	Packaging and Transport insurance advisory services	IV	Customer Extension

Options

(a) 1-III, 2-I, 3-II and 4-IV

(b) 1-II, 2-I, 3-IV and 4-III

(c) 1-II, 2-III, 3-IV and 4-I

(d) 1-III, 2-IV, 3-II and 4-II

II. Descriptive Questions

6. The management wishes to link business strategy with the day-to-day operations of the business. As a management consultant for the company, you plan to present the above information APPLYING the Performance Pyramid model suggested by Lynch and Cross.

   (i) Identify the Level 1 – Corporate Vision and Level 2 – Market and Financial measures that the company plans to follow to sustain business. Briefly explain the rationale of the decisions taken at the Market and Financial business unit level.

   (ii) Classify the operational level (measures a to f) into Quality, Delivery, Cycle Time and Waste metrics. Also link them to the Level 3 measures of Customer Satisfaction and Productivity.

   (iii) Briefly assess how measures (g) and (h) impact business.

7. How should the modification in the lease agreement with SPL be accounted for?

8. (i) SUGGEST a few financial and non-financial considerations arising due to frequent breakdown of trucks.

   (ii) IDENTIFY the error in R. Venkatesh's current management of operations by implementing TQM.

   (iii) ADVISE on the lease management philosophy that R. Venkatesh can implement to address the issue of unexpected breakdown of trucks.

   (iv) DISCUSS how the recommended lean management philosophy aligns with and supports the objectives of TQM.

ANSWERS TO THE CASE STUDY 24

I. Answers to the Multiple Choice Questions

1. (a) Statements (i) and (iii) are correct.

Reason:

If FPL chooses to pay the GST itself, in order to avail ITC on the goods and services used in supplying the GTA service, it has to pay the GST at the rate of 12% and not 5% as forward charge. If FPL chooses to pay GST under the reverse charge mechanism, the recipient of service who pays the GST on behalf of the GTA can avail ITC on that amount. Reverse charge means that the liability to pay

the tax is on the recipient of service and not on the GTA. Therefore, the ITC can accordingly be availed by the recipient of service and not the GTA.

2. (d) ₹ 12,30,000.

Reason:

Since FPL does not own more than 10 trucks during the P.Y. 2024-25, it is eligible to pay tax under presumptive taxation scheme under section 44AE.

As per section 44AE, any truck weighing above 12 tons (12,000 kgs) would be considered a heavy goods vehicle. For each such heavy goods vehicle, ₹ 1,000 per ton of gross vehicle weight or unladen weight for every month or part of a month during which such vehicle is owned by the assessee would be the deemed profits.

Any truck weighing 12 tons (12,000 kgs) or less would be other than heavy goods vehicle. For each such vehicle, presumptive income would be deemed to be ₹ 7,500 for every month or part of a month for which the vehicle is owned by the assessee.

The relevant date here is the date of owning and not the date on which the truck is put to use.

The calculations would be as under:

Goods vehicle other than heavy goods vehicle

No. of Vehicles	Date of Purchase	No. of Months for Which the Vehicle is Owned	No. of Months × No. of Vehicles
3	April 1, 2021	12	36
2	April 1, 2021	12	24
			60

Heavy goods vehicle

No. of Vehicles	Date of Purchase	No. of Months for Which the Vehicle is Owned	No. of Months × No. of Vehicles
3	April 1, 2022	12	36
1	April 1, 2024	12	12
			48

Presumptive Income

Sr. No.	Particulars	Presumptive Income
1	Other than heavy vehicles 60 × ₹ 7,500	4,50,000
2	3 Heavy vehicles purchased on April 1, 2022 36 × ₹ 1,000 × 15 tons	5,40,000
3	1 heavy vehicle purchased on April 1, 2024 12 × ₹ 1,000 × 20 tons	2,40,000
	Total	**12,30,000**

3. (c) Offering packing and insurance advisory services to clients for a fee whenever required.

Reason:

Offering packing and insurance advisory services to clients where the client has such requirements adds value to the service that the transporter is providing. If executed competently, the client would be willing to avail these services for a fee. This adds value to FPL's overall services.

4. (b) Implementing robust systems to track operational metrics and improve delivery times.

Reason:

The success of introducing LTL shipments largely depends on effective tracking and managing of operational metrics, which directly impacts customer satisfaction and delivery performance. Robust systems will ensure that FPL can meet the 7-day delivery expectation, efficiently handle the increased volume of shipments, and minimize deadheading, thereby enhancing overall productivity and flexibility in operations. This aligns with McKinsey's 7S element of **Systems**, which is crucial for operational effectiveness and strategic change implementation.

5. (a) 1-III, 2-I, 3-II and 4-IV.

Reason:

Target customers whose CLV is ₹20 lakh and above - Customer Selection.

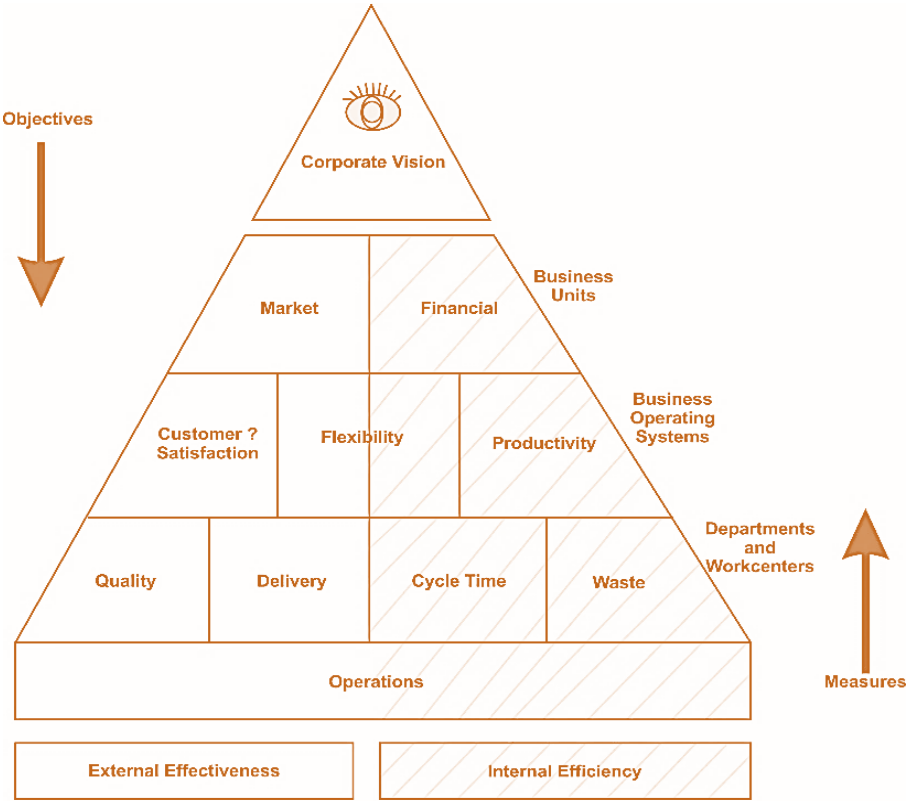
Advertising on trucking load boards, trade publications - Customer Acquisition.

On time delivery with nil to minimum damage - Customer Retention.

Packaging and Transport insurance advisory services - Customer Extension.

II. Answers to the Descriptive Questions

6. (i) Identification of Corporation Vision and Market and Financial measures for company's success



Level 1- Corporate Vision:

Corporation Vision of Road runner is that "The company aims at maintaining good quality delivery standards to make its mark in the competitive environment it operates*."

*Alternative is also possible.

Level 2- Market related measures:

To increase its ***market growth*** and enlarge its clientele base, the company plans to increase its advertising spend to make its presence known in the market. It is resorting to off-line print media, online media as well as by participating in relevant trade association events. It has a target clientele of mid-sized companies that have shipments to make at regular intervals. It has to track ***customer satisfaction*** of its service with relation to the quality and delivery of its service. Ancillary services like packaging services on outbound shipments and transport insurance

advisory services based on customer requirements are aimed at increasing the value proposition of service offered to the clients. This can help maintain, if not grow, FPL's market share.

Level 2- Financial measures:

Within the specter of rising costs, to maintain ***financial sustenance***, the senior management has put in place metrics that will track profitability. Difference between the revenue per kilometre and cost per kilometre would be the profit earned per kilometre. The target profit per kilometre = ₹ 800 - ₹ 500 = ₹ 300 per kilometre. Also, the company is clear that it wants a quick turnover of its accounts receivable. For getting credit worthy customers, it has targeted clientele whose customer lifetime value is at least ₹ 20 lakh or more. The presumption made is that these mid-sized companies are less likely to default on their bills. For quick turnover of its accounts receivable, it proposes to give a 10-day credit period to its client to settle the bill. Quick conversion of accounts receivable into cash helps maintain liquidity. This is especially important for FPL to maintain since its costs of operations, especially fuel costs, are going up.

(ii) <u>Operational level measures and their link to customer satisfaction and productivity</u>

The operations level measures can be classified as follows:

(a) Customer claims filed for damaged goods (absolute numbers and % of shipments made) – *Quality of service*.

Incidents of such claims should be maintained at the very minimum to have good customer satisfaction.

(b) Time taken to resolve the above claims (days from date of customer filing claim) – *Quality of service*.

Quick resolution of claims leads to better customer satisfaction.

(c) Delays in delivery beyond the agreed delivery time (% of shipments made) – *Delivery of service*.

Incidents of such delays in delivery should be maintained at the very minimum to have good customer satisfaction.

(d) Number of days truck was not on the road (due to maintenance or insufficient load) – *Waste* of resource.

Utilization of resources impacts productivity. Trucks have to be used efficiently in order to improve productivity.

(e) Average time taken to get exclusive FTL orders as well as full truck load under LTL (days) – *Cycle time*, time taken to complete the task.

Currently, time taken is 4 days for FTL shipments and expected to be 3 days for LTL shipments. This should be kept at a minimum level to improve productivity. Faster the ability to fill up the truck, improves the utilization of resource and enhances productivity.

(f) Deadheads (kilometres): Kilometres the truck is on the road with no load to carry– *Waste of resource*.

When a truck runs on the road without any load, it incurs a cost but earns no revenue to recoup it. Therefore, the number of kilometre deadheads is a waste and should be kept to a minimum.

(iii) <u>Impact of measures (g) and (h) on business</u>

(g) Number of orders turned down due to non-availability of trucks – *Flexibility of service*.

This metric has to be maintained at the very minimum. The business must be able to cater to as many orders as possible. Tracking this metric can indicate if the current capacity of trucks is sufficient to cater to the demand from customers.

(h) Ability to deliver within 7 days from the date of receiving client's goods under the LTL system (% of shipments under the LTL system) – *Flexibility of service*.

It is given that under the LTL system, given the piecemeal orders that are aggregated to form a full truck load, on an average the client is willing to wait for maximum 7 days from the date of handing over goods until delivery. It is expected that it would take 3 days to fill up to full truck load capacity under the LTL system. Hence, the company has only 4 days left to ensure that the goods reach their destination. The ability to meet this expectation of the customer is very important to maintain and sustain business. Therefore, the company has to have sufficient capacity to cater to customers' expectations. It must have enough flexibility (capacity) in its operations to accommodate any exigencies to ensure that this expectation is met.

7. Ind AS 116 on leases provides guidelines on accounting for lease modifications. Lease modification includes change in scope of the lease e.g. extending the contractual lease term. In this case, modification increases the scope of the lease by extending the

contractual lease term from original term of 5 years to a total of 8 years. At the effective date of the modification (at the beginning of Year 4), FPL would remeasure the lease liability based on:

(a) A five-year remaining lease term

(b) Annual payments of ₹10,00,000 payable at the end of each year and

(c) FPL's incremental borrowing rate of 7% p.a.

The modified lease liability equals ₹41,00,000 (refer working note 3). The lease liability immediately before the modification (including the recognition of interest expense until the end of Year 3) is ₹18,32,959.

FPL will account for the modification in the lease agreement with SPL as follows:-

At the beginning of Year 4, on the effective date of modification FPL will recognize the difference between the carrying amount of lease liability ₹ 18,32,959 (immediately before the modification) and the carrying amount of the modified lease liability ₹ 41,00,000.

Modified lease liability	₹ 41,00,000.
Less: Original lease liability as at the modification date (beginning of Year 4)	₹ 18,32,959
This difference would result in an increase in lease liability and carrying amount of ROU asset by	₹ 22,67,041

Working Note 1: Calculation of the Lease at the commencement of the lease

Year	Lease Payment (A)	PV Factor @6% (B)	Present Value of Lease Payments C = A × B
1	10,00,000	0.943	9,43,000
2	10,00,000	0.89	8,90,000
3	10,00,000	0.84	8,40,000
4	10,00,000	0.792	7,92,000
5	10,00,000	0.747	7,47,000
Total	50,00,000		42,12,000

Working Note 2: Calculation of Lease liability immediately before modification date

Year	Opening Lease Liability (A)	Interest @ 6% B = (A) × 6%	Lease Payments	Closing Liability = A + B - C
1	42,12,000	2,52,720	10,00,000	34,64,720
2	34,64,720	2,07,883	10,00,000	26,72,603
3	26,72,603	1,60,356	10,00,000	18,32,959

Working Note 3: Calculation of modified lease liability on date of modification

Year	Lease Payment (A)	PV Factor @7% (B)	Present Value of Lease Payments C = A ×B
4	10,00,000	0.935	9,35,000
5	10,00,000	0.873	8,73,000
6	10,00,000	0.816	8,16,000
7	10,00,000	0.763	7,63,000
8	10,00,000	0.713	7,13,000
Total	50,00,000		41,00,000

8. **(i)** Regularly flouting rules regarding maximum truck load size and weight can lead to significant reputational damage if these breaches are detected. There is also a risk of substantial financial loss if, for example, a valuable load is damaged, and it is found that weight limits were exceeded. The company's insurers would almost certainly refuse to accept liability, leaving FrontRunner to cover the compensation costs. Additionally, FrontRunner's ongoing operations could be impacted by increased scrutiny from authorities, with frequent police stops causing delays to convoys. This heightened attention could also result in increased fines and legal fees, further straining the company's finances. Furthermore, the negative publicity could erode customer trust, leading to a potential decline in business and loss of key contracts.

(ii) It appears that TQM at FrontRunner has high-quality delivery standards, focusing on the end product being supplied to the customer. The Chairman's message indicates that business operations are being conducted smoothly and to the satisfaction of customers. Business volumes have also increased over the years. However, the system implemented by R. Venkatesh overlooks the maintenance aspect of trucks, leading to breakdowns and unplanned repairs that must be carried out.

(iii) Total Productive Maintenance (TPM) is a lean management philosophy that helps maintain and improve the integrity of production and quality systems. TPM keeps all equipment in top working condition to avoid breakdowns and delays in operations. The TPM focuses on eight pillars, with the 5S as the foundation. Autonomous Maintenance is one of these eight pillars. The objective of this pillar is to operate equipment (trucks, in this case) without breakdowns and to eliminate defects at the source through active employee participation. For example, at FrontRunner, the driver might carry out maintenance activities like lubricating, tightening bolts, and changing tires. The maintenance team would be involved only for more sophisticated and highly technical maintenance. This approach ensures that trucks are in good working order most of the time. Truck drivers are trained to handle minor repairs and maintenance, freeing up Mr. Soni's time to attend to more complicated tasks that require his expertise.

(iv) Total Quality Management (TQM) and Total Productive Maintenance (TPM) are often used interchangeably. However, TQM and TPM are considered two different approaches. TQM aims to increase the quality of goods, services, and customer satisfaction by raising awareness of quality concerns across the organization. In other words, TQM focuses on the quality of the product, while TPM focuses on the equipment used to produce the products. By preventing equipment breakdowns, improving the quality of the equipment, and standardizing the equipment, the quality of the products increases. TQM and TPM can both result in an increase in quality; however, their approaches are different. TPM can be seen as a way to help achieve the goals of TQM.





Concept Insight Business Model Canvas*

Key Partners	Key Activities	Value Proposition	Customer Relationship	Customer Segments
▪ Agents for sourcing return shipments ▪ Suppliers of packing materials ▪ Insurance advisory firms for transport insurance services ▪ Spaces Pvt. Limited (SPL) for truck parking lease ▪ Fuel providers ▪ Truck manufacturers and leasing companies	▪ On Time delivery of commercial goods (B2B) across Gujarat without damages within 7 days of receiving order ▪ Client order management to maximize truck capacity utilization (FTL orders 4 days, LTL orders 3 days) ▪ Client order management to reduce deadheading ▪ Route planning to minimize order delivery times ▪ Coordination of FTL and new LTL shipments ▪ Improve flexibility in operations to reduce lost	▪ Reliable and efficient B2B transportation services within Gujarat ▪ Flexibility with FTL and LTL shipment options ▪ Competitive pricing with target cost-per-kilometer and revenue-per-kilometer rates ▪ Additional services like packing and transport insurance advisory	▪ Personalized customer service and support for shipment needs	▪ Mid-sized companies in Gujarat requiring regular and efficient shipment services with average customer lifetime value of ₹ 20 lakh and above. ▪ Businesses having large shipments needing FTL option ▪ Businesses smaller shipments needing LTL option

	sales due to non-availability of trucks ▪ Maintenance and management of truck fleet ▪ Offering packing and transport insurance advisory services ▪ Participation in trade association events ▪ Advertising and Marketing to expand customer base			
	Key Resources 		**Channels** 	
	▪ Fleet of 9 trucks with varying capacities (7,000 to 20,000 kilograms) ▪ Skilled workforce for operations and customer service ▪ Financial resources for operational expenses and lease payments		▪ Marketing outreach to customer base (through advertisements in print and online media) ▪ Direct interactions at trade association events ▪ Partner channels through agents	

Cost Structure ₹	Revenue Streams ₹
▪ Operational costs (fuel, maintenance, lease payments) ▪ Employee salaries and benefits ▪ Marketing and advertising expenses ▪ Agent commission charges ▪ Cost of goods sold (packing materials, insurance premiums) ▪ Lease payments ▪ Insurance and permits ▪ Taxes – Direct and Indirect taxes like GST, Income Tax ▪ Claim settlements for damaged goods	▪ Revenue from transportation services (FTL and LTL). ▪ Additional revenue from packing and transport insurance advisory services

This Business Model Canvas outlines how FrontRunner Pvt. Ltd. operates its trucking business in Gujarat, focusing on both FTL and LTL shipments, along with additional services to enhance customer value and operational efficiency.

**** Alternative Views are also possible.***

CASE STUDY 25

Nexus Ltd.

Nexus Ltd. is a renowned powerhouse in the pharmaceutical sector, known for its wide range of over-the-counter medications and a robust distribution network across urban centers. Despite its strong market position, Nexus Ltd. has been facing challenges in expanding its reach in semi-urban and rural markets and diversifying its product portfolio to include more affordable, plant-based formulations that are increasingly in demand.

Bhoomi Ltd., on the other hand, is a rising star in the pharmaceutical landscape, with a strong presence in rural areas and an innovative line of herbal, Ayurvedic remedies. Bhoomi Ltd.'s unique approach to leveraging indigenous medicinal knowledge and its sustainable manufacturing practices has earned it a loyal customer base and recognition for its commitment to holistic healthcare.

As consumer trends shift towards sustainability and wellness, Nexus Ltd. recognizes the need to adapt its product offerings and market approach. The leadership team at Nexus Ltd., led by the visionary CEO, conducts a strategic review, and identifies the acquisition of a company aligned with these emerging trends as a critical pivot for future growth.

Nexus Ltd. embarks on a search for a suitable acquisition target, with Bhoomi Ltd. quickly emerging as a frontrunner due to its innovative product line and strong rural penetration. Bhoomi Ltd.'s practices also align with Nexus Ltd.'s long-term vision of sustainability and social responsibility.

Nexus Ltd. decides to acquire Bhoomi Ltd. by acquiring its shares and the following data is available in respect of the companies:

- Nexus Ltd. has a total of 61,000 equity shares outstanding. Each share is currently trading at a market value of ₹ 44 as per the latest available quotes. The company has reported earnings after tax (EAT) of ₹ 1,22,000 for the financial year.

- Bhoomi Ltd. in contrast, has a significantly higher equity base with 1,22,000 equity shares issued, with the market value per share recorded at ₹ 220, and its earnings after tax reported at ₹ 6,10,000 for the same period.

(The summarised Balance Sheets of Nexus Ltd. and Bhoomi Ltd. are given in **Annexure-I**).

This proposed acquisition, however, was met with disapproval from a few shareholders of Bhoomi Ltd., leading to certain concerns and disputes that were widely reported in the press (Relevant newspaper coverage is attached as **Annexure-II**).

Premerger, Bhoomi Ltd. had a block of assets carrying 15% rate of depreciation, whose WDV as on 31.3.2024 after reducing depreciation for P.Y. 2023-24 was 8 lakhs. It purchased another asset (second-hand plant and machinery) of the same block on 01.11.2024 for 2.88 lakhs and put to use on the same day. Bhoomi Ltd was merged with Nexus Ltd with effect from 01.01.2025.

Post merger, the directors of Bhoomi Ltd. are appointed 7 out of 10 positions in the combined entity's board.

Despite the acquisition, it is decided that post-merger, both Nexus Ltd. and Bhoomi Ltd. will continue to operate as independent divisions, namely – Nexus division and Bhoomi division in the merged company. This acquisition, followed by the decision to keep both companies as independent units, is seen as a strategic move that combines the strengths of both entities while preserving their unique values and operational strengths. Nexus division benefits from an expanded product portfolio and entry into the growing herbal market segment, while Bhoomi division gains from the extensive distribution network and market reach of Nexus, setting a path for mutual growth and market dominance in the pharmaceutical sector.

The company shall have separate COOs for both the divisions, and it wishes to evaluate their performance. It was considering computing ROI of both the divisions for this purpose. However, one of the COOs pointed out that it may be possible that divisional ROI can be increased by those actions that will reduce the overall ROI of the company, and conversely, the actions that decrease divisional ROI may make the company as a whole better off. In other words, evaluating divisional managers on the basis of ROI may not encourage goal congruence.

Accordingly, for better evaluation of performance, an alternate method of measuring performance using residual income is proposed. Following are the details regarding the same:

- The overall cost of capital for the company is 8%.
- Nexus Ltd. has an available investment project worth ₹ 50 lakhs, which is expected to yield a controllable contribution of ₹ 5 lakhs.
- Bhoomi Ltd. has an available investment project of ₹ 30 lakhs, with a controllable contribution of ₹ 2 lakhs.

Annexure: I

The summarised Balance Sheets of Nexus Ltd. and Bhoomi Ltd. immediately before the merger are as follows (the fair values of assets and liabilities of both the companies are same as their carrying values):

Particulars	**Amount (₹ in thousands)**	
	Nexus Ltd.	**Bhoomi Ltd.**
Current Assets	1,400	1,200
Non-Current Assets	2,200	6,200
Total Assets	**3,600**	**7,400**
Current Liabilities	990	400
Non - Current Liabilities	600	2,400
Total Liabilities	1,590	2,800
61,000 Shares of ₹ 10 Each	610	-
1,22,000 Shares of ₹ 10 Each	-	1,220
Retained Earnings	1,400	3,380
Total Equity	2,010	4,600
Total Equity and Liability	**3,600**	**7,400**

Annexure: II

The Z News

Minority Shareholder Slams Nexus-Bhoomi Deal as Unfair and Forced



3rd October 2024, New Delhi – Nexus Ltd. has decided to acquire Bhoomi Ltd. by purchasing its shares. Pursuant to the offer made on 1st March 2024, over 91% of the shareholders of Bhoomi Ltd. accepted the offer within four months. In accordance with the applicable provisions, Nexus Ltd. issued notice in August 2024 to acquire the remaining 9% shares. The acquisition was challenged by the dissenting shareholders but upheld by the Tribunal. While other minority shareholders have accepted the Tribunal's ruling, Mr. Shah, who holds 5% of Bhoomi Ltd.'s equity, has raised serious concerns. He asserts that Bhoomi Ltd. holds significantly stronger growth prospects compared to Nexus Ltd. and believes that "the exchange ratio should have been determined solely on the basis of market value, as it more accurately reflects the real worth of my investment."

He further contends that the compulsory acquisition of his shares amounts to a violation of shareholder rights and constitutes oppression of the minority. Mr. Shah added, "This forced buyout disregards the fundamental rights of minority shareholders. Whether I sell my shares or not should be my choice-not a decision imposed upon me. Minority shareholders deserve better protection. I am considering escalating this matter to the High Court."

The acquisition may have closed, but voices like Mr. Shah's highlight growing tension around minority rights in major corporate transactions.

I. Multiple Choice Questions

1. Bhoomi Ltd. wants to ensure the earnings to members are same as before the merger takes place. The exchange ratio to satisfy this condition of Bhoomi Ltd. shall be:

   (a) 1.09

   (b) 1

   (c) 0.4

   (d) 2.5

2. If the exchange ratio as decided in Question 1 is considered, the amount of goodwill comes out to be:

   (a) ₹ 30,43,750

   (b) ₹ 33,58,000

(c) ₹ 36,91,250

(d) ₹ 38,32,000

3. The EPS of both the companies pre-merger was:

(a) Nexus Ltd. = ₹ 0.5; Bhoomi Ltd. = ₹ 0.2

(b) Nexus Ltd. = ₹ 5; Bhoomi Ltd. = ₹ 2

(c) Nexus Ltd. = ₹ 2; Bhoomi Ltd. = ₹ 5

(d) Nexus Ltd. = ₹ 1; Bhoomi Ltd. = ₹ 1

4. The COOs of both the divisions have proposed an alternate method of measuring performance using residual income. The residual income of the divisions - Nexus and Bhoomi in the merged company will be:

(a) Nexus division – (₹ 1); Bhoomi division – ₹ (0.4)

(b) Nexus division – ₹ 1; Bhoomi division – (₹ 0.4)

(c) Nexus division – ₹ 1; Bhoomi division – ₹ 0.4

(d) Nexus division – (₹ 0.4); Bhoomi division – ₹ 1

5. In the above given case, the accounting acquirer and acquiree and legal acquirer and acquiree will be:

(a) Nexus Ltd. – Accounting acquiree and Legal acquirer; Bhoomi Ltd. – Accounting acquirer and Legal acquiree

(b) Nexus Ltd. – Accounting acquirer and Legal acquirer; Bhoomi Ltd. – Accounting acquiree and Legal acquiree

(c) Nexus Ltd. – Accounting acquirer and Legal acquiree; Bhoomi Ltd. – Accounting acquiree and Legal acquirer

(d) Nexus Ltd. – Accounting acquiree and Legal acquiree; Bhoomi Ltd. – Accounting acquirer and Legal acquirer

II. Descriptive Questions

6. Supposing the merger was carried out based on the exchange ratio suggested by Mr. Shah, illustrate the impact of the merger on the EPS of both companies.

7. Mr. Shah has approached you for advice regarding his concerns. He wants to know whether such forced acquisition of shares is tenable under the law. He further wants to know whether he is approaching the right forum to raise his concerns. Advise him on the said matter.

8. You are required to compute the amount of depreciation allowable under the Income-tax Act, 1961 in respect of block of assets carrying 15% rate of depreciation to Nexus Ltd. & Bhoomi Ltd. for the previous year ended on 31.03.2025.

ANSWERS TO THE CASE STUDY 25

I. Answers to the Multiple Choice Questions

1. (d) 2.5

Reason:

Calculation of exchange ratio to ensure shareholders of Bhoomi Ltd. to earn the same as was before merger:

Shares to be exchanged based on EPS = (5/2) × 122,000 = 3,05,000 shares

To check

EPS after merger = (1,22,000 + 6,10,000) / (61,000 + 3,05,000) = ₹ 2

Total earnings in Nexus Ltd. available to shareholders of Bhoomi Ltd. = 3,05,000 × 2 = ₹ 6,10,000

The EPS before merger of Bhoomi Ltd is ₹ 5, thus, to ensure that Earning to members are same as before, the ratio of exchange should be 2.5 share (Premerger EPS of Bhoomi Ltd / Post Merger EPS of Bhoomi Ltd) for 1 share.

2. (b) ₹ 33,58,000

Reason:

Nexus Ltd. issues 2.5 shares in exchange for each share of Bhoomi Ltd. All of Bhoomi Ltd.'s shareholders exchange their shares. Therefore, Nexus Ltd. issues 3,05,000 shares in exchange for all 122,000 shares of Bhoomi Ltd. Nexus Ltd. legally owns 100% of Bhoomi Ltd.

The shareholders of Bhoomi Ltd. own 83.33% (3,05,000 / 3,66,000) of the combined entity. The directors of Bhoomi Ltd. are appointed 7 out of 10 positions in combined entity's board. In accordance with Ind AS 103, Bhoomi Ltd. (Legal Acquiree) is the accounting acquirer and Nexus Ltd. (Legal Acquirer) is the accounting acquiree as Bhoomi Ltd. shareholders control over combined entity.

The market value per share price of Bhoomi Ltd.'s share is ₹ 220 per share and Nexus Ltd. share price is ₹ 44 per share. If the business combination had taken place in the form of Bhoomi Ltd. issuing additional shares to Nexus Ltd.'s shareholders in exchange for their shares in Nexus Ltd., Bhoomi Ltd. would have to issue 24,400 shares (61,000 / 2.5) for the ratio of ownership interest in the combined entity to be same. (24,400 / 146,400*). Therefore, the consideration for the business combination effectively transferred by Bhoomi Ltd. is ₹ 53,68,000 (24,400 Shares × ₹ 220).

