

Mock Test Paper - Series I: November, 2025

Date of Paper: 28th November, 2025

Time of Paper: 2 P.M. to 6 P.M.

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

SUGGESTED ANSWERS

ANSWERS TO THE CASE STUDY 1

I. Answers to the Multiple Choice Questions

- 1.1 The correct answer is (c)** Yes, NHC is supplying a service to Sunrise Apartments since it is refraining to act by constructing only 8 floors instead of 10.

Reason: "Agreeing to the obligation to refrain from an act or to tolerate an act or a situation, or to do an act" has been specifically declared to be a supply of service in para 5(e) of Schedule II of the CGST Act, 2017 if the same constitutes a "supply" within the meaning of the CGST Act, 2017.

Here NHC is refraining from building 10 floors in order to not affect the lighting and aesthetics of Sunrise Apartments. Since it agreed to refrain from acting on something even though it was authorized to do by the municipality, Sunrise Builders is paying a compensation of ₹40 lakhs to NHC. As explained above, this will be considered as supply of service under GST.

- 1.2 The correct answer is (d)** Total interest to be capitalized towards Project Happy Years would be ₹ 0.469625 crores i.e. ₹ 46,96,250.

Reason: As per Ind AS 23, the capitalization rate is calculated as

Total borrowing costs / weighted average total borrowings = 1.3 crores / 15 crores = 8.67%

For FY 2026-27, Interest would be capitalized as on ₹ 5 crores incurred on July 1, 2026 (9 months) = ₹ 5 crores × 8.67% × 9/12 = 0.325125 crores on ₹ 5 crores incurred on December 1, 2026 (4 months) = ₹ 5 crores × 8.67% × 4/12 = 0.1445 crores

Therefore, total interest to be capitalized towards Project Happy Years would be ₹ 0.469625 crores.

1.3 The correct answer is (a) I-B; II-A; III- C

Reason: Inception of NHC is the problem-solution FIT stage of growth. The partners Naresh and Hiral have a vision and conceptualized the idea of a senior citizens community living. Their target customers would be senior citizens who are in need of flats that are friendly for the challenges faced by the aged. By including special features like anti-slip flooring, emergency alarms, wider staircase etc. NHC aims to resolve some of the needs of these customers.

Launch of Project Mangala Vilas is the product-market FIT stage. By getting regulatory approvals and launching the product, NHC has shown commitment to offer its product for customer validation.

Launch of Project Happy Years is the Scale-FIT stage of business. Project Mangala Vilas got customer validation as during the course of FY 2026-27, most the flats were getting sold out. Therefore, NHC decided to scale up and offer a bigger project Happy Years. This establishes its growth phase, where they are aiming to cater to larger customer base and increase their profitability. It has started showing the potential to grow from a start up business to a potential unicorn.

1.4 The correct answer is (d) Costs incurred to get periodic certifications from appropriate authorities is appraisal costs while rework done by NHC to address the complaints of some of the customers post possession of the flat at Project Mangala Vilas is external failure costs.

Reason: Appraisal costs are incurred to ensure conformance of quality standards is met. These are costs associated with measuring and monitoring activities related to quality. As per the regulations, NHC is getting external certifications about the quality of its work from appropriate authorities. This outside certification is an example of appraisal costs.

External failure costs are incurred to remediate defects discovered by customers. Therefore, the cost of rework incurred to address the complaints of some of the customers post possession of the flat is an example of external failure costs.

1.5 The correct answer is (b) Experience model.

Reason: NHC is offering a product whose features elevate the value of flat and community living for senior citizen customers. This experience would make it difficult for its customers to transition back to regular housing communities that have been constructed for people of all age groups.

II. Answers to the Descriptive Questions

- 1.6 (a) Naresh proposes that the changes to the blue-print design of the flat be made immediately during the pre-launch period. As stated in the case study, almost 80% of the construction costs get committed once the blueprint is finalized. Since designing is the preliminary phase, the impact of cost-reduction will be felt throughout the life of the project. Since regulatory approvals are not yet in place, actual costs are not yet incurred, the ease of making changes is much easier at the pre-launch phase. The costs are only being committed at this stage and can be easily modified to match the target profitability.

Construction of the project will be based on regulatory approvals. Once construction begins, the costs will actually be incurred. Hiral wishes to make changes to the blueprint only when the construction is underway, when the actual costs are being incurred. However, at this stage, any change to the blue-print design will require modification to the approved flat's design and existing operating processes. Therefore, change in design may require regulatory re-approval or change in supplier / process for which other additional costs will need to be incurred. This will add to the cost outflow. Therefore, the ease of making changes during construction is reduced and may adversely impact profitability.

Therefore, Vikrant should support Naresh's proposal to make immediate changes to the blueprint design of the flat during the pre-launch phase itself. This will assist NHC to achieve profitability targets with least hassle.

- (b) During the pre-launch phase, Vikrant had suggested a change in the blueprint design of the flat that will eliminate or modify any unnecessary features of the flat. This is a dynamic process since it involves a complete re-look into the design features that have a long term impact. This will help optimize costs and improve profitability. This needs to be done without any impact on the quality and unique characteristics of the flat. Changes to the blueprint will result in permanent and real reduction in savings that will positively impact profitability. These changes are not based on any budget standards that need to be met. Yet, the cost reductions made at this stage aid in improving the profitability of the project. The focus at this stage is largely on the future costs likely to be incurred to complete the project. The idea is to modify the flat's design in order to achieve permanent cost reduction that will improve the project's profitability.

