

Mock Test Paper - Series I: March 2026

Date of Paper: 27th March, 2026

Time of Paper: 2 P.M. – 6 P.M.

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

SUGGESTED ANSWERS

ANSWERS TO THE CASE STUDY 1

Answers to the Multiple Choice Questions

- 1.1 (C) **Recognize loss from destruction of assets ₹12 Cr. and recoverable from Insurance Co. ₹ 18 cr.**

Reason: Explosion before reporting date → asset to be derecognized, insurance claim confirmed after reporting date is an adjusting event and will confirm the recoverability.

- 1.2 (A) **15%, the rate prevalent on the date of arrival of the aircraft.**

Reason: For goods imported by aircraft entered for home consumption, the relevant date for determining the rate of duty is the date of filing the Bill of Entry (B/E) or the date of arrival. B/E was filed 5th June (10% BCD) and the date of arrival was 10th June (15% BCD). Since 10th June is the later date, the BCD rate of 15% is applicable.

- 1.3 (B) **The activity was undertaken by the buyer on its own account and was not a condition of sale, thereby not being an indirect payment to the seller.**

Reason: Activities undertaken by the buyer on his own account, such as marketing and advertising, are not considered an indirect payment to the seller, even if they might benefit the seller. Payment made by the buyer for the right to distribute or resell imported goods (like promotion) shall not be added if they are not a condition of the sale for export. This aligns with the principle upheld in the precedent that promotional expenses are generally not includible in the assessable value under Rule 10 (1) (e).

- 1.4 (B) **Profit shifts to low-tax Delta, reducing group tax.**

Reason: Lower prices reduce RD's profit (40% tax) and raise CD's profit (25% tax), shifting profit to the low - tax country and lowering total tax.

1.5 (C) ₹ 1,150

Reason: The interest liability under section 201(1A) is calculated in two parts for a person deemed to be an assessee-in-default under section 201(1):

1. Interest for failure to deduct tax (on ₹ 10,000):

Rate: @1% for every month or part of a month.

Period: From the date on which tax was deductible (July 10, 2025) to the date on which tax was actually deducted (January 20, 2026).

Calculation Period: July 2025 to January 2026 (7 months).

Interest Due (Failure to Deduct): ₹ 10,000 × 1% × 7 months = ₹ 700.

2. Interest for failure to pay the tax after deduction (on ₹ 10,000):

Rate: @1.5% for every month or part of a month.

Period: From the date on which tax was deducted (January 20, 2026) to the date on which such tax was actually paid (March 22, 2026).

Calculation Period: January 2026 to March 2026 (3 months, counting January, February, and March as partial or whole months).

Interest Due (Failure to pay): ₹ 10,000 × 1.5% × 3 months = ₹ 450.

Total interest liability of ABC Chemicals Ltd. = ₹ 700 + ₹ 450 = ₹ 1,150

Answers to the Descriptive Questions

1.6 (a) **Adjusting vs non-adjusting events**

20 March 2025: Explosion destroying part of plant. The Insurance claim was confirmed on 20th April which is after the reporting date but as it confirms the recoverability, it will be an adjusting event and will be required to be accounted for.

25 Apr 2025: Government subsidy announced (effective 01-Jul-2025), Non-adjusting. Announcement after reporting date and will have no effect on 31st March 2025.

(b) **Re-computations (Rs. Crore), Remeasurement date = 15 Mar 2025. Actual days basis (365).**

Provision movement (detailed)

Opening provision 31-Mar-2024 (given) = 25.00

Unwinding 31-Mar-2024 → 15-Mar-2025 = $25.00 \times 8\% \times 349/365 = 1.91$

Provision immediately before remeasurement (15-Mar-2025) = 26.91

Remeasurement on 15-Mar-2025: New PV = 35 → Increase amount to be capitalised = $35.00 - 26.91 = 8.09$

Unwinding 15-Mar-2025 → 31-Mar-2025 on remeasured amount = $35.00 \times 8\% \times 16/365 = 0.12$

Closing provision 31-Mar-25 = $91 + 8.09 + 0.12 = 35.12$

Total unwinding (finance cost) for year = $1.91 + 0.12 = 2.03$.