Purchase Consideration transferred (by Bhoomi Ltd.): ₹ 53,68,000

Fair value of Assets less Liabilities Assumed (Nexus Ltd.): ₹ (20,10,000)

Goodwill: ₹ 33,58,000

*24,400 + 1,22,000 = 146,400 shares

3. (c) Nexus Ltd. = ₹ 2; Bhoomi Ltd. = ₹ 5

Reason:

Nexus Ltd. = 1,22,000 / 61,000 = ₹ 2

Bhoomi Ltd. = 6,10,000 / 122,000 = ₹ 5

4. **(b)** Nexus Ltd. – ₹ 1; Bhoomi Ltd. – ₹ (0.4)

Reason:

	Nexus Ltd.	Bhoomi Ltd.
Available Investment Project	50 lacs	30 lacs
Contribution	5 lacs	2 lacs
Overall Cost of Capital (8%)	4	2.4
Residual Income	₹ 1	₹ (0.4)

5. **(a)** Nexus Ltd. – Accounting acquiree and Legal acquirer; Bhoomi Ltd. – Accounting acquirer and Legal acquiree

Reason:

Nexus Ltd. legally owns 100% of Bhoomi Ltd. The shareholders of Bhoomi Ltd. own 83.33% (3,05,000 / 3,66,000) of the combined entity. In accordance with Ind AS 103, Bhoomi Ltd. (Legal Acquiree) is the accounting acquirer and Nexus Ltd. (Legal Acquirer) is the accounting acquiree as Bhoomi Ltd. shareholders control over combined entity.

II. Answers to the Descriptive Questions

6. Supposing the merger was carried out based on the exchange ratio suggested by Mr. Shah, illustrate the impact of the merger on the EPS and PE ratio of both companies.

	Nexus Ltd.	Bhoomi Ltd.
Number of equity shares	61,000	122,000
Market value per share	44	220
Earnings after tax	122,000	6,10,000
EPS	2	5
PE ratio	22	44

Exchange ratio based on Market value per share:

₹ 220/ ₹ 44= 5 or 5 shares of Nexus Ltd. for 1 share of Bhoomi Ltd.

EPS after merger

No. of equity shares to be issued (122,000 × 5)	**6,10,000**
Existing equity shares outstanding	61,000
Equity shares outstanding after merger	6,71,000
Total profit (1,22,000 + 6,10,000)	7,32,000
EPS	1.09

Impact of merger on EPS of both the companies

	Nexus Ltd.	**Bhoomi Ltd.**
EPS after merger	₹ 1.09	₹ 5.45*
EPS before merger	₹ 2	₹ 5
	(₹ 0.91)	₹ 0.45

*₹ 1.09 x 5 = ₹ 5.45

7. In case of an amalgamation, it is possible for the transferee to acquire shares of the dissenting shareholders.

The basic requirements as to acquisition of shares mentioned in **Section 235 of the Companies Act, 2013** are as follows:

- The scheme or contract involving the transfer of shares in a company (transferor company) to another company (transferee company) has been approved by the holders of **not less than 9/10th (90%) in value** of the shares whose transfer is involved.
- The approval of 9/10th shareholders in value shall be received **within 4 months** after making of an offer in that behalf by the transferee company.
- The transferee company shall express his desire to acquire the remaining shares of dissenting shareholder in 2 months after the expiry of the said 4 months and shall give notice in the prescribed manner to any dissenting shareholder that it desires to acquire his shares. The transferee company shall be entitled as well as bound to acquire the shares of the dissenting shareholders where no application is made by any dissenting shareholders to the tribunal in 1 month of receipt of notice of acquisition of shares or where an application is made by any dissenting shareholder, but such application is dismissed by the Tribunal.

In the given case, since the application made by the dissenting shareholders has been dismissed by the Tribunal, Nexus Ltd. is bound to acquire all the shares of the dissenting shareholders i.e. an entire 9% shareholding. Since Nexus Ltd. acquired 9% shareholding of the dissenting shareholders, this is valid as per Section 235 of the Companies Act, 2013. Hence, the amalgamation of Bhoomi Ltd. by Nexus Ltd. is valid.

It is not recommended that Mr. Shah approach any forum regarding his grievances since the Tribunal has already evaluated the merits and dismissed the application by the minority shareholders. However, if he still wishes to appeal against the order, the NCLAT not the High Court would be appropriate forum for the same.

8. Statement showing computation of depreciation allowable to Nexus Ltd. & Bhoomi Ltd. for A.Y. 2025-26

Particulars	**₹**
Opening WDV as on 1.4.2024 [i.e., WDV as on 31.3.2024 after reducing depreciation for P.Y. 2023-24	8,00,000
Addition during the P.Y. 2024-25 (used for less than 180 days)	2,88,000
Total	**10,88,000**
Depreciation on ₹ 8,00,000 @ 15%	1,20,000
Depreciation on ₹ 2,88,000 @ 7.5%	21,600
Total depreciation for the P.Y. 2024-25	**1,41,600**

Apportionment between two companies:

Bhoomi Ltd	**₹**
1,20,000 × 275/365	90,411
21,600 × 61/151	8,726
	99,137
Nexus Ltd.	**₹**
1,20,000 × 90/365	29,589
21,600 × 90/151	12,874
	42,463

Note: Additional depreciation is not allowed in respect of second hand machinery installed in office premises. It is assumed here that such machinery is not installed in the office premises.

CASE STUDY 26

IndyaDekho

Pioneering Innovation and Customer Experience in the Digital Travel Landscape

The travel industry has undergone a significant transformation in recent years, driven by technological advancements and changing consumer preferences. Today, the sector is characterized by a digital-first approach that emphasizes convenience, customization, and customer experience. As more travelers turn to online platforms to plan and book their trips, companies leveraging technology effectively are gaining a competitive edge. This digital revolution has led to the emergence of numerous travel tech companies offering a wide array of services, from hotel and flight bookings to complete holiday packages, all accessible with just a few clicks.

In this evolving landscape, IndyaDekho Limited has positioned itself as a pioneering new-age tech company. Founded with the vision of simplifying the travel planning and booking process, IndyaDekho has distinguished itself through its innovative approach and comprehensive service offerings. Its proprietary app, “IndyaDekho,” is central to this strategy, designed to cater to the needs of the modern traveler by offering services like hotel bookings, flight bookings, curated holiday deals, and other allied services. Incorporated in the year 2000, IndyaDekho was listed on recognized stock exchanges in India in November 2001 (more than twenty years ago).

Customer centricity is deeply embedded in IndyaDekho's culture and business operations. Over the years, the company has tapped into existing market potential and forged new growth avenues through a customer-focused approach and commitment to operational excellence. This customer-centric approach serves as a catalyst for innovation, driving the company to seek timely solutions that cater to the evolving preferences of customers. By leveraging an insight-driven and research-based framework, IndyaDekho enhances tech-enabled growth and identifies areas for improvement, facilitating the development of innovative packages and services that foster client satisfaction.

Brand Affinity and Omnichannel Strategy

IndyaDekho's brand affinity, customer centricity, innovative packages, and omnichannel approach have positioned it as the preferred partner for its discerning patrons. Building on its strengths, IndyaDekho continues to navigate disruptions in the operating environment with agility, delivering innovative offerings and embracing best-of-breed technologies. The first step to meet these objectives was the recruitment of a sports celebrity as an employee. This sports celebrity would help IndyaDekho in maintaining and further developing its brand by participating in local sports events, select cultural events, and advertising campaigns. As per the terms of the contract, the sports celebrity is prohibited from playing for any other team and cannot leave the company without mutual agreement. The amount paid by the company to acquire this right is derived from the skills and fame of the sports celebrity.

IndyaDekho continues to invest heavily in maintaining and developing its brand, sponsoring select cultural events, and advertising. This strong brand presence allows the company to charge a premium from its customers. The company believes that it will reap the benefits of this expenditure over a long period and prefers to amortize the expenditure over future periods rather than charging it to profit or loss in a single year.

As the industry evolves with the adoption of new technologies, so does IndyaDekho's product and service portfolio. Digitization has transformed how the company extends its offerings to customers, empowering itself digitally to enhance productivity and operational efficiency while serving clients through both physical and digital channels.

Stakeholder Engagement and Total Quality Management

IndyaDekho appreciates the crucial role of stakeholders in ensuring long-term success. Through effective stakeholder engagement, the company gains valuable insights into their material concerns and expectations. By addressing these concerns and developing mutually beneficial solutions, IndyaDekho strives for inclusive progress that balances growth aspirations with a steadfast commitment to stakeholder integrity. Stakeholder feedback led to the assessment of a holistic quality improvement mechanism based on the principles of Total Quality Management. Refer Extract of Minutes of the 104th Meeting of the Board held on 31st May 2025 at New Delhi (Annexure).

Pressing Matters Discussed by the Board of Directors

A few weeks later, an urgent meeting of the Board of Directors was called to discuss the following pressing matters:

Matter 1: Unauthorized Payments

The company's services include bookings via its app/platform. To facilitate customer service for travel business, the company had engaged a third-party service provider, InstPay Technology Private Limited, to deploy its employees/agents to perform services specifically for the company. Each transaction generates a unique order ID, and all such order IDs and related transaction details are stored on the company's Seller ERP. Access to the company's Seller ERP was granted to InstPay and its employees solely to enable them to provide services and discharge their obligations under the contract, including processing refunds. On 25th May 2024, a customer notified the company that they hadn't received a payout/settlement for 15 orders. The operations team reviewed the matter and noted that InstPay's nine employees misused their access to fraudulently initiate cancellations of payouts in the Seller ERP. Consequently, the airline/hotel received payment from the company, and the amount was also refunded to the customer's account. The operations team informed the management that these employees had initiated the payment cancellation of 1,905 orders, aggregating to ₹ 5 crores, where payments were made to respective airlines/hotels, in addition to crediting these refunds to the customers.

Matter 2: Cancel Payment Functionality Abuse

The company also facilitates payments and other services for its users through the IndyaDekho app, which includes a credit card bill payment facility. The system is integrated with the credit card issuer bank via different payment rails (e.g., IMPS, NEFT). The app provides a 'cancel payment' functionality intended to cover technical glitches (e.g., where the payment is stuck in the bank's online system). This functionality allowed app users to cancel credit card payment transactions after 4 hours of payment. Some app users repeatedly abused this functionality by initiating multiple credit card payments and subsequently cancelling those transactions after 4 hours. The company refunded the payments to fraudulent users' credit card accounts and transferred cash to the credit card issuer bank. It was discovered that 4,200 app users had abused the "cancel payment" functionality, causing a loss of ₹ 33 crores to the company.

The company initiated a forensic investigation supported by a well-known law firm. The investigation was supervised by the ex-head of the CBI, who had years of experience dealing with financial crime. The forensic investigator reviewed the change management process for configuring the 'cancellation' functionality, analyzed the transaction dump of orders refunded to identify any patterns/trends, interviewed selected people, assessed the refunds and evaluated for anomalies, and reviewed the HR data and relevant email communications of select employees. The forensic team concluded that there was no collusion with any of the company's employees. The forensic report was submitted to the Board for consideration.

Audit and Forensic Report

While auditing the company, the auditor performed relevant inquiries with the management as required under the Standards on Auditing. The management updated the auditor on the developments during the year, including the above matters. The auditor requested the forensic report, as it summarizes the findings and can be used as a reference for further action. The management explained that the forensic report is comprehensive, identifies the perpetrators involved, quantifies the financial loss suffered, and provides advice to prevent the recurrence of similar instances.

The auditor deliberated internally on whether the unauthorized payment matter would trigger reporting under CARO 2020, especially since the matter was identified by the management. The fraud was not identified by the auditor while performing the audit procedures. He considered whether reporting under CARO would be duplicative since the matter is known to the management and key stakeholders. However, he is also conscious of the reporting threshold under section 143(12) of the Companies Act, 2013, i.e., fraud in excess of ₹ 1 crore.

The management also informed the auditor that being a listed company, due care should be taken while handling unpublished price-sensitive information. The auditor reiterated that adequate care is exercised while handling such information. He explained that a robust framework is in place to define unpublished price-sensitive information, the manner of handling it, and the names of recipients. Periodic certificates are obtained from team members confirming that unpublished price-sensitive information acquired during the audit is not misused.

GST Rate Revision and Impact

During the current year, the company moved to a new head office, entailing the purchase of modular furniture from Office Living LLP.

The rates of GST on various dates of the transaction are as follows:

Date	Particulars	Rate of IGST
15th October, 2024	Date of issue of invoice	18%
18th October, 2024	Date of delivery and installation of Modular Furniture upon the availability of the technician	18%
19th October, 2024	Payment is entered in the books of Office Living LLP	18%
26th October, 2024	Payment is credited to the bank account of Office Living LLP	28%
(Note: The rate has been changed from 18% to 28% with effect from 20th October)		

Annexure

IndyaDekho

Extract of Minutes of the 104th Meeting of the Board held on 31st May 2025 at New Delhi

Item: Discussion on Quality Improvement at IndyaDekho

Independent Director:

The concept of quality management has been acknowledged since ancient times. Several manufacturing firms have focused on improving quality and using tools explicitly aimed at quality control. The concept of quality management has been widely accepted in various worldwide standards such as ISO. Therefore, I propose to employ this in IndyaDekho.

Managing Director:

Quality management is generally understood to enhance the quality of products as an integrated organizational tool. It aims to optimize an organization's competitiveness by improving the quality of its goods. Moreover, TQM includes core team members in meeting consumer needs by employing problem-solving methods to increase the quality of goods. This relates to only manufacturing industry and hence I am not in favour of quality management. In addition, it involves a lot of funds and hence waste of resources in employing service industry like ours.

Independent Director: (heatedly)

I must disagree, Managing Director. The principles of quality management are not confined to manufacturing alone. Service industries worldwide have successfully adopted these standards to great benefit.

Managing Director: (heatedly)

That's easy to say, but the practicalities and financial implications for a service industry like ours are vastly different. We cannot afford to invest heavily in a system that might not yield proportional benefits.

Chief Management Accountant:

The key objective is to achieve a holistic alignment between organizational personnel and their roles to achieve better development, improvement, and protection of the standard of goods and also services to attain consumer satisfaction. TQM philosophy focuses on enhancing business quality and manage satisfaction by maximizing employee participation in decision-making activities. Though the primary aim is to satisfy external customers, TQM acknowledges the challenge of fulfilling external customers' expectations without meeting the needs of internal customers. It aims to surpass the needs of both.

CEO: (intervening to calm the discussion)

Let's take a step back. Adopting TQM entails a significant shift in organizational culture and structure. Therefore, it is advisable to tailor the application method to fit the company. An objective evaluation of the internal and external environment in which the company functions is recommended to assess the impact areas. We need a balanced approach that considers the unique aspects of our service industry.

I. Multiple Choice Questions

1. Considering both instances of fraud, the audit in-charge drafted Form ADT-4, i.e. Form used to report frauds to the Central Government, as prescribed under Section 143(12) Companies Act, 2013 read with related Rules. The engagement partner believes that the Form need not be filed with the Central Government. Do you agree?

   (a) Yes. Each instance of fraud is less than the qualifying threshold of ₹ 1 crore for individual frauds.

   (b) Yes. Employees/ officers of the Company are not involved in the frauds.

   (c) No. Auditor to report all frauds to the Central Government, irrespective of materiality.

   (d) No. Auditor to report frauds to the Central Government, since the aggregate loss exceeds qualifying threshold of ₹ 1 crore.

2. The Company secretary is of the view that the auditors handle unpublished price sensitive information. Accordingly, the auditor should maintain a database containing relevant information including names of the person with whom information is shared and PAN. Do you agree?

   (a) Yes. SEBI (Prohibition of Insider Trading) Regulations, 2015 requires auditors to maintain Structured Digital Database with prescribed data and information.

   (b) No. SEBI (Prohibition of Insider Trading) Regulations, 2015 do not apply to auditors.

   (c) No. Statutory auditor appointed have unrestricted access to all information for the purpose of audit. Maintenance of database of information would not align with the powers of the auditor.

   (d) No. SEBI (Prohibition of Insider Trading) Regulations, 2015 does not require any Structured Digital Database.

3. The auditor's request for a copy of forensic audit report was denied by the management citing client attorney privilege. This privilege safeguards confidential communications between a client and their attorney. Is the management correct?

   (a) No. Auditor should be provided a copy of the forensic audit report since the amount is material to the financial statements.

   (b) Yes. Auditor should not be provided a copy of the forensic audit report since the information is sensitive and susceptible to misuse by the any member of the audit team.

(c) Yes. Auditor should be provided a copy of the forensic audit report since the amount is material to the financial statements from management's perspective.

(d) No. Companies Act, 2013 and Standard on Auditing provide unrestricted access to any information to an auditor of the financial statements.

4. Whether these unauthorised payments be reported by the auditor under CARO 2020?

(a) Yes. CARO envisages comment by auditor on outcome of a forensic audit.

(b) No. Since no fraud is reported to the Central Government under section 143(12) of the Companies Act, 2013 and the amount is not material.

(c) Yes. CARO envisages comment by auditor for frauds which came to notice during audit.

(d) No. Since no fraud is reported to the Central Government under section 143(12) of the Companies Act, 2013.

5. What is the 'date of payment' for modular furniture supplied by Office Living LLP to Indya Dekho Travel Limited? Determine time of supply in said case.

(a) 19th October; 15th October

(b) 26th October; 15th October

(c) 19th October; 18th October

(d) 26th October; 18th October

II. Descriptive Questions

6. Whether the cost incurred to obtain the right regarding the sports celebrity cum employee can be recognised as an intangible asset as per Ind AS 38?

7. How can IndyaDekho effectively implement Total Quality Management (TQM) to enhance service quality and ensure long-term business sustainability, considering the 6Cs of TQM—Commitment, Culture, Continuous Improvement, Cooperation, Customer Focus, and Control, especially in light of the diverse viewpoints expressed in the minutes of the 104th Board Meeting held on 31st May 2025, where the Independent Director emphasized the widespread acceptance of quality management, the Managing Director expressed concerns about its applicability and financial impact on the service industry, and the CEO highlighted the need for a tailored approach and objective evaluation of the company's internal and external environment?

8. Can IndyaDekho defer and amortise the expenditure over brand building incurred over future years?

ANSWERS TO THE CASE STUDY 26

I. Answers to the Multiple Choice Questions

1. (b) Yes. Employees/ officers of the Company are not involved in the frauds.

Reason:

Section 143(12) of the Companies Act, 2013 requires auditor to report that an offence of fraud, which involves or is expected to involve individually an amount of rupees one crore or above, is being or has been committed against the company by its officers or employees. Accordingly, in both the instances, employees/ officers of the Company were not involved and thus fraud reporting by auditor as prescribed under Section 143(12) Companies Act, 2013/ related Rules is not triggered.

2. (a) Yes. SEBI (Prohibition of Insider Trading) Regulations, 2015 requires auditors to maintain Structured Digital Database with prescribed data and information.

Reason:

Fiduciaries are required to comply with SEBI (Prohibition of Insider Trading) Regulations, 2015:

- Professional firms such as auditors, accountancy firms, law firms, analysts, insolvency professional entities, consultants, banks etc., assisting or advising listed companies are considered as fiduciaries [Chapter IV.9(2)]
- Contents of the database - [Chapter II.3.5]
  - Nature of unpublished price sensitive information
  - Names of such persons who have shared the information
  - Names of such persons with whom information is shared along with the PAN or any other identifier authorized by (where PAN is not available)

3. (d) No. Companies Act, 2013 and Standard on Auditing provide unrestricted access to any information to an auditor of the financial statements.

Reason:

Companies Act, 2013 and Standard on Auditing envisage unrestricted access to relevant information while performing procedures in an audit of financial statements. The assertion of attorney-client cannot prevent necessary access to forensic report. If denied, would constitute a scope limitation.

4. **(c)** Yes. CARO envisages comment by auditor for frauds which came to notice during audit.

Reason:

CARO [Paragraph 3(xi)(a)] requires the auditor to report whether any fraud has been noticed or reported either on the company or by the company during the year and is not limited to frauds by the officers or employees of the company. If any fraud is noticed / reported, the auditor is required to state the amount involved and the nature of fraud. The concept of materiality is fundamental to auditing. Therefore, even in reporting on frauds under the CARO, materiality of the fraud should be given due consideration.

5. **(b)** 26th October; 15th October.

Reason:

The Proviso to section 14 of the CGST Act, 2017 provides that the date of receipt of payment shall be the date of credit in the bank account if such credit in the bank account is after four working days from the date of change in the rate of tax.

Hence, date of payment is date of credit in the bank account, 26th October.

Section 14(a)(ii) of the CGST Act, 2017 provides that in case the goods or services or both have been supplied before the change in rate of tax, where the invoice has been issued prior to the change in rate of tax but payment is received after the change in rate of tax, the time of supply shall be the date of issue of invoice; i.e. 15th October.

II. Answers to the Descriptive Questions

6. As per Ind AS 38, for an item to be recognised as an intangible asset, it must meet the definition of an intangible asset, i.e., identifiability, control over a resource and existence of future economic benefits and also recognition criteria.

Paragraph 15 of Ind AS 38 states that an entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from their training. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

Based on the facts provided in the given case, the player is prohibited from playing in other teams by the terms of the contract which legally binds the player to stay with

IndyaDekho for a number of years. Accordingly, in the given case, the company would be able to demonstrate control. Future economic benefits are expected to arise from use of the player in matches. Further, cost of obtaining rights is also reliably measurable. Hence, it can recognise the costs incurred to obtain the right regarding the player as an intangible asset.

7. In light of the diverse viewpoints expressed in the minutes of the 104th Board Meeting held on 31st May 2025, it is critical for IndyaDekho Limited to focus on quality in their operations to meet customer requirements, minimize costs, and maximize profits. Enhancing service quality leads to increased customer satisfaction, which in turn boosts profitability and business sustainability. Quality is crucial not only in manufacturing but also in the service sector, where customers do not receive tangible products. In today's competitive and dynamic world, Total Quality Management (TQM) is key for organizations to achieve overall success. TQM's basic principles apply universally across both manufacturing and service industries.

In the service sector, TQM is essential for improving overall service quality, achieving desired customer satisfaction and loyalty, enhancing service delivery systems, and ultimately improving financial performance. Implementing TQM at IndyaDekho Limited can significantly enhance service quality, ensure customer satisfaction, and secure long-term business sustainability. TQM emphasizes continuous improvement, customer-centricity, and employee involvement, making it as vital in the service sector as in manufacturing.

A detailed overview of TQM implementation at IndyaDekho based on the 6Cs of TQM, considering the board's discussion, is as follows:

- The CEO and senior leadership at IndyaDekho must demonstrate a **strong Commitment** to TQM by actively participating in quality initiatives and setting a precedent for the entire organization. Top management should initiate, create, spread, and execute a comprehensive quality improvement program. The CEO needs to ensure a quality presence that is strong, highly evident, and widespread. This involves ***clear communication*** about the importance of quality and ensuring that all employees are aligned with this vision.

  Additionally, the development and communication of a ***comprehensive quality policy*** that aligns with IndyaDekho's mission to enhance customer satisfaction through innovative travel solutions is essential. This policy should be embedded in all aspects of the company's operations.

- The CEO stated that adopting TQM entails a significant shift in organizational culture and structure. To achieve this, it is crucial to **instill a Culture of quality** where every employee feels responsible for maintaining and improving service standards. Encouraging a mindset where quality is seen as ***everyone's responsibility***, not just that of a specific department, is essential. Implementing regular ***training programs*** to educate employees about TQM principles and

practices will equip them with the necessary tools and knowledge to contribute effectively to quality improvement initiatives.

- Adopt a **Continuous improvement** approach by encouraging employees to suggest small, incremental changes that can lead to significant improvements over time. Promote a culture where ***feedback*** is valued and used constructively. Establish robust systems to gather feedback from customers and employees. Use this feedback to identify areas for improvement and make necessary adjustments to enhance service quality.
- The Independent Director pointed out that TQM includes core team members in meeting consumer needs by employing problem-solving methods. However, the application of ***total employee involvement*** principles is paramount. The Chief Management Accountant emphasized the need for a holistic alignment between organizational personnel and their roles. To achieve this, it is essential to form cross-functional teams to address quality issues and implement improvement initiatives. Encouraging **Co-operation** and collaboration across departments will ensure a comprehensive approach to quality management.
- The Chief Management Accountant informed the board that, while the primary aim of TQM is to satisfy external customers, it also acknowledges the challenge of fulfilling external customers' expectations without meeting the needs of internal customers. In practice, TQM implementations that focus exclusively on the external customer will not survive unless they also foster the mutual respect necessary to preserve employee morale and participation. To maintain a strong **Customer focus**, regular market research and customer surveys should be conducted to understand evolving customer preferences. These insights should be used to tailor services and enhance customer satisfaction. Mechanisms must be implemented to collect, analyze, and act on customer feedback, ensuring prompt and effective responses to customer concerns to build trust and loyalty.
- The CEO recommended an objective evaluation of the internal and external environment in which the company functions. As part of this evaluation, the company must ***review its current policies, documentation, and monitoring processes***, and develop new effective measures that incorporate customer feedback when determining quality measures. Additionally, clear processes and procedures for all aspects of service delivery should be developed, using control charts and other quality control tools to monitor performance and identify deviations from standards. Regular quality audits should be conducted. The audit results should be used to make informed decisions about areas needing improvement, thereby maintaining effective **Control over quality management processes**.

In conclusion, implementing Total Quality Management (TQM) at IndyaDekho Limited is essential for enhancing service quality, achieving customer satisfaction, and ensuring long-term business sustainability. By focusing on the 6Cs of TQM—Commitment,

Culture, Continuous Improvement, Cooperation, Customer Focus, and Control—the company can create a robust framework for quality management. This approach will enable IndyaDekho to stay competitive in the dynamic travel industry, foster a culture of excellence, and drive continuous improvement in all aspects of its operations. Through dedicated leadership, employee involvement, and customer-centric strategies, IndyaDekho can build a strong reputation for quality, loyalty among customers, and sustained financial performance.

8. Paragraph 69 of Ind AS 38 provides that, in some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. Paragraph 69 of Ind AS 38 provide that expenditure on research, training, advertising and start up activities (unless start-up costs are includible in the cost of an item of property, plant and equipment in accordance with Ind AS 16) will not result in the creation of an intangible asset that can be recognised in the financial statements. Further, paragraphs 48 and 63 of Ind AS 38 also specifically prohibit recognition of internally generated goodwill and brands as an intangible asset.

Advertising and promotional activities enhance or create brands or customer relationships, which in turn generate revenues. In some cases, such costs cannot be distinguished from the cost of maintaining or enhancing the entity's internally generated goodwill or developing the business as a whole or running day to day operations. Further, it is also difficult to determine whether there is an internally generated intangible asset distinguishable from internally generated goodwill.

In the present case, the expenditure that IndyaDekho has incurred on promotional and advertising activities is to develop or enhance branding, goodwill building or customer relationship and, therefore, should not be amortised over future years and should be charged off to the profit or loss as incurred.

CASE STUDY 27

Target Electrical Solutions Limited

Target Electrical Solutions Limited (TESL) is a renowned company specializing in the manufacture of various types of high-precision, heavy-duty tools such as drills, screwdrivers, grinders, saws, and wrenches. These tools are used across a wide range of industries, including construction, oil and gas, automotive, and aerospace, among others. Headquartered in Pune, TESL operates a large manufacturing facility at this location.

The Chairman and Managing Director of the company, Mr. Ratan Bajaj, is a veteran of the industry. The Chief Executive Officer (CEO), Mr. Mihir Phadke, has been associated with TESL for over 30 years and has held various key positions within the organization. He has served as CEO for the last 10 years, successfully guiding the company through several growth phases. Mr. Niraj Deshpande, an engineer with a solid academic background and strong hands-on industrial experience, plays a critical role in the company's operational planning. Ms. Gauri Pande, a Chartered Accountant with nearly 25 years of industry experience, serves as the Chief Financial Officer (CFO).

TESL's Skewer Division is engaged in the manufacture of motorized screw-driving machines designed to handle high-end commercial loads. These machines are particularly popular in automation plants, where precision and accuracy are of utmost importance. The division currently produces three models—SD-100, SD-200, and SD-500—which increase in complexity and incorporated features, respectively.

During the manufacturing process, each screw-driving machine must go through several production stages before completion. One of these critical steps involves manual intervention, where the processing chip for automation is installed, programmed, and tested. This step is referred to as Processor Manual Programming for Automation (PMPA). The production capacity of the Skewer Division is currently constrained by this PMPA stage.

TESL manufactures three primary product variants, with each having distinct sale prices and corresponding material and labour costs. The sale price per unit is ₹170 for SD-100, ₹240 for SD-200, and ₹540 for SD-500. The material cost per unit is ₹80, ₹125, and ₹240 respectively, while the labour cost per unit is ₹40 for SD-100, ₹60 for SD-200, and ₹90 for SD-500. TESL operates a single shift of 10 hours per day across all its processes. The standard conversion cost, which includes labour, is ₹7,000 per hour. The daily PMPA processing capacity is standardised at 960 units of SD-100, 670 units of SD-200, or 390 units of SD-500 per shift.

During the year, TESL supplied heavy-duty tools to Concrete Infrastructure Private Limited (CIPL), an unrelated party, for a consideration of ₹8,85,000 (inclusive of GST @18%). Additionally, CIPL provided materials worth ₹30,000 (exclusive of GST) as part of the consideration. At the same time, TESL supplied the same goods to Prime Constructions Limited (PCL), another unrelated party, for

₹8,92,080 (inclusive of GST @18%). Mr. Jayapal, an accountant at TESL, is unsure how to determine the correct transaction value for the supply made to CIPL under the GST provisions.

TESL has the potential to sell more than it is currently capable of producing across all product ranges. In light of this, Micro Robotics Limited has developed a robot capable of assembling—including chip installation and programming—any device. Recognizing this opportunity, CEO Mr. Mihir Phadke proposed a plan for the extensive renovation and modernization of TESL's manufacturing facilities to adopt this cutting-edge technology and significantly enhance production capacity. He has been in regular consultations with Mr. Niraj Deshpande and Ms. Gauri Pande regarding this initiative. The team intends to present this proposal to Chairman Mr. Ratan Bajaj for approval. (Refer to *Annexure 1* for further details of the proposed project.)

Following detailed internal deliberations and board approval, TESL applied for a loan of ₹800 crores from Futures Bank Limited on 1st March 2025 to finance this modernization project. CA Ajinkya Ranade, the company's auditor for the current and previous financial years, was called for a discussion on 15th March 2025 by the bank during the loan processing stage. The bank sought his opinion on TESL's financials and requested detailed information on several items from the financial statements, which were available in his audit working papers. CA Ranade now faces a professional dilemma about the appropriate course of action in this situation, balancing client confidentiality with potential obligations to the bank.