During the construction phase, Vikrant had suggested cost management by putting in place a budgetary costs management system in place. Actual costs incurred were compared with the benchmark budget standards. Here costs were being controlled rather than being reduced. Where negative deviations were

predicted, cheaper substitutes of materials, labour and overhead were adopted in order to remain within the budget. This at times was being done by slightly compromising on the quality of work. Unlike the cost reduction method followed at the pre-launch phase, these control measures were temporary remedial steps taken to achieve budget targets.

Both cost reduction and cost control approach to cost management were required to be followed in order to achieve the target profitability. At the initial stage Vikrant's advise for cost reduction focuses on long term future costs. During the construction stage, Vikrant's advise for cost control shifts the focus on costs as they were actually being incurred. Both approaches were needed to be adopted to have an effective cost management system that should not have a material adverse impact on quality or customer expectations.

- 1.7 (a) Analysis of whether NHC has offered the minimum income for taxation for the financial years 2023-24, 2024-25 and 2025-26 in accordance with the section 44AD.

NHC is a partnership firm that does construction business. It's turnover does not exceed ₹ 2 crore in all the three years and hence is eligible for presumptive taxation scheme u/s 44AD of the Income Tax Act, 1961.

Therefore, the minimum income that NHC needs to offer under section 44AD would be: 6% of the turnover received through prescribed electronic modes on or before due date of filing return) plus 8% of the remaining turnover.

Particulars	FY 2023-24	FY 2024-25	FY 2025-26
Total turnover (₹)	98,00,000	1,90,00,000	2,00,00,000
Amount received through prescribed electronic modes (on or before due date of filing return)	95,00,000	1,85,00,000	1,95,00,000
Income offered for taxation	₹ 5,94,000	₹11,50,000	₹10,00,000
% of gross receipts	6% on ₹ 95,00,000 and 8% on ₹ 3,00,000	6% on ₹ 1,85,00,000 and 8% on ₹ 5,00,000	5% on ₹ 2,00,00,000
Offered income as per presumptive taxation u/s 44AD	Yes	Yes	No

As per section 44AD, NHC should have offered ₹ 12,10,000 i.e., 6% on ₹ 1,95,00,000 and 8% on ₹ 5,00,000 as income for taxation for FY 2025-26. However, it is offering only ₹ 10,00,000 for FY 2025-26. Therefore, considering the provisions of section 44 AD, NHC has not offered the minimum income required for FY 2025-26.

- (b) For FY 2025-26, NHC offers only 5% of the total turnover that is ₹ 10,00,000 instead of the minimum of ₹ 12,10,000 as prescribed u/s 44 AD. NHC should therefore maintain books of accounts as per section 44AA and get them audited under section 44AB.
- (c) Since NHC has not offered income in accordance with the provisions of section 44AD(1) for five successive consecutive years (i.e., from AY 2025-26 to AY 2029-30, it will not be eligible to claim the benefit u/s 44AD for next five succeeding assessment years i.e. from AY 2027-28 to AY 2031-32 (relevant to financial years 2026-27 to 2030-31)

1.8 Amount Payable under Forward Cover (€ 42,500 × ₹ 92.60) ₹ 39,35,500

Money Market Hedge

To pay € after 3 months' company shall requires to borrow in ₹ and translate to € and then deposit in €.

For payment of € 42,500 in 3 months @ 4.00% interest p.a. the amount required to be deposited now (€ 42,500/1.01) = € **42,079.21**

With spot rate of 90.50 the ₹ loan needed will be = ₹ **38,08,168.50**

Loan repayable after 3 months @ 8.00% p.a. interest will be ₹ 38,08,168.50 (1.02) = ₹ **38,84,331.87**

Net Benefit = ₹ 39,35,500 – ₹38,84,331.87 = ₹ 51,168.13

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.

ANSWERS TO THE CASE STUDY 2

I. Answers to the Multiple Choice Questions

2.1 The correct answer is (a) Strategy and Systems

Reason: Under McKinsey's 7S framework, "Strategy" refers to the plan devised to maintain and build a competitive advantage over the competition. DPL's acquisition of DEHRA Ltd. is a strategic move aimed at enhancing synergy, expanding market presence, and strengthening its product portfolio. This aligns with the "Strategy" aspect of the 7S framework.

"Systems" refers to the processes and procedures used to manage the organization. The efforts to strengthen internal controls post-acquisition—such as implementing a risk-based audit approach and purchasing standardized finance software—are related to the "Systems" aspect. These efforts are aimed at ensuring smooth integration of the merged entities and improving governance.

Therefore, the acquisition and subsequent focus on internal controls fit within the "Strategy and Systems" elements of McKinsey's 7S framework.

2.2 The correct answer is (d) 05/05/2024

Reason: Section 232(6) of the Companies Act, 2013, the scheme under this section shall clearly indicate an appointed date from which it shall be effective and the scheme shall be deemed to be effective from such date and not at a date subsequent to the appointed date.

Here, the scheme of such amalgamation had indicated an 'appointed date' - 05/05/2024 and accordingly, the effective date' of amalgamation would be 05/05/2024.

2.3 The correct answer is (a) ₹ 18 lakhs

Reason: In accordance with Ind AS 38 'Intangible Assets', the cost of a separately acquired intangible asset is its purchases price and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use. Therefore, the initial cost of the intangible asset should be:

Particulars	₹
List price	15,00,000
Less: Trade discount (5%)	(75,000)
Non-refundable purchase tax	25,000
Customisation cost	3,50,000
Total cost	18,00,000

The maintenance contract of ₹ 1,00,000 is an expense and therefore should be taken as a prepaid expense and charged to profit and loss over a period of 5 years.

- 2.4 The correct answer is (a)** The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.