Remeasurement capitalised = 8.09

PPE movements and carrying amount

Original plant cost (1 - Apr - 2021) = 200.00

Initial capitalised cost = 20.00 → opening PPE cost = 220.00

Remeasurement capitalised on 15-Mar-2025 = 8.09 → closing PPE cost = 228.09

Depreciation

SLM annual depreciation on original base 220.00 Less Residual value 10 = 210 over 20 years = 10.50

Depreciation charged for full 4 years (2021 – 2025) = 42

Remaining life at 15-Mar-2025 = 16 years.

Annual depreciation on addition = $8.09/16 = 0.51$

Pro rata 15-Mar → 31-Mar ($0.51 \times 16/365$) = 0.02

Total accumulated depreciation at 31 Mar 2025 = $42.00 + 0.02 = 42.02$

PPE carrying amount 31-Mar- 25 = $228.09 - 42.02 = 186.07$

Impact on statement of profit or loss for FY 2024-25

Depreciation expense = $10.50 + 0.02 = 10.52$

Finance cost (unwinding) = 2.03

Remeasurement amount 8.09 capitalised to PPE (no immediate P&L. charge).

Note: depreciation on the capitalized addition is charged prospectively over remaining life.

(c) Disclosures required for the non-adjusting items (under Ind AS 10)

For each non-adjusting event disclose:

1. Nature of the event.
2. Estimated financial effect or a statement that effect cannot be estimated.
3. The fact that it is a non-adjusting event and the date of the event.
4. Disclose Government Subsidy Receivable (Effective 01- July -2025)
5. Disclose nature of Subsidy amount ₹ 5 Cr.
6. Disclose the date when recognition will occur i.e., when grant conditions / virtual certainty are met.

1.7 The exchange rate applicable for valuation is the rate notified by CBIC on the date of filing the Bill of Entry. CBIC Exchange Rate (15th June) ₹ 95/ €

Particulars	Amount	Conversion	Amount (₹) Reference
I. Price Actually Paid/ Payable (FOB Declared)	1,00,000	95	95,00,000
II. Additions under Rule 10(1)			
1. Design charges paid in Germany (undertaken elsewhere than in India)	5,000	95	4,75,000 Rule 10(1) (b)(iv)
2. License Fee (Required as condition of sale)	3,000	95	2,85,000 Rule (10)(1)(c)
3. Local Agent Commission (Not Buying Commission)	-	-	80,000 Rule 10(1)(a)(i)
Sub-Total of Additions	8,000	8,40,000	
III. Deductions/Exclusions (Rule 10(1) and Note to Rule 3):			
1. Marketing Expenses (Incurred on buyer's own account)	-	-	Nil
2. Airport Demurrage Charges (Not includible)	-	-	Nil
IV. Customs FOB Value (I+II)	1,08,000	1,03,40,000	

Customer FOB Value in Indian Rupees = ₹ 1,03,40,000

1.8 Total capacity 30,000 MH (fully used by P1 & P2).

Hence → capacity constrained.

Contribution per MH from external products = ₹ 90.

To make 4,000 units of P4 requires 4 MH x 4,000 = 16,000 MH.

Opportunity cost = ₹90 x 4 = ₹360 per unit

Variable cost ₹150 per unit.

Minimum Transfer Price ₹150 + ₹360 = ₹510 per unit.

Thus, any price < ₹510 reduces total contribution; goal congruence exists only if $TP \geq ₹ 510$.

Behavioural Influence:

- RD (high-tax) seeks higher transfer price to increase divisional profit, even if group tax rises.
- CD (low-tax) seeks lower price to reduce cost and shift profit to its division.

Recommended Policy:

To adopt a Dual-Rate Transfer-Pricing System:

- RD credited at market-based price (reflecting opportunity cost).
- CD charged at variable cost (₹ 150).

Head office adjusts the difference centrally.

This would ensure tax compliance, preserve autonomy, and maximise group after-tax profit.

ANSWERS TO THE CASE STUDY 2

Answers to the Multiple Choice Questions

2.1 (D) No, as names of the major clients were displayed without any disclosure obligation from any Regulator

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

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

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

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

- 2.3 (A) GST is exempt on said supply since the value of supply of goods constitutes not more than 25% of the value of the said composite supply

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

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

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

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

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

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

- (i) the amount of income assessed, or

- (ii) the amount of tax determined, or
- (iii) the amount of loss computed, or
- (iv) the status under which he is assessed

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

2.5 (C) Transformation

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

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

Answers to the Descriptive Questions

2.6 (i)