TESL successfully obtained the term loan of ₹800 crores on 1st April 2025. Under the modernization scheme, plant and machinery were acquired and installation was completed by 30th April 2026. A total of ₹650 crores was incurred on this, including installation expenses. An advance of ₹75 crores was also paid on 25th April 2025 for additional assets, which were installed by the same date (30th April 2026). The remaining ₹75 crores from the loan was used for working capital requirements. The management considers the 12-month timeline as a substantial period for bringing the assets to their intended use.

During FY 2025–26, the company paid ₹88 crores in total interest on the loan. However, Mr. Jayapal, while preparing the financial statements, charged the entire interest amount to the profit and loss account, without considering potential capitalization under accounting standards.

The renovation and modernization project were successfully implemented, resulting in enhanced production capacity, streamlined processes, and adoption of new technologies. While these upgrades significantly improved operational efficiency and productivity, they also rendered certain skilled roles redundant—especially those replaced by automated plant and robotic processes.

Known for his stewardship and people-centric leadership, Mr. Ratan Bajaj decided against terminating the services of these employees. Recognizing their practical knowledge of production processes, TESL launched a re-skilling and upskilling program to prepare this workforce for new roles aligned with the company's evolving technological environment. These employees will be redeployed in areas where they can create and unlock value—whether by reducing costs, designing new processes, or developing innovative products and services.

Mr. Bajaj believes that making better use of existing human capital can foster an entrepreneurial culture within the company. However, employees participating in this transformation program will not hold any ownership rights over the innovations and initiatives that emerge from the upskilling efforts.

Annexure: Extensive renovation and modernization of factory of TESL.

Mihir Phadke/ Chief Executive Officer/ Target Electrical Solutions Limited, Pune

From:	"CEO Mihir Phadke"; <Mihirp@tesl.com>
Sent:	3rd January 2025 19:00
To:	"Ratan Bajaj"<ratanb@tesl.com>
Cc:	"Gauri Joshi"<gaurij@tesl.com>, "Niraj Despande"<nirajd@tesl.com>
Subject:	Renovation and modernization of factory at TESL, Pune.
Attachments:	Robot-1.jpeg; Robot-2.jpeg

Dear Ratan,

I'm pleased to share that our company, TESL, has been performing exceptionally well. For the financial year 2024–25, our revenues are expected to reach approximately ₹5,500 crores, while our Profit After Tax (PAT) is projected to be around ₹850 crores. This represents a 16% increase in revenue and a 12% increase in PAT compared to the previous year. Riding on the momentum of a growing economy—driven by strong prospects across sectors such as manufacturing, construction, aerospace, and infrastructure—the outlook for our company remains highly promising.

As you are well aware, our brand reputation is built on the precision and durability of our tools. However, to continue meeting the evolving needs of our customers and to stay ahead of the curve, we must integrate advanced technological solutions that enhance the performance capabilities of our products. I have held detailed discussions with Niraj on this matter, and together, we have concluded that an extensive renovation and modernization of our production facilities—including plant and equipment, buildings, and related infrastructure—is both necessary and urgent.

In recent years, Micro Robotics Limited (MRL) has developed robotic technologies that can significantly boost production efficiency. These robots are capable of operating with high speed, accuracy, and consistency. Of particular relevance is MRL's robot capable of assembling devices, including chip installation and programming. This innovation could directly address the resource constraints we currently face in the Processor Manual Programming for Automation (PMPA) activity within the Skewer Division.

In addition to adopting such advanced robotics, we believe our existing plant and equipment require a comprehensive overhaul to transform our factory into a state-of-the-art production facility.

To fund this ambitious modernization project, we estimate a capital requirement of ₹800 crores. Gauri has recommended that we approach Futures Bank Limited for a term loan. Preliminary assessments suggest that the loan can be secured on flexible terms with competitive interest rates.

Niraj, Gauri, and I firmly believe that this project will deliver substantial long-term benefits—enhancing our productivity, technological edge, and overall competitiveness. We would be grateful for an opportunity to present this proposal to you in greater detail and seek your guidance and support in moving forward.

Warm regards,

Mihir

Robot-1.jpeg



Robot-2.jpeg



I. Multiple Choice Questions

1. Which of the following will address the issue of constrained capacity due to Processor Manual Programming for Automation (PMPA), which is the bottleneck activity at the skewer division of TESL:

   (i) Enhance the efficiencies in other non-bottleneck activities, while keeping the efficiency of PMPA the same.

   (ii) Enhance the capacity and efficiency of the bottleneck activity PMPA through business process re-engineering or kaizen.

   (iii) Short term production plan at the skewer division should be subordinate to PMPA, which is the bottleneck activity.

   (iv) Short term production plan at the skewer division should be subordinate to other activities, which are not the bottleneck activities.

   Option

   (a) (i), (ii) and (iii)

   (b) (ii) and (iii)

   (c) (i) and (iii)

   (d) (ii) and (iv)

2. Mr. Bajaj, the Chairman and Managing Director of TESL is also the independent director of three other listed entities as of 31st March 2026. As an industry veteran, known to be a steward leader he has been offered the role of an independent director of Starlink Technologies Limited, another listed company of repute. The appointment is effective 1st April 2026. Can Mr. Bajaj accept this role of independent director at Starlink Technologies Limited?

   (a) Yes, as per the SEBI (LODR) Regulation, directorship is restricted to 8 listed entities. Hence, Mr. Bajaj can accept his appointment as independent director at Starlink Technologies Limited effective 1st April, 2026.

   (b) Yes, as per the SEBI (LODR) Regulation, directorship is restricted to 7 listed entities. Hence, Mr. Bajaj can accept his appointment as independent director at Starlink Technologies Limited effective 1st April, 2026.

   (c) No, as per the SEBI (LODR) Regulation, any person serving as a whole time or managing director of a listed company shall not serve as an independent director

in another listed company. Hence, Mr. Bajaj cannot accept his appointment as independent director at Starlink Technologies Limited effective 1st April, 2026.

(d) No, as per the SEBI (LODR) Regulation, any person serving as a whole time or managing director of a listed company shall not serve as an independent director in not more than three listed companies. Hence, Mr. Bajaj cannot accept his appointment as independent director at Starlink Technologies Limited effective 1st April, 2026.

3. The value of goods supplied by TESL to CIPL for the purpose of calculation of GST would be:

(a) ₹9,50,372

(b) ₹8,05,400

(c) ₹7,56,000

(d) ₹793,500

4. With reference to determining the value of goods supplied by TESL to CIPL, if the sale of similar goods at the same time by TESL to PCL for a price of ₹8,92,080 had not happened and there is no other similar comparable sale, the value of goods supplied by TESL to CIPL for the purpose of calculation of GST would be:

(a) ₹ 9,36,330

(b) ₹9,46,330

(c) ₹7,80,000

(d) ₹8,03,500

5. Do you agree with Mr. Jayapal's treatment of interest paid on term loan taken for the project, amounting to ₹88 crore for FY 2025-26 to be charged to profit and loss account?

(a) Yes, the accounting treatment of the interest paid ₹88 crore to be charged to profit and loss account for FY 2025-26 is correct as it represents an expense related to that period.

(b) No, Mr. Jayapal should capitalize the interest paid ₹88 crore for the FY 2025-26 as this is paid for the loan that is being used for the project.

(c) No, Mr. Jayapal should capitalize the interest paid ₹79.75 crore for the FY 2025-26 and charge the balance ₹8.25 crore to profit and loss account.

(d) No, Mr. Jayapal should capitalize the interest paid 8.25 crore for the FY 2025-26 and charge the balance ₹79.75 crore to profit and loss account.

6. Had the renovation and modernization project completed on 28th February, 2026, would you agree with Mr. Jayapal's treatment of interest cost for FY 2025-26 of ₹88 crore relating to the term loan taken for the project?

   (a) Yes, the accounting treatment of the interest paid ₹88 crore to be charged to profit and loss account for FY 2025-26 is correct as it represents an expense related to that period.

   (b) No, Mr. Jayapal should capitalize the interest paid ₹88 crore for the FY 2025-26 as this is paid for the loan that is being used for the project.

   (c) No, Mr. Jayapal should capitalize the interest paid ₹79.75 crore for the FY 2025-26 and charge the balance ₹8.25 crore to profit and loss account.

   (d) No, Mr. Jayapal should capitalize the interest paid 8.25 crore for the FY 2025-26 and charge the balance ₹79.75 crore to profit and loss account.

7. With reference to the workforce that Mr. Bajaj plans to upskill to suit newer roles that can unlock value for the company, how would such a workforce be known as:

   (a) Entrepreneurship

   (b) Intrapreneurship

   (c) Innovators

   (d) Task force

II. Descriptive Questions

8. You are required to advise the company the following aspects:

   (a) on a random day if 576 units, 134 units and 156 units of SD 100, SD 200 and SD 500 respectively are produced and sold. CALCULATE at what efficiency level, current constraint (bottleneck) is operational. INTERPRET the same. COMPUTE profit earned during such day.

   (b) Considering the ranking based upon throughput performance ratio, FIND production of which model is more beneficial for the company?

9. With respect to the information that Futures Bank Limited is seeking from CA. Ajinkya Ranade, ADVISE him on what his response should be to such a request.

ANSWERS TO THE CASE STUDY 27

I. Answers to the Multiple Choice Questions

1. **(b)** (ii) and (iii)

Reason:

Among the Goldratt's five steps to remove the bottleneck, the following actions can help address the constraint:

Elevate the bottleneck: Eliminate the bottleneck by enhancing the capacity and efficiency. Major change (business re engineering) or continuous minor change (kaizen) may do. In the skewer division the introduction of the robot maybe a way to eliminate the bottleneck. Therefore (ii) is correct.

Non-bottleneck activities are subordinate: Bottleneck activity should set the pace for non-bottleneck activities. Skewer division shall plan its production keeping PMPA as the center point because even if efficiencies of other non-bottleneck activities are enhanced beyond current level, the output can be maximum possible by PMPA. Therefore (iii) is also correct.

2. **(d)** No, as per the SEBI (LODR) Regulation, any person serving as a whole time or managing director of a listed company shall not serve as an independent director in not more than three listed companies. Hence, Mr. Bajaj cannot accept his appointment as independent director at Starlink Technologies Limited effective 1st April, 2026.

Reason:

As of 31st March 2026, Mr. Bajaj is already the independent director in three other listed companies. Hence, he has already reached the limit on the number of such directorships allowed as per Regulation 17A of SEBI(LDOR) Regulation. Therefore, he cannot accept the role of independent director at Starlink Technologies Limited effective 1st April 2026.

3. **(c)** 7,56,000

Reason:

In the current case, price is not the sole consideration for the supply. Apart from monetary consideration, CIPL has given TESL some material as consideration for

such supply. Hence, the value of the supply cannot be determined on the basis of the transaction value in terms of section 15(1). Here, the value will be determined with the help of rule 27 which specifies that where the consideration for a supply is not wholly in money, the value will be the open market value.

Open market value of a supply means the full value of money, excluding the applicable GST, where the supplier and the recipient of the supply are not related and the price is the sole consideration, to obtain such supply at the same time when the supply being valued is made.

TESL has supplied the same goods to Prime Constructions Limited (PCL) another unrelated party at a price of ₹8,92,080 (inclusive of GST 18%). Based on the above explanation, this transaction can be considered to determine the open market value of the supply of similar goods sold by TESL to CIPL at the same time. Therefore, in the given case, the open market value of the goods supplied by TESL to CIPL would be ₹8,92,080* 100 / 118 = ₹7,56,000.

4. (c) 7,80,000

Reason:

In addition to the explanation provided in MCQ 3 about determining value of supply using open market value, Rule 27 further provides that if the open market value of the supply is not known, the value of the supply will be the consideration in money plus the money equivalent to the non-monetary consideration, if such an amount is known at the time of supply.

Therefore, where there is no comparable sale like that between TESL and PCL, then the value of supply for the sale between TESL and CIPL will be computed as (₹8,85,000×100/118) + ₹30,000 = ₹7,50,000 + ₹30,000 = ₹7,80,000.

5. (c) No, Mr. Jayapal should capitalize the interest paid ₹79.75 crore for the FY 2025-26 and charge the balance ₹8.25 crore to profit and loss account.

Reason:

As per Ind AS 23, borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset forms part of the cost of that asset. Other borrowing costs are recognized as an expense.

Accordingly, the treatment of interest of ₹88 crores incurred during the FY 2025-26 would be as follows, when the renovation and modernization project completes on 30th April, 2026.

Purpose	Nature	Interest to be capitalized (₹ crores)	Interest to be charged to profit and loss account (₹ crores)
Modernization and renovation of plant and machinery	Qualifying asset	₹ 88 Crores× $\frac{₹\ 650\ crores}{₹\ 800\ crores}$ =₹ 71.50 crores	Nil
Advance to suppliers for additional assets	Qualifying asset	₹ 88 Crores× $\frac{₹\ 75\ crores}{₹\ 800\ crores}$ =₹8.25 crores	Nil
Working capital	Not a qualifying asset	Nil	₹ 88 Crores× $\frac{₹\ 75\ crores}{₹\ 800\ crores}$ =₹8.25 crores
Total		**₹79.75 crores**	**₹8.25 crores**

6. (a) Yes, the accounting treatment of the interest paid ₹88 crore to be charged to profit and loss account for FY 2025-26 is correct as it represents an expense related to that period.

Reason:

In continuation to explanation for MCQ 3, when the renovation and modernization project completes on 28th February, 2026.

When the process of renovation gets completed in 12 months, the plant and machinery and other additional assets will not be considered as qualifying assets (until and unless TESL specifically considers that the project took substantial period for completion). Accordingly the whole interest of ₹88 crores will be charged of or expensed to profit and loss account. Therefore, Mr. Jayapal's treatment of the interest cost for ₹88 crore for FY 2025-26 was correct.

7. (b) Intrapreneurship

Reason:

This is a revolutionary system of speeding up innovations within a large companies by making better use of available or allocated resources (with the entrepreneurial talent of Intrapreneur). Hence, intrapreneurship is a restorative

action taken to counter stagnation within a larger organization. The redundant workforce that is already available within TESL can through their present practical knowledge, combined with upgraded skill sets can contribute effectively to the company's innovation and growth, while continuing to be part of TESL. Hence this workforce team can be called Intrapreneurs.

II. Answers to the Descriptive Questions

8. (a) Efficiency level can be measured with help of Efficiency Ratio, which is one among the control ratios.

Efficiency ratio indicates the degree of efficiency attained in production. It is expressed in term of standard hours for actual production as a percentage of the actual hours spent in producing that work.

$$\frac{\text{Standard hours for actual production}*100}{\text{Actual hours worked}}$$

= (12/10) × 100 = **120%**

Working Note – Standard hour required for actual production.

Product	Actual output (Units) (a)	Standard Daily Output (Units) (b)	Standard Hourly Output (Units) (c) (b)/10	Standard Hour Required (a)/(c)
SD-100	576	960	96	6
SD-200	134	670	67	2
SD-500	156	390	39	4
Standard Time Required (in hours)				12.0

Interpretation – 120% signifies that efficiency (usage) of exploiting bottle-neck activity is 20% better than the standard use. PMPA (Processor Manual Programming for Automation) is producing out-put which require 12 hours, in 10 hours.

Profit earned during the day

Particulars	Amount in ₹
Revenue [(576×170) + (134×240) + (156×540)]	2,14,320
Less: Material Cost [(576×80) + (134×125) + (156×240)]	1,00,270
Less: Conversion Cost (including labour cost) [(7,000×10hrs)]	70,000
Profit	44,050

(b) Statement of ranking, based upon throughput performance ratio (using throughput contribution)

Particulars		SD-100	SD-200	SD-500
Sale price per units	(a)	170	240	540
Material cost per unit	(b)	80	125	240
Throughput contribution per unit	(c) = (a) – (b)	90	115	300
Maximum possible production	(d)	960	670	390
Maximum possible throughput contribution	(e) = (c)×(d)	86,400	77,050	1,17,000
Conversion cost (including labour cost) (7,000×10 hrs)	(f)	70,000	70,000	70,000
Throughput performance ratio	(e)/ (f)	1.23	1.10	1.67
Ranking		II	III	I

Considering the throughput performance ratio (or TA ratio) and ranking above most beneficial model to produce is SD-500 followed by SD-100 and SD-200.

9. As per Clause (1) of Part I of the Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he discloses information acquired in the course of this professional engagement to any person other than his client, without the consent of the client or otherwise than as required by law for the time being in force. SA 200 on *"Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing" also reiterates that "the auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such*

information to a third party without specific authority or unless there is a legal or professional duty to disclose."

In the instant case, Futures Bank Limited has asked CA. Ajinkya Ranade detailed information regarding few items in the financial statements that are available in his working papers. Having regard to the position stated earlier, the auditor cannot disclose the information in his possession without the specific permission of his client, TESL. As far as working papers are concerned, working papers are the property of CA. Ajinkya Ranade. At his discretion he may make portions of or extracts from his working papers available to TESL.

Thus, there is no requirement compelling CA. Ajinkya Ranade to divulge information obtained in the course of the audit and included in the working papers to any outside agency except as and when required by any law.

CASE STUDY 28

Suraj Pharma



A Leader in Global Pharmaceutical Innovation and Quality

Suraj Pharma stands tall as a leading player in the global pharmaceutical landscape. Founded in the 1960s by Dr. Anand Srinivasan, a brilliant scientist with a passion for affordable medicine, Suraj Pharma began as a small research lab focused on developing generic alternatives to expensive, brand-name drugs. Despite initial struggles with scarce funding and a nascent market for generics, Dr. Srinivasan's unwavering commitment and the team's innovative spirit fuelled their progress. The company has grown from humble beginnings to become the fourth-largest pharmaceutical company worldwide. Suraj Pharma focuses on developing and manufacturing complex, high-value medications that address specific therapeutic needs. With a global presence in over 100 countries and a diverse patient population, Suraj Pharma holds the top spot in the Indian domestic market, demonstrating their dominance in the region.

Suraj Pharma's core strength lies in specialty drugs, which often involve advanced technology and expertise for production. Their product basket caters to a vast array of therapeutic segments, including psychiatry, anti-bacterial, neurology, and diabetes management. This ensures they can address a wide range of medical needs. Furthermore, Suraj Pharma leverages a strong branded presence in India, particularly in high-growth chronic therapy areas, allowing them to cater to specific patient needs within the Indian market.

Understanding that quality is paramount in the pharmaceutical industry, Suraj Pharma has established a robust manufacturing infrastructure with over 43 facilities spread across six continents. This global footprint allows them to efficiently produce and distribute their medications. Maintaining high-quality standards throughout the manufacturing process is a top priority, with stringent quality control measures guaranteeing the safety and efficacy of their medicines for patients worldwide.

Suraj Pharma actively invests in research and development (R&D) to stay at the forefront of drug development. This commitment to innovation allows them to explore new therapeutic areas and cater to evolving healthcare needs. Their financial performance reflects their success, with global revenue exceeding US$ 80 million. Suraj Pharma holds a leading position within the Indian dermatology segment and ranks highly with several different doctor groups in India. This market leadership, coupled with their focus on innovation, positions them for continued growth and success in the global pharmaceutical industry.

Strategic Repositioning and Innovation in Pharmaceutical Development

In the drug development value chain, the ultimate valuable product is the drug or vaccine administered to patients. Most promising molecules fail to pass the testing phase. The value chain is defined by research, testing, and delivery, with major pharmaceutical companies typically involved in these activities. They engage either directly or, in the case of research, often through partnerships with research organizations like academic institutions or universities. These activities entail significant costs, ranging from drug discovery and testing to clinical trials, submission of applications to regulatory agencies, and promotion and education for stakeholders.

The incentive for bearing these costs is a grace period during which the original manufacturers have exclusive market access through patents. This period allows them to recoup their investments and potentially earn substantial profits. After the patent expires, other manufacturers can produce generic versions of the original product. These generics are crucial for the healthcare system as they ensure the availability of essential drugs at more affordable prices. Since the generic manufacturers did not incur the initial development costs, their manufacturing expenses are much lower, leading to reduced prices. The value they bring lies in creating competition in the market, which can drive down prices and improve accessibility. This competition ensures that price-sensitive consumers have access to necessary medications, contributing to better public health outcomes.

One of Suraj Pharma's drugs, Rifmn, is an antibiotic used to treat the contagious disease “Tbis.” Rifmn is a patented medicine, but the patent is about to expire, and several competitors are expected to enter the market with similar products. In order to reposition itself, the company is reviewing its pricing policy considering the market change and other threats. Market research for Rifmn indicates that for every ₹ 4 decrease in price, demand would be expected to increase by 8,000 batches, with maximum demand being one million batches. Each batch of Rifmn is currently made using the following chemical salts:

- Salt X: 367.50 gm at ₹ 0.08 per gm
- Salt Y: 301.50 gm at ₹ 0.40 per gm

Each batch of Rifmn requires 30 minutes of machine time to make and the variable running costs for machine time are ₹ 40 per hour. The fixed production overhead cost is expected to be ₹ 35 per batch for the period, based on a budgeted production level of 3,00,000 batches. The skilled workforce who has been working on Rifmn until now is being shifted to the production of Suraj Pharma’s new antiviral drug (injection) for Viral Disease-23. This new drug, costing millions to develop, has been patented by Suraj Pharma and is expected to save millions of lives worldwide. Its launch is eagerly anticipated, although its demand is currently unknown, and no similar specific drug exists. The average labor cost (outsourcing) per batch of Rifmn is ₹ 38.60. The management of Suraj Pharma considers that the pricing decision of Rifmn should be based on each batch.

In addition to these developments, Suraj Pharma has received a government grant of ₹ 80 crores for the research and development (R&D) of a low-cost CN1 vaccine. Existing vaccines

are expensive, and the government aims to make them more affordable. The grant agreement stipulates that Suraj Pharma must develop a manufacturing process within two years to reduce production costs by at least 40%.

Suraj Pharma also supplies a drug intermediate to its own unit located in another state for the purpose of converting it into formulations. This drug intermediate is unique to the company, and there is no market sale of this drug intermediate in India. Additionally, there are no goods of like kind and quality available in the market. After the conversion process, the finished product is sold directly from the said unit by the company, completing the entire manufacturing and sales cycle internally. This process ensures the company's control over the quality and distribution of the final product.

Strategic Moves Amid Legal Setbacks and Acquisitions

Suraj Pharma had filed a petition with the National Company Law Tribunal seeking sanction of scheme of arrangement in nature of demerger and transfer of its 'Specified Investment Undertakings' to two overseas companies which were directly and indirectly wholly owned subsidiary of petitioner company. However, the NCLT rejected the said petition.

In parallel, Suraj Pharma recently acquired two pharmaceutical companies, Indu Pharma Ltd. and Biraj Lifesciences Ltd. Indu Pharma Ltd. has been conducting in-house research and development activities through its skilled workforce since its inception and has recently obtained intellectual property rights (IPR) in the form of patents over certain drugs. Additionally, Indu Pharma has a production plant that has recently obtained regulatory approvals. However, the company has not earned any revenue so far and does not have any customer contracts for the sale of goods. On the other hand, Biraj Lifesciences Ltd. has incurred significant research costs in connection with two new drugs that have been undergoing clinical trials. Out of the two drugs, one has not been granted the necessary regulatory approvals yet; however, Suraj Pharma expects that approval will be given within two years. The other drug has recently received regulatory approval. The revenue-earning potential of these drugs was one of the principal reasons why Suraj Pharma decided to acquire Biraj Lifesciences Ltd.

Compliances and Consolidation Challenges

Suraj Pharma has another subsidiary, MKS Ltd. (MKS), in UK. The Company had outstanding trade receivables amounting to ₹ 14 crore from MKS. Suraj Pharma observed that there have been some FEMA (Foreign Exchange Management Act) non-compliances on the part of Suraj Pharma, but the management had an action plan which they had initiated and on the basis of which management was sure that the non-compliance would be done good and there would be no penalty on the company. In case the penalty arises in future, the impact would be significant for Suraj Pharma. The auditors of Suraj Pharma also evaluated this matter by involving a regulatory matters expert and agreed with the management’s view.

Suraj Pharma prepared its consolidated financial statements, but they do not consolidate the financial statements of MKS. This is because the financial year followed by MKS is January to December as against April to March followed by Suraj Pharma.

I. Multiple Choice Questions

1. Given Suraj Pharma's strategic positioning and recent developments, which of the following statements best describes the role of patent protection in gaining and maintaining competitive advantage in the pharmaceutical industry?

   (a) Patent protection allows pharmaceutical companies to reduce production costs and increase profit margins by avoiding competition

   (b) Patent protection enables pharmaceutical companies to exclusively capture the benefits from their investment in new drug development for several years

   (c) Patent protection ensures that pharmaceutical companies can outsource their drug production to low-cost countries without losing intellectual property rights

   (d) Patent protection provides pharmaceutical companies with perpetual rights to their inventions, ensuring a permanent competitive advantage

2. How should Suraj Pharma account for this government grant assuming reasonable assurance exists that they can meet the stipulated conditions?

   (a) Recognize the entire grant amount (₹ 80 crores) as immediate income in the statement of profit and loss

   (b) Recognize the entire grant amount (₹ 80 crores) as deferred income and recognize it in P/L over the two-year period

   (c) Recognize the entire grant amount (₹ 80 crores) as a separate item in the other comprehensive income section

   (d) Recognize the grant amount upon successful development of the low-cost manufacturing process

3. Can Indu Pharma Ltd. be considered a business for acquisition accounting purposes?

   (a) No, because the said company A lacks customer contracts and hasn't generated revenue

   (b) No, because the said company focuses solely on R&D and hasn't started production

   (c) Yes, because the said company possesses the necessary resources (workforce, patents, plant, IPR, etc.) to produce drugs

   (d) Yes, because Suraj Pharma's acquisition finalizes Indu Pharma Ltd.'s business model

4. Do you agree with the way auditors have handled the matter related to FEMA non-compliances? How would you deal with this matter?

(a) Auditors didn't handle this matter appropriately. Auditors should have informed about this matter to the RBI (Reserve Bank of India) within a period of 30 days from date this matter came to their knowledge

(b) Auditors handled this matter appropriately. The management would need to include this matter in the notes to accounts to the financial statements

(c) Auditors handled this matter appropriately. But they would also need to include modification in their report because the impact of penalty, if levied, can be material

(d) Auditors could have handled this matter in a better manner by also involving a tax expert because this might result in a penalty and that may have some taxation impact for the Company

5. Suggest the auditor's responsibility in respect of non-consolidation of financial statements of MKS.

(a) Suraj Pharma needs to prepare consolidated financial statements by also consolidating MKS. In case this is not done, the auditors need to qualify their report on consolidated financial statements.

(b) Suraj Pharma needs to prepare consolidated financial statements by also consolidating MKS. In case this is not done, the auditors need to give emphasis of matter in their report on consolidated financial statements.

(c) Suraj Pharma's management's view is right because MKS is a foreign company and hence no consolidation may be done while preparing consolidated financial statements in India.

(d) Auditors of Suraj Pharma should have done materiality assessment in respect of non-consolidation of MKS in the consolidated financial statements. The auditors should ask the management to include a note in the consolidated financial statements and also take management representation letter for the same.

II. Descriptive Questions

6. How will the value of the supply of this drug intermediate be determined under GST law?

7. CALCULATE the optimum (profit-maximizing) selling price for Rifmn and the resulting annual profit which Suraj Pharma will make from charging this price. RECOMMEND the pricing strategy for launching of new antiviral drug.

8. Based on the case study and the cited Companies Act, 2013 provisions cited, why was the demerger scheme disapproved by the NCLT?

9. Whether the research and development on either of the drugs be recognized as an intangible asset in the books of Suraj Pharma?

ANSWERS TO THE CASE STUDY 28

I. Answers to the Multiple Choice Questions

1. (b) Patent protection enables pharmaceutical companies to exclusively capture the benefits from their investment in new drug development for several years.

Reason:

Suraj Pharma, as a leading player in the global pharmaceutical market, exemplifies the critical role of patent protection. The company's innovative approach and substantial investment in research and development (R&D) to develop complex medications, like the new antiviral drug for Viral Disease-23, highlight the importance of patents. The patent for Rifmn, an antibiotic, is about to expire, leading to increased competition from generic versions. Patent protection was essential for Suraj Pharma to recoup the significant costs of developing Rifmn and to maintain a competitive edge in the market during the patent period. Without this protection, competitors would have been able to offer similar products immediately, potentially eroding Suraj Pharma's market share and financial returns. Thus, patent protection plays a crucial role in allowing pharmaceutical companies to secure exclusive rights and capture the benefits from their investments in drug development, crucial for maintaining a competitive advantage in a rapidly evolving industry.

2. (b) Recognize the entire grant amount (₹ 80 crores) as deferred income and recognize it in P/L over the two-year period.

Reason:

As per Ind AS 20, since the grant is linked to achieving a specific outcome (developing a cost-effective manufacturing process) over a defined period (two years) and reasonable assurance exist, it meets the criteria for deferred income recognition. Option (b) is the most appropriate approach as it spreads the grant recognition over the two-year period, reflecting the gradual fulfillment of the attached conditions.

3. (c) Yes, because the said company possesses the necessary resources (workforce, patents, plant, IPR, etc.) to produce drugs.

Reason:

Ind AS 103 defines a business as an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return. While the lack of revenue and customer contracts is a factor, it's not the sole determinant.

In this case, Indu Pharma Ltd.possesses key elements of a business:

- ❖ Skilled workforce (input)
- ❖ Intellectual property (IPR) in the form of patents (input)
- ❖ Production plant with regulatory approvals (input)
- ❖ Processes for R&D and potentially future production (process)

These inputs and processes, when combined, are capable of producing outputs (drugs). The absence of current revenue doesn't negate this capability. As long as Indu Pharma Ltd. can potentially access customers, it meets the definition of a business under Ind AS 103.

4. (b) Auditors handled this matter appropriately. The management would need to include this matter in the notes to accounts to the financial statements.

Reason:

According to SA 250 (Consideration of Laws and Regulations in an Audit of Financial Statements):

- ❖ **Paragraph 12 of SA 250** states that the auditor should obtain an understanding of the relevant laws and regulations applicable to the entity's business. In this case, FEMA regulations are relevant.
- ❖ **Paragraph 17 of SA 250** requires the auditor to consider the risk of material misstatement due to non-compliance with laws and regulations. The outstanding trade receivables from a subsidiary with potential FEMA non-compliance could be a risk of material misstatement.
- ❖ **Paragraph 20 of SA 250** states that when the auditor identifies a possible non-compliance, they should perform additional procedures to assess the effect on the financial statements. Involving a regulatory expert demonstrates such a procedure.
- ❖ **Paragraph 25 of SA 250** requires the auditor to communicate deficiencies in internal control to those charged with governance.