Reason: In addition to the information required pursuant to Schedule III to the Companies Act, 2013 ('general instructions for the preparation of consolidated financial statements') following information is also required to be disclosed in the consolidated financial statements separately for the parent and each of its components (including foreign component) which has been consolidated:

- (i) amount of net assets and net assets as a percentage of consolidated net assets;
- (ii) amount of share in profit or loss and the percentage share in profit or loss as a percentage of consolidated profit or loss;
- (iii) amount in other comprehensive income (OCI) and the percentage of OCI as a percentage of Consolidated OCI.

- 2.5 The correct answer is (d)** Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments.

Reason: Permanent consolidation adjustments are those adjustments that are made only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity which is consolidated. Examples are determination of goodwill or capital reserve, equity attributable to minority shareholders.

Current period adjustments are those adjustments that are made in the accounting period for which the consolidation of financial statements is done like elimination of intra-group transactions and account balances.

II. Answers to the Descriptive Questions

- 2.6** Ind AS 38, "Intangible Assets," provides detailed guidance on the recognition, measurement, and disclosure of intangible assets, which are non-monetary assets without physical substance. The standard emphasizes the importance of identifying intangible assets distinctly from goodwill, particularly in the context of a business combination.

Identifiability of Intangible Assets

Paragraphs 11 and 12 of Ind AS 38 set out the criteria for an asset to be recognized as an intangible asset:

1. **Separable Criterion:** An asset is considered identifiable if it is separable, meaning it can be separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset, or liability, regardless of whether the entity intends to do so.
2. **Contractual-Legal Criterion:** An asset can also be identifiable if it arises from contractual or other legal rights, irrespective of whether those rights are transferable or separable from the entity or from other rights and obligations.

Application to Design A and Design B

In the context of a business combination, the identification of intangible assets is critical because they must be recognized separately from goodwill. Goodwill represents the future economic benefits that arise from other assets acquired in a business combination that are not individually identified and separately recognized.

Design A:

Contractual-Legal Criterion: Design A is protected by a patent, which means it arises from legal rights that are enforceable. According to Ind AS 38, an asset that arises from contractual or other legal rights is identifiable as an intangible asset, regardless of whether these rights are transferable or separable. Therefore, Design A meets the contractual-legal criterion and must be recognized as a separate intangible asset in the business combination.

Design B:

Separable Criterion: Although Design B is not protected by a patent and does not meet the contractual-legal criterion, it still qualifies as an intangible asset under the separable criterion. The separable criterion emphasizes that an asset is identifiable if it can be separated from the entity and sold, transferred, licensed, or exchanged. In practice, unpatented designs like Design B can often be exchanged, licensed, or leased to others. This ability to be separated and dealt with independently of the entity fulfills the separable criterion. Consequently, Design B should also be recognized as a separate intangible asset in the business combination.

Measurement

Once identified, these intangible assets must be measured at their fair value at the acquisition date, as per Ind AS 103, "Business Combinations," which is closely aligned with Ind AS 38. The fair value reflects the price that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

2.7 Step 1: Calculate Correct Weights

- Let E = Market value of equity and D = Market value of debt = Book value of equity
- Total market value (V) = E + D = 3B + B = 4B (where B is book value of equity)
- Weight of equity (W_e) = $E / V = 3B / 4B = 0.75$
- Weight of debt (W_d) = $D / V = B / 4B = 0.25$

Step 2: Calculate Correct WACC

- $WACC = W_e \times K_e + W_d \times K_d = 0.75 \times 12\% + 0.25 \times 6\% = 10.5\%$

Step 3: Calculate Correct Firm Value

- Firm value (V_0) = $FCFF_1 / (WACC - g) = ₹ 2 \text{ crores} / (0.105 - 0.05) = ₹ 36.36 \text{ crores}$

Conclusion

The correct valuation of DEHRA Ltd. is ₹ 36.36 crores. This figure is notably lower than the initial valuation of ₹ 50 crores provided by the analyst, who incorrectly relied on book values rather than market values in the Weighted Average Cost of Capital (WACC) calculation. This discrepancy underscores the critical importance of using accurate market value weights when determining the value of a company, especially in strategic acquisitions like that of DEHRA Ltd. by DPL. The revised valuation provides a more realistic assessment, aligning with DPL's commitment to prudent financial management and informed decision-making during the acquisition process.

- 2.8** Section 240 of the Companies Act, 2013 states that notwithstanding anything in any other law for the time being in force, the liability in respect of offences committed under this Act by the officers in default, of the transferor company prior to its merger, amalgamation or acquisition shall continue after such merger, amalgamation or acquisition.

In the given case, Mr. Rajeev, who was a key figure in DEHRA Ltd. before the company's amalgamation with DPL, is under scrutiny for actions that reportedly breached corporate regulations. The offenses, which include several violations of the Companies Act, were

committed prior to the completion of the amalgamation. However, Mr. Rajeev is attempting to distance himself from the legal consequences of these actions, arguing that since the offenses occurred before the amalgamation, he should not be held liable for any resulting penalties or punishments.

With reference to the above quoted section and the given case, the contention of Mr. Rajeev is not correct since the liability in respect of offences committed under the Companies Act 2013 by the officers in default, of the transferor company prior to its merger, amalgamation or acquisition shall continue after such merger, amalgamation or acquisition.

ANSWERS TO THE CASE STUDY 3

I. Answers to the Multiple Choice Questions

- 3.1 The correct answer is (d)** suggestions (i), (ii) and (iv) will help IFL compete with quick commerce companies like Zing Zong.

Reason: Prioritizing quality and safety of its products would win a loyal and growing customer base for IFL. While using quick commerce, customers need to pay upfront for their purchases before order fulfillment. This can be countered by IFL where it can extend credit facilities to its regular, loyal and creditworthy customers. Bulk purchases are generally of a higher value; therefore, customers may appreciate the credit facility offered in order to manage their working capital better. Increasing the product range offered, in terms of variety and size, that is unavailable online provides more choices for the customers. As stated in the news report, many customers suffer loss due to wastage by purchasing in bulk. This can be addressed by offering different product sizes in stores. Also, wider product range will help attract customers.