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

(ii) Advantages Of Mutual Fund

- (a) Professional Management: The funds are managed by skilled and professionally experienced managers backed by a team of Research Analysts.
- (b) Diversification: Mutual Funds invest into many securities and offer diversification which reduces the concentration risk.
- (c) Convenient Administration: There are no administrative risks of share transfer, as many of the Mutual Funds offer services in a demat form which saves investor's time and prevents delay.
- (d) Higher Returns: Over a medium to long-term investment horizon, investors get higher returns in Mutual Funds as compared to other avenues of investment. However, investors are cautioned that such very high returns during the exceptional bull phase of the market like IT boom or Infrastructure boom should not be considered as regular returns and therefore one should look at the average returns provided by the Mutual Funds particularly in the equity schemes over a long period of time.
- (e) Low Cost of Management: SEBI has prescribed maximum limit of charging 2.50% for Equity Mutual Funds. No Mutual Fund can increase the cost beyond prescribed limits of 2.5% maximum and any extra cost of management is to be borne by the AMC.
- (f) Liquidity: In all the open ended funds, liquidity is provided by direct sales / repurchase by the Mutual Fund and in case of close ended funds, the liquidity is provided by listing the units on the Stock Exchange.
- (g) Transparency: The SEBI Regulations now compel all the Mutual Funds to disclose their portfolios on a half-yearly basis. However, many Mutual Funds disclose their Scheme Portfolio on a quarterly or monthly basis to their investors. The NAVs are calculated on a daily basis in case of open ended funds and are published through AMFI in the newspapers.
- (h) Other Benefits: Mutual Funds provide systematic withdrawal and systematic investment plans according to the need of the investors. The investors can also switch from one scheme to another without any restrictions except in case of Tax Savings Fund which restricts switch out for first 3 years of its investments.
- (i) Highly Regulated: Mutual Funds all over the world are highly regulated and in India all Mutual Funds are registered with SEBI and are strictly regulated

as per the Mutual Fund Regulations which provide high level of investor protection.

- (j) Economies of scale: The way mutual funds are structured gives it a natural advantage. The “pooled” money from numerous investors ensures that mutual funds enjoy economies of scale; it is cheaper compared to investing directly in the capital markets which involves higher charges. This also allows retail investors access to participation in the Capital Market which otherwise is difficult for them go directly.
- (k) Flexibility: One of the biggest advantages of a Mutual Fund Scheme is its flexibility. An investor can opt for Systematic Investment Plan (SIP), Systematic Withdrawal Plan etc. to plan his cash flow requirements as per his convenience. The wide range of schemes being launched in India by different mutual funds also provides an added flexibility to the investor to plan his portfolio accordingly.
- (l) Convenience: It is very convenient & easy to invest & disinvest from Mutual Fund Schemes specially through digital transaction portals

(iii) Drawbacks Of Mutual Fund

- (a) No guarantee of Return – There are three issues involved:
 - (i) All Mutual Funds cannot be winners. There may be some Schemes who may underperform against the benchmark index. However, the Fund Manager will endeavour to give better return than the underlying benchmark Index in the long run.
 - (ii) A mutual fund may perform better than the stock market but this does not necessarily lead to a similar gain for every investor. This is because of the different entry & exit points for each investor.
 - (iii) In case of a massive fall in the value of the stocks held in the Portfolio, the investor may lose principal in the short-term e.g., during Global Financial Crisis in 2008 or during outbreak of Covid 19 pandemic in 2020 etc. But if the investment is held for a longer term, the chances of losing principal are very remote & negligible.
- (b) Diversification – A mutual fund helps to create a diversified portfolio. Though diversification minimizes risk, it does not ensure maximizing returns. The returns that mutual funds offer is at times lesser than what an investor can earn from a single stock. For example, if a single security held by a mutual fund double in value, the mutual fund itself would not double

in value because that security is only one small part of the fund's holdings. By holding a large number of different investments, mutual funds tend to do neither exceptionally well nor exceptionally poor.

- (c) Selection of Proper Fund – It may be easy for someone to select the right share rather than the right mutual fund scheme. For stocks, one can rely his selection on the parameters of economic, industry and company analysis. In case of mutual funds, past performance is the one of the most important criteria to fall back upon but the past performance cannot predict the future.
- (d) Cost Factor – Every Mutual Fund Scheme charges some fund management fees as a part of Annual Recurring Expenses. Although there are no charges/load on entry, but at times an exit may get charged if withdrawn before a stipulated period, known as “Exit Load”. Amount withdrawn after the stipulated period of holding, if withdrawn, doesn’t attract any Exit Load. The fees paid to the Asset Management Company is in no way related to performance.