Based on these points, the auditors seem to have followed proper procedures:

- ❖ They identified the potential non-compliance with FEMA regulations.
- ❖ They involved a regulatory expert to assess the situation.
- ❖ They likely communicated the issue to Suraj Pharma's management.

However, SA 250 doesn't mandate informing regulatory bodies like the RBI directly unless specifically required by law.

Management's Responsibility:

Under SA 250, management is responsible for ensuring compliance with laws and regulations. In this case, it's their responsibility to:

- ❖ Take corrective action for the FEMA non-compliance.
- ❖ Disclose the potential impact (including any penalties) in the notes to the financial statements.

Therefore, the auditors have appropriately handled the situation by involving a regulatory expert and likely communicating the issue to management. The final responsibility for disclosure and rectification lies with Suraj Pharma's management.

5. (a) Suraj Pharma needs to prepare consolidated financial statements by also consolidating MKS. In case this is not done, the auditors need to qualify their report on consolidated financial statements.

Reason:

Paragraph 4 of SA 706 states that the auditor's report should modify the opinion on the financial statements if they are not prepared in accordance with the applicable financial reporting framework (Ind AS in this case).

Ind AS 110 (Consolidated Financial Statements) requires a parent company to consolidate the financial statements of its subsidiaries unless control is temporary, or the subsidiary is insignificant.

In this case, there seems to be no mention of temporary control or insignificance of MKS. The difference in financial year-ends doesn't exempt consolidation.

Therefore, by not consolidating MKS, Suraj Pharma is not following the proper accounting standards. This would likely result in an **audit opinion qualification** by the auditors.

II. Answers to the Descriptive Questions

6. Since the supply is made to a distinct person, the same will be valued in accordance with rule 28 of the CGST Rules, 2017 relating to valuation. There is no open market value of the drug intermediate as also there are no like goods.

Therefore, value of supply of such drug intermediate will be determined in terms of clause (c) of rule 28 i.e., by using rule 30 of the CGST Rules, 2017. Thus, the value of supply of such drug intermediate will be 110% of its cost of production or manufacture. However,

if the recipient unit is eligible for full ITC, the value declared in the invoice by the supplier will be deemed to be the open market value of the drug intermediate and thus, the invoice value will be the value of taxable supply.

7. Demand function

b = change in price/change in quantity b = ₹4/8,000 units = 0.0005

The maximum demand for Rifmn is 10,00,000 units, so where P = 0, Q = 10,00,000, so 'a' is established by substituting these values for P and Q into the demand function:

0 = a – (0.0005 × 10,00,000)

0 = a – 500

Therefore, a = 500

Demand function is therefore: P = 500 – 0.0005Q

Marginal cost

		Total ₹
Salt X	367.50g × ₹ 0.08	29.40
Salt Y	301.50g × ₹ 0.40	120.60
Labour	Given in ques	38.60
Machine running cost	(30/60 × ₹ 40.00)	20
Total marginal cost per batch		208.60

Marginal Revenue Function: MR = a – 2bQ

Equate MC and MR and insert the values for 'a' and 'b' from the demand function in step 1

⇒ 208.60 = 500 – (2 × 0.0005 × Q)

Solve the MR function (to determine optimum quantity, Q)

⇒ 208.60 = 500 – 0.001Q

⇒ 0.001Q = 291.4

⇒ Q = 291,400 batches

Calculate the optimum price

⇒ P = 500 – (0.0005 × 291,400)

⇒ P = ₹354.30

Calculate Profit

	₹
Revenue (2,91,400 batches × ₹354.3)	10,32,43,020
Less: Variable costs (2,91,400 batches × ₹208.60)	6,07,86,040
Less: Fixed costs (3,00,000 batches × ₹35)	1,05,00,000
Profit	3,19,56,980

Recommended Pring Strategy

Firms often use different pricing strategies when their products are first launched into the market. The most two common approaches are price skimming and penetration pricing.

In ***penetration pricing***, low price is charged initially, thought behind this is that low price will make the product accessible to large number of buyers, so high sales will compensate the low price being charged getting the benefits of economy of scale. This approach works best when customers are *price sensitive*, R & D and marketing expenses are low, or when competitors will quickly enter the market.

In this case, medicines are *highly inelastic* in nature so any reduction in price will not increase the demand of the drug, which clearly indicates that market penetration pricing will not help.

Skimming Pricing refers to charging high price initially than lower the prices. High price in the early stage of the product's life cycle is expected to generate high initial cash flows, which will help the company to recover high development cost. This would enable the company to take advantage of unique nature of the product.

In present case, the unique nature of drug, entry barrier (since company has taken patent) requires huge initial investment and considering this market skimming pricing strategy would be more favorable pricing strategy. However, this strategy only works as long as drug is protected by patent.

In addition, a drug firm is required to consider the expected reactions from national price controllers who in turn may be influenced by political factors and public opinion.



Practical Insight

Most of the people in developing countries buy medicines through out-of-pocket payments, high prices of medicines might force people to forego treatment or go into debt. As a result, the price of the medicines may be regulated by the health organizations/ agencies.

8. The NCLT rejected Suraj Pharmaceutical's demerger scheme due to limitations within the legal framework. Here's a breakdown of the reasons:

Section 234 of the Companies Act, 2013: This section, as interpreted by the NCLT, did not explicitly permit cross-border demergers involving Indian companies and foreign companies (either as the transferring or resulting company).

Rule 25A of the Companies (Compromise, Arrangements and Amalgamations) Rules, 2016: This rule outlines the detailed procedures and requirements for cross-border mergers. However, the NCLT noted a crucial omission: the rule only mentioned "merger" and "amalgamation," not "demerger."

Therefore, due to the limitations within Section 234 and the specific wording of Rule 25A, the NCLT concluded that the legal framework at the time did not support Suraj Pharmaceutical's proposed cross-border demerger scheme.

9. Ind AS 38, Intangible Assets provides explicit guidance on recognition of acquired in-process research and development.

Paragraph 34 of Ind AS 38, provides that in accordance with this Standard and Ind AS 103, an acquirer recognises at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognised by the acquiree before the business combination. This means that the acquirer recognises as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset.

An acquiree's in-process research and development project meets the definition of an intangible asset when it:

(a) meets the definition of an asset; and

(b) is identifiable, i.e. is separable or arises from contractual or other legal rights.

In accordance with above,

(i) The fair value of the first drug reflects the probability and the timing of the regulatory approval being obtained. As per the standard, the recognition criterion of probable future economic benefits is considered to be satisfied in respect of the asset acquired accordingly an asset is recognised. Subsequent expenditure on an in-process research or development project acquired separately is to be dealt with in accordance with paragraph 43 of Ind AS 38.

(ii) The rights to the second drug also meet the recognition criteria in Ind AS 8 and are recognised. The approval means it is probable that future economic benefits will flow to Suraj Pharma. This will be reflected in the fair value assigned to the intangible asset.

Thus, recognising in-process research and development as an asset on acquisition applies different criteria to those that are required for internal projects. The research costs of internal R&D projects may under no circumstances be capitalised as an intangible asset. It may be pertinent to note that entities will be required to recognize on acquisition some research and development expenditure that they would not have been able to recognize if it had been an internal project. Although the amount attributed to the project is accounted for as an asset, Ind AS 38 requires that any subsequent expenditure incurred after the acquisition of the project is to be accounted for in accordance with Ind AS 38.

CASE STUDY 29

Elegant Hotels Limited

Elegant Hotels Limited (EHL) runs a chain of luxury hotels in the state of Rajasthan. Mr. Rakesh Rajput is the CEO and managing director of this company. The company has been in this for the past 15 years. Currently, the company owns 3 luxury hotels, one each in Jaisalmer, Chittorgarh and Bikaner. These hotels operate under the brand "Elegant Luxury". All the hotels that are operated by EHL are four star and above. The corporate office of the company is in Jaipur.

In recent years, connectivity to various places within the city has improved. With increasing economic prosperity, the tourism sector has seen immense growth in recent years. Rajasthan has become a popular tourist destination. All the hotels of EHL are profitable, resulting in the company having surplus funds. Therefore, Mr. Rajput proposes to expand the company's operations within the region. He wishes to discuss his proposals in the board meeting that has been called on June 30, 2023. Refer to Annexure 1 for outlines of the proposals to be discussed in the meeting. The proposal for opening a new luxury hotel at Udaipur was accepted, while discussions are still ongoing regarding the proposal to venture into budget hotels segment. The proposal for investment of surplus funds was approved by five out of the six directors present at the meeting. The total number of directors on the Board is seven.

Commencement of operations of "Elegant Luxury" hotel in Udaipur

EHL commenced operations of its "Elegant Luxury" hotel in Udaipur on April 1, 2024. Between July 2023 to March 2024, the company incurred capital expenditure of ₹25 crores exclusively for this project and capitalized the same in the books on April 1, 2024. Further during F.Y. 2024-25, it incurred capital expenditure of ₹15 crores (out of which ₹10 crores was for acquisition of land) for the above business. All expenses incurred were paid by account payee cheque or through use of ECS through bank account.

The profit from running this hotel in Udaipur (before claiming any incentive-linked deduction) for A.Y. 2025-26 is ₹15 crores, assuming that EHL has fulfilled all the conditions specified for claim of deduction under any investment linked incentives that it can avail. The profit from the other hotels of EHL for A.Y. 2025-26 is ₹35 crores.

For A.Y. 2025-26, EHL has not claimed any deduction under Chapter VI-A under the heading "C" – deductions in respect of certain incomes. It is also not opting for the concessional tax regime under section 115BAA.

"Elegant Luxury", Udaipur commenced operations on April 1, 2024. EHL decided to avail the investment-based tax incentive for A.Y. 2025-26 based on this investment. EHL had made an application for four-star category classification on April 1, 2024. The Hotel Restaurant Approval and Classification Committee is the authority concerned in this case. The approval was granted on F.Y. 2025-26. This is on account of the delay in inspection of the hotel by the authority which could not be completed before the end of F.Y. 2024-25.

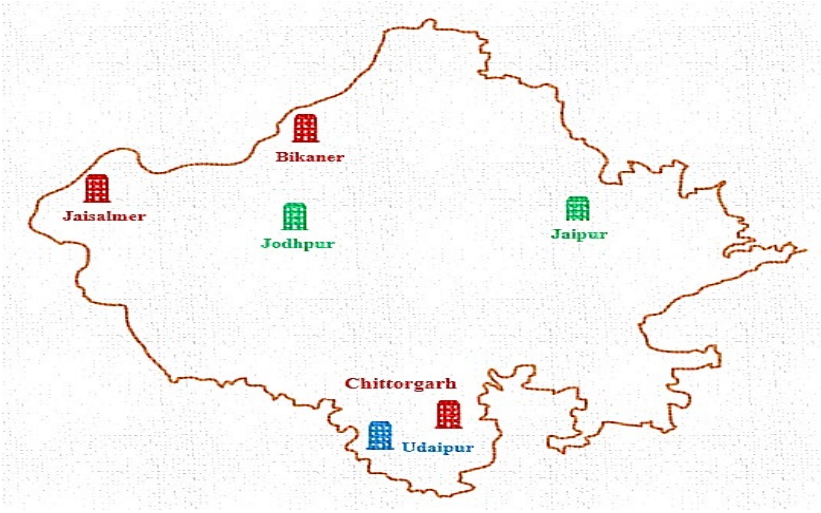
Operations of "Elegant Business" hotels in Jaipur and Jodhpur

In the financial year 2025–26, EHL forayed into the budget hotel segment. During the year, operations of "Elegant Business" hotels commenced in both Jaipur and Jodhpur. The "Elegant Business" hotel in Jaipur consists of 100 rooms, whereas the Jodhpur property is larger, with 200 rooms. Both locations are situated in prime urban areas where real estate costs—whether for ownership or lease—are significantly high.

Positioned as business hotels, these properties offer packages for hosting conferences, commonly referred to as convention services. Among the first conventions it hosted was for Royals Private Limited, which brought in 100 delegates. The hotel provided facilities that included accommodation, breakfast, tea and coffee during the conference, access to the fitness room, availability of the conference room, and use of the business centre.

Following its first year of launch, the financial performance of the Jaipur hotel for the full year of operations in F.Y. 2026–27 has been compiled. The Net Operating Profit Before Interest and Tax was reported at ₹2 crores, while depreciation expense amounted to ₹8 crores. During the year, there was an increase of ₹5 crores in working capital and ₹10 crores were incurred as capital expenditure. The invested capital at the end of the year stood at ₹20 crores. The applicable WACC was 8%, and the corporate tax rate was 30%. Rakesh Rajput reviewed the financial performance for the Jaipur property and suggested that cleaning and food services at both "Elegant Business" hotels be outsourced. His rationale is that outsourcing these non-core services would reduce the space and capital investment required to maintain such facilities in-house—for instance, by eliminating the need for a fully equipped kitchen. However, the practicality of this recommendation is currently limited, as reliable third-party service providers for cleaning and food services are not readily available in either Jaipur or Jodhpur. Moreover, although these services are considered non-core in the context of budget hotels, customer expectations regarding basic cleanliness and food quality still persist. Therefore, any outsourcing initiative must ensure that a minimum threshold standard is consistently met to preserve the guest experience and brand reputation.

Geographical Footprints-1.jpeg



Annexure: 1

Chief Executive Officer/ Elegant Hotels Limited/ Jaipur

From: "CEO Rakesh Rajput"; <Rrajput@ehl.com>
Sent: 5th June 2023 19:00
To: "Chirag Pandit" <cpandit@ehl.com>; "Anu Kher"<akher@ehl.com>; "Rajat Mathur"<rmathur@ehl.com>; "Rakesh Sharma"<rsharma@ehl.com>; "Ela Bhat"<ebhat@ehl.com>; Sathish Dhawan<sdhawan@ehl.com>; Sandy Lee<slee@ehl.com>;
Cc: "CEO Office"; <ceo.office@ehl.com>
Subject: Outline of Business Expansion Proposals within Rajasthan
Attachments: Geographical Footprints-1.jpeg

Dear Board Members,

As you are all aware, Rajasthan has become a popular tourist destination in recent years. I think it would be a good business opportunity to expand our operations in the region. I propose holding a board meeting on June 30th, 2023, to discuss the same. Here is a brief on the agenda items for discussion at that meeting.

Proposal 1: Opening a new 4-star hotel in Udaipur

We opened our hotels in Jaisalmer, Chittorgarh and Bikaner almost 15 years back. With the recent increase in tourism, our internal market suggests that it would be a good opportunity to open another luxury hotel in Udaipur. As a four-star hotel under the brand "Elegant Luxury", we can attract customers who are willing to pay a premium for comfort. The estimate cost of opening this hotel would be around ₹40 crores, inclusive of land, property, plant and equipment, furniture and fittings etc.

The target guest segment for the above hotels would be vacationing tourists interested in enjoying a laid-back time in scenic places. These guests would not mind paying a premium for availing of 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 hotels is in more sparsely populated areas.

Customer satisfaction is paramount to sustaining and growing business in the luxury hotels segment. With the ability to post reviews online on booking portals, any negative review (whether justified or not) can reach very easily many potential guests. This can negatively impact future business. Therefore, we should maintain high quality cleanliness and food service to satisfy customers properly.

Proposal 2: Venturing into budget hotels segment

All our current properties are 4-star luxury hotels. They cater to travelers who are willing to pay a premium for a comfortable stay and good ambiance. They operate under the brand "Elegant Luxury". As you may also know, economic activity within the state has been picking up in the last few years. The number of business travelers has increased manifold. They are looking for a functional place to stay for a few days. There are also many tourists who are cost conscious, willing to compromise on comfort. The proposal is to have smaller sized rooms and offer conference room facilities. High speed internet and airport shuttle service would be other attractions. The menu offering will be limited unlike our luxury hotels. I propose that we venture into budget hotel segment in cities like Jaipur and Jodhpur. We can operate these under the brand "Elegant Business".

Proposal 3: Investment of surplus funds

Our hotels in Jaisalmer, Chittorgarh and Bikaner are profitable, with full occupancy throughout the year. After catering to all our expenses and other commitments we have surplus funds of ₹8 crores available with us at present. I suggest that we invest these funds in shares of the reputed Hospitality and Hotel Management Company as part of the company's investment plan. This can yield higher returns as against parking them only in deposits with our bankers.

A detailed agenda, along with a comprehensive feasibility analysis, will be shared shortly.

Thanks, and regards,

Rakesh Rajput

I. Multiple Choice Questions

1. Which of the following statements is true with regard to the resolution passed at the Board Meeting held on June 30, 2023, for investing surplus funds of ₹8 crores in shares of the reputed Hospitality and Hotel Management Company as per the company's investment plan?

   (a) When all six directors of Elegant Hotels Limited present at the meeting consent to the investment of surplus funds.

   (b) When any five directors of Elegant Hotels Limited out of the six present at the meeting consent to the investment of surplus funds.

   (c) When any three directors, being half of the six attending the meeting, consent to the investment of surplus funds.

   (d) When all seven directors, representing the total strength of the Board of Elegant Hotels Limited, consent to the investment of surplus funds.

2. As regards "Elegant Luxury" hotels, 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. Calculate the Economic Value Added (EVA) of "Elegant Business" hotel in Jaipur.

   (a) (₹0.20) crores

   (b) ₹0.20 crores

   (c) (₹0.40) crores

   (d) ₹0.40 crores

4. Which of the following is the **most appropriate statement** in the context of "Elegant Business" Jaipur?

   (a) EHL should outsource its cleaning and food service operations in "Elegant Business", Jaipur, 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 hotel and that of the company will be positively impacted despite the risk of outsourcing.

(b) EHL should make an absolute comparison of Economic Value Added (EVA) of "Elegant Business" Jaipur with that of "Elegant Business" Jodhpur, irrespective of the difference in scale of their respective operations.

(c) EHL should reconsider the feasibility of operating properties where the Economic Value Added (EVA) is negative.

(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.

5. What benefit does EHL derive by operating different properties under two separate brands?

(i) Operating under two separate brands provides better visibility to EHL since it will be known by more than one brand.

(ii) Operating under two separate brands helps potential customers determine their expectations from each of such properties.

(iii) Operating under two separate brands helps EHL effectively communicate better to the customer about their product and service offering.

(iv) Operating under two separate brands helps EHL achieve goal congruence and thereby improve shareholder value.

Options

(a) (i) and (ii)

(b) (ii) and (iii)

(c) (iii) and (iv)

(d) (i) and (iv)

II. Descriptive Questions

6. (i) As the tax consultant, please ADVISE Mr. Rakesh Rajput whether EHL is eligible for any investment linked tax incentive under the Income Tax Act, 1961 in account of the construction of the new luxury hotel at Udaipur.

(ii) Given the information in the case scenario, COMPUTE the profits and gains from business or profession for EHL for A.Y. 2025-26.

(iii) Given that EHL has not yet received approval for classification as a four-star hotel from the authority concerned before the end of the financial year, ADVISE if it can avail investment-based tax incentive for A.Y. 2025-26?

7. Mr. Vishal Mehta, who recently joined the hotel's accounting team, is unsure about how to raise the invoice for GST purposes, as many of these services are chargeable at different rates. Additionally, EHL charges a cancellation fee when guests cancel their accommodation bookings.

   (i) ADVISE Mr. Vishal Mehta on how EHL may charge Royals Private Limited for the convention services it provided.

   (ii) ADVISE Mr. Vishal Mehta on how EHL the impact of GST on cancellation fees collected from guests.

ANSWERS TO THE CASE STUDY 29

I. Answers to the Multiple Choice Questions

1. (a) When all six directors of Elegant Hotels Limited present at the meeting consent to the investment of surplus funds.

Reason:

As per section 186(5), any investment shall be made or loan or guarantee or security given by the company only after when the resolution sanctioning it is passed at a meeting of the Board with the consent of all the directors present at the meeting.

On June 30, 2023 six out of the seven directors of Elegant Hotels Limited were present at the Board meeting. The consent of all the six present, that is a **unanimous resolution** of the Board, is required in order to consider the resolution regarding the investment of surplus funds of ₹8 crores in shares of the reputed Hospitality and Hotel Management Company.

2. (c) Threshold attribute

Reason:

Threshold attribute as this is feature that is taken for granted by the guests at the hotel.

However, if the required quality is not met it would cause dissatisfaction.

3. (a) (₹0.20) 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 = ₹2 crores less 30% of ₹2 crores = ₹1.40 crores.

Capital charge on invested capital = WACC × Invested capital = 8% × ₹20 crores = ₹1.60 crores.

Therefore,

EVA = ₹1.40 crores less ₹1.60 crores = (₹0.20 crores).

4. (c) EHL should reconsider the feasibility of operating properties where the Economic Value Added (EVA) is negative

Reason:

Negative EVA indicates that the property's Net Operating Profit After Tax (NOPAT) is less than the cost of capital employed, meaning it is destroying shareholder value. EVA provides a measure of whether a business segment or investment is actually generating returns in excess of its cost of capital. Therefore, it is appropriate for EHL to reconsider the feasibility of continuing operations at properties where EVA is consistently negative. While outsourcing may lead to cost savings and potentially improve EVA, this decision cannot be based on cost alone. EVA considers both profitability and capital efficiency, and outsourcing introduces risks related to quality, control, and brand image, especially in hospitality. The phrase "despite the risk" oversimplifies a complex strategic decision, making this option **not the most appropriate**. Comparing EVA in absolute terms between Jaipur and Jodhpur is misleading due to differences in scale, capital investment, and market dynamics. A relative comparison (e.g., EVA per room or EVA as a percentage of capital employed) would be more meaningful. Hence, this absolute comparison approach is faulty. EVA is based on accounting profits and capital charges but does not adjust for inflation or current purchasing power. It is not designed to reflect changes in inflationary trends — this is more the domain of *real return measures*. Therefore, the justification given here is factually incorrect.

5. (b) (ii) and (iii)

Reason:

Statement (ii) Operating under two separate brands 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.

Statement (iii) Operating under two separate brands helps EHL effectively communicate better to the customer about their product and service offering. This is an effective brand strategy that can foster trust and loyalty among customers.

While increased visibility can be a side effect, it's not the primary strategic benefit of brand separation. Goal congruence relates more to internal alignment of objectives (like between managers and shareholders) rather than branding strategy.

II. Answers to the Descriptive Questions

6. **(i)** Under Section 35AD, an assessee can claim investment linked tax incentives for investments made in specified businesses. This list includes investments made in building and operating a hotel of two-star or above category, anywhere in India. Therefore, EHL which is constructing and operating "Elegant Luxury" hotel in Udaipur can claim investment linked tax incentives under Section 35AD. The amount of deduction would be 100% of the capital expenditure incurred during the previous year, wholly and exclusively for the specified business. However, any expenditure towards land, goodwill or financial instrument will not be eligible for deduction.

Further, the expenditure incurred wholly and exclusively for the purpose of specified business prior to commencement of operation would be allowed as deduction in the previous year in which the assessee commences operation of specified business. The amount included prior to commencement should be capitalized in the books of accounts of the assessee on the date of commencement of its operations.

(ii) Computation of profits and gains from business or profession for A.Y. 2025-26

Particulars	**Amount (₹)**	**Amount (₹)**
Profits from specified business in Udaipur (before providing deduction under section 35AD)		**15 crores**
Less: Deduction under section 35AD		
Capital expenditure incurred during FY 2024-25 (excluding expenditure incurred on acquisition of land) = ₹15 crores - ₹10 crores	5 crores	**30 crores**
Capital expenditure incurred prior to commencement date April 1, 2024 and capitalized in the books as on April 1, 2024	25 crores	

Loss from specified business of new hotel in Udaipur	**(15 crores)**
Profits from other hotels of EHL for A.Y. 2025-26	35 crores
Net profit from business after set-off of loss of specified business against the profits of another specified business under Section 73A	**20 crores**

(iii) "Elegant Luxury" Udaipur commenced operations on April 1, 2024. It has applied for approval to operate as a four-star hotel with the Hotel Restaurant Approval and Classification Committee, which is the concerned authority in this case. The approval was granted in FY 2025-26. This is on account of the delay in inspection of the hotel by the concerned authority which could not be completed before the end of F.Y. 2024-25. The question is whether EHL can avail of investment-based tax incentives for A.Y. 2025-26 even though approval was pending for classification as four-star hotel from the concerned authority.

As per the case *CIT vs Ceebros Hotels Private Limited (2018) 409 ITR 423 (Mad)*, as the application for three star category classification was granted with no discrepancy during inspection, it was held that the assessee cannot be penalized for delay on part of the concerned authority (the Hotel and Restaurant Approval and Classification Committee in this case) to complete inspection before the end of the financial year. Under Section 35 AD, deduction is available from the previous year in which the assessee commences operations of the specified business, i.e. hotel business, in this case. Section 35AD does not mandate that the date of the certificate has to be with effect from a particular date. Thus, the assessee is entitled to claim the deduction under Section 35AD for the relevant previous year, since the provision was introduced to encourage the establishment of hotels of a particular category is a beneficial provision, and hence, should be read and interpreted liberally.

Accordingly, in the case of EHL too, although it made an application for which approval was pending as of the end of the financial year, it can avail of deduction as provided in Section 35AD.

7. (i) As is evident from the case scenario, EHL is providing a bouquet of services to Royals Private Limited as part of its convention services. Many of them may be chargeable at different rates. If the principal service is described as convention service, EHL will be able to capture the entire essence of the package. Thus, the principal service may be judged as convention service and charged to GST accordingly.

However, it is fully justifiable for the hotel to charge individually for the services as long as there is no attempt to offload the value of one service onto another service that is chargeable at a concessional rate.

(ii) It is common practice for suppliers of services such as hotel accommodation, tour and travel etc. to provide the facility of cancellation of the intended supplies within a certain time period on the payment of a cancellation fee. Cancellation fee may be considered as the charges for costs involved in making arrangement for the intended supply and the costs involved in cancellation of the supply. Services such as making online portal available for booking, reserving rooms for guests, providing requisite facilities within the hotel property etc. form various elements of hotel accommodation services; they constitute the various elements of hotel service, a composite supply.

The facilitation service of allowing cancellation against payment of cancellation charges is also a natural part of this bundle of services. It is invariably supplied by all hotels in conjunction with the principal supply of hotel accommodation in the ordinary course of business. Therefore, facilitation supply allowing cancellation of intended supply against the payment of cancellation fee or retention or forfeiture of part or whole of the consideration of security deposit in such cases should be assessed as the principal supply.

Therefore, the cancellation fee that EHL collects from guests who cancel their bookings within a certain time period would attract GST at the same rate as applicable while booking the hotel room.

CASE STUDY 30

Daily Mart, ₹ 99 Store

The country of India whose functional currency is Rupees is home to a large chain of fixed-price discount stores called Daily Mart, which sells ambient goods at a fixed price of ₹ 99. Fixed-price discount chain focus on unbranded commodity goods that they purchase from a number of small suppliers (apart from almonds which they import from California, US), of which these Daily Mart Stores are the most important customers. The products they sell have low profit margins and minimal overheads, and their target price is set. The products are typically functional, standardised, and undifferentiated.

Daily Mart in order to minimise the overhead cost (in light of target price, to push the margins) working on efficiency and effectiveness. To achieve this, the company has strategically invested in automation and advanced technology. It has recently imported 4 advance level machines for printing and labelling on items or packing thereof from Japan which were directly entered for home consumption. These state-of-the-art machines are designed to enhance the speed and precision of printing and labeling on various items and packaging materials. By integrating these advanced machines into its operations, Daily Mart aims to streamline production processes, reduce labour dependency, and minimize wastage, ultimately leading to improved cost efficiency.

Daily Mart has imported four high-tech printing and labeling machines from Japan and the cost structure for these machines includes various components. The price of raw materials amounts to 1,500 thousand Japanese Yen. In addition, processing charges incurred for these machines stand at 300 thousand Japanese Yen. Other expenses associated with the import are estimated at 90 thousand Japanese Yen. Furthermore, the usual profit margin considered in the cost structure is 150 thousand Japanese Yen. The cost of transport for bringing these machines to their destination is 60 thousand Japanese Yen. However, the cost of insurance for the machines is not ascertainable at this stage. The exchange rates applicable for conversion can be referred to in Annexure 1.

As mentioned earlier, Daily Mart is striving towards effectiveness and efficiency; for this they are working on sync of system, strategy, staff, skill etc. The Management Accountant of Daily Mart had experience of using 7S framework and exited to apply the same framework at Daily Mart to support the drive for efficiency and effectiveness. She made a presentation to C-suite.

CEO is convinced with utility that 7S framework is capable to produce, but has queries regarding the application of Mckinsey 7S; moreover, skeptic about; how Daily Mart going to get maximum out of 7S; MD of Daily Mart who is Operation Engineer by education qualification expressed his contentions about 7S in response.

As a result of a prolonged economic downturn in the neighbour country Bangladesh, **'Everything at 99'** bargain stores also have grown therein; which Daily Mart is aware of. At present, there are four major retail chains operating under the ₹ 99 pricing model. These include Retail 99, Club Basket 99, Daily Shopee 99, and Quick Buy 99, each catering to budget-conscious consumers seeking affordable shopping options. Quick Buy 99 out of four stated above started its operations back in April 2023, while other three has been operating for more than 5 years, Retail 99 is oldest one.

Year wise total revenue (converted using appropriate exchange rate in ₹ Lacs) of all four main discount fixed-price chains operating in Country Bangladesh is calculated. For the financial year 2024-25, the combined revenue of these chains reached ₹ 2,260 lakhs. In the F.Y. 2023-24, the total revenue stood at ₹ 2,100 lakhs, reflecting steady expansion in the market. Meanwhile, in F.Y. 2022-23, the revenue was recorded at ₹ 1,450 lakhs, indicating a substantial increase in subsequent years.