- 3.2 The correct answer is (a)** Milking as cash cow

Reason: Kailash Bhandari knows that IFL has to eventually change its business model as quick commerce and e-commerce companies pose a credible threat to its business. However, until a viable business course to expand and grow IFL's business can be conceived, it is better to continue to run IFL's operations that still yield dependable profit margins. IFL is in a vulnerable position, therefore it is currently harvesting the economic benefits of its current business model that continues to yield reasonable, yet declining profit margins. This strategy adopted temporarily to tide the disruption is called milking as cash cow, In the long run, when IFL's business becomes unviable it will have to change its business model or even shut down.

3.3 The correct answer is (d) On-demand model.

Reason: By monetizing time, this model disrupts by offering customers instance access to products and have it delivered at their doorstep. For this convenience they pay delivery charges. Since access is available to the customer instantly on demand, Zing Zong has an on-demand model.

3.4 The correct answer is (c) IFL shall be eligible to make donations to a political party after three years from date of incorporation.

Reason: As per section 182 of the Companies Act, 2013 a company which has been existence for less than three financial years is not allowed to contribute to any political party. IFL was incorporated on April 1, 2021 and therefore it completes three financial years of its existence on March 31, 2024.

Mr. Kailash Bhandari intended to make the donation on April 10, 2021, and therefore is not eligible under the Companies Act, 2013, as IFL had not yet completed three years from its date of incorporation.

When Mr. Kailash Bhandari consulted Miss Niraja Rai during FY 2025-26, her opinion correctly changed since IFL has now completed three years from the date of incorporation. Therefore, the donation being made during FY 2025-26 (from April 1, 2025 to March 31, 2026) is permitted as per the Companies Act, 2013.

3.5 The correct answer is (b) ₹ 5,00,000

Reason: While computing the tax as per Income Tax Act, 1961 for the FY 2025-26, the company can claim an amount of ₹5,00,000 as the deduction allowed in respect of the political contributions given as an advertisement in the souvenir published by the political party.

The amount of ₹5,00,000 to be paid on January 30, 2026 for advertisement in souvenir issued by the political party attracts disallowance under Section 37(2B) of the Income Tax Act, 1961. However, such expenditure falls within the meaning assigned to “contribute” under section 293A of the Companies Act, 1956 (Section 182 of the Companies Act, 2013) and is hence eligible for deduction under section 80GGB.

There is also no limit on the maximum amount that can be claimed as deduction. At the same time, any contribution to the political party or electoral trust made by way of cash is not allowed under section 80GGB. Therefore, a similar payment of ₹1,00,000 to be made on March 10, 2026, but in this time in cash will not be allowed under section 80GGB.

Therefore, Devang Mehta should state that only ₹5,00,000 of the total contribution that will be paid through an account payee cheque can be deducted under section 80GGB from its Gross Total Income for FY 2025-26.

II. Answers to the Descriptive Questions

3.6 Interpretation: It can be seen that although gross profit per unit for each of the products is ₹10 per unit, once the indirect costs are assigned using the DPP method, their per unit profitability changes to reflect the actual return. This is especially true with respect to Frozen foods. Due to the necessity of refrigeration the entire time of storage and transport and on account of being a **slow-moving product**, the per unit profitability of frozen food is much lower than that of ice-cream. In case of ice creams, although they too need continuous refrigeration like frozen food, they are extremely fast-moving items since they are stored only for 0.1 months each in the warehouse and retail shops. Due to their quick inventory turnover, the storage cost is much lower as compared to frozen foods.

In the case of chips and crisps, while they do not need refrigeration, their slow inventory turnover causes the storage costs to increase. This reduces its profitability marginally. However, unlike frozen foods, the number of items that can be kept per metric cube of space is much higher (300 per m³ as against 50 per m³ for frozen foods). Therefore, the storage cost is spread over more units, thereby reducing the cost per unit.

Therefore, it can be concluded that ice cream is a popular and profitable product line. Chips and crisps are also profitable, however improving the inventory turnover will enhance its profitability further. Frozen foods as a product line is the least profitable. This is on account of the necessity for refrigeration as well as due to lower inventory turnover as compared to ice cream. The management may have to find ways to improve the turnover and optimize the storage space in order to accommodate more items within the same space.

Profitability analysis using the DPP method highlights issues that can easily be ignored under the traditional cost method. While it seemed that each profit could yield the same amount of gross profit per unit, a further assignment of costs using the DPP method shows the problems like slow inventory turnover and requirement to optimize storage space. If it is not possible to optimize the cost further, the selling price can be adjusted in order to recoup costs and achieve the benchmark.

Workings

Direct Product Profitability (DPP)

Amount (in ₹)

Sr. No.	Particulars	Frozen food	Chips & crisps	Ice cream
1	Selling price per unit	90	50	90
2	Less: Purchase price per unit	80	40	80
3	Gross profit (Step 1 – Step 2)	10	10	10

	Less: Direct product costs			
4	Warehouse costs per m ³ (W.N. 1)	8.03	3.60	0.80
5	Retail store costs per m ³ (W.N. 2)	5.88	3.00	0.59
6	Transportation costs per m ³ (W.N. 3)	150	120	150
7	Total DPP costs per m ³ Step 4 + Step 5 + Step 6	163.91	126.60	151.39
8	Items per m ³ (W.N. 4)	50	300	1000
9	Cost per item (Step 7/Step 8)	3.28	0.43	0.16
10	Direct Product Profit (Step 3 – Step 9)	6.72	9.57	9.84