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

- (a) Obtain a comprehensive understanding of the blockchain-based pilot program, including its objectives, scope, and key processes involved.
- (b) Review the partnership agreements, contracts, and legal documentation governing the relationship between the RFIN bank and Bouyanc Bank.
- (c) Identify the specific blockchain technology used, its functionalities, and the underlying smart contracts.
- (d) Assess Internal Controls:
 - Review policies and procedures related to the on-chain Nostro accounts, settlement processes, and money transfer mechanisms.
 - Assess the governance framework, risk management practices, and compliance procedures established by the RFIN bank and Bouyanc Bank.
- (e) Review Security Measures:
 - Assess encryption methods, cryptographic key management, and secure transmission protocols used for data protection.
 - Review measures taken to prevent unauthorized access, cyber threats, and potential vulnerabilities in the blockchain network.

- (f) Test Transaction Validity and Accuracy:
- Validate that transactions are recorded and settled accurately on the blockchain, ensuring adherence to relevant regulations and contractual obligations.
 - Perform reconciliations between on-chain Nostro accounts and the corresponding accounts held at Bouyanc Bank to confirm the accuracy of balances and transactions.
- (g) Evaluate Compliance and Regulatory Requirements:
- Review documentation and procedures related to customer due diligence, transaction monitoring, and reporting obligations.
 - Ensure that the pilot program adheres to industry-specific standards and best practices.
- (h) Assess Business Continuity and Disaster Recovery:
- Evaluate the adequacy of backup and recovery procedures, redundancy measures, and failover mechanisms to ensure uninterrupted operations.
- Test the effectiveness of these plans by conducting simulations or examining historical incidents and response procedures.
- (i) Report Findings and Recommendations:
- Provide recommendations for improving internal controls, security measures, compliance procedures, and overall efficiency and effectiveness of the pilot program.
- Communicate the audit results to the relevant stakeholders, highlighting areas of concern and suggesting remedial actions.

2.8 Statement showing computation of inventory cost

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

Production overheads	15,000	Fixed costs: depreciation
Production overheads	10,000	Product design costs and labour cost for specific customer
Other costs	37,000	Refer working note
Borrowing costs	–	Recognized as an expense in profit or loss
Total cost of inventories	7,82,000	

Working Note:

Costs of testing product designed for specific customer:

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

ANSWERS TO THE CASE STUDY 3

Answers to the Multiple Choice Questions

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

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

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

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

- 3.3 (A) ₹ 70,000

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

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

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

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

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

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

Answers to the Descriptive Questions

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

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

Secondly, ELTO's vertical integration plays a crucial role in maintaining high product quality and control over the entire production process. By keeping a substantial portion of its manufacturing in-house and located in South Asia, ELTO can quickly adjust

production based on market feedback and emerging trends, reducing lead times and ensuring consistency in quality. This tight control over the supply chain enables ELTO to implement its innovative designs swiftly and efficiently, further differentiating its products from those of competitors who rely heavily on outsourcing.

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

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

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

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

Evaluation of Strategy

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

- 3.7 (a)** ELTO will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2024-25 as short-term compensated absences.
- (b)** ELTO will recognize ₹ 140 crores (₹ 4,000 x 3.5%) as a liability and expense in its books of account.
- (c)** When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service.

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

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

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

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

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

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

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

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

ANSWERS TO THE CASE STUDY 4

Answers to the Multiple Choice Questions

4.1 (B) 1, 4, and 5 only

Reason:

Statement 1 (Correct): Strategy A (all in 5-year bonds) = Bullet Strategy.

Statement 2 (Incorrect): Strategy B is Barbell Strategy (short + long term bonds), not Ladder.

Statement 3 (Incorrect): Strategy C is Ladder Strategy (staggered maturities).

Statement 4 (Correct): Strategy D describes Horizon Analysis.

Statement 5 (Correct): Using inflation, trends, and multi-factor models = Forecasting Returns and Interest Rates.