These four chains' stores are typically located on the main streets of cities and villages with high rates of economic distress. There are vacant stores in many of these cities and towns that may be rented for a reasonable price. These stores can now be rented for a relatively short fixed-term lease from landlords who previously demanded hefty rents and asking for lengthy leases. These 'Everything at 99 store chains' in Bangladesh promote their expansion intentions through various means. Only a few weeks pass before one of the businesses announces intentions to open many new stores around the nation.

Given the rise of fixed-price discount stores in Bangladesh, Daily Mart is thinking about getting into this/market. Therefore, a brand awareness survey in Bangladesh was recently commissioned by Daily Mart. According to the survey's findings, respondents who work in the retail consumer products industry had a fair amount of knowledge about Daily Mart. The majority of these respondents accurately recognised the business as a major player in the Country India and a discount fixed-price enterprise. However, only 10% of respondents had heard of Daily Mart among ordinary consumers. On the other hand, over 85% of the respondents knew either or all the four fixed-price 'Everything at 99' discount shops that are now operating in Country Bangladesh.

The Daily Mart generates ₹ 24 crores in income in F.Y. 2024-25. Because of its cash reserves, it might be able to lease a sizable number of stores in Country Bangladesh and build a solid reputation in the marketplace. Competencies in efficient supplier management and selection, backed by efficient procurement procedures, have been acknowledged. One of the company's main advantages is its logistical systems and procedures.

The success of Daily Mart can be attributed to its diversified and dedicated management team, whose collective expertise and strategic vision have been instrumental in driving the company forward. With vast experience across various domains such as retail operations, supply chain management, finance, marketing, and technology integration, the leadership team has successfully navigated market challenges while capitalizing on emerging opportunities. One of the key strengths of Daily Mart's management is its proactive approach to innovation and cost optimization. By continuously analyzing consumer trends, implementing advanced technology, and refining operational efficiencies, the team ensures that the company remains competitive in the dynamic retail landscape. Their hands-on decision-making, customer-centric strategies, and focus on sustainable growth have enabled Daily Mart to maintain a strong foothold in the market.

Additionally, the management fosters a culture of adaptability and teamwork, ensuring that employees at all levels are aligned with the company's vision. This collaborative and forward-thinking approach has played a pivotal role in expanding the business, strengthening supplier relationships, and enhancing customer satisfaction, further solidifying Daily Mart's position as a market leader.

Ms. Ambika recently appointed as additional director. Mr. Dehra, who is also Director on board of Daily Mart went to abroad for 6 months for attending a short-term executive course on business management, in his place Mr. Dun is appointed as alternate director in the manner as specified in Articles of Association. Mr. Dehra is going to retire at 22nd AGM i.e. the upcoming AGM. Mr. Dehra returned back to India after his course.

In Bangladesh, there are also a lot of traditional grocery stores. The biggest of these generates ₹ 8.50 crores in revenue annually (translated using the relevant currency rate). Out-of-town locations are becoming more and more popular among Bangladesh supermarkets since they enable the establishments to stock a greater variety and volume of goods. There is enough of parking for customers, and it is not too difficult for delivery cars to get to these locations. Most supermarkets carry a large variety of ambient goods in addition to nonambient items, frequently with competing brands available. Nevertheless, the cost of these items varies, and no supermarkets have yet to implement the fixed-price discount sales strategy. The big grocery chains generally compete with one another and don't give the 'everything at 99' discount stores

much thought. Many supermarkets also offer online home ordering platforms, which allow consumers who are unable or unable to visit the store to have their orders delivered (generally for a fair delivery charge ranging ₹ 25-50 per order).

Daily Mart also sells the retail packing (of 100 grams, at ₹ 99) of almonds, which they import from California, US. Daily Mart owes a California based almond trader/exporter $10,000 due in 3 months' time. The spot exchange rate is (₹ / $) 85.7812 - 85.9345.

Mr. Krishnan who is MD of Daily mart during the year executed certain transactions involving foreign exchange beyond the limits permitted, therefore recently received an order along with penalty notice under the Foreign Exchange Management Act, 1999 which he failed to pay.

Daily Mart has recently introduced a newly developed product line featuring innovative designs and intricate handcrafting techniques. It enters into a contract to sell a product to Max Retail for a total consideration of ₹ 1,21,000, which is payable 24 months after the date of delivery. Max Retail obtains control of the product at contract inception. The contract permits Max Retail to return the product within 90 days. The product being sold is entirely new to the market, which presents a significant challenge in terms of estimating potential returns. Daily Mart has no prior sales history for this particular product, nor does it have access to comparable industry data or market benchmarks that could help forecast the return behavior of customers. In the absence of such data, the entity is unable to make a reliable estimate of the expected returns.

The cash selling price of the product is ₹ 1,00,000 which represents the amount that the customer would pay upon delivery for the same product sold under otherwise identical terms and conditions as at contract inception. The entity's cost of the product is ₹ 80,000. The contract includes an implicit interest rate of 10 per cent (i.e. the interest rate that over 24 months discounts the promised consideration of ₹ 1,21,000 to the cash selling price of ₹ 1,00,000).

Annexure: 1

The exchange rate between Rupees and Japanese Yen (₹ / ¥)

Notified by	On the date of filing of Bill of Entry	On the date of arrival of vessel
RBI (FBIL)	56.75	55.20
CBIC	57.05	55.50

Annexure: 2

Currently prevailing interest rate per annum in India and US

	Borrowing	Deposit
India	8%	6%
US	4%	3.2%

Note - Ambient goods include things like stationery, small plastic items, cleaning supplies and specially packed consumables, which can be kept at room temperature and don't require any special storage facility.

I. Multiple Choice Questions

1. What is the assessable value of 4 advance level machines for printing and labelling in JPY (¥)?

   (a) ¥ 21,64,950

   (b) ¥ 21,22,950

   (c) ¥ 21,65,625

   (d) ¥ 21,23,625

2. How much Daily Mart need to pay in three months' time in ₹ to settle $10,000 payment to the supplier of almonds based in California, if Daily Mart decided to hedge the exposure using Money Market Hedge (round-off calculation to the nearest full unit of currency)?

   (a) ₹ 8,68,056

   (b) ₹ 8,99,321

   (c) ₹ 8,69,607

   (d) ₹ 8,32,705

3. Which of the exchange rates shall be used to calculate assessable value of 4 advance level machines for printing and labelling in ₹ ?

   (a) ₹ / ¥ 56.75

   (b) ₹ / ¥ 55.20

   (c) ₹ / ¥ 57.05

   (d) ₹ / ¥ 55.50

4. Presuming AGM of BPL took place within the time in which it shall be conducted, you are required to check validity of following statements:

   I. Mr. Dun shall hold office till conclusion of 22nd AGM i.e. the upcoming AGM

   II. Ms. Ambika shall hold office till upcoming AGM

   Options

   (a) Statement I is correct but statement II is incorrect

   (b) Statement II is correct but statement I is incorrect

   (c) Both I and II are correct

   (d) Both I and II are incorrect

5. Regarding failure to make payment of the penalty imposed under the Foreign Exchange Management Act, 1999, which of the following statements are/is incorrect;

   I. Adjudicating Authority may, by order in writing, authorise an officer of Enforcement not below the rank of Assistant Director to recover any arrears of penalty

   II. Order of recovery shall be issued if the person upon whom penalty is imposed failed to make full payment within a period of sixty days from the date on which the notice for payment of such penalty is served on him.

   IIII. Such authorised officer of enforcement has all the like power which are conferred on the land revenue collector.

   Options

   (a) II only

   (b) III only

   (c) I and III

   (d) II and III

II. Descriptive Questions

6. Using appropriate model to Assess the attractiveness, to Daily Mart, of entering the discount fixed-price retail market in Bangladesh.

7. The MD at Daily Mart is of opinion, that Strategy is one among the 7 elements of 7S framework that is core to all remaining elements of 7S and Hard S elements have more important than Soft S elements; therefore, need to more focused upon. Evaluate the validity of his 3 contentions and Advice.

8. Analyse the transaction between Daily Mart and Max Retail with respect to the recognition of revenue and financing component.

ANSWERS TO THE CASE STUDY 30

I. Answers to the Multiple Choice Questions

1. (b) ¥ 21,22,950

Reason:

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

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

Transport Cost given is ¥ 60

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

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

2. (c) ₹ 8,69,607

Reason:

Liability in $ to be paid in 3 months' time = $10000

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

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

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

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

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

3. (c) ₹ / ¥ 57.05

Reason:

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

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

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

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

Reason:

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

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

5. (d) II and III

Reason:

As per sub-section 1 to section 14A of the Foreign Exchange Management Act, 1999, the Adjudicating Authority may, by **order in writing, authorise an officer of Enforcement not below the rank of Assistant Director** to recover any arrears of penalty from any person who fails to make full payment of the penalty imposed on him under section 13 within the period of ninety days from the date on which the notice for payment of such penalty is served on him.

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

II. Answers to the Descriptive Questions

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

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

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

Assessment

Force 1 - Existing competitive rivalry

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

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

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

Force 2 - Bargaining power of suppliers

The bargaining strength of Daily Mart's suppliers is minimal. Daily Mart Stores are the primary clients of several small suppliers, with the exception of the almond provider. Due of the lack of differentiation in the items, Daily Mart can easily switch suppliers. It is improbable that any of these vendors could use forward integration to compete with their present clients.

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

Force 3 - Bargaining power of customers

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

(a) Customers looking for cheaper purchase costs are drawn to the products because of their low profit margin.

(b) The buyer can easily move to a different supplier because Daily Mart provides unbranded commodity goods. As a result, switching costs are minimal.

(c) Other suppliers can readily offer standard, undifferentiated products. In order to get the best terms of supply, customers can thus select which supplier to work with and pit the businesses against one another.

(d) Because they are probably extremely price sensitive, customers will make significant efforts to secure the best terms of supply.

Force 4 - Threat of substitutes

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

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

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

Force 5 - Potential entrants and barriers to entry

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

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

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

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

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

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

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

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

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

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

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

At the time of delivery:

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

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

CASE STUDY 31

YayIn Airlines Limited

YayIn Airlines Limited (YIAL) is an Indian airline, headquartered in Mumbai. Until the year 2024 YIAL was full service airline offering full service (premium) flying experience to its guests. It primarily focussed on tourist travel to exotic locations. Premium flying required YIAL to focus on connectivity between tourist destinations like Srinagar, Gangtok, Lakshadweep Islands, Andaman and Nicobar Islands and Darjeeling. The number of routes were limited, primarily originating from Mumbai or Delhi. Passengers were mainly luxury travel guests, who could afford exotic travel vacations but have limited time therefore preferring to fly to these destinations. Premium flying service allowed YIAL the ability to charge premium (higher than economy class market rates) to passengers.

Increased margin pressures – full service model

In the recent years, the number of players in the aviation sector has increased, thereby increasing the competition including that on the routes to the destinations mentioned above. Most of the rivals are offering economy seat travel. While there is a difference in the service offering, high inflationary conditions in the country has lead air travel passengers to become more price sensitive. Therefore, aircraft capacity was not getting utilized fully due to this price sensitivity combined with intense competition. Profit margins were getting squeezed.

Route viability assessment

The network route development team, headed by Mr. Jithendra Singh develops route network and assesses its financial and operational viability. The team collaborates with the finance analysis team of YIAL, headed by CA Gopal Verma, to determine the financial viability of the route. Both Jithendra Singh and Gopal Verma then present their analysis to the Mr. Ravi Mehta, Director- Flight Operations, YIAL. Once a route is approved, the flight starts operating on that route after due regulatory approval. Every 6 months, a detailed analysis is done to look into the operational issues related to that route as well as consider whether the route should continue to be operated on based on its financial viability.

In an effort to improve the company's performance, consideration is being given to cancel flight routes that appear unprofitable. YayIn airlines has the flexibility to cancel flight operations on particular routes after following due operational and regulatory procedures. The forthcoming

meeting between Jithendra Singh, Gopal Verma and Ravi Mehta is scheduled to be held next week. The agenda is to decide whether to continue operations of Flight 7J6622 between Mumbai and Srinagar. YIAL has the data to compute the income statement for each flight that it operates. Please refer Annexure 1 for the income statement of flight 7J6622 operating on the Mumbai-Srinagar route. CA Gopal Verma would use this in the discussions next week.

Change in business model into a low cost airline

Due to increased margin pressures, the management realized that growth opportunities in the full service premium flying segment catering to tourist destinations alone, was not a sustainable business model. Increased competition due to rivals offering newer routes to passengers combined with price sensitive travellers, forced the senior management to rethink its strategy.

Therefore, in March 2024, the senior management of the company took the decision to become a low cost airline instead. The flying experience would be similar to economy class travelled that is popular and being offered by other players in the market. The strategy to sustain profits was to build cost efficiencies into the operations along with expanding market reach. Mumbai and Delhi would serve as the main hub of operations, but there would be many more routes developed to cover other cities, not just to tourist destinations. This will result in Increase fleet size and expand the network of routes offered. The fleet will be of single type of aircraft to reduce maintenance and operational costs. Any future acquisition of planes will be leased rather than bought outright. In current market conditions, leasing was working out cheaper. Airfare will be charged at market competitive rates, attracting enough customers to ensure that flight capacity is fully utilized. In flight entertainment, food and beverage will be charged extra and not included in the ticket cost. Digitalize processes to make them efficient, error free and cost effective. Encouraging online booking and check in is one such process. Premium flying will be phased out completely.

Operations as a low cost airline: New vision and mission of YIAL, increased scale of operation

With the change in business model, the company had a new Vision and Mission statement as outlined below.

Vision: ***"Yay! In for better connectivity at affordable rates!"***

Mission: ***"Our large fleet will fly guests across to destinations, new and old, on time, in comfort and at industry best fares."***

YIAL has based its success on three parameters using which it wishes to build a loyal customer base – (1) affordable rates, (2) on time performance and (3) courteous and hassle free service. These are reassurances that YIAL provides its customers (guests).

In April 2024, YIAL executed a 12 year lease agreement with Airway Inc. for the lease of 5 aircrafts. Refer to terms of the lease in Annexure 2. With increase in fleet size and corresponding increase in passenger traffic, the scale of operations is slated to increase manifold. The entire project of change in business model was completed in September 2024.

Hub-spoke model versus point to point model

YayIn now works on a hub-spoke model, where flights on different routes pass through either Mumbai or Delhi and then onward to their destination. The passengers have to disembark from their original flight when it reaches the hub and then reboard the next fight that will take them to their final destination. The idea was to club together passengers travelling to a final destination from different origins to group together at the hub that will take them to their final destination in a different aircraft. This will maximize the capacity utilization of the aircraft. Fixed costs form a major portion of the cost structure of this business. Hence, if capacity utilization is better, it enable YIAL to offer competitive ticket price to the passengers. Therefore, the price sensitive passengers are satisfied due to cheaper airfare. On the other hand, the hub-spoke travel model explained above increased the travel time by at least twice as compared to a point-to-point model. This model results in longer queues at the check-in counter, security check and results in a crowded airport. However, the price sensitive passenger is willing to bear the wait and hassle since the ticket is available at a more affordable rate. The hub-spoke model attracts huge crowd, due to which there is enormous pressure on the limited infrastructure and staff resources at each of these airports (check-in-counter staff, CISF security staff, ground crew handling luggage etc).

The point-to-point model involves the aircraft flying non-stop (directly) from its origin to its destination. Many business travellers and some passengers who prefer hassle free travel, prefer this model. Recently the feedback taken from such type of passengers showed that they were dis-satisfied with inordinately long travel time under the hub-spoke model. With increasing wealth and booming business environment, the chunk of such travellers in slowly increasing. However, operating a point-to-point model from Mumbai or Delhi works out costlier.

Streamlining operations

Ever since the low cost airline operations have begun, Mr. Ravi Mehta has been insisting on building cost efficiencies into the company's operations. He has encouraged employees to imbibe lean thinking strategies as part of their roles. He has approached the network route development team and the financial analysis team to find a solution to the above problem.

Jithendra's network development team has suggested that efficient management of queue management at the check-in counter and boarding gates at the airport by allowing for online web-check in. Bring uniformity to the size and type of luggage that can be carried by the passengers. With proper regulatory approval from the authorities like DGCA, passengers must carry check-in and hand luggage of specified dimensions. Else, the passengers have to bear an extra cost for handling non-uniform luggage. Start point-to-point travel for travellers who prefer convenient and faster travel. Since their numbers are smaller, use smaller aircrafts so that (a) capacity utilization is faster and (b) the aircraft turnaround time due to maintenance and repair work by the ground staff can be done faster. Due to lesser passengers the queues will be shorter and there will be minimum disruption to travel time.

The team led by CA Gopal Verma has proposed that to have different pricing structures for hub-spoke model travellers and the point-to-point model travellers. To maintain profitability in operations resort periodic to across-the-board reduction of staff of ground staff in order to reduce costs of operations.

Mr. Prem Chabbra, a director of YIAL was appointed as its Managing Director on 1st April 2023. One of the terms of appointment was that in the absence of adequacy of profits or if the company has no profits in a particular year, he will be paid remuneration in accordance with the provisions contained in the Companies Act, 2013. As per the financial results for FY 2024-25, YIAL has incurred a heavy loss of ₹ 55 crores. However, these losses are primarily due to the extensive change in business model that was undertaken during the year. The company was not in a position to pay any remuneration to Mr. Chabbra but he was paid ₹ 2 crore for the year. This payment was approved by a special resolution passed by the shareholders. The effective capital of the company is ₹ 215 crores.

Tax Deduction at Source (TDS) on passenger service fee (PSF)

Passenger service fee (PSF) is a charge that airlines collect from passengers to cover the cost of airport security and passenger facilities. Facilities include security, baggage trolleys, escalators, air-conditioning etc. All these contribute towards enhancing passenger experience and makes flying comfortable and secure. The airport operators at Mumbai and Delhi, who manage the airports and their infrastructure would collect this fee from the airline.

Mayank Saxena has joined the vendor payment team of the accounting department at YIAL recently. He is making his very first payment to the airport operators at Mumbai and Delhi for PSF. These payments are made along with rental payments to the airport operators that YIAL pays for use of the airport space for operating its business. He is confused whether tax has to be deducted for payments made for PSF to airport operators under the relevant sections of the Income Tax Act, 1961.

Pursuing two business models simultaneously

YIAL has been successfully operating as a low cost airline for the past few years now. In the recent years, the tourism travel industry has been promoting many locations within India as vacation spots. Hence, YIAL's original operating routes like Srinagar, Gangtok, Lakshadweep Islands, Andaman and Nicobar Islands and Darjeeling are gradually becoming popular again. Again, there are different customer segments, some preferring affordable travel while others preferring comfortable premium experience.

Mr. Chabbra has been working with YIAL for the past 25 years. From his experience, he feels that YIAL can re-start its full service premium flying to these locations again. The rest of the management team is not convinced about this proposal. Their primary concern is that YIAL has switched to low-cost, affordable travel model in the recent years. By restarting premium flying, YIAL will be catering to different customer segments at the same time. While price sensitive travel flyers will not be willing to pay higher ticket fare, the prospective premium flying passengers will not be happy to experience the economy class flight experience (affordable, but reduced service travel offering). Hence, there will be a lot of confusion about YIAL's brand offering. They feel that a single model namely the low cost affordable travel model that YIAL is currently following should be maintained, there is no confusion in the minds of passengers about the service to expect.

Yayln acquired an aircraft from Boeing (Boeing 767) on 1st April, 2019 for ₹ 400 crore. Over a period of four years, the aircraft was used in operations and depreciated accordingly. By the end of this four-year period, the aircraft had a carrying amount of ₹ 255 crore, which reflected its estimated value in use. This value was arrived at after charging cumulative depreciation of ₹ 110 crore and an impairment loss of ₹ 35 crore.

On 1st April, 2023, the company decided to classify the aircraft as "held for sale" due to a proposed transition towards acquiring new-generation aircraft (Boeing 787 Dreamliner). At the time of classification, the carrying amount of the existing aircraft was ₹ 255 crore. However, the fair value less costs to sell was assessed at ₹ 250 crore, indicating a shortfall in recoverable value. At the next reporting date, 31st March, 2024, market conditions improved and the fair value less costs to sell of the aircraft was reassessed at ₹ 265 crore. By 1st October, 2024, the market for aircraft had continued to strengthen, and the fair value less costs to sell rose further to ₹ 300 crore.

Annexure: 1 – Income Statement

Income Statement of Flight 7J6622 Operating from Mumbai to Srinagar (per flight)

Particulars	₹	₹
Ticket Revenue (200 seats × 40% occupancy × ₹ 22,500 ticket price)		18,00,000
Variable expenses per person (200 Seats × 40% Occupancy × ₹15,000 Variable expense)		(12,00,000)
Contribution margin (Ticket revenue less variable expense)		6,00,000
Flight expenses		
Salaries, Flight crew	2,00,000	
Salaries, Flight Assistants	80,000	
Baggage Loading and Flight Preparation	70,000	
Overnight costs for flight crew and assistants at destination	80,000	
Fuel for aircraft	2,50,000	
Depreciation of aircraft*	75,000	
Liability insurance	1,50,000	
Flight promotion	50,000	
Hanger parking fee for aircraft at destination	25,000	(9,80,000)
Net Gain/ (Loss)		**(380,000)**

**Based on obsolescence*

The following additional information is available about flight 7J6622 from Mumbai to Srinagar.

1. Members of the flight crew are paid fixed annual salaries, whereas the flight assistants are paid by the flight.
2. The baggage loading and flight preparation expense is an allocation of ground crew's salaries and depreciation of ground equipment.
3. One third of the liability insurance is a special charge assessed against flight 7J6622 because in the opinion of insurance company, the destination of the flight is in a "high-risk" area.
4. Flight promotion expense is specific to the route, in this case relate only to flight 7J6622.
5. The hanger parking fee is a standard fee charged for aircraft at all airports.
6. If flight 7J6622 is dropped, YIAL Airlines has no authorization at present to replace it with another flight.

Annexure:2 – Lease Agreement Terms for 5 Aircrafts

Lease Agreement

This Lease Agreement is made and entered into as of 01/10/2024, by and between **YIAL** (YayIn Airlines Limited) and **Airway Inc.** for five aircrafts.

The following were the terms of the lease:

- Lease commencement date for each of the aircraft would be October 1,2024.
- YIAL must pay Airway Inc. the first monthly rental payment of ₹ 10 lakh per aircraft upon execution of the lease.
- Airway Inc. will pay YIAL ₹ 50 lakh per aircraft cash incentive to enter into lease payable upon execution.

YIAL incurs an initial direct cost of ₹ 1 lakh per aircraft, which is payable on October 1, 2024. YIAL has calculated the initial lease liability as the present value of the lease payments discounted using incremental borrowing rate because the rate implicit in the lease could not be readily determined. Thus, the initial lease liability is arrived at as ₹ 8.50 crores per aircraft.

YIAL has to undertake a planned check after every 100,000 flight hours for each aircraft. At the end of lease period, that is 12 years YIAL must have a check performed (or refund the costs to Airway Inc.), irrespective of the actual number of flight hours.

I. Multiple Choice Questions

1. What will be the carrying amount of an aircraft and gain or loss to be recognised on subsequent remeasurement as on 1st Oct 2024, for an aircraft purchased in Apr 2019, as per relevant Ind AS?

   (a) On subsequent remeasurement as on 1st Oct 2024, aircraft shall be carried at ₹ 300 crore and there will be gain of ₹ 35 crore to be recognised in the books as per Ind AS.

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

   (c) On subsequent remeasurement as on 1st Oct 2024, aircraft shall be carried at ₹ 265 crore and there will be loss of ₹ 15 crore to be recognised in the books as per Ind AS.

   (d) On subsequent remeasurement as on 1st Oct 2024, aircraft shall be carried at ₹ 255 crore and there will be loss of ₹ 35 crore to be recognised in the books as per Ind AS.

2. Which of the following would reflect the spirt of employees adopting lean thinking while working for the organization?

   (i) Efficient management of queue management at the check-in counter and boarding gates at the airport by allowing for online web-check in.

   (ii) Across the board reduction of staff of ground staff in order to reduce costs of operations.

   (iii) Streamlining processes to allow for faster baggage drop and pick up at the departure and arrival lounge by bringing uniformity in the luggage type and size.

   (iv) Streamlining flight operations and use of smaller aircraft types to allow for minimum disruption of travel time.

   Options

   (a) (i), (ii) and (iii)

   (b) (ii), (iii) and (iv)

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

   (d) (i), (ii) and (iv)

3. YIAL is using the Kano Model to assess the impact switching to low-cost airline model have on customer satisfaction. Under which attribute of Kano Model would YIAL's ability to provide extensive connectivity at affordable rates fall under:

   (a) Performance attribute

   (b) Threshold attribute

   (c) Delight attribute

   (d) Questionable attribute

4. Referring to the provisions contained in the Companies Act, 2013, assess the validity of payment of ₹ 2 crore made to Mr. Chabbra for FY 2024-25:

   (a) As per the provisions of Companies Act, 2013, Mr. Chabbra is not entitled to any remuneration since YIAL incurred heavy losses in FY 2024-25.

   (b) As per the provisions of Companies Act, 2013, Mr. Chabbra is entitled to only ₹ 120 Lakh as remuneration in FY 2024-25 and it cannot be increased in any circumstances.

   (c) As per the provisions of Companies Act, 2013, Mr. Chabbra is entitled to only ₹ 24 Lakh as remuneration in FY 2024-25.

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

5. Which of the following strategies can possibly support Mr. Chabbra's proposal to operate both affordable low cost model and the premium full service model simultaneously?

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

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

(c) Increase marketing and advertising spend to spread awareness of which route offers full service flying and which offers low cost affordable flying.

(d) It is not possible to operate both models simultaneously.

II. Descriptive Questions

6. Prepare an ANALYSIS showing what impact dropping flight 7J6622 would have on the airline's profit. CA Gopal Verma would be using this analysis in his forthcoming meeting.

7. In respect of lease Agreement with Airway Inc.:

(i) How should YIAL record and measure the lease with Airway Inc.?

(ii) How should YIAL account for the cost of planned checks and check to be performed at the end of the lease term?

8. ADVISE Mayank Saxena about whether tax has to be deducted for payment of PSF to airport operators in Mumbai and Delhi?

ANSWERS TO THE CASE STUDY 31

I. Answers to the Multiple Choice Questions

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

Reason:

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

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

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

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

Reason:

The correct answer is (c). Lean thinking is an organized management philosophy to reduce waste. In the above case scenario (i), (iii) and (iv) represent reduction of waiting time for guests. Waiting time is a form of waste in a lean system. Across the board reduction of ground staff to reduce cost of operations on the other hand

does not necessarily lead to reduction of waste. While cost efficiencies are important, indiscriminate across the board reduction of ground staff can cause inefficiencies in the process flow of operations. Since there is a lot of passenger volume, this rather increases the possibility of generating waste in the form of inefficient operations since there may be insufficient staff to handle the operations.

3. (a) Performance attribute

Reason:

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

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

Reason:

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

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

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

Reason:

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

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

II. Answers to the Descriptive Questions

6. As per the statement given in the problem, Flight 7J6622 incurs a net loss of ₹ 380.000. This is the net result of revenue less costs. Revenue is entirely variable depending upon passenger occupancy. Costs are both variable and fixed nature. To analyze the impact of dropping Flight 7J6622, we need to re-compute net gain/ (loss) that YIAL earns when it operates the flight based on relevant costing principles.

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

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

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

fixed, allocated and sunk expenses are ignored while analyzing the decision whether to continue operating flight 7J6622.

Statement showing Net Gain / (loss) if flight operations continue

	₹	₹
Contribution margin if flight operations continue		6,00,000
Less: Relevant costs if flight operations continue		
Salaries, Flight Assistants	80,000	
Fuel for Aircraft	2,50,000	
Liability Insurance (1/3 which is the special charge for high risk destinations)	50,000	
Flight Promotion	50,000	
Overnight Costs for Flight Crew and Assistants	80,000	5,10,000
Net Gain / (Loss)		**90,000**

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

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

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

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

(ii) YIAL is required to perform a planned check after every 1,00,000 hours of flight hours for each aircraft. This obligation is dependent on future circumstances. For example, YIAL may terminate the lease prematurely. Therefore, this does not lead to an obligation and therefore there is no need to make any provision for these

checks. However, at the end of 12 years lease term, YIAL is obliged to carry out a final check irrespective of the number of hours actually flown by the aircraft. Hence, YIAL has to provide for these costs at the present value of expected costs. This provision has to be made at the beginning of the lease term i.e. in the FY 2024-25. The costs must be included in the cost of the right-of-use (ROU) asset pursuant to para 24 (d) of Ind AS 116.

8. Section 194-I requires deduction of tax at source at specified percentage on any income payable to a resident by way of rent. Explanation to this section defines the term "rent" as any payment, by whatever name called, under any lease, sub- lease, tenancy or any other agreement or arrangement for the use of any (a) land; or (b) building; or (c) land appurtenant to a building; or (d) machinery; or (e) plant; or (f) equipment; or (g) furniture; or (h) fitting, whether or not any or all of them are owned by the payee.

On the issue of whether payment of PSF by an airline to an Airport Operator qualifies as rent to attract TDS under section 194-I, the Bombay High Court relied on the Apex Court ruling in Japan Airlines and Singapore Airlines case, wherein it was observed that the primary requirement for any payment to qualify as rent is that the payment must be for the use of land and building and mere incidental/minor/insignificant use of the same while providing other facilities and service would not make it a payment for use of land and buildings so as to attract section 194-I. Accordingly, the Bombay High Court declined to admit the ground relating to the applicability of the provisions of section 194-I on PSF charges holding that no substantial question of law arises. The provisions of section 194-I shall not be applicable. Therefore, Mayank Saxena need not deduct TDS on the PSF payments made to airport operators at Delhi and Mumbai.

CASE STUDY 32

Royal Enterprises Ltd.

Royal Enterprises Ltd. (REL), incorporated in 1996, is a public listed company headquartered in Mumbai, India. It has carved a niche for itself in the production of high quality industrial spare parts and railway coach components. Products of the company are sold both in domestic and international markets and thus company has good exposure in the domestic as well as foreign market. REL boasts a state of the art manufacturing facility equipped with advanced machinery and technology. Their production process adheres to stringent quality control measures, ensuring their spare parts and rail coach components meet the highest standards of durability, functionality, and efficiency. The company's commitment to quality has earned them the trust and loyalty of its customers, establishing them as a reliable and dependable supplier in the industry. Financial statements of the company for the financial year 2024-25 have not yet been prepared.