Working note 1: Warehouse related costs

	General costs ₹	Costs related to Refrigerated goods ₹
Labour and staff costs per month	7,50,000	---
Refrigeration costs per month	---	22,50,000
Material handling costs per month	4,50,000	---
Total warehouse related costs per month	12,00,000	22,50,000
Volume of goods sold (in m ³) per month	5,00,000	4,00,000
Costs per m³	2.40	5.63

Products	Time in warehouse	Costs per m ³	Total cost ₹ per m ³
Frozen food	1	8.03	8.03
Chips & crisps	1.5	2.40	3.6
Ice cream	0.1	8.03	0.803

Working note 2: Retail store related costs

	General costs ₹	Costs related to Refrigerated goods ₹
Labour related costs per month	5,00,000	---
Refrigeration costs per month	---	17,50,000
Other costs per month	2,50,000	---
Total retail store related costs per month	7,50,000	17,50,000
Volume of goods sold (in m ³) per month	5,00,000	4,00,000
Costs per m³	1.50	4.38

Products	Time in retail store	Costs per m ³	Total cost ₹ per m ³
Frozen food	1.00	5.88	5.88
Chips & crisps	2.00	1.50	3.00
Ice cream	0.10	5.88	0.59

Working note 3: Transportation costs

	Normal van	Refrigerated van
Cost per trip	1,20,000	1,50,000
Carrying volume of each van m ³	1,000	1,000
Cost per m³ per trip	120	150

Working note 4: No. of items per m³

Products	Number of cartons Per m ³	Number of items Per carton	Number of items Per m ³
Frozen food	10	5	50
Chips & crisps	30	10	300
Ice cream	50	20	1,000

The gross profit that IFL earns from each of its product is ₹10 per unit. However, this does not account for the huge indirect costs that it incurs warehouse storage costs, head office costs, costs at retail outlets etc. In order to calculate the profit per unit per product, Devang has to breakdown these indirect costs to the per unit level. Currently information is available about the average cost incurred transportation per store, accounting for warehouse, head office and in-store costs. The inventory of these products occupies space. Therefore, information is also given in terms of volume of space occupied by these products on meter cube (m³) basis (space occupied). There is further information about the number of cartons that this space can occupy as well as the number of items of each product that can be held in a carton. Indirect costs are allocated based on measures like space used for transportation and storage of goods, time period of storage of goods and other relevant cost drivers to arrive at the indirect cost attributable per unit. This cost is then used along with the procurement cost to arrive at the profit per unit per product. This method of analysis is known as Direct Product Profitability (DPP) method.

- 3.7 Ind AS 115 deals with revenue from contracts with customers. Since all customers will receive a 10% discount on purchases during the next 30 days, the only additional

discount that provides Hotel Paradise with a material right is the incremental discount of 30% on additional product purchased. IFL should account for the promise to provide an additional incremental discount as a separate performance obligation in the contract for the sale of frozen foods.

IFL believes that there is 80% likelihood that Hotel Paradise will redeem the voucher and it will purchase ₹37,500 worth of additional products. Consequently, IFL's estimated standalone selling price of the discount voucher would be ₹9,000 (₹37,500 average purchase price of additional purchase × 30% incremental discount × 80% likelihood of exercising that option).

The standalone prices of frozen foods, discount voucher and the resulting allocation of the transaction price of ₹45,000 will be as below:

Performance obligation	Standalone price ₹
Frozen foods	45,000
Discount voucher	9,000
Total	54,000

Allocated transaction price between frozen foods and voucher will be as follows:

Performance obligation	Allocation working ₹	Allocation of transaction price ₹
Frozen foods	$(45,000 / 54,000) \times 45,000$	37,500
Discount voucher	$(9,000 / 54,000) \times 45,000$	7,500
Total		45,000

On May 1, 2025, IFL should allocate ₹ 37,500 towards sale of frozen foods and recognize it as revenue for frozen foods when control transfers. IFL should allocate ₹ 7,500 towards the discount voucher. It should recognize this as revenue when Hotel Paradise redeems it for future purchases or when the voucher expires in 30 days.

- 3.8 In the present case, M/s Ford & Rodes is **unable to obtain sufficient and appropriate audit evidence** with respect to inventory of the company, neither physical verification has been done by the management nor adequate inventory records are maintained by the IFL. The audit team is also unable to undertake the physical inventory count and as such the value of inventory could not be verified. Further, inventory constitutes **40%** of the total assets of IFL, which is significant.

In the above case, the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the possible effects on the financial statements of

undetected misstatements, if any, **could be both material and pervasive**. Thus, M/s Ford & Rodes should give a **Disclaimer of Opinion**.

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

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

ANSWERS TO THE CASE STUDY 4

I. Answers to the Multiple Choice Questions

4.1 The correct answer is (c) ₹ 8,80,889

Reason: As per Ind AS 116, the lease payments should initially be measured using SOFR of 2 percent as at the commencement date. Therefore, while measuring the lease liability, each year the payments will be increased by 2 per cent, as follows:

Year	Lease Payment	Discount Factor	PV of lease payments (₹)
1	1,00,000	1	1,00,000
2	1,02,000	0.952	97,104
3	1,04,040	0.907	94,364
4	1,06,121	0.864	91,689
5	1,08,243	0.823	89,084
6	1,10,408	0.784	86,560
7	1,12,616	0.746	84,012
8	1,14,869	0.711	81,672
9	1,17,166	0.677	79,321
10	1,19,509	0.645	77,083
			8,80,889

Therefore, the lease liability will initially be measured at ₹ 8,80,889.