4.2 (C) As the sale took place more than 9 months after the record date, the capital loss of ₹ 1,50,000 is allowed to be set-off

Reason:

Let's test the statutory conditions:

Condition	Requirement	Actual case	Result
(a) Units purchased within 3 months before record date	Between 1 st November 2025 and 1 st February 2026	Purchased on 1 st December, 2025 → within 3 months	Satisfied
(b) Bonus units allotted without payment	Yes, 1:1 bonus		Satisfied

(c) Sale of original units within 9 months after record date	By 1 st November 2026	Sold on 1 st December, 2026 (> 9 months)	Not satisfied
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Since one of the three conditions fails, section 94(8) does not apply.

Computation under normal provisions

Particulars	Units	Cost per Unit (₹)	Sale Price per Unit (₹)	Result
Original Units	5,000	80	50	₹ 1,50,000 Loss

The entire capital loss of ₹1,50,000 is allowable to set-off.

No amount will be deemed as cost for bonus units.

4.3 (D) Statement (i), (ii) and (iii)

Reason:

Mr. B: > 25% votes → refund.

Mr. C: < 25% votes → forfeit.

Mr. D: Appointed → refund.

No requirement to issue fresh AGM notice.

4.4 (D) (ii) & (iv) are correct.

1. Standard labour hours for actual output $1,000 \times 5 = 5,000$ hours
Actual hours 5,500
Standard labour cost for actual output = $5,000 \times 200 = ₹10,00,000$
Actual labour cost = $5,500 \times 210 = ₹11,55,000$
Labour Cost Variance = ₹1,55,000 (A) (Statement 1 incorrect)
2. Labour Rate Variance (LRV) = Actual hours × (Standard rate - Actual rate)
= $5,500 \times (200 - 210) = ₹ 55,000$ (A) (Statement 2 correct)
3. Labour Efficiency Variance (LEV) based on revised standard (4.8 hrs/unit):
Revised Std. hours = $1000 \times 4.8 = 4,800$ hours
Efficiency Variance = $(4,800 - 5,500) \times 205 = 1,43,500$ (A)
(Statement 3) incorrect.
4. Planning vs. Controllable Variance Conceptually:

Planning variance arises from revision of standard (management expectation error). *Controllable variance* difference due to actual operational inefficiency, (Statement 4 correct)

4.5 (B) (ii), (iv) and (v)

Reason: KPIs shall be measurable

Answers to the Descriptive Questions

4.6 Learning curve is a geometrical progression, which reveals that there is steadily decreasing cost for the accomplishment of a given repetitive operation, as the identical operation is increasingly repeated. **The amount of decrease will be less and less with each successive unit produced. As more units are produced, people involved in production become more efficient than before, each additional unit takes less time to produce.** The amount of improvement or experience gained is reflected in a decrease in man-hours or cost. Where learning takes place with a regular pattern it is important to take account of the reduction in labour hours and cost per unit. **Automated manufacturing is unlikely to have much variation or to display a regular learning curve.** In less-automated processes, however, where learning curves do occur, it is important to take the resulting decline in labour hours and costs into account in settling standards, determining prices, planning production, or setting up work schedules. With the help of the learning curve theory the standard time of any batch or unit can be computed then compare the actual data with the standard and compute the variances.

4.7 Examination of each situation

1. ₹ 50 lakhs cash kept in the director's office

Provision applied: Section 132(1)(iii).

The authorized officer can seize cash found during the search if he has reason to believe that it represents undisclosed income or property.

Action justified: Correct. The seizure of cash is valid, as money is a seizable asset under section 132(1).

2. Gold ornaments worth ₹3 crore (stock-in-trade)

Provision applied: Proviso to section 132(1)(iii).

When bullion, jewellery or other valuable articles or things are found and they form **stock-in-trade** of the business, **they shall not be seized.**

However, the authorized officer shall **prepare an inventory or note** of such stock-in-trade of the business.

Action justified: Correct. The authorized officer properly refrained from seizure and instead prepared an inventory.

3. Antique gold idol (personal possession of director)

Provision applied: Section 132(1).

This idol is not stock-in-trade and is of personal nature; hence, if it is suspected to be undisclosed property, it can be seized.

Action justified: Correct. The seizure of the antique idol is lawful under section 132(1).

4. Silver hare stored in warehouse (impracticable to seize due to weight and volume)

Provision applied: Second proviso to section 132(1).

Where it is not practicable to take physical possession of any valuable article or thing and remove it to a safe place due to its volume, weight or dangerous nature, the officer may serve an order on the owner or the person in possession that he shall not remove, part with or otherwise deal with it without prior permission. Such an order shall be deemed to be a seizure for legal purposes (deemed seizure).