Business of the company is growing and so does the requirement of accounting staff to be headed by qualified Chartered Accountant. Deepak Sharma, Chief Financial Officer (CFO) of the company has been asked by the company to create a position of GM Accounts and appoint qualified CA. for managing the accounting and compliances function effectively. Advertisement was given in all leading newspapers detailing the company's requirement and role the proposed job will need to cater. Numbers of applications were received by the company and all the candidates were competent and had good exposure in the fields of financial reporting, MIS reporting, FEMA, direct and indirect tax matters. CVs of all the candidates were analysed and twenty candidates were shortlisted.

As per policy of the company, candidates first have to appear for written test and then appear before interview panel to get selected. CFO has been asked to prepare a practical approach based case study involving recent developments in various areas relating to the operations of the Company, accounting and other technical aspects of Companies Act, GST, Custom, Direct taxes etc. CFO of the company took clues from the operations and areas of the company and using fictional data prepared a well drafted case study having the following issues. All the shortlisted candidates were asked to appear in written test on a particular date. CA. J also appeared in the written test and attempted well and was hoping for an interview call. To his surprise, he has not received a call. In order to understand the evaluation better, he decided to discuss the issues that were part of the written test with you.

One of the key issues discussed related to a real-life scenario involving, REL in order to improve production efficiency imported machinery valuing ₹ 150 lakhs in June 2024 from Japan on which import duty at the rate of 15% was paid. Machinery was used in the factory to produce rail coach

components for sale. After the installation of new machinery, no changes in the product price were made. When the statutory auditors were carrying out audit in March 2025, they observed this transaction of import of machinery and were of the view that import duty was payable at the rate of 12.5% and not 15%. Management asked for reason to which they responded that one of their clients (without naming it) imported the same machinery and paid duty @ 12.5% only. Management decided to take a second opinion, and second opinion also confirmed the view point of statutory auditors. REL then filed a claim in March 2025 for refund of excess import duty paid. However, the refund claim was rejected by the customs authorities.

REL imported one Steel cutting machine on 01.03.2022 which required some customization. REL identified that for customization of such machines, authorized dealer was JB enterprises who will carry out the necessary modifications. REL sent the machinery directly from the port to JB enterprises for job work and the same was received by JB Enterprises on 06.03.2022. Company had also sent moulds and dies having total invoice value of ₹ 94,400 (CGST 9% and SGST 9% included) on 02.03.2022 and was received by JB Enterprises on 05.03.2022. Machinery was received back on 04.03.2025 from JB Enterprises, but moulds and dies were not received till 31.03.2025.

REL entered into a contract with Prism motors Limited for sale of specific industrial spare parts and supplied the same having transaction value of ₹ 82 Crores during the year. Total Net worth and paid up share capital of Prism Limited was ₹ 90 Crores and ₹ 40 Crores (40,00,000 equity shares of ₹ 100 each) respectively. Mr. Raman, Director of REL holds 65,000 shares, his wife holds 12,000 and his brother's wife holds 4,000 shares of Prism Limited. He is also the director in Prism Motors Limited. Mr. Raman had disclosed his interest at the appropriate Board meeting. Goods have been supplied to Prism Limited on arm length' basis and no difference in price as compared to normal sales transactions price has been found. No prior approval has been obtained in respect of contract from Board of Directors and Shareholder. Total turnover of the REL for the year 2023-24 and 2024-25 is ₹ 800 Crores and ₹ 900 Crores respectively.

REL filed its return of income for the P.Y. 2022-23 on 30th October 2023 declaring income of ₹ 3,60,00,000. The return was processed by Central Processing Centre making an addition of ₹ 2,50,000 on account of arithmetical error and income was computed at ₹ 3,62,50,000 u/s 143(1). The return of income was selected for scrutiny assessment, Subsequently, an assessment order was passed under section 143(3), wherein the Assessing Officer made certain additions to the returned income. These included an addition of ₹3,00,000 on an estimated basis (which did not represent under-reported income), an addition of ₹12,00,000 on account of under-reported income, and a further addition of ₹9,00,000 on account of a claim for expenditure that was not supported by any documentary evidence. The applicable tax rate for the company was 30%, along with a surcharge of 7% and health and education cess at 4%.

Company has placed an order for the CNC machine with the MNC Ltd., a German company. The delivery of machine is expected after three months from now. MNC Ltd. has quoted rate of € 85,000. It is anticipated that the exchange rate will decline by 4% over the three months period and in order to protect the euro payments after three months, Finance manager of the company

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 Finance Manager has approached the Investment Banker to obtain a detailed report (Refer Annexure) covering key financial indicators relevant to the proposed international transaction. This data is essential for evaluating currency exposure, assessing hedging strategies, and estimating the cost of capital associated with cross-border financing or investment decisions.

REL, being managed by Mr. Neeraj Thakur, Managing Director proposes to pay commission at the rate of six percent of the net profits to Mr. Neeraj. The company also proposes to pay suitable additional remuneration to Mr. Charan, a director for professional services rendered as industrial engineer, whenever such services are utilized.

The Article of Association of the company has fixed payment of sitting fee for each meeting of directors subject to a maximum of ₹ 50,000. In view of the increased responsibilities, the company proposes to increase the sitting fee to ₹ 75,000 per meeting for all the directors including independent directors.

New Project at Specified Development Zone

REL Limited is set to launch a new project for setting up a plant at Specified Development Zone due to various incentives provided by the State Government. Finance team of the company prepared a detailed project report for seven years for submission to bankers for borrowing purposes. The bankers of the company required an assurance report from a professional accountant on information contained in the project report. It has approached AKM and Associates, Chartered Accountants for an assurance report in respect of prospective information of a project. On-going through the project details, it is noticed that depreciation on fixed assets to be acquired has been calculated in accordance with provisions of Income Tax Act, 1961 and stock of finished goods has been valued at selling price. No disclosure has been made in this respect in the project report. AKM & Associates signed the given project report as it is without generating the UDIN with a view that UDIN is required for facts and figures of past period only and not for the events and actions that have not yet occurred.

Annexure

Information for evaluating currency exposure, assessing hedging strategies (Extracts):

The relevant spot and forward rates are:

	Spot	***3 month's Forward***
₹ /€	*90.15/90.50*	*92.20/92.60*

Interest Rate in India and Germany:

Country	**Borrowing Rate (%)**	**Deposit Rate (%)**
India	8	6.5
Germany	5.5	4

I. Multiple Choice Questions

1. Whether the rejection of refund of import duty by the customs authorities is correct?

   (a) Rejection is not justified and authorities should grant the refund of excess import duty paid on machinery, as the machinery was not sold, hence the principle of unjust enrichment will not apply

   (b) Rejection is justified as machinery is used for the manufacture of goods and the duty paid on the import of machinery has gone into the costing of the goods manufactured and sold, and thus passed on to the buyers. The principle of unjust enrichment will apply

   (c) Rejection is not justified as no changes in the prices of products were made. The principle of unjust enrichment will not apply

   (d) Rejection is justified as period for claim of refund has expired and the customs authorities can retain the excess payment of duty

2. How much expected loss is likely to be avoided by REL if it takes forward cover?

   (a) ₹ 3,06,510

   (b) ₹ 1,29,200

   (c) ₹ 1,32,260

   (d) ₹ 1,63,200

3. In light of provisions of GST and rules made thereunder, consider the following statements:

   I. Machinery has been received back by REL within the stipulated time as per the GST Act, 2017, hence it will not be deemed as supply.

   II. Machinery has not been received back by the company within the stipulated time as per the CGST Act, 2017, hence it will be deemed as supply to JB enterprises. Such supply is required to be included in form GSTR 1 and REL is required to pay tax on the same along with applicable Interest.

   III. Moulds and Dies not received back within the stipulated time as per the CGST Act, 2017 will be deemed as supply on the day when received by JB enterprises. Such supply is required to be included in form GSTR 1 and REL is required to pay tax on the same along with applicable Interest.

IV. Detail of challan in respect of machinery received back from JB enterprises is required to be reported in Form GST ITC-03 to be furnished for the half year October 2024 to March 2025 on or before 25th April 2025.

Which of the above statement(s) is/are not in accordance with the provisions of CGST Act, 2017 and rules made thereunder?

(a) I only

(b) I and III

(c) I and II

(d) II, III and IV

4. Which of the following statement is correct in relation to contract for sale specific industrial spare parts entered with Prism Motors Limited as per the section 188 of Companies Act 2013?

(a) Contract for sale of goods with Prism Motors Limited is not valid as it is a related party transaction and transaction value exceeds 10% of the turnover of 2023-24 and requires the prior approval of the company by passing an ordinary resolution

(b) Contract for sale of goods with Prism Motors Limited is valid, though it is a related party transaction but transaction value does not exceed 10% of the turnover of 2024-25, hence does not require the prior approval of the company by passing an ordinary resolution

(c) Contract for sale of goods with Prism Motors Limited is not valid as it is a related party transaction and requires consent of Board of Directors given by resolution at a meeting of the Board even if entered at arm length's basis

(d) Contract for sale of goods with Prism Motors Limited is valid as it is not a related party transaction

5. What is the amount of penalty that can be levied as per the relevant provisions of Income Tax Act, 1961, on REL for AY 2023-24?

(a) ₹ 9,51,444

(b) ₹ 7,01,064

(c) ₹ 8,51,292

(d) ₹ 8,01,216

II. Descriptive Questions

6. Examine with reference to the provisions of the Companies Act, 2013, the validity of the proposal regarding remuneration and sitting fee to directors.

7. Advise the company whether it should adopt forward cover or money market cover? Under what circumstances, money market hedge is advantageous to forward hedge?

8. Advise how AKM and Associates will proceed in its assurance report, with matter relating to inconsistency in application of accounting policies in project report? Whether non generation of UDIN is justified? If not, then what are the consequences for not generating UDIN?

ANSWERS TO THE CASE STUDY 32

I. Answers to the Multiple Choice Questions

1. (b) Rejection is justified as machinery is used for the manufacture of goods and the duty paid on the import of machinery has gone into the costing of the goods manufactured and sold, and thus passed on to the buyers. The principle of unjust enrichment will apply.

Reason:

The incidence of duty can be passed on directly or indirectly. Where the capital goods are used to manufacture, the duty paid on their import will go into the costing of the goods manufactured and sold, and can thus be passed on to the buyers. The Large Bench of the Tribunal in the case of SRF Ltd. V CCus. Chennai 2006 (193) ELT 186 (Tri- LB) has held that the doctrine of unjust enrichment would be applicable in case of imported capital goods used captively for manufacture of excisable goods. Hence, refund will not be granted by the Department.

2. (b) ₹ 1,29,200

Reason:

Particulars	Situation 1 Do Not Take Forward Cover	Situation 2 Take Forward Cover	Difference
After 3 months	€85,000 × 94.12 = ₹80,00,200	€85,000 × 92.60 = ₹78,71,000	₹80,00,200 – ₹78,71,000 = ₹1,29,200

3. (d) II, III and IV

Reason:

Out of the four statements, Statement I is correct. i.e. as per proviso to section 19(6). That where the capital goods are sent directly to job worker, the period of three years shall be counted from the date of receipt of capital goods by the job worker. In the given case, machinery was received by JB on 06.03.2021 and received back by REL on 04.03.2024 i.e. within a period of three years.

Statement II is incorrect, as machinery has been received back with in period of three years.

Statement III is incorrect, as provision of section 19(3) are not applicable to moulds and dies, jigs and fixtures or tools sent out to a job worker for job work.

Statement IV is incorrect, as GST ITC-04 is required to filed as per rule 45(3)

4. (d) Contract for sale of goods with Prism Motors Limited is valid as it is not a related party transaction

Reason:

As per section 2(75) (v), related party with reference to a company means: a public company in which a director or manager is a director and holds along with his relatives, more than 2% of the paid-up share capital.

Section 2(17) of the Act defines the term relative.

Relative means any one who is related to another if:

(i) They are the members of HUF.

(ii) They are husband and wife or

(iii) One person is related to the other in the prescribed manner as under:

- Father (including step father)
- Mother (including step mother)
- Son (including step son)
- Son's wife
- Daughter
- Daughter's husband
- Brother (including step brother)
- Sister (including step sister)

In the given case Mr. Raman, Director of REL holds 65,000 shares, his wife holds 12,000 shares and his brother's wife holds 4,000 shares of Prism Motors Limited. Hence as per the definition under section 2(75), he holds only 1.925% [(65000+12000)/4000000 x 100] of the paid up share capital of Prism Limited. Shares held by brother's wife are not included as per the definition under section 2(17). Hence contract for sale entered with Prism Motors Limited is valid as it is not a related party transaction.

5. (d) ₹ 8,01,216

Reason:

Particulars	**Underreported Income**	**Misreported Income**
Underreported / Misreported Income	₹12,00,000	₹9,00,000
Tax @ 30% on the above income	₹3,60,000	₹2,70,000
Add: Surcharge @ 7%	₹25,200	₹18,900
Subtotal	**₹3,85,200**	**₹2,88,900**
Add: Health & Education Cess @ 4%	₹15,408	₹11,556
Total Tax Payable	**₹4,00,608**	**₹3,00,456**
Penalty u/s 270A		
- 50% of tax payable (underreporting)	₹2,00,304	–
- 200% of tax payable (misreporting)	–	₹6,00,912
Total Penalty u/s 270A		**₹8,01, 216**

II. Answers to the Descriptive Questions

6. Commission at the rate of 6% of the net profits to its Managing Director, Mr. Neeraj: Part (i) of the Second Proviso to Section 197(1) of the Companies Act, 2013, 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.

In the present case, since the REL is being managed by a Managing Director, the commission at the rate of 6% of the net profit to Mr. Neeraj, the Managing Director is not

allowed and hence **approval** of company **in general meeting** is required by way of a **special resolution**.

Additional remuneration in capacity of professional services: The company also proposes to pay suitable additional remuneration to Mr. Charan, a Director, for professional services to be rendered by him as industrial engineer, whenever such services are utilized by the company:

(1) According to section 197(4), the remuneration payable to the directors of a company, including any managing or whole-time director or manager, shall be determined, in accordance with and subject to the provisions of this section, either

  (i) by the articles of the company, or

  (ii) by a resolution or,

  (iii) if the articles so require, by a special resolution, passed by the company in general meeting, and

(2) the remuneration payable to a director determined aforesaid shall be inclusive of the remuneration payable to him for the services rendered by him in any other capacity.

(3) Any remuneration for services rendered by any such director in other capacity shall not be so included if—

  (i) the services rendered are of a professional nature; and

  (ii) in the opinion of the Nomination and Remuneration Committee, if the company is covered under sub-section (1) of section 178, or the Board of Directors in other cases, the director possesses the requisite qualification for the practice of the profession.

Hence, in the present case, the additional remuneration payable to Mr. Charan, a Director, for **professional services rendered by him as industrial engineer will not be included in the maximum managerial remuneration**. Accordingly, such additional remuneration shall be allowed but an opinion of Nomination and Remuneration Committee needs to be obtained.

Sitting Fee: Section 197(5) of the Companies Act, 2013 provides that a director may receive remuneration by way of fee for attending the Board/Committee meetings or for any other purpose as may be decided by the Board provided that the amount of such

fees shall not exceed the prescribed amount. As per Rule 4 of the Companies (Appointment and Remuneration of Managerial personnel) Rules, 2014 the amount of sitting fees payable for attending meetings of the Board or Committees thereof may be decided by the Board but **such sitting fees shall not exceed 1 lakh rupee per meeting**. Further, the sitting fee payable to an independent director shall not be less than that payable to other directors.

From the above, it is clear that sitting fees can be increased from **50,000 rupees to 75,000 rupees per meeting by passing a resolution in the Board Meeting and altering the Articles of Association by passing a Special Resolution**. When sitting fees stands increased for other directors, it shall automatically be increased in case of independent directors because the latter cannot be paid less than that payable to former.

7. Amount Payable under Forward Cover (€ 85,000 × ₹ 92.60**) ₹ 78,71,000**

Money Market Hedge

To pay € after 3 months' company shall requires to borrow in ₹ and translate to € and then deposit in €.

For payment of € 85,000 in 3 months @ 4.00% interest p.a. the amount required to be deposited now (€ 85,000/1.01) = **€ 84,158.42**

With spot rate of 90.50 the ₹ loan needed will be = **₹ 76,16,337.01**

Loan repayable after 3 months @ 8.00% p.a. interest will be ₹ 76,16,337.01 (1.02) = **₹ 77,68,663.75**

Net Benefit = ₹ 78,71,000 – ₹ 77,68,663.75 = ₹ 1,02,336.25

In this case the money market hedge is a cheaper option.

Money market hedge is advantageous to forward cover as under:

(i) When forward contracts are not available or forward rates are not attractive.

(ii) As soon as we create money market hedge, we fix the future rate. This eliminates downside risk due to adverse exchange rate movements.

(iii) It is more flexible if we consider the amount to be covered.

8. (I) As per SAE 3400, "The Examination of Prospective Financial Information", it is the duty of a professional accountant to see that prospective financial information is based on a consistent basis with historical financial statements using appropriate

accounting principles. Thus, AKM & Associates should consider whether: -

(a) the presentation of prospective financial information is informative and not misleading

(b) the accounting policies are clearly disclosed in the notes to the prospective financial information;

(c) The assumptions are adequately disclosed in the notes to the prospective financial information. It needs to be clear whether the assumptions represent management's best-estimates or are hypothetical and, when assumptions are made in areas that are material and are subject to a higher degree of uncertainty, this uncertainty and the resulting sensitivity of results needs to be adequately disclosed.

(d) the date as of which the prospective financial information was prepared is disclosed. Management needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time.

(e) the basis of establishing points in a range is clearly indicated and the range is not selected in a biased or misleading manner when results shown in the prospective financial information are expressed in terms of a range and

(f) if there is any change in the accounting policy of the entity from that disclosed in the most recent historical financial statements, whether reason for the change and the effect of such change on the prospective financial information has been adequately disclosed.

In the given case, REL limited has provided for depreciation on fixed assets to be acquired in accordance with provisions of Income-tax Act, 1961 and valued the stock of finished goods at selling price which are not consistent with historical financial statements. In addition, no disclosure has been made in this respect in the project report.

In such a case, when presentation and disclosure are not adequate, **a qualified or adverse opinion should be given or withdrawal from engagement** should be made as appropriate by AKM & Associates.

(II) Apart from the above, AKM & Associates signed the given project report **without generating the UDIN which is not correct**. Contention of AKM & Associates that

UDIN is required for facts and figures of past period only and **not for the events and actions that have not yet occurred is not tenable.**

(III) As per Chapter XIV, Unique Document Identification Number (UDIN) Guidelines, a member of the Institute in practice shall generate Unique Document Identification Number (UDIN) for all kinds of the certification, GST and Tax Audit Reports and other Audit, Assurance and Attestation functions undertaken/signed by him mandatorily.

Further, as per Clause (1) of Part-II of Second Schedule to the Chartered Accountants Act, 1949 a member of the Institute, whether in practice or not, **shall be deemed to be guilty of professional misconduct**, if he contravenes any of the provisions of this Act or the regulations made there under or any guidelines issued by the Council.

The consequences for not generating UDIN are **that concerned Chartered Accountant who had signed the assurance report shall be held liable for professional misconduct** under Clause (1) of Part-II of the Second Schedule to the Chartered Accountants Act, 1949.

CASE STUDY 33

DG

DG's adherence to its strategic vision is pivotal in maintaining its competitive advantage in the fast fashion industry. Concerns about the quality of products from fast-fashion companies are common, as these companies often aim to sell more by cutting costs. However, DG's robust quality control system ensures the delivery of high-quality products, distinguishing it from many of its competitors.

One of DG's key strategies to sustain its competitive edge is minimizing the time span between design creation and store availability. The fast fashion industry is accelerating, with companies continuously reducing the time from product design to distribution. The integration of online platforms and the normalization of one-day delivery are becoming industry standards. DG is committed to keeping pace with these developments to stay competitive.

Marketing and communication also play crucial roles. Leveraging information technology, DG can identify customer preferences and reach a broad audience. Social media is a significant tool in building relationships with customers, and DG utilizes these platforms effectively. It also utilizes it for super-efficient analysis of what's selling and being said on social media platforms. However, in a highly competitive industry, DG must constantly innovate, focusing on quality, pricing, and speed to retain its market position.

DG operates globally, with a substantial presence in Belgium and a significant influence in the fast fashion market. Competing with brands like Z & A, Guccz, A to Z. DG produces over 20,000 designs annually and employs a strategic pricing strategy to carve out its market niche.

Pricing is critical for DG, which targets a wide market by offering products for women, men, and children. DG's pricing strategy aims to attract both the middle class, its largest market share, and wealthier individuals. In the South Asian market, DG's products are relatively affordable, catering primarily to the middle class. Conversely, in regions like Europe, DG's products are more expensive, targeting consumers with higher social status. In South Asian market, DG employs a below-market or penetrating pricing strategy, often referred to as a charming price tactic, which involves setting prices lower than the competition to attract a larger customer base, particularly among the middle class. This approach helps DG capture a significant market share by appealing to price-sensitive consumers. In contrast, DG adopts a different approach in the European market by setting prices higher than those in other regions. This strategy targets

consumers who are less sensitive to price and are willing to pay a premium for DG's fashionable and trendy products. By catering to a wealthier segment that values brand prestige and exclusivity, DG effectively maximizes its profits in Europe.

DG's pricing strategy is part of its broader 4Ps marketing mix: product, price, promotion, and place. With a diverse product range, DG attracts a broad consumer base, launching new products regularly to meet changing fashion demands. This approach maximizes profit margins by aligning product prices with consumer behavior and preferences.

DG has used almost zero advertising and endorsement policy throughout its entire existence, preferring to invest a percentage of its revenues in opening new stores instead. It spends a meager 0.75 per cent of sales on advertising compared to an average of 5 per cent by competitors. The brand's founder Mr. Gupta who is the ninth richest man in the world, has never spoken to the media nor has in any way advertised DG.

It currently operates in 1189 retail stores across 97 markets (countries). The flagship locations are located in the most critical markets that appeal to their most loyal shopper. DG uses its store location and store displays as key elements of its marketing strategy. Its window displays, which showcase the most outstanding pieces in the collection, are also a powerful communication tool designed by a specialized team. A lot of time and effort is spent designing the window displays to be artistic and attention grabbing. According to DG's philosophy of fast fashion, the window displays are constantly changed. This strategy goes down to how the employees dress as well – all DG employees are required to wear DG clothes while working in the stores, but these "uniforms" vary across different DG stores to reflect socio-economic differences in the regions they were located.

DG's pricing strategy and broad product range have given it an advantage over rivals like A to Z and Z & A, enabling global expansion to meet product demand. A company's pricing strategy significantly impacts market presence and revenue returns. DG's strategy aims to meet consumer needs and outperform competitors to maximize returns.

DG, part of the Gupta group, has gained global recognition through its innovative retail strategy. Unlike many competitors, DG minimizes the time between design conception and store availability to just two weeks, allowing it to respond swiftly to market demand fluctuations. This agility is enhanced by DG's vertical integration and avoidance of outsourcing, maintaining control over production and quality.

DG's business model is meticulously designed to maintain its competitive edge in the fast fashion industry. A key element is the short lead time, which ensures that DG's products are

always aligned with the latest fashion trends. This is complemented by the strategy of reduced risks through limited production runs, allowing DG to quickly pivot away from unpopular designs. The company focuses on producing styles rather than mass-producing clothing, which helps keep its offerings fresh and desirable. Vertical integration, with manufacturing based in Asia, allows for rapid adjustments in production to meet market demands.

DG's marketing strategy is innovative, investing in making its products easily accessible rather than relying on traditional advertising methods. The company is highly reactive, swiftly responding to market demands as they arise, and it emphasizes affordability, offering stylish clothing at reasonable prices. Interactivity is another crucial aspect, as DG closely engages with consumer trends through social media, ensuring that it stays in tune with customer preferences. This combination of elements creates a dynamic and responsive business model that drives DG's success.

Aware of DG's recent successes in becoming a major player in the global fashion industry, many smartphone and mobile software manufacturers quickly sought to partner with the company. For instance, since 2012, Ramson smartphones have been sold with the preinstalled DG mobile application. Ramson Electronics announced the launch of the DG fashion app, which will showcase the global fashion chain's latest collections on Android smartphones for the first time. The app allows fashion lovers to browse the new season must-haves and make immediate purchases. This initiative has significantly contributed to DG's substantial sales growth. With the DG mobile application installed on their smartphones, customers can conveniently purchase the company's products online without needing a computer.

DG's success stems from a combination of innovative manufacturing and marketing strategies, allowing it to remain competitive. However, maintaining this edge requires continuous adaptation and technological advancement in marketing activities.

After reading the article in Business Daily, Mr. Gupta calls a senior management meeting to discuss the impact of fast fashion on the environment. He proposes the use of eco-friendly fiber and recycled material to make clothes. Clothes can be sold in sustainable packages that are eco-friendly. He also proposes to set up recycling bins in the stores in order to encourage recycling programs. Mr. Kanti, global head for production and operations, and Mr. Patel, global head for strategy, disagree with Mr. Gupta. They argue that fast fashion by its very definition requires customer demand to constantly change thereby encouraging over consumption. By catering to this every changing demand with new and fresh fashion trends is the core business model of the fast fashion industry. They argue that with increased competition, DG should not

worry about product sustainability. Increasing longevity for clothes goes against the very essence of fast fashion, the bedrock of the company.

Particulars of DG India (Indian Subsidiary)

Employee Details and Profit Distribution – DG India has a headcount of around 1,000 employees in F.Y. 2024-25. As per the company's policy, the employees are given 35 days of privilege leaves (PL), 15 days of sick leaves (SL) and 10 days of casual leaves (CL). Out of the total PL and sick leaves, 10 PL leaves and 5 sick leaves can be carried forward to next year. Based on past trends, it has been noted that 200 employees will take 5 days of PL and 2 days of SLand 800 employees will avail 10 days of PL and 5 days of SL, next year. Indian Subsidiary has been incurring profits since 2018. Therefore, it has decided in 2024-25 to distribute profits to its employees @4% during the year. But, due to the employee turnover, the expected pay-out of the Indian Subsidiary is expected to be around 3.5%. The profits earned during 2024-25 is ₹ 4,000 crores. It has a post-employment benefit plan also available which is in the nature of defined contribution plan where contribution to the fund amounts to ₹ 200 crores which will fall due within 12 months from the end of accounting period. Indian Subsidiary has paid ₹ 40 crores to its employees in 2024-25.

Corporate Social Responsibility – The management committee of DG India Ltd has issued right shares to all its shareholders which include employees of the company. Furthermore, DG India issues its own shares to a charity without any consideration to an NGO which is working for promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward group.

Asset Acquisition – On 1st April 2024, DG India acquired machines for production purposes at its Gwalior plant, with a list price of ₹160,00,000. The company was granted a trade discount of 10% on the initial list price, reducing the cost to ₹144,00,000. Additionally, a settlement discount of 5% was offered, provided payment was made within one month of purchase. DG India made the payment on 20th April 2024, thereby availing the settlement discount.

In addition to the purchase price, the company incurred several costs. These included an import duty of ₹10,00,000, delivery fees of ₹2,00,000, electrical installation costs of ₹20,00,000, and pre-production testing expenses of ₹10,00,000. Furthermore, DG India entered into a five-year maintenance contract with the vendor for ₹14,00,000.

During the initial four months of operation, the machines were operating below capacity. During this period, a production cost of ₹4,00,000 per month was incurred, while sales proceeds

amounted to ₹3,00,000 per month. Additionally, the company earned ₹2,00,000 from the sale of output generated during pre-production testing.

Real Estate Transaction – DG India holds a commercial plot in Mumbai which it intends to sell. M/s. Best Broker, a real estate broker with its Head Office in the USA, has been appointed by DG India to find some suitable buyers for the said commercial plot in Mumbai which is situated at a prime location. M/s. Best Broker identifies Legacy Estate Inc., based out of USA, as the potential buyer. It is to be noted that Legacy Estate Inc. is controlled from India and hence, is a 'Person Resident in India' under the applicable provisions of Foreign Exchange Management Act, 1999. A deal is finalised and Legacy Estate Inc. agrees to purchase the commercial plot for USD 14,00,000 (assuming 1 USD = ₹ 84). According to the agreement, DG India is required to pay commission @ 7% of the sale proceeds to M/s. Best Broker for arranging the sale of commercial plot to Legacy Estate Inc. and commission is to be remitted in USD to the Head Office of M/s. Best Broker located in USA.

Annexure: 1

The News

Your fashion sense is a major pollutant!



Brussels, 26th January 2025 – Do you love trendy, fashionable clothes? Would you love them more if you could change them literally at the drop of the hat because they are easy on your pocket? Who wouldn't, yet do you realize the amount of pollution that your fashion sense can produce? Fashion giants like DG work relentlessly to cater to your every whim by introducing clothes that are latest in trend, within few weeks of them becoming popular. To do this their speed of production is very fast as is their distribution channel. However, the clothing often relies on fibres like cotton that require lot of energy and water to produce, as also synthetic ones that are derived from fossil fuels. Reliance on non-renewable resources increases their carbon footprint. Imagine the scale of production when giants like DG start catering to market demand. Last year alone they produced 8,20,000 tonnes of garments, a number that has steadily increased over the years. What is additionally wasteful is that fast fashion encourages over consumption. So, when you discard a piece of clothing you had bought just a month back to replace it with a trendier clothing, you're contributing to landfill waste which is highly detrimental to the economy. The local government municipalities may consider drawing regulations that can make clothing retailers to pay for the waste they produce. However, fast fashion companies encourage this over consumption through slick marketing and advertising making you yearn for a newer attire when you can sensibly use the one you recently purchased many more times. So, the next time you visit a fast fashion website or store, do keep in mind that you may also be polluting our planet. Fast fashion isn't free; it just isn't sustainable.

I. Multiple Choice Questions

1. Which of the following most likely describes how DG's type of vertical integration contributes to its competitive advantage in the fast fashion industry?

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

   (b) Acquiring raw material suppliers through backward vertical integration allows DG to achieve economies of scale that leads to cost savings.