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

Reason: As per section 43B, interest payable by the assessee on interest on loan from a public financial institution is allowable as deduction only in the year in which such interest is actually paid by the assessee. The proviso to section 43B permits deduction if such sum is paid on or before the due date of filing of return under section 139(1) in respect of the previous year in which the liability to pay such sum was incurred. Explanation 3C to section 43B clarifies that if any sum payable by the assessee as interest on any such loan is converted into a loan or borrowing or debenture or any other instrument by which the liability to pay is deferred to a future date, the interest so converted shall not be deemed as actual payment, and hence, would not be allowed as deduction. In this case, since SysTech has converted the interest of ₹ 1 crore payable to GreenFinance Ltd. on loan borrowed from it, the interest so converted into debentures shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y.2025-26. Accordingly, the action of the Assessing Officer in rejecting the deduction of interest on the loan claimed by SysTech while computing its profits and gains of business for A.Y. 2025-26, is correct.

- 4.3 The correct answer is (d)** Yes, as its paid-up capital had exceeded the prescribed limit and also Mr. Mahesh was eligible to be appointed as its whole-time CS in EcoWave Ltd. as it was the subsidiary company of SysTech Innovations Pvt. Ltd.

Reason: Requirement of Company Secretary in certain other companies Section 203 read with Rule 8 and Rule 8A of Companies (Appointment and Managerial Personnel) Rules 2014, as amended provides that every—

Listed company or

Public company having paid up share capital ₹ 10 crore or more or

Private company having paid up share capital of ₹ 10 crore or more shall have a Whole time Company Secretary.

Bar on multiple appointments- A whole-time key managerial personnel shall not hold office in more than one company at the same time except in its subsidiary company. [Section 203(3)]

- 4.4 The correct answer is (d) 2.607%**

Reason: Since the entity has only general borrowing, hence first step will be to compute the capitalisation rate. The capitalisation rate of the general borrowings during the period of construction is calculated as follows-

Particulars	Amount (in ₹)
Finance cost on ₹ 275 lakhs 7.5% debentures during September-December 2024	6,87,500
Finance cost on ₹ 20 lakhs 10% debentures during September-December 2024	66,667
Interest @15% on overdraft of ₹ 5,00,000 in September 2024	6,250
Interest @16% on overdraft of ₹5,00,000 in October and November 2024	13,333
Interest @16% on overdraft of ₹ 7,50,000 in December 2024	10,000
Total finance cost during September-December 2024	7,83,750

Weighted average borrowings during period

$$= [(2,75,00,000 \times 4) + (20,00,000 \times 4) + (5,00,000 \times 3) + (7,50,000 \times 1)]/4$$

$$= ₹ 3,00,62,500$$

Capitalisation Rate for 4 months period = Total finance costs during the construction period/ Weighted average borrowing cost during the construction period

$$= 7,83,750 / 3,00,62,500$$

$$= 2.607\%$$

4.5 The correct answer is (d) ₹ 1,00,00,000, ₹ 3,40,00,000

Reason:

Fair Value Method	Amount (in ₹)
Fair value of cash consideration transferred	10,00,00,000
Fair value of non-controlling interest	3,00,00,000
	13,00,00,000
Less: Value of subsidiary's identifiable net assets as per Ind AS 103	12,00,00,000
Goodwill	1,00,00,000

Proportionate Share Method	Amount (in ₹)
Fair value of cash consideration transferred	10,00,00,000
Proportional share of non-controlling interest in the net identifiable assets of acquiree (12,00,00,000 x 45%)	5,40,00,000
	15,40,00,000
Less: Value of subsidiary's identifiable net assets as per Ind AS 103	12,00,00,000
Goodwill	3,40,00,000

II. Answers to the Descriptive Questions

4.6 Disclosure by SysTech Innovations Pvt. Ltd.: Under Ind AS 24, "Related Party Disclosures," related parties are defined as entities or individuals that have the ability to exercise control or significant influence over the reporting entity, or vice versa. In this scenario, SysTech Innovations Pvt. Ltd. owns 30% of the share capital in GreenTech Solutions Pvt. Ltd., which gives it the ability to exercise significant influence over GreenTech. This significant influence extends to the subsidiaries of GreenTech as well, making SustainCo Ltd. a related party to SysTech Innovations Pvt. Ltd. because SustainCo Ltd. is a subsidiary of GreenTech Solutions Pvt. Ltd. Therefore, any transactions between SysTech Innovations Pvt. Ltd. and SustainCo Ltd. are considered related party transactions and must be disclosed in SysTech Innovations Pvt. Ltd.'s separate financial statements.

Disclosure of Transactions with EcoEnergy Pvt. Ltd.: Although GreenTech Solutions Pvt. Ltd. holds 30% of the share capital in EcoEnergy Pvt. Ltd. and has significant influence over it, SysTech Innovations Pvt. Ltd. neither directly own any share capital in EcoEnergy Pvt. Ltd. nor it have significant influence or control over EcoEnergy Pvt. Ltd. Therefore, according to Ind AS 24, EcoEnergy Pvt. Ltd. is not considered a related party to SysTech Innovations Pvt. Ltd. The mere fact that SysTech Innovations Pvt. Ltd. transacts with EcoEnergy Pvt. Ltd. which is an associate of GreenTech Solutions Pvt. Ltd., does not establish a related party relationship under Ind AS 24. Consequently, SysTech Innovations Pvt. Ltd. is not required to disclose transactions with EcoEnergy Pvt. Ltd. as related party transactions in its financial statements.

Disclosure by SustainCo Ltd.: SustainCo Ltd. is required to disclose its transactions with SysTech Innovations Pvt. Ltd. in its financial statements. According to Ind AS 24, a related party relationship exists between SustainCo Ltd. and SysTech Innovations Pvt. Ltd. because SysTech Innovations Pvt. Ltd. has significant influence over GreenTech Solutions Pvt. Ltd., which is the parent company of SustainCo Ltd. This creates a relationship where SysTech Innovations Pvt. Ltd. can influence the decisions of SustainCo Ltd., making it a related party. As a result, any transactions between

SustainCo Ltd. and SysTech Innovations Pvt. Ltd. must be disclosed in SustainCo Ltd.'s financial statements as related party transactions.