Action justified: Correct. Since physical seizure was impractical, the authorized officer correctly issued an order under the second proviso to section 132(1).

However, this deemed seizure does not apply to stock-in-trade, so it is valid only if the silver bars were not part of the stock-in-trade of the business.

- 4.8 (a) Lean System Focus on creating more value for customers by eliminating waste, improving flow, and continuously improving processes.
- (b) Wastes identified in the case:
- Waiting (idle time between processes)
 - Overproduction (producing more than demand)
 - Transportation (excessive material movement)
 - Defects (rework/scrap)
 - Over processing (unnecessary approvals)
 - Inventory (large batch production causing excess stock)
 - Motion (inefficient movement of workers/machines)
- (c) Suggested Lean tools:

5S System (Sort, Set in order, Shine, Standardize, Sustain) to improve workplace organization.

Kanban or JIT to reduce inventory and waiting time.

ANSWERS TO THE CASE STUDY 5

- 5.1 (C) **No, the transaction should have been entered after obtaining consent of the Board of Directors given by a resolution at a meeting**

Reason: Transactions between a holding company and its wholly owned subsidiary [Fifth Proviso to Section 188 (1)]: In case transactions are entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting, there is no need for seeking approval of the company by passing an ordinary resolution by the members.

Related Party Transactions requiring consent of the Board: In case, a related party transaction covered under Section 188 (1) (i.e., contract or arrangement between a company and related party) is **not on arm's length basis and also does not require approval of the shareholders**, it shall be entered into by the company after obtaining consent of the Board of Directors given by a resolution at a meeting of the Board and subject to the conditions as prescribed by Rule 15(1) of the Companies (Meetings of Board and Its Powers) Rules, 2014.

- 5.2 (C) **Novelty Inc. and KAL will be deemed associated enterprises and the transaction between KAL and TVIDIA will also be covered under transfer pricing provisions. Action of AO at the time of assessment is valid as per the provisions.**

Reason: 100% dependence on intangibles of one enterprise is one of the criteria for Deemed Associated Enterprises (DAE). Accordingly, Novelty Inc. and KAL will be deemed associated enterprises. The transaction between KAL and TVIDIA will be deemed to be an international transaction since the terms of transaction are determined by Novelty Inc. Hence, transfer pricing provisions will be applicable.

The data to be used for analyzing the comparability of an uncontrolled transaction with an international transaction should relate to the financial year (current year) in which the international transaction has been entered into. In case the most appropriate method for determination of ALP of a transaction entered into on or after 1.4.2014 is the resale price method or cost plus method or the transactional

net margin method, then, the data to be used for analyzing the comparability of an uncontrolled transaction with an international transaction shall be—

- (a) the data relating to the current year; or
- (b) the data relating to the financial year immediately preceding the current year, if the data relating to the current year is not available at the time of furnishing the return of income by the assessee, for the assessment year relevant to the current year.

However, where the data relating to the current year is subsequently available at the time of determination of arm's length price of an international transaction during the course of any assessment proceeding for the assessment year relevant to the current year, then, such data shall be used for such determination irrespective of the fact that the data was not available at the time of furnishing the return of income of the relevant assessment year.

5.3 (C) Automation

Reason: AI arms picking fruits and vegetables based on ripeness is best classified as **automation**, since it replaces a repetitive, labour-intensive task traditionally performed by humans with intelligent machines capable of sensing and acting with precision.

While this innovation leverages advanced technologies like AI and robotics, its primary purpose is to enhance efficiency, consistency, and productivity by automating the harvesting process. It may be seen as a part of digital transformation in agriculture, but it does not disrupt markets or qualify as advanced manufacturing, making **automation** the most accurate classification.

5.4 (A) D1

Reason: Principle 8 – Promote Inclusive Growth and Equitable Development: point d)

Entities when designing their CSR activities should review the **local and regional development priorities** to help the marginalized groups and communities.

5.5 (C) Place of supply is Mumbai and thus invoice incorrectly raised. KAL is not eligible to take ITC.

Reason: The place of supply of banking and other financial services, including stock broking services to any person shall be the location of the recipient of services on the records of the supplier of services.

Provided that if the location of recipient of services is not on the records of the supplier, the place of supply shall be the location of the supplier of services.