   (c) Opening its own retail stores through forward vertical integration allows DG to have control over sales channels thereby enhancing customer experience.

   (d) Forward vertical integration allows DG to develop unique marketing strategies, increasing brand visibility and customer loyalty.

2. Which of the following does NOT describe how DG has maintained their competitive advantage with their focus strategy?

   (a) Rapid expansion to 1189 stores in 97 markets (countries) has made DG one of the most successful fashion retail brands in the world.

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

   (c) Mr. Gupta’s wealth making him the ninth richest man in the world can be attributed to DG’s success.

   (d) Minimum spending on advertising, only 0.75% of its sales, has given DG a cost advantage over its competitors who spend an average of 5%.

3. Can the Managing Director (MD) of a region, who is also an employee, be provided a salary under Ind AS.

   (a) No, because MDs are considered part of key management personnel and should be compensated differently.

   (b) No, because Ind AS 19 only covers lower-level employees, not senior management.

   (c) Yes, but only if the MD's salary is disclosed separately from other employees' salaries.

   (d) Yes, because Ind AS 19 applies to all employees, including those in management positions, provided they are also employees of the company.

4. Enumerate the legal requirements for the remittance of commission by DG India to M/s. Best Broker and recommend the most appropriate legal position to ensure compliance with the relevant provisions of the Foreign Exchange Management Act, 1999:

   (a) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of commission upto USD 25,000 by DG India to M/s. Best Broker but for the balance commission of USD 73,000, prior permission of RBI is required.

   (b) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of commission upto USD 70,000 by DG India to M/s. Best Broker but for the balance commission of USD 28,000, prior permission of RBI is required.

   (c) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of entire commission of USD 98,000 by DG India to M/s. Best Broker in line with agreement.

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

5. Which statement is TRUE regarding the application of Ind AS 102 (Share-based Payment) to Employee Stock Option Plans (ESOPs) and the issuance of shares to a charity?

   (a) Ind AS 102 does not apply to the issuance of shares to a charity without consideration, as it is not a share-based payment transaction.

   (b) The issuance of shares to a charity without consideration is covered under Ind AS 102 as a share-based payment arrangement, while ESOPs are not covered if employees receive shares in their capacity as shareholders.

   (c) ESOPs are covered under Ind AS 102 regardless of whether employees receive shares in their capacity as shareholders, and the issuance of shares to a charity without consideration is not covered under Ind AS 102.

   (d) ESOPs are covered under Ind AS 102 only if employees receive shares as part of their employment benefits, regardless they are shareholders.

6. Considering the news article in Annexure 1, Mr. Gupta's proposals and Mr. Kanti and Mr. Patel's arguments against it, which of the courses of action should DG more likely adopt.

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

(b) Since fast fashion is not environment friendly and is predicted to not being very sustainable, DG can consider exiting this business segment at the earliest.

(c) Mr. Kanti and Mr. Patel are correct in their arguments that the core concept of fast fashion is to encourage over consumption. Hence, they should not worry about product sustainability.

(d) Since local governments have not yet imposed any regulatory restrictions or penalties for the waste generated by fast fashion, the current business model can be continued as is.

II. Descriptive Questions

7. ANALYZE and EVALUATE how DG's approach to product differentiation contributes to its competitive advantage in the fast fashion industry.

8. STATE what would be the treatment of the short-term compensating absences, profit-sharing plan and the defined contribution plan in the books of DG. Also, STATE what would be the treatment, if the contribution paid from defined contribution plan exceeds the contribution due. Further, DETERMINE what would be the accounting if the payment from defined contribution plan does not fall due within 12 months from the end of accounting period.

9. The CFO of the company wants to know at what value would this asset be recognised in the books of accounts. PREPARE a statement showing him the workings.

ANSWERS TO THE CASE STUDY 33

I. Answers to the Multiple Choice Questions

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

Reason:

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

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

Reason:

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

3. **(d)** Yes, because Ind AS 19 applies to all employees, including those in management positions, provided they are also employees of the company.

Reason:

Ind AS 19 (Employee Benefits) covers all forms of employee benefits, including salaries, for individuals who are employees of the company, regardless of their position within the company. This includes senior management and key management personnel like Managing Directors, as long as they are classified as employees. Therefore, the MD of a region, being an employee, can be provided a salary under Ind AS 19.

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

Reason:

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

5. **(b)** The issuance of shares to a charity without consideration is covered under Ind AS 102 as a share-based payment arrangement, while ESOPs are not covered if employees receive shares in their capacity as shareholders.

Reason:

Since the employees who have received such shares are acting in the capacity of shareholders and not as employees, this transaction will not be covered under Ind AS 102. Further, entity issuing its own shares to a charity without any

consideration will be covered under Ind AS 102.This is a share-based payment arrangement, covered under Ind AS 102 (not a share-based payment transaction).

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

Reason:

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

II. Answers to the Descriptive Questions

7. DG's approach to product differentiation significantly contributes to its competitive advantage in several ways.

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

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

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

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

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

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

Evaluation of Strategy

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

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

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

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

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

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

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

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

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

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

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

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

CASE STUDY 34

Maximo Ltd.,

Maximo Ltd., Kolkata was promoted by Anand a renowned Industrialist in the year 2008. In the initial years Anand incubated the venture closely and later opted for professional management which was successfully carried out besides listing of the company's shares in Bombay stock exchange. Paid-up share capital of Maximo Limited is ₹ 100 Crores, comprising of 100 Lakhs equity shares of ₹ 100 each, held by ₹ 1,000 shareholders. The company is a manufacturing company, engaged in manufacture of dairy products and fruit concentrates. The company has activities at various locations based on raw material source and availability of appropriate competent work force and other key factors. The geographical spread was advantageous to the company to swap raw materials, finished goods, employees besides product supply and distribution.

Maximo Ltd. imported new machineries from USA by air on CIF basis for USD 1,00,000. The air freight was USD 12,000; insurance USD 8,000. Later, it negotiated the price again with the supplier, which took place before the importation was completed and the re-negotiated price was fixed as USD 95,000. The exchange rate on the date of bill of entry (25.06.2024) was ₹ 84 per USD and on the date of arrival of aircraft (07.07.2024) was ₹ 82 per USD. Both the exchange rates are as notified by CBIC. BCD rate on 25.06.2024 is 8% and on 07.07.2024 is 10%. There is no change in Social Welfare Surcharge between date of filing of Bill of Entry and date of arrival of aircraft.

Maximo Ltd. was interested in expanding its operations outside India and in pursuit of the same planned to install a manufacturing facility at Australia where the Indian diaspora evinced enormous interest for the products since it was with Indian technique of manufacture of eatables. For the proposed project, it requires a net fund (after fund raising expenses) of 20 million Australian Dollars. In order to fund this project, it proposes to issue GDRs by issuing foreign currency bonds through an approved intermediary in Australia. The entire GDRs issued would be purchased by non-residents in Australia. The company has approached JK Stanley, a reputed global investment banking firm, for advisory services in relation to its proposed fund-raising initiative through the issuance of Global Depository Receipts (GDRs). In response to the company's request, JK Stanley has conducted a comprehensive evaluation of the proposed GDRs and has issued a detailed advisory report (refer annexure), outlining the structure, pricing, regulatory requirements, market considerations, and associated timelines for the GDR issuance.

For packing its products in a unique way, Maximo Ltd. incorporated a 100% owned subsidiary company by name Hi-Quality (P) Ltd at Chennai. Hi-Quality (P) Ltd. is meant to manufacture empty containers through automated machine enabled production process, ensuring its

production process meets world class performance standard under TPM approach. It works double shift a day of 8 hours each which includes 30 minutes lunch/dinner break and 15 minutes tea break. For the shift on 10th March 2025, the total quantity produced was 200 bottles. The standard cycle time was 2 minutes per bottle. During the shift, there was an unplanned downtime of 20 minutes. Additionally, there was a quality loss including scrap and rejections amounting to 10% of the total production.

Ninety shareholders holding 10 Lakhs equity shares of Maximo Ltd., are concerned with the flouting of norms fixed for extraction and usage of ground water, beyond permissible limits in various plants of Maximo Limited. Despite repeated representations from shareholders, Maximo Ltd. has not taken any corrective action. Therefore, group of these 90 shareholders have made a petition before NCLT in Dec 2024. NCLT, on receipt of the petition, has commenced proceedings in Feb 2025. However, out of these 90 shareholders, 40 shareholders holding 4 Lakhs shares, have withdrawn their consent in March 2025, for filing petition before NCLT.

Ms. Manisha Kyal, a Chartered Accountant and Company Secretary, brings extensive experience in finance, treasury, taxation, corporate restructuring, and business valuations. Since joining the company in 2012, she has held several key roles and made significant contributions to its financial strategy. In recognition of her expertise and leadership, she was appointed as Chief Financial Officer (CFO) in September 2019, where she continued to steer the company's financial direction with strategic insight. However, in July 2024, Ms. Kyal resigned from her position as CFO due to personal reasons. There was no replacement to the post. Mittal Associates a firm of CAs acted as statutory auditors of the company. The auditors have stated that the financial statements for the year ended 31st March, 2025 are not IND AS compliant. The financial statements have not yet been approved by the Board. It was pointed out that there were errors in the financial statements of preceding account year i.e. 2023-24 also. The Finance Manager claimed that there was a retrospective change in accounting policy which was made in FY 2023-24 but it was not followed or disclosed properly in the financial statements of accounting years 2023-24 and 2024-25.

Maximo Ltd. having its manufacturing and distribution plant in Thane, Maharashtra has in the month of November, 2024 collected GST at a rate lower than what is prescribed in law. Thus, there was error in collection and remittance of GST (after ITC). A show cause notice (SCN) was issued under section 74A of CGST Act for payment of tax of ₹ 6,00,000 and interest amounting to ₹ 1,08,000. Maximo Ltd. is aware of the short collection and short payment of output tax by it. It neither paid the GST tax demand in response to the show cause notice nor offered any explanation for the same, even after passing 30 days from the date of issuing SCN.

Shortspan (P) Ltd. was promoted by Mukund, younger brother of Anand, in the year 2010. The activity of Shortspan (P) was manufacture of CD Players, which has become outdated in the recent times. Thus, there was a huge recession in business. The company Shortspan (P) Ltd. applied for insolvency and bankruptcy resolution process. Its application for corporate insolvency process has been admitted by the adjudicating authority in June, 2024 under the

Insolvency and Bankruptcy Code, 2016. As on 1st April 2024, Shortspan (P) Ltd. has some brought forward amounts to be considered for set-off while computing book profit under section 115JB of the Income-tax Act, 1961. For the year ended 31st March 2022, the company has brought forward business loss of ₹ 11,00,000 and unabsorbed depreciation of ₹ 16,00,000. For the year ended 31st March 2023, there is no business loss, but unabsorbed depreciation stands at ₹ 10,00,000. For the year ended 31st March 2024, the company has a brought forward business loss of ₹ 4,00,000 and unabsorbed depreciation of ₹ 3,00,000.

Annexure

Detailed report on Proposed GDR to be Issue by Maximo Ltd. (Extracts)

Introduction

Regarding the proposed fund-raising initiative through the issuance of GDRs, we at JK Stanley, a global investment banking firm, have reviewed the key parameters of the proposed transaction.

Objective

The objective is to strengthen the company's capital base to support future expansion and operational initiatives.

Issue Structure and Key Assumptions

- The expenses and flotation cost of GDRs would be 5% of the gross proceeds.
- The expected market price of each share at the time of the GDR issue is ₹ 300, with a face value of ₹ 100 per share.
- Each GDR will represent 2 underlying shares and will be issued at a 10% discount to the prevailing market price.
- The expected exchange rate is ₹ 60 per Australian Dollar.
- Furthermore, the company anticipates paying a dividend at the rate of 30%, with an expected annual growth rate of 12%.

Strategic Considerations & Regulatory Compliance

Necessary filings under the Companies Act, SEBI Regulations, and FEMA will be required. GDR proceeds must be reported via Form XX within stipulated timelines. Foreign institutional investors may require enhanced disclosures and compliance certifications.

Conclusion

The structure offers an attractive yield and growth potential to overseas investors, while strengthening the company's financial position. JK Stanley remains committed to assisting the company throughout the transaction lifecycle from structuring and documentation to investor engagement and listing support.

For and on behalf of

JK Stanley – Global Investment Banking Advisory

Devin Harris

Director, Capital Market

I. Multiple Choice Questions

1. How many GDRs have to be issued by Maximo Ltd. to fund its expansion of operations by installing a manufacturing facility at Australia?

   (a) 27,21,000

   (b) 22,22,222

   (c) 23,39,181

   (d) 46,78,362

2. Assuming Maximo Ltd. issued GDRs in accordance with the scheme notified by the Central Government and was acquired by non-residents in Australia in foreign currency, what is the rate of tax at which Maximo Ltd. must deduct at source on the interest on GDRs issued by it under the provisions of Income Tax Act, 1961?

   Note : Ignore surcharge.

   (a) 5.20%

   (b) 10.40%

   (c) 4.16%

   (d) 20.80%

3. How much of the business loss and/or unabsorbed depreciation brought forward would be considered in computing the book profit under section 115JB of Shortspan (P) Ltd. for the assessment year 2025-26?

   (a) ₹ 14,00,000

   (b) ₹ 29,00,000

   (c) ₹ 15,00,000

   (d) ₹ 44,00,000

4. How much is the customs duty payable by Maximo Ltd. on import of new machineries from USA?

   (a) ₹ 8,77,800

   (b) ₹ 9,24,000

(c) ₹ 9,02,000

(d) ₹ 6,93,000

5. How much is the quantum of penalty leviable on Maximo Ltd. for not paying the GST due or offer explanation in response to the SCN issued by the Assessing Authority?

(a) ₹ 10,000

(b) ₹ 50,000

(c) ₹ 60,000

(d) ₹ 70,800

II. Descriptive Questions

6. Suggest the prescribed correction required under IND-AS to deal with errors discovered in Financial Statement of Maximo Limited. Please also suggest the treatment for the situation, if it is arising out of incorrect application of Accounting Policy as claimed by Finance Manager of Maximo Limited.

7. Based on the available production data for shifts in case study, evaluate whether Hi-Quality (P) Ltd. has achieved world class performance under TPM Approach?

8. State whether a petition u/s 241 of Companies Act, 2013 by the minority shareholders is maintainable. Also state whether there is any impact on the maintainability of petition due to withdrawal of consent by a group of members after commencement of proceedings.

ANSWERS TO THE CASE STUDY 34

I. Answers to the Multiple Choice Questions

1. (c) 23,39,181

Reason:

Gross issue 20 million /0.95 = 21.05263; Issue price per GDR Rs.300 X 2 shares X 90% = ₹ 540; Issue price in Dollar 540 /60 = 9 dollars; Number of GDR is to be issued is equal to 21.0526 million / Australian Dollar 9 = 2.339177 million.

2. **(b)** 10.40%

Reason:

As per section 196C, any person responsible for paying interest or dividend in respect of bonds or GDRs referred to in section 115AC must deduct tax at source @10% + surcharge wherever applicable, plus HEC @ 4% at the time of credit of such income to the account of the payee or at the time of payment thereof by any mode whichever is earlier.

3. **(d)** ₹ 44,00,000

Reason:

As per the provisions of Section 115JB(2) of the Income tax Act, 1961, in view of the ongoing insolvency and bankruptcy resolution process, a total ₹ 44,00,000 representing brought forward business loss and/or unabsorbed depreciation shall be allowed as deduction while computing the book profit under section 115JB.

4. **(a)** ₹ 8,77,800

Reason:

CIF value USD 95,000 X Rs. 84 = 79,80,000. BCD @10% = Rs. 7,98,000. Social welfare surcharge @ 10% = Rs. 79,800. Customs duty payable Rs. 7,98,000 + Rs. 79,800 = Rs. 8,77,800

5. **(c)** ₹ 60,000

Reason:

As per Section 74A(5), Penalty in case where any tax which has not been paid or short paid or erroneously refunded, or where input tax credit has been wrongly availed or utilized, for any reason, other than the reason of fraud or any wilful-misstatement or suppression of facts to evade tax, shall be equivalent to ten percent of tax due from such person or ten thousand rupees, whichever is higher. Accordingly, 10% of tax i.e. 10% of Rs.6,00,000 or Rs.10,000 — whichever is higher i.e. ₹ 60,000.

II. Answers to the Descriptive Questions

6. As per the definition given in Ind AS 8, **prior period errors** are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were approved for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, **mistakes in applying accounting policies,** oversights or misinterpretations of facts, and fraud.

Further, paragraph 41 of Ind AS 8 states that 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. 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.

Unless impracticable, an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred.

Brief Description on Ind AS 8

As per para 42 of Ind AS 8, an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

(i) Incorrect application and disclosure of retrospective application and disclosure of change in accounting policy

In case retrospective application of change in accounting policy or disclosures related to it have not been followed appropriately, it will also be considered as prior period errors.

Accordingly, in the financial statements for the year ended 31st March, 2025, **the comparative amounts as at 31st March 2024 would be restated** to reflect the correct retrospective application and disclosure of change in accounting policy. An entity is also required to **present a third balance sheet** as at the beginning of the preceding period i.e., as at 1st April 2023 in addition to the minimum comparative financial statements for the financial year 2023-24, if the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

Further, financial statements of subsequent periods need not repeat these disclosures.

(ii) Incorrect application of accounting policy

Even the incorrect application of accounting policy will constitute as prior period error and needs to be treated as per para 42 of Ind AS 8 as discussed above.

Accordingly, **incorrect application of accounting policy requires retrospective correction of an error** under Ind AS 8 assuming that the correct accounting policy is **to be followed since beginning of the recognition of the transaction.** Accordingly, in the financial **statements for the year ended 31st March, 2025, the comparative amounts as at 31st March, 2024 would be restated** to reflect the correct application and disclosure along with the **restated third balance sheet** as at the beginning of the preceding period, i.e., as at 1st April 2023.

When an entity is required to present an additional balance sheet as at the beginning of the preceding period, it must disclose the information as required by Ind AS 8 and also the information as explained in subsequent points. However, it need not present the related notes to the opening balance sheet as at the beginning of the preceding period.

7. Calculation of Planned Production Time

Total time	480
Less: Planned downtime	
tea break	15
lunch break	30
Planned Production Time	435

Availability Ratio = (435-20)/ 435×100

= **95.4%**

Actual Production = 200 BOTTLES *per shift*

Standard time = 2 minutes

Standard Time Required = 200 units × 2 minutes

= **400 minutes**

Actual Time Taken = 435 mins. – 20 mins.

= **415 minutes**

Performance Ratio = 400/ 415×100

= **96.39%**

Quality Ratio = (200-20)/ 200×100

= **90%**

Thus, OEE = 0.954 × 0.9639 × 0.90

= **82.76%**

Evaluation

The Overall Equipment Effectiveness (OEE) for the given scenario stands at **82.76%,** which falls short of the globally recognized benchmark of **85%,** as proposed by Seiichi Nakajima. A closer analysis reveals that while the **Availability Ratio** (95.4%) and the **Performance Ratio** (96.39%) surpass the ideal benchmarks of **90%** and **95%**, respectively, the **Quality Ratio** is notably deficient at 90%, significantly below the target of **99%**. This disparity highlights a critical issue with product quality, as a defect rate of 10% (20 defective units out of 200) undermines the equipment's overall effectiveness, despite strong performance in other areas.

The high **Availability Ratio** reflects that the equipment is well-maintained and experiences minimal downtime, indicating effective maintenance practices and operational reliability. Similarly, the **Performance Ratio** suggests that the production speed closely matches the standard, with only a slight deviation in actual time taken (415 minutes) compared to the standard time required (400 minutes). These metrics demonstrate that the machine is being used efficiently and with minimal delays.

However, the **Quality Ratio** indicates substantial challenges in achieving defect-free production. This could stem from several factors, including process inefficiencies, substandard input materials, insufficient operator training, or inadequate quality control measures. The significant gap in quality performance has a compounding effect on the OEE, as even minor defects can lead to wasted resources, increased rework, and diminished customer satisfaction.

To bridge this gap and achieve world-class performance, it is critical to address the root causes of quality issues. Implementing stricter quality assurance protocols, enhancing supplier audits to ensure raw material compliance, and training operators to adhere to quality standards are immediate steps to consider. Additionally, leveraging advanced monitoring tools, such as real-time quality checks using IoT or automated systems, can help detect and address defects during the production process. These measures will not only improve the Quality Ratio but also contribute to sustained operational efficiency and reliability.

In conclusion, while the strong **Availability** and **Performance** ratios contribute positively to the OEE, the subpar **Quality Ratio** is a bottleneck that must be resolved to meet the ideal benchmark of **85%** and achieve world-class manufacturing standards. By focusing on quality improvements, the overall effectiveness of the equipment can be optimized, aligning the company with global best practices in Total Productive Maintenance (TPM).

8. As per the provisions of Section 244, linked to Section 241, of the Companies Act, 2013, in the case of a company having share capital, members eligible to apply for oppression and mismanagement shall be lower of the following:

- 100 members; or
- 1/10th of the total number of members; or
- Members holding not less than 1/10th of the issued share capital of the company.

The share holding pattern of Maximo Limited is as follows:

₹ 1,00,00,00,000 equity share capital held by 1,000 members.

The petition alleging oppression and mismanagement has been made by some members as follows:

(i) No. of members making the petition – 90

(ii) Amount of share capital held by members making the petition – ₹ 10,00,00,000

The petition shall be valid if it has been made by the lowest of the following:

- 100 members; or
- 100 members (being 1/10th of 1,000); or
- Members holding ₹ 10,00,00,000 share capital (being 1/10th of ₹ 1,00,00,00,000)

As it is evident, the petition made by 90 members meets the eligibility criteria specified under section 244, linked to Section 241, of the Companies Act, 2013 as it meets the minimum requirement of members holding not less than 1/10th of the issued share capital of the company in this case. Therefore, the petition is maintainable.

The consent to be given by a shareholder is reckoned at the beginning of the proceedings. The withdrawal of consent by any shareholder during the course of proceedings shall not affect the maintainability of the petition [*Rajamundhry Electric Corporation Vs. V. Nageswar Rao A.I.R.*].

ALTERNATIVE

As per the provisions of Section 244, linked to Section 241, of the Companies Act, 2013, in the case of a company having share capital, members eligible to apply for oppression and mismanagement shall be lower of the following:

- 100 members; or
- 1/10th of the total number of members; or
- Members holding not less than 1/10th of the issued share capital of the company.

The paid-up share capital of Maximo Limited is as follows:

₹ 1,00,00,00,000 equity share capital comprising of 100 Lakhs equity shares of ₹ 100 each held by 1,000 shareholders / members.

The petition alleging oppression and mismanagement has been made by some members as follows:

(i) No. of members making the petition – 90

(ii) Amount of paid-up share capital held by members making the petition – ₹ 10,00,00,000

The petition shall be valid if it has been made by the lowest of the following:

- 100 members; or
- 100 members (being 1/10th of 1,000); or
- Members holding not less than 1/10th of the issued share capital of the company.

The third condition in the provisions of Section 244 of the Companies Act, 2013 is based on 'Members holding not less than 1/10th of the issued share capital of the company'. The information of share capital represents the "Paid-up Share Capital." The issued share capital figure is not given nor the expression "Issued and Paid-up Share Capital" is used therein. As a result, the third condition cannot be tested/applied.

Hence, based on the information provided, it is evident that the petition should have been made by at least 100 shareholders/members under section 244, linked to Section 241, of the Companies Act, 2013. (i.e. least of minimum 100 members or 1/10th of total 1,000 members) to make it admissible. **However, as the petition is made by 90 shareholders which is less than the required number of 100 shareholders, the petition shall not be maintainable.**

The consent to be given by a shareholder is **reckoned at the beginning of the proceedings.** The withdrawal of consent by any shareholder **during the course of proceedings shall not affect the maintainability of the petition** [*Rajamundhry Electric Corporation Vs. V. Nageswar Rao A.I.R.*].

CASE STUDY 35

Welcome Industries Limited

Welcome Industries Limited (WIL) is a two decade old company engaged in various businesses like Yarn manufacturing, petrochemicals, telecommunications and general insurance. Company is headed by Ms. Singhania. She is respected in the business world as sharp business women and is a firm believer in core business fundamentals and strong ethical values. WIL has its headquarters in Mumbai.

Melody Inc. (a U.S. based company) which runs retail chain stores worldwide is trying to setup its operations and enter in Indian market since last two years but could not frame proper entry policy. Its investments outside the U.S. have seen mixed results. Its operations and subsidiaries in Canada, the United Kingdom, Central America, South America and China are successful. Considering WIL's pan India offices and operations, Melody Inc. decided to start a partially owned subsidiary company with WIL. Accordingly, a new company, Welcome Melody Private Limited (WMPL) is formed by Melody Inc. as its largest shareholder holding 75% of the paid up share capital. WMPL will have its head office and registered office in Mumbai (Maharashtra).

WMPL will be operating retail chain stores throughout India in the times to come. To start with, first store will be opened in Mumbai. All the arrangements are being made to ensure that first visit of the customer in its first store should be a memorable one. Operations team suggested that billing counter (POS) should be technology driven and accordingly, new software has been purchased with the following details. The cost for the software was ₹ 15,00,000 out of which ₹ 10,00,000 to be paid immediately and balance ₹ 5,00,000 in one-year time. In addition to the software cost, the company also incurred related expenditures, including legal fees of ₹72,000 and consultancy fees for implementation amounting to ₹1,50,000. The company's cost of capital is 10%.

The launch of the first store was successful and encouraging for the management. WMPL became a one-stop supermarket chain that offered its customers a wide range of basic home and personal products under one roof. Each WMPL store stocks of home utility products including food, toiletries, beauty products, garments, kitchenware, bed and bath linen, home appliances and more - available at competitive prices that its customers appreciate. The company has positioned itself as a value-driven retailer, offering products at competitive prices that resonate well with its cost-conscious customers. The retail industry, however, is highly competitive, with pricing being a key battleground among major players. In an effort to gain a competitive edge, WMPL has strategically adopted an aggressive low cost pricing strategy. It has deliberately priced certain products below their cost, aiming to attract a larger customer base and increase store footfall. While this approach helps in boosting short-term sales and disrupting market dynamics, it is also seen as a tactic to undercut competitors.

With its mission to be the lowest priced retailer in the regions it operates, WMPL business continues to grow with new locations planned in more cities. As per plans, three new stores were opened in Nasik, Nagpur and Aurangabad. It was decided that WMPL will buy all the immovable properties and no rent expenditure will be incurred. Capital outlay of opening new stores was in Crores, so WMPL borrowed funds from its holding company Melody Inc. The amount borrowed was ₹35 crore at an interest rate of 8% per annum.

MPL opened 25 stores throughout India and earned net profit (before tax) ₹ 6 Crore for F.Y. 2024-25. The EBITDA for the same period was ₹ 9 Crore and Interest paid to Melody Inc. was ₹ 2.80 Crore. For the same period Profit after tax was ₹ 4.50 Crore (Tax Rate 25%).

WMPL has decided to open a new store in Pune in April 2025. Land was purchased and establishment work was completed. Separate GST registration for Pune was taken in April 2025 and stock purchase for new store has also been done. On the date of GST registration, the total value of fixed assets across the business stood at ₹ 400 crore, with Pune accounting for ₹ 22 crore. Similarly, the value of current assets was ₹ 500 crore in total, with ₹ 50 crore pertaining to the Pune store. Value of Assets on which GST ITC has been taken (out of fixed assets and current assets reported above) was ₹ 160 crore at the entity level, with Pune accounting for ₹ 40 crore. Additionally, the unutilised GST was ₹25 crore for the entire business, Whereas ₹2 crore related to the Pune store.

As per management projections, the new store at Pune will achieve good sales and accordingly it was decided to transfer some part of GST credit outstanding in electronic credit ledger of Mumbai to electronic credit ledger of separate Pune registration.

Accounts department has drafted a letter stating that credit of ₹ 2.50 Crore (on the basis of ratio of current assets) can be transferred to Pune registration.

Total current asset of WMPL as at 31.03.2024 were ₹ 500 Crore which included inventories amounting to ₹ 300 Crore. The carrying amount of inventories is after considering allowances for inventory shrinkages of ₹ 14.50 Crore. These inventories are held at the stores and distribution centres of the Company. Allowance for inventory shrinkage was an audit focus area since inventory counts were carried out at periodical intervals during the year and further judgmental factors are involved in identifying the amount of provision for shrinkages. Audit team of the company addressed the issue by obtaining an understanding, evaluating the design and testing the operating effectiveness of controls that the company has in relation to allowance for inventory shrinkage.

In order to improve its profitability, WMPL is looking to buy securities of XYZ Limited which is near bankruptcy. When the proposal came up for discussion in the meeting of board of directors, they unanimously decided to seek professional consultancy on investment in such securities. The appointed consultant did agree that such transactions can be profitable provided the strategy of investment followed involves the proper allocation of amount to be invested between debt and equity securities.

I. Multiple Choice Questions

1. At what amount software purchased for POS should be capitalised initially using the principles of concerned Ind AS?

   (a) Total Cost to be capitalised is ₹ 15,26,545

   (b) Total Cost to be capitalised is ₹ 16,04,545

   (c) Total Cost to be capitalised is ₹ 16,76,545

   (d) Total Cost to be capitalised is ₹ 17,22,000

2. The pricing strategy adopted by WMPL is commonly referred to as a what type of pricing practice/ strategy?

   (a) Loss leader pricing

   (b) Price discrimination

   (c) Predatory pricing

   (d) Penetration Pricing

3. What strategy should be followed by WMPL Management to ensure that proposed investment in securities XYZ Ltd is profitable?

   (a) Taking Long Position in Debt and Short Position in Equity

   (b) Taking Long Position in Equity and Short Position in Debt

   (c) Taking Long Position in Debt and Long Position in Equity

   (d) Taking short Position in Debt and short Position in Equity

4. What will be your comments on draft letter of accounts department stating that GST input credit of ₹ 2.50 Crores can be transferred to Pune registration?