Disclosure by EcoEnergy Pvt. Ltd.: EcoEnergy Pvt. Ltd. is not required to disclose its transactions with SysTech Innovations Pvt. Ltd. as related party transactions. Under Ind AS, for entities to be considered related parties, there must be a direct or indirect control, joint control, or significant influence. In this case, SysTech Innovations Pvt. Ltd. does not exert control or significant influence over EcoEnergy Pvt. Ltd. through GreenTech Solutions Pvt. Ltd. Therefore, no related party relationship is established between EcoEnergy Pvt. Ltd. and SysTech Innovations Pvt. Ltd. As a result, EcoEnergy Pvt. Ltd. does not need to disclose its transactions with SysTech Innovations Pvt. Ltd. as related party transactions in its financial statements.

- 4.7 The action of the Commissioner in issuing the second notice is not justified. The term "record" has been defined in clause (b) of Explanation 1 to section 263(1). According to this definition "record" shall include and shall be deemed always to have included all records relating to any proceeding under the Act available at the time of examination by the Commissioner. In other words, the information, material, report etc. which were not in existence at the time the assessment was made and came into existence afterwards can be taken into consideration by the Commissioner for the purpose of invoking his jurisdiction under section 263(1). However, at the same time, in view of the express provisions contained in clause (b) of the Explanation 1 to section 263(1), such information, material, report etc. can be relied upon by the Commissioner only if the same forms part of record when the action under section 263 is taken by the Commissioner.

Issuance of a notice under section 263 succeeds the examination of record by Commissioner. In the present case, the Commissioner initially issued a notice under section 263, after the examination of the record available before him. The subsequent second notice was on the basis of material collected under section 133A, which was totally unrelated and irrelevant to the issues sought to be revised in the first notice. Accordingly, the material on the basis of which the second notice was issued could not be said to be "record" available at the time of examination as emphasized in clause (b) of the Explanation 1 to section 263(1).

- 4.8 As per *Notification No. 45/2017 Cus. dated 30.06.2017*, duty payable on re-importation of goods which had been exported for repairs abroad is the duty of customs which would be leviable if the value of re-imported goods after repairs were made up of the fair cost of repairs carried out including cost of materials used in repairs (whether such costs are actually incurred or not), insurance and freight charges, both ways. However, following conditions need to be satisfied for availing this concession:
- (a) goods must be re-imported within 5 years, extendable by further 2 years, after their exportation;

- (b) exported goods and the re-imported goods must be the same;
- (c) ownership of the goods should not change.

Since all the conditions specified above are fulfilled in the given case, the customs duty payable on re-imported goods will be computed as under:

Particulars	₹
Value of goods re-imported after exports [Cost of materials ₹10 Lakh + fair cost of repairs ₹ 5 Lakh + actual insurance and freight ₹ 5 lakh]	20,00,000
Add: Basic Customs duty @ 15% ... (A)	3,00,000
Add: Social Welfare Surcharge @ 10% on ₹ 3,00,000 ... (B)	30,000
Value for computing integrated tax	23,30,000
Integrated tax @ 12% (₹ 23,30,000 x 12 %) - ... (C)	2,79,600
Customs Duty and integrated tax payable ... [(A) + (B) + (C)]	6,09,600

4.9 According to Section 192(1) of the Companies Act, 2013, no company shall enter into an arrangement by which:

- (a) A director of the company or its holding, subsidiary, or associate company, or a person connected with him, acquires or is to acquire assets for consideration other than cash from the company; or
- (b) The company acquires or is to acquire assets for consideration other than cash from such director or person so connected.

The above restriction is relaxed under certain conditions. A company may enter into an arrangement involving non-cash transactions as stated above if prior approval for such arrangement is accorded by a resolution of the company in a general meeting. Furthermore, if the director or connected person is a director of its holding company, approval must also be obtained by passing a resolution in the general meeting of the holding company.

The notice for approval of the resolution in the general meeting issued by the company or holding company must include:

- The particulars of the arrangement.
- The value of the assets involved in such arrangement, duly calculated by a registered valuer.

In the given instance, EcoWave Ltd. entered into a non-cash transaction with its managing director, Mr. Aditya, by selling its machinery in exchange for a vehicle. To

comply with Section 192(1) of the Companies Act, 2013, EcoWave Ltd. would have needed to:

Obtain prior approval for such an arrangement through a resolution in its general meeting.

Since Mr. Aditya is also a director of its holding company, SysTech Innovations Pvt. Ltd., prior approval would also need to be obtained by passing a resolution in the general meeting of SysTech Innovations Pvt. Ltd.

By following these legal requirements, EcoWave Ltd. and SysTech Innovations Pvt. Ltd. would ensure compliance with the Companies Act, 2013, regarding non-cash transactions involving directors and connected persons.

ANSWERS TO THE CASE STUDY 5

I. Answers to the Multiple Choice Questions

5.1 **Correct answer is (c)**, the transaction requires prior approval of the Audit Committee (excluding interested director), approval of the Board, and prior approval of the shareholders via ordinary resolution.

Reason

1. Related Party:

Green Space Pvt. Ltd., is a related party under Section 2(76) of the Companies Act, 2013, since Mr. Manish holds 20% equity.

2. Materiality threshold (As per the SEBI(LODR) Regulations, 2015 under the Regulation 23)

The aggregate value of 180 crore is 12% of turnover (₹1,500 crore) - exceeds the 10% materiality threshold.