- 5.6** Rule 10C deals with the determination of most appropriate method. Under this Rule, the method which is best suited to the facts and circumstances, and which provides the most reliable measure of an arm's length price in relation to the international transaction will be considered to be the most appropriate method.

For the purpose of selecting the most appropriate method, the following factors should be taken into account.

- (i) The nature and class of the international transaction;
- (ii) The class, or classes of associated enterprises entering into the transaction and the functions performed by them taking into account assets employed or to be employed and risks assumed by such enterprises;
- (iii) The availability, coverage and reliability of data necessary for application of the method;
- (iv) The degree of comparability existing between the international transaction and the uncontrolled transaction and between the enterprises entering into such transactions;
- (v) The extent to which reliable and accurate adjustments can be made to account for difference, if any, between the international transaction and the comparable uncontrolled transaction or between the enterprises entering into such transactions;
- (vi) The nature, extent and reliability of assumptions required to be made in application of a method.

- 5.7** Under the following circumstances suggestion of CFO is feasible:

- Bonds should have been issued with call features as it gives them the right or choice to redeem bonds before their due date of maturity especially when market conditions are favourable to them.
- However, Call feature is not free of cost because companies are supposed to repay higher amount than the face value of bonds which is called 'Call Premium'.
- New bonds to be issued at lower interest rate.

The Net Present Value (NPV) method is used to evaluate such types of Bond Refunding decisions. If the Present Value of Cash Inflows (in form of net cash saving) exceeds the Present Value of cash outflow (call premium, interest during transition period etc.) then

existing bonds can be refunded and new bonds carrying lower coupon interest rate can be issued resulting in overall saving of cash outflows.

To ensure the smooth functioning of the organisation, new bonds are generally issued before refunding old bonds.

Yes, this process involves extra interest cost as new bonds are generally issued before refunding old bonds. This often results in interest payments on both categories of bonds during the overlapping period.

- 5.8** Under Ind AS, KAL will consolidate GSB Warriors in its financial statements. Franchise rights will appear as a major intangible asset (non-amortised but tested for impairment since definite term of the franchise rights has not been given in the question), while player contracts will be amortised. Stadium lease will bring in ROU assets and lease liabilities. Profit & Loss will reflect new revenue streams but also amortisation, depreciation, finance cost, and potential impairment charges. NCI will also appear in consolidated equity and P&L.

Accounting under Ind AS

Since KAL acquired 70% controlling stake in GSB Warriors, this is a business combination under Ind AS 103 'Business Combinations'.

Total consideration paid is ₹ 2,500 crores (cash + equity financing).

Identifiable Assets & Liabilities (Fair Value)

1. Franchise Right (Intangible Asset) of ₹ 1,500 crores is assumed as having indefinite life; hence, not amortised but tested annually for impairment under Ind AS 38.
2. Player Contracts (Intangible Asset) of ₹ 500 crores has a finite life (over contract term), hence, are amortised annually over the contract term.
3. Working Capital & Other Assets of ₹ 500 crores is recognised at fair value.
4. Leased Stadium & Training Facility is recognised as Right-of-Use Asset (ROU) with corresponding Lease Liability under Ind AS 116. Annual depreciation on ROU and finance cost on lease liability will be charged/recognised in P/L.

If purchase consideration is more than fair value of net assets acquired, KAL will recognise Goodwill otherwise Bargain Purchase Gain would be recognised.

Since KAL acquired 70% (controlling stake), the remaining 30% is NCI. NCI measured at fair value or proportionate share of net assets (policy choice under Ind AS 103).

Impact on Financial Statements

- i. In Consolidated Balance Sheet: Intangible assets (Franchise rights + Player contracts), ROU assets (leased stadium/training facility) and Goodwill, if any, will be shown as non-current item in the Balance Sheet. Working capital will appear as current item in the balance sheet.

Under Equity, any purchase consideration paid to GSB warriors forms part of Equity share capital while NCI of 30% will be recognised under Equity. Other Equity will include consolidated Profit and Loss. Lease Liability will be recognised as non-current item.

- ii. In the Consolidated Statement of Profit and Loss: Revenue streams from CPL franchise (broadcasting, sponsorships, ticket sales, merchandise) will be recognised. Amortisation of player contracts, Depreciation of ROU asset, finance cost on lease liability and any Impairment loss on franchise right and goodwill will appear as expenses item in the Statement of Profit and Loss.

Note: Alternative presentation is also possible.