   (a) The amount calculated is incorrect as the amount which can be transferred to Pune registration is ₹ 1.375 Crores

   (b) The amount calculated is incorrect as the amount which can be transferred to Pune registration is ₹ 2 Crores

   (c) The amount calculated is incorrect as the amount which can be transferred to Pune registration is ₹ 6.25 Crores

   (d) The amount calculated is correct as output liability will arise on sales and stock is a part of current assets

5. How the shrinkage in inventories should be reported in audit report, in case WMPL was the listed company?

   (a) The auditor should report the issue of shrinkages in inventories in 'Emphasis of matter paragraph' and also state how the matter has been dealt with by audit team

   (b) The auditor should report the issue of shrinkages in inventories in 'Other matter paragraph' and also state how the matter has been dealt with by audit team

   (c) The auditor should report the issue of shrinkages in inventories in 'Other matter paragraph'

   (d) The auditor should report the issue of shrinkages in inventories in 'Key Audit matter paragraph' and also state how the matter has been dealt with by audit team

II. Descriptive Questions

6. How WMPL will be able to earn profit by taking position in debt and equity securities of XYZ Limited?

7. Accounts department of WMPL is filing GSTR 3B for the month of September 2025 wherein total Taxable supplies reported are ₹ 50 Crore with output GST liability of ₹ 6.25 Crores. Input tax available in electronic credit ledger is ₹ 7.50 Crore and balance in electronic cash ledger is ₹ 75 Lakh. Whether WMPL is mandatorily required to utilize the balance in the electronic cash ledger while paying GST liability for the month of September 2025? Also state the nature of documents on the basis of which ITC would have been taken by WMPL.

8. WMPL is having intangible assets (including software purchased for POS). Guide the accounts department about the general disclosures to be made in financial statements relating to such intangible assets. Also list down the conditions, if any, for derecognition of intangible assets.

ANSWERS TO THE CASE STUDY 35

I. Answers to the Multiple Choice Questions

1. (c) Total Cost to be capitalised is ₹ 16,76,545

Reason:

As per Ind AS 38, An intangible asset should be measured initially at cost. The cost of a separately acquired intangible asset comprises of: (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade

discounts and rebates; and (b) any directly attributable cost of preparing the asset for its intended use. If payment for an intangible asset is deferred beyond normal credit terms, then cost of such Intangible asset is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalised in accordance with Ind AS 23, Borrowing Costs.

(Amount in ₹)

Initial Payment	10,00,000
Deferred Payment (5,00,000/1.1)	4,54,545
Legal fees	72,000
Consultancy fees for implementation	1,50,000
Total Cost to be capitalised	16,76,545

2. **(c)** Predatory pricing

Reason:

Predatory pricing (loss leading) is the practice of selling a product or service at a very low price, intending to drive competitors out of the market or create barriers to entry for potential new competitors.

3. **(a)** Taking Long Position in Debt and Short Position in Equity

Reason:

Profit from distressed securities can be earned through strategic positions, such as taking a long position in the company's debt and a simultaneous short position in its equity.

4. **(b)** The amount calculated is incorrect as the amount which can be transferred to Pune registration is ₹ 2 Crores

Reason:

Transfer of ITC on obtaining separate registrations for multiple places of business within a state/ Union Territory [Rule 41A].

The registered person (transferor), having separate registrations for multiple places of business within a state/ union territory, can transfer the unutilised ITC (wholly or partly) lying in his electronic credit ledger to any or all of the newly registered place(s) of business in the ratio of the value of assets held by them at the time of registration. Here, the 'value of assets' means the value of the entire

assets of the business irrespective of whether ITC has been availed thereon or not.

Total Assets of business	=	₹ 900 Crs
Assets of Pune Registration	=	₹ 72 Crs
% of input credit to be transferred	=	72/ 900 × 100 = 8%
Amount of ITC that can be transferred	=	₹ 25 Crs × 8% =₹ 2 Crs

5. **(d)** The auditor should report the issue of shrinkages in inventories in 'Key Audit matter paragraph' and also state how the matter has been dealt with by audit team

Reason:

The auditor should report the issue of shrinkages in inventories in 'Key Audit matter paragraph' and also state how the matter has been dealt with by audit team.

For determining key audit matters, auditor shall take into account, Significant auditor's judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.

II. Answers to the Descriptive Questions

6. An investor can earn profit from distressed securities by taking long position in **Debt and Short position in equity**.

Following are the examples of earning arbitrage profit:

(i) In case company's condition improves because of priority, the investor will get his interest payment which will be more than dividend on his short position in equity shares.

(ii) If company's condition further deteriorates the value of both share and debenture goes down. He will make good profit from his short position.

ALTERNATIVE

The WMPL will take long position in Debt and Short Position in Equity of XYZ Ltd.

This strategy will be profitable because if XYZ Ltd. go bankrupt though both Debt and Equity will lose value but since debt has a priority over Equity in repayment it will be a safe bet.

However, if financial position of company improves any loss on account of short position in Equity will be compensated by gain in the Debt position.

7. Since value of taxable supply of WMPL for the month of September 2025 exceeds ₹ 50 lakh, rule 86B of the CGST Rules, 2017 is applicable to it.

Thus, as per rule 86B, amount available in the electronic credit ledger will be utilized only to the extent of 99% of the output tax liability while discharging such tax liability. Balance 1% of the output tax liability needs to be discharged from electronic cash ledger.

In terms of the restriction imposed by rule 86B, WMPL can discharge 99% of its output tax liability, i.e. ₹ 6.1875 crores (99% of ₹ 6.25 crores) from the amount available in electronic credit ledger. However, it has to mandatorily discharge the balance 1% of the output tax liability i.e. ₹ 6,25,000 (1% of ₹ 6.25 crores) through electronic cash ledger only.

The nature of documents on the basis of which ITC would have been taken by WMPL are:

(i) Invoice or revised invoice issued by the supplier of goods and/or services

(ii) Invoice issued by the recipient receiving goods and/or services from unregistered supplier in case of reverse charge, subject to payment of tax

(iii) Debit note issued by the supplier

(iv) Bill of entry or similar document prescribed under the Customs Act

(v) Document issued by input service distributor

8. **(i)** General disclosures w.r.t. intangible assets including acquisition of software

An entity should disclose the following for each class of intangible assets:

(a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;

(b) the amortisation methods used for intangible assets with finite useful lives;

(c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(d) the line item(s) of the statement of profit and loss in which any amortisation of intangible assets is included; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;

(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind As 105 and other disposals;

(iii) increases or decreases during the period resulting from revaluations and from impairment losses recognized or reversed in other comprehensive income;

(iv) impairment losses recognized in profit or loss during the period;

(v) impairment losses reversed in profit or loss during the period;

(vi) any amortisation recognized during the period;

(vii) net exchange differences arising on the transaction of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and

(viii) other changes in the carrying amount during the period.

(ii) Conditions for derecognition of intangible assets

An intangible asset should be derecognized:

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

The disposal of an intangible asset may occur in a variety of ways (e.g. by sale, by entering into a finance lease, or by donation).

APPENDIX: CASE STUDY 1 & 2

Strategic Insights into the Chemical and Petrochemical (CPC) Industry

Industry Landscape

The Chemical and Petrochemical (CPC) industry holds a pivotal position in an economy as it provides the basic materials required for the functioning of other industries. It serves as a reliable indicator of manufacturing trends and supply chain challenges within an economy. The CPC industry is vast, encompassing various manufacturing sectors that heavily rely on chemicals. It provides critical feedstock to numerous industries, making it indispensable. In India, the chemical industry is highly diversified, covering more than 80,000 commercial products[1][1].

The applications of the CPC industry span multiple sectors. In *Agriculture and Nutrition*, it plays a crucial role by contributing to fertilizers and crop protection. In the *Pharma* sector, it provides essential raw materials for the production of drugs and healthcare products. The *Building and Construction* sector benefits from key components such as adhesives, sealants, and polymers supplied by the CPC industry. Furthermore, it supports *Mining and Infrastructure* through specialized chemicals essential for processing and construction activities. In *Personal Care and Hygiene*, it enables the production of soaps, cosmetics, and sanitizers. The *Automotive and Transportation* sector depends on CPC for high-performance oils and greases, while the Paint and Coatings industry relies on raw materials for protective and decorative finishes. Additionally, the *Consumer Goods and Electronics* sector benefits from CPC products like plastics, adhesives, and packaging materials, emphasizing the industry's indispensability across diverse domains.

This diversity can be broadly classified[2] into −

- *Bulk Chemicals (Commodity Chemicals):* Chemicals produced in large quantities but with lower value are considered bulk chemicals. They significantly cater to the downstream industries. They are further divided into 3 categories alkali, organic and inorganic.
- *Petro-Chemicals:* Also known as petroleum distillates, these chemicals are derived from petroleum and natural gas by refining. It includes polymers, and synthetic fibres, performance plastics and others.

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[1] https://aiaiindia.com/chemicals/

[2] India's Booming Chemical and Petrochemical Industry: Understanding Industry Landscape, Institute for Competitiveness (https://chemicals.gov.in/sites/default/files/inline-files/Report_Understanding_Industry_Landscape.pdf)

- *Specialty Chemicals:* Chemicals with high value but low production volume are considered specialty chemicals like surfactants, textile chemicals, paints and coating, dyes, agrochemicals and others. This is highly researched and development-intensive category of chemicals. Specialty Chemicals account for more than 50% of the total chemical exports from India.

India's Chemical and Petrochemical (CPC) industry is worth 220 billion USD and it is expected to grow to about 300 billion USD by 2030[3]. India offers a lucrative business ecosystem with favourable investment policies that have attracted global CPC industry, converting it into a potential investment region to that plays a pivotal role within the global supply chain.

Various international and national megatrends, such as shifts in consumer preferences and income demographics, increasing digitalization, and innovation, are expected to drive the growth of India's CPC industry in the coming years.

Supply Chain Dynamics

The supply chain of this industry is a complex and multi-stage process. It involves sourcing of raw materials, transportation, manufacturing, distribution and disposal of waste products. Analysing this supply chain is crucial to identify potential bottlenecks, inefficiencies and risks in the process and suggest ways to improve it.

The main stages of supply chain (a simplified generic version for student's understanding) within this industry are as below:

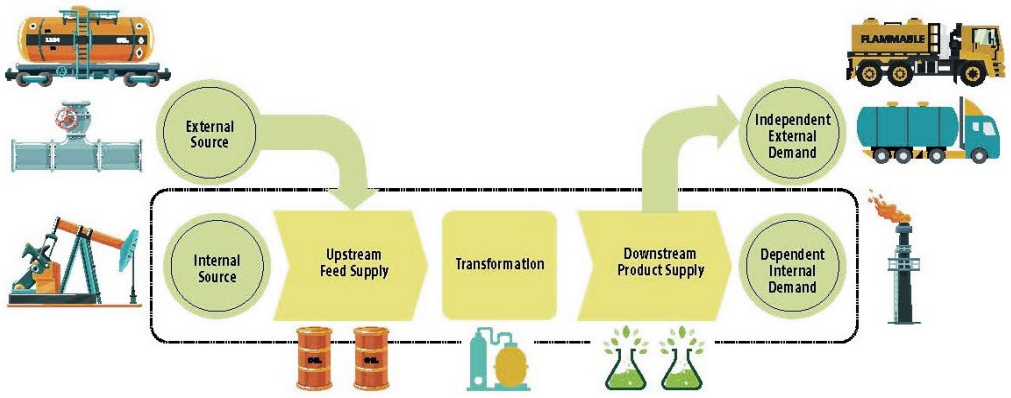


Figure : Supply Chain[4]

[3] https://indiachem.ficci.in/pdf/2024.pdf

[4] Framework for advanced supply chain planning: Large-scale petrochemical companies by Johan Louw and Wessel Johannes Pienaar (https://www.researchgate. net/profile/Wessel-Pienaar/publication/ 288405454/

Agrochemical Industry (Fertilizers/ Crop Nutrition / Speciality Chemicals)

(a core product in our case studies)

Agrochemical industry is an important segment of the giant chemical and petrochemical (CPC) industry. Like medicines is to human beings, agrochemicals protect plants from insects, pests, diseases, weeds among others, all of which lead to destruction of agricultural crops. Given the rising population, agrochemicals play an important role in ensuring food security. It is a *highly regulated industry* with lot of emphasis being placed on product safety.

India is an agrarian economy which needs a significant quantity of crop protection and nutrition products. Catering to food requirements of a growing population along with a constraint for availability of arable land has created an insatiable demand for high quality crop nutrition chemicals that can improve productivity from agricultural activities. India is emerging as a potential hub for production of agrochemicals, it is already a significant exporter of these products. The government places special emphasis on ensuring that farmers can get supplies in the form of fertilizers, pesticides, insecticides and other crop nutrition solutions at reasonable rates. *For this it has subsidy schemes like the Nutrient Based Subsidy (for non-urea products) and separate subsidies for urea-based products. It also provides grants to companies/ firms to promote research and development in order to develop less hazardous and eco-friendly products.*

Snapshot of Value Chain of a Firm in the Agrochemical Industry

The value chain refers to the series of activities a business performs to create and deliver a product or service to the market. It includes everything from product conception to final delivery and after-sales service. From forecast and planning to customer support, each stage of the value chain contributes to creating innovative, sustainable, and safe agrochemical solutions. By leveraging advanced technologies, maintaining rigorous quality standards, and aligning with market trends, agrochemical companies can meet the evolving demands of farmers while addressing environmental and regulatory challenges.

Forecasting and Planning –

The industry is characterized by high production and sales volumes. Hence planning and forecasting, in particular demand forecasting is the bedrock in ensuring seamless operations. Since these are complex activities, forecasting and planning may take the following into account:

Grouping Diverse Products: Grouping products based on types, such as fertilizers, pesticides, and specialty chemicals, allows for more accurate demand forecasting and better inventory

figure/fig1/AS:515248451194880@1499856211140/Apetrochemical-value-chain-with-its-associated-supply-chain-elements.png)

management. This will help the company identify high performing, fast moving products as against slow moving low performing products.

Seasonal Forecasting: The agrochemical industry is heavily influenced by seasons, as different crops require different treatments at various growth stages. Seasonal forecasting helps companies prepare for demand spikes, aligning production and distribution with planting and harvesting cycles.

Order Book Analysis: Analysing past order data helps predict future demand patterns, identifying trends that can inform production planning and inventory management. It also helps improve client management systems.

Trend Analysis: Keeping track of market trends, like increased demand for organic or eco-friendly agrochemicals, allows companies to adjust their strategies and invest in relevant R&D. Trend analysis is crucial in a dynamic industry where regulatory changes or environmental concerns can shift demand patterns.

R&D Laboratory –

Developing Formulations: Companies make crucial investments in R&D to discover effective, environmentally sustainable and safe products for crop nutrition and protection. Along with scientific experiments on chemical compounds, advanced technologies such as data science, artificial intelligence, *predictive analysis* among others are used to design compounds, predict efficacy and toxicity of different innovations. Such technologies can aid in company's efforts to reduce development timelines and costs.

Approval and Testing: Field trials, toxicity assessments and environmental impact studies are undertaken as part of rigorous testing procedures to ensure safety, effectiveness and environmental impact of formulations before they are released. *Regulatory approvals* from authorities (such as the Central Insecticides Board in India) are required to ensure the product meets both national and international safety standards.

Patenting: Post approval of a formulation, a company patents it to protect its intellectual property rights. Patents prevent competitors from replicating the product for a specified period, which incentivizes innovation and allows for a competitive edge in the market.

Material Procurement –

Approved Supplier and Vendor Selection: Quality, reliability, compliance with health and safety standards and cost-effectiveness are critical criteria while choosing suppliers and vendors. Reliable suppliers are required to ensure a steady flow of quality raw materials.

Long-Term Purchase Agreements: To secure a steady supply and potentially negotiate better rates, long-term agreements with suppliers are common. This also helps suppliers plan their own production cycles, which can be beneficial for both parties.

Just-in-Time (JIT) Arrangements: JIT procurement enables companies to receive materials as needed. This helps reduce waste, limit exposure of raw materials to potential degradation and minimize inventory costs.

Conformance and Quality Control Inspections: Raw materials should meet required specifications. For this, inspections and audit are conducted regularly to reduce the risk of non-compliant or defective material being used in production.

Material Traceability: It is important to be able to track the origin and movement of raw materials through the supply chain. This is crucial for crucial for quality control, regulatory compliance, and in case of recalls or audits. It ensures that any issue at any stage within the supply chain can be traced back to its source.

Product Manufacture –

Process Types (Continuous, Batch, or JIT): The type of production will depend on demand, production capacity, storage facility and cost considerations. Agrochemical companies may choose continuous (constant production) or batch production (smaller, specific quantities). Some may employ JIT production to align manufacturing with demand, reducing storage needs and minimizing waste.

Scalability and Capacity Utilization: In case of fluctuating market demands, the company should be able to scale up or scale down its production capacity to ensure that production resources are maximized leading to efficient output and cost management.

Process Automation: Technology enabled automation of business processes is called process automation. Especially useful while performing repetitive tasks, automation improves precision in mixing, processing, and packaging, reducing the risk of human error and enhancing efficiency. It also supports scalability, allowing companies to quickly ramp up production when necessary and can help transform business processes.

Maintenance: Maintaining peak performance of assets and equipment requires scheduled maintenance at regular intervals. This is essential for efficient operations, upkeep of equipment, prevent breakdowns and ensure consistent production quality. They minimize downtime and improve operational longevity.

Quality Control and Inspection: Due to the hazardous nature of many of its products, agrochemical companies are carrying out stringent quality checks, ensuring adherence to regulatory and company standards. Analytical testing, such as chemical composition analysis and stability testing, helps ensure product efficacy and safety.

Inventory Management and Distribution –

Warehouse Management: Receiving, storing, packing and shipping products are the day-to-day processes in warehouse management. These vital behind the scene activities ensure on-time delivery to customers. Warehouse management systems should optimize use of warehouse

space to store maximum inventory, it should be easy for staff to find the required inventory, accurate and efficient order fulfilment, coordinating with suppliers and transportation companies so that materials arrive and orders ship on time. Efficient management of these activities improves productivity while keeping the costs low.

Storing and Handling Hazardous Goods: Since agrochemicals can be hazardous, specialized storage facilities with proper ventilation, temperature control, and spill containment are necessary. Minimizing accumulation of expiring products through better inventory management. Staff must also be trained in the safe handling of chemicals to ensure safety and regulatory compliance.

Inventory Traceability and Expiry: Inventory management systems help track expiration dates and ensure proper rotation of stock. Traceability ensures any issues with a batch can be quickly isolated, which is especially crucial in the case of hazardous or sensitive chemicals. Use barcode, QR code, or RFID technology for accurate and efficient track and trace across the supply chain. Traceability is also important to combat the grey market where spurious products are sold.

Packing and Dispatch: Proper packaging is essential to maintain product integrity during transportation. Packing protocols are followed to protect against damage, leaks, and contamination. Efficient dispatch processes help reduce lead times, ensuring timely delivery to customers.

Sales Management –

Managing distribution channels: Distribution channels play an important role in maximising profits for the company. *Strong relationships with distributors, wholesalers and retailers* is needed to motivate them to promote the company's products. Identifying high performing distributors and high performing products is essential to understand which products to focus on and which distributor network to utilize to maximise sales. Engaging distributors by communicating about product launches and promotional activities is important. In order to have a wider reach, a company can have multiple channels for distribution such as direct sales or retail partnerships. It is vital to integrate the different distribution channels to ensure coordination and collaboration between them.

Sales order management: Optimizing warehouse location, warehouse management systems, robust inventory management systems, minimising lead times and stock outs, real time tracking and efficient transportation networks, error free and timely delivery of orders to customers, efficient complaint management processes are essential to ensure customer satisfaction, strengthens client relationships and drives business growth. *Companies enter into long term supply contracts with their customers hence it is important to adhere to the terms and conditions in the contract. Companies, particularly those manufacturing fertilizers are covered under government subsidy schemes. The government subsidy is based on the*

sales made by the company and hence accountability and traceability of orders is very important.

Product Pricing: Pricing strategies are influenced by production costs, market demand, competitor pricing, and regulated pricing, where applicable. In some cases, the *price is regulated by government policies or industry norms*. Companies also consider external factors such as raw material costs and exchange rates, which are particularly significant in the agrochemical industry due to its reliance on imported raw materials.

Customer Support and After-Sales Service –

Technical Support: As a unique selling proposition, agrochemical companies often provide on-ground technical support to help farmers with product application and answer questions regarding usage, safety, and compatibility with crops. Better understanding about the products would improve crop yield. This would be a key driver for ensuring food security to a growing population.

Feedback Mechanisms: Feedback from farmers and distributors helps companies improve products and identify potential issues. This information is valuable for refining R&D and manufacturing processes.

Product Recall and Traceability: In case of defective or harmful products, companies must have efficient recall systems to withdraw products from the market and communicate with users promptly. Traceability systems ensure companies can quickly identify affected batches.

Sustainability and Environmental Impact Initiatives: Many agrochemical companies now offer post-sales services focused on sustainability, such as recycling programs for used containers and programs to help farmers reduce chemical usage.

Summary

Each of these steps collectively supports an efficient, resilient, and compliant supply chain in the agrochemical industry. By integrating strong quality controls, safety protocols, and responsive customer service practices, agrochemical companies can not only meet regulatory requirements but also drive growth in a competitive, regulation-heavy market.

Strategic Role of Ammonia and Natural Gas

Ammonia plays an essential role within industrial chemicals, fertilizers, and mining chemicals. Its applications range from being a foundational ingredient in nitrogen-based fertilizers that drive agricultural productivity to serving as a critical component in the production of various industrial and mining chemicals. Ammonia's importance in these sectors stems not only from its chemical properties but also from the essential products derived from it, which support the broader economy by ensuring food security, advancing mining efficiency, and

driving industrial manufacturing. The production of ammonia itself heavily relies on natural gas, which serves as both a feedstock and a fuel source in the synthesis process.

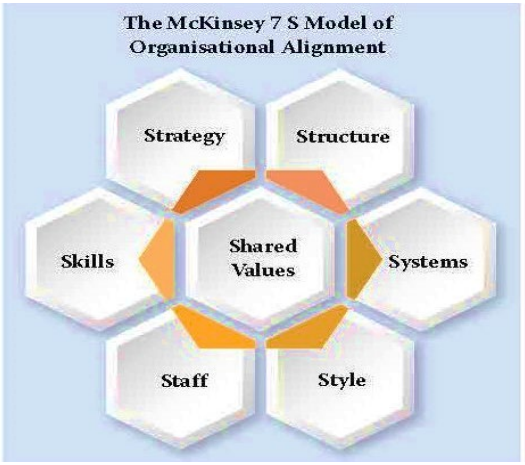
Natural gas is primarily converted into hydrogen, which is then combined with nitrogen to produce ammonia. The dependency on natural gas in ammonia production is a key strategic factor, as fluctuations in natural gas prices directly affect the cost of ammonia production. Reliable access to natural gas can therefore stabilize ammonia production costs, ensuring operational continuity and allowing for predictable pricing of its ammonia-based products.

For companies engaged in diverse fields such as industrial chemicals, fertilizers, and mining chemicals, securing both ammonia and natural gas supplies is vital. Consistent availability of these resources helps organisations mitigate risks associated with supply chain disruptions and cost volatility. This is especially significant in times of global uncertainty, where geopolitical factors can disrupt natural gas supply routes or increase prices dramatically.



Thus, *focus on ensuring an uninterrupted supply of ammonia and natural gas* enhances its competitiveness and ability to maintain pricing stability for its products. This strategic approach reinforces the company's position in the market, allowing it to continue supporting its key business sectors effectively, remain resilient in volatile markets, and pursue sustainable growth.

Managing Supply Chain Disruptions



The COVID-19 pandemic and recent geopolitical upheavals have underscored the critical need for resilience and agility within global supply chains. For the CPC industry, which consumes large volumes of oil and gas, price volatility has a substantial impact on profitability, often requiring cost escalations that pass to end users and contribute to inflation across industries. This highlights the need for robust supply chain management not only for the chemical industry but also sectors that rely on its products. Holistic organizational models like **McKinsey's 7S framework** can be used to diagnose the existing operations of the company and identify any blind spots within the organization. Strategic decisions can then be made to change the operations that can help build supply chains that are resilient to disruptions.

This framework addresses the critical role of co-ordination, where all elements work together to build organizational effectiveness.

Structure − Organizations are required to be agile in order to respond rapidly to disruptions. This requires various functions within the organization like sales, operations, logistics, finance, and infrastructure to be tightly integrated and not operate in silos. Well defined authority and responsibility structure will enable effective decision making that promotes alignment across departments to take coordinated action across the organization, thereby supporting effective supply chain management. *Mergers and acquisitions are very common within the CPC industry specially when strategic decisions focus on forward and backward integrations within the supply chain. Therefore, many companies have subsidiaries and other associates like joint venture partnerships as part of their group structure*. These units should also be included while using the McKinsey 7S framework.

Systems − Systems can include client management systems, risk management systems etc. Strong processes and streamlined systems are essential in managing complex supply chains. *Real-time communication* and decision-making help companies monitor and adjust to disruptions as they arise. Efficiencies within the systems are vital for responding to the unpredictable fluctuations in the market, particularly for industries like the CPC industry, where a stable supply chain is essential to mitigating price volatility. Implementing such systems also helps companies avoid stockouts and better manage inflationary cost trends.

Style − Style defines *organizational culture*, the way the company operates and the rules of conduct. Leadership style, while they may be hard to diagnose, plays a critical role in developing the ethos of an organization.

For example, within the CPC industry where mergers and acquisitions are common, the leadership style can very well define the final outcome of these strategic measures. While an *autocratic leadership style* may lead to resentment, a *delegative leadership style* that promotes autonomy and flexibility, if not aided by proper direction from the leader may also create scenarios where there can be a stalemate while taking critical decisions. *Transparency and collaboration* play a significant role in disruption management. Leaders should be capable of taking proactive problem-solving approaches. *Fostering teamwork* that inculcates an adaptive, responsive organizational culture ensures that the entire organization aligns with company goals during times of supply chain stress.

Leadership style should emphasize *open communication*, ensuring that strategic decisions cascade through every level of the company. The leader should ultimately be able to translate the operations of each of the units to work towards *goal congruence* within the organization in order to achieve its vision and mission.

Staff − The range of activities within the chemical industry requires employees specialising in a myriad of expertise. *Technical staff* require the support of staff capable of handling logistics, sales, procurement and inventory management, finance among others. *Recruitment processes* should enable the selection of the ideal candidate within the company's workforce. *Workforce capacity management* should be commensurate with the scale of operations and the requirements of the company.

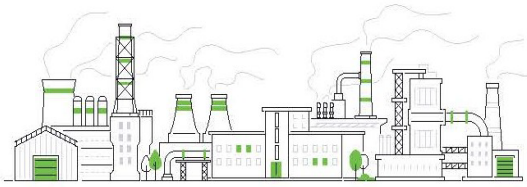
Skills − Employees in addition to their specialized skill should also be *trained* with focus on skills relating to strategic decision- making, data analysis, and crisis management. Skills like these are essential for navigating the complexities of supply chain disruptions. Developing specialized skills enables teams to make informed, proactive decisions, positioning the organization to adapt quickly to changing market dynamics. In cases where required skill set cannot be procured in-house, companies may want to consider *outsourcing the process / work* to outside vendors.

Shared Values − Agility, teamwork and customer centric approach have become the *guiding principles* of many organizations. These values act as guiding principles, promoting a culture of adaptability and ensuring all employees are aligned on a shared vision of resilience and operational stability. Shared Values foster a collective commitment to maintaining supply chain integrity, even under pressure.

Taking cognizance of increased awareness and concerns of the hazardous nature of many of their products, environment and public health safety are values that many companies in the CPC industry have actively imbibed. This is very important in order to build sustainable business models in the long run.

Strategy − A robust, proactive strategy allows companies to anticipate and mitigate supply chain disruptions effectively. In the chemical industry, real-time visibility across the supply chain is essential for *tracking fluctuations in raw material supplies*. Leveraging technology to enable end-to-end transparency allows companies to adjust operations based on market trends, helping them plan for potential shortages or inflationary trends and adapt to changing customer demands. *A well-defined strategy ensures that the company can pivot quickly in response to supply chain challenges*.

In conclusion, the McKinsey 7S framework elements work in harmony to create a supply chain that is agile, transparent, and equipped to withstand disruptions. By embedding these principles, companies in the chemical industry—and across sectors—can effectively navigate market fluctuations, maintain operational stability, and meet evolving customer needs, ensuring a strong, adaptive supply chain for the future.



February 25

The Board approved the proposal for a 1,500 MTPD ammonia plant at Eloor

June 25

Plans for a unit in Gopalpur & media scrutiny of insider trading allegations



August 25

Construction work on the ammonia project commenced

September 25

The company purchased ₹100 crore land in Gopalpur and held its 43rd AGM

December 25

The facility in Brahmapur was officially closed

November 25

The union leader raised objection to relocation package

October 25

Media discussion on development at the cost of public safety



January 26

Production at Gopalpur facility began & GIL signed a 5-year long-term contract



April 26

Mr. Shah, the newly appointed finance head, joined CYPL

July 26

Assistance with indirect taxation matters for CYPL

June 27

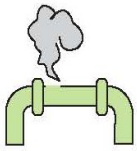
CA. Bharat Chowdhary issued the audit report for the FY 2026-27

October 26

CYPL entered a 5-year fixed-price contract with NGSL

September 26

A gas leak explosion caused a massive fire in GIL's underground pipeline



August 27

CYPL established a recovery committee

September 27

Extracts of Minutes of meeting of recovery committee

March 29

GIL restored normal supply levels to the market



April 29

GIL became the sole supplier of natural gas to CYPL

FEEDBACK FORM

(1)	Name of the Student	
(2)	Registration No.	
	Contact detail with e-mail id, mobile number, etc.	
(3)	Subject & Paper No.	Paper 6: Integrated Business Solutions
(4)	Name of Publication	Case Study Digest
(5)	Edition	July, 2025
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(7)	Does the Digest contain sufficient and diverse case studies to help you understand and apply the concepts covered in the Study Material?	

(8) Are there any modifications required in the publication? If yes, give the specific details :

Type of Modification	**Case Study No.**	**Page No.**	**Para No. & Line of the para**	**Suggested Modification in Text / Problem**
Typographical/ Printing/ Computational/ Conceptual/ Updation				

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