Therefore, shareholder approval is required.

3. Arm's Length and Ordinary Course

The transaction is not at arm's length and not in the ordinary course - triggers Board approval under Section 188 of the Companies Act, 2013.

4. Audit Committee

Required as per Section 177 of the Companies Act, 2013 and Regulation 23 of the SEBI(LODR) Regulations, 2015

Interested directors (Mr. Manish) must disclose interest and abstain from voting.

5. Shareholder Approval

As per Section 188 of the Companies Act, 2013 and SEBI (LODR) Regulations, 2015 ordinary resolution is required for material RPTs.

- 5.2 **Correct answer is (b)**, ATL is applying target costing correctly during the development phase and must reduce cost by ₹ 5,000 to meet the target cost of ₹ 90,000.

Reason:

Particulars	Amount (₹)
Selling Price	1,20,000
Less: Desired Profit (25%)	30,000
Target Cost	90,000
Estimated Cost	95,000
Cost Gap (Estimated Cost – Target Cost)	5,000

Target Costing is most effective in the Development stage (before actual production begins), as design decisions have the most impact on cost control.

- 5.3 **Correct answer is (a)**, A is true, but R is false.

Reason: Assertion (A) is true. The new facility affects Systems such as production workflows, process controls, quality procedures, testing protocols, and operational routines - making “Systems” the most impacted element.

Reason (R) is false. The changes mentioned (new workflows, advanced machines, testing environments) affect Systems, not organisational culture or leadership style. Style and Shared Values (soft S) may evolve slightly, but they are not the primary impact.

Hence, A is true and R is false.

- 5.4 **Correct answer is (c)**, total duty saved is ₹ 11,25,000. Value addition guidelines complied with.

Reason: DFIA = Duty Free Import Authorization

Calculate the total duty saved by ATL under the DFIA scheme on imported inputs.

Particulars	Value (₹)	BCD Rate	BCD Amount (₹)
Main Raw Material	60,00,000	15%	9,00,000
Assemblies	15,00,000	15%	2,25,000
Total BCD Saved	—	—	11,25,000

Under DFIA, ATL does not pay this BCD upfront on imports, improving cash flow.

Value addition should be minimum 20%. Imported Value is Rs 75,00,000 Lakh. 20% is 15 Lakh. Company exported for 92.50 Lakh. Thus, value addition guidelines has been complied with.

5.5 Correct answer is (a), ₹ 195 crore

Reason:

Particulars	Amount (₹ in crore)
PAT as per P&L (Ind AS)	200
Add: Deferred Tax Liability due to Ind AS transition	20
Add: Provision for doubtful debts (unascertained liability)	5
Less: Brought forward loss OR unabsorbed depreciation (lower)	(30)
Book Profit under MAT (Sec 115JB)	195

II. Answers to the Descriptive Questions

5.6 Classification of the Instrument

Under Ind AS 32 'Financial Instruments: Presentation', the classification depends on the substance of the contractual terms and not merely the legal form.

A financial instrument is classified as equity if and only if:

- The instrument includes no contractual obligation to deliver cash or another financial asset; and
- If settled in the issuer's own equity instruments, it is for a fixed number of equity shares for a fixed amount of cash (or fixed value of debt extinguished) i.e., the *fixed-for-fixed test*.

Since, the CCDs are compulsorily convertible i.e., there is no redemption in cash and the conversion is mandatory within 8 years. When there is no obligation to repay cash and the conversion is into a fixed number of shares, the instrument meets the definition of an equity instrument under Ind AS 32.

Disclosure Requirements under Ind AS 107

Even though the CCDs are classified as equity, information relevant to users about their nature and potential dilution effects should be disclosed.

Key disclosures include:

- Nature and extent of risks arising from such instruments.

- Conversion terms, period, and expected impact on share capital.
- Judgments made by management in determining the classification (equity vs liability).

5.7 Section 143 of the Companies Act, 2013 specifies the duties of an auditor of a company in a quite comprehensive manner. It is noteworthy that the scope of duties of an auditor has generally been extending over all these years.

Duty of Auditor to Inquire on certain matters: It is the duty of auditor to inquire into the following matters-

- (a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;
- (b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
- (c) where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;
- (d) whether loans and advances made by the company have been shown as deposits;
- (e) whether personal expenses have been charged to revenue account;
- (f) where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

Auditor's Duties in the Case of ATL:

- 1. Inquiry into Loans and Advances:** The auditor must verify whether the loans of ₹ 2.5 crore were made against proper security. Check whether the terms were prejudicial to the interests of the company. In this case, there were no agreements or collateral, suggesting a possible violation.
- 2. Verification of Personal Expenses:** Payments made to directors for personal travel and luxury items must not be charged to the company's expenses. Auditor must report if personal expenses were wrongly recorded as company expenditures.

3. **Valuation of Purchases Without Physical Verification:** Goods shown in purchase records but not physically verified must be inquired into. Auditor must question whether such entries are fictitious or involve misappropriation.

5.8 (i) **Compliance Requirements**

Interest on securities [Section 193]

Person responsible for deduction of tax at source:

This section casts responsibility on every person responsible for paying to a resident any income by way of interest on securities.

Rate of TDS:

Such person is vested with the responsibility to deduct income-tax from the amount of interest payable.

The rate at which tax is deductible under section 193 is 10% both in the case of domestic companies and resident non-corporate assesseees.

Time of tax deduction at source:

Tax should be deducted at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.

- (ii) As per Rule 114E read with Section 285BA (1), any person who has received a sum of ₹ 10 lakhs or more in a financial year for acquiring bonds or debentures (issued by a company) is required to furnish this information by way of Statement of Financial Transaction (SFT).