

Mock Test Paper - Series I: July 2025

Date of Paper: 26th July 2025

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. (a) **No.** Risk of fraud risk exists in revenue. Remuneration based on achievement of performance targets can incentivize employees to manipulate revenue. Greater risks of fraud exist where a substantial portion of revenues are through cash sales.

Reason: Paragraph 26 of SA 240 provides a presumption that there are risks of fraud in revenue recognition. Further paragraph A29 of SA 240 provides that there may be pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition in the case of listed entities when, for example, performance is measured in terms of year-over-year revenue growth or profit. Similarly, for example, there may be greater risks of fraud in revenue recognition in the case of entities that generate a substantial portion of revenues through cash sales.

2. (d) Filing of Annual Performance Report should be based on audited financial statements of the Black Pearl since Black Pearl is controlled by The Elites.

Reason: The Annual Performance Report should be based on audited financial statement of Foreign Entity. Under Form APR relaxation is provided from audited financial statement if the Indian person does not have control and local laws of foreign entity do not require mandatory audit. Thus, it is important to note that audit shall be required where Indian resident has control even if host country does not mandate it.

3. (c) Section 185 of the Companies Act, 2013 does not cover loans to employees (not being managing or whole-time director). Section 186 of the Companies Act, 2013 does not cover loans to any employees (director or otherwise).

Reason: Section 185 inter alia covers loans given to directors and loans to “any person in whom any of the director of the company is interested”. In the present

case provisions of section 185 is not triggered since loans have neither been given to employees nor to “any person in whom any of the director of the company is interested” - as employees are not covered within this expression.

Section 186 inter alia provides that no loan should be given to any ‘person’ at a rate of interest lower than the prevailing yield of 1-year, 3-year, 5-year or 10-year Government Security closest to the tenor of the loan. Explanation to Section 186(2) specify that the expression “person” does not include any individual who is in the employment of the company. Thus, giving of loans to these employees is not covered under section 186 of the Companies Act, 2013.

4. (d) To target different customer segments by offering a variety of experiences ranging from luxury to budget accommodations.

Reason: To target different **customer segments** by offering a variety of experiences ranging from luxury to budget accommodations.

The Elites Hotels has opted for different brands within its portfolio—such as Kings Korner, Hocus Pokus, Stories, and Silverline—to target **varied customer segments**. Each brand caters to a distinct market:

- ❖ **Kings Korner** focuses on a premium, upscale experience with a large hotel network
- ❖ **Hocus Pokus** targets agile, upscale hotel experiences for mid-range travellers
- ❖ **Stories** provides budget-friendly yet quality stays
- ❖ **Silverline** offers an exclusive, high-performance experience with fewer hotels and a niche market

By diversifying its brand portfolio, The Elites can cater to a wider range of customers, from luxury travellers to budget-conscious guests, ensuring broader market coverage and maximizing business growth opportunities. This aligns with **Customer Segments** in the Business Model Canvas, where different brands serve distinct customer needs and preferences.

5. (b) i , ii, iv

Reason: The number of **permanent** employees, not all employees, on the rolls of the company as of March 31, 2025 should be disclosed.

- i. The percentage increase in the median remuneration of employees should be provided for the entire **financial year**, not just based on 6 months.
- ii. The percentage increase in remuneration of each Director is correctly disclosed.

- iii. The percentage increase in remuneration of the **Company Secretary** should also be disclosed.
- iv. The ratio of the remuneration of the CFO to the median remuneration of employees is **not required** to be disclosed. Only the ratio of each Director's remuneration to the median remuneration of employees is required.
- v. Affirmation that the remuneration is in line with the remuneration policy is correctly disclosed.

The above explanation aligns with the disclosure requirements under Section 197 of the Companies Act, 2013, read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.

Answers to the Descriptive Questions

6. In the given case, The Elites has provided loan at 5% p.a. whereas market rate of interest is 10% p.a. This represents that the loan is provided at off-market terms. Hence, the loan will be recognized at a fair value. Transaction price of providing a loan is ₹ 10 lakhs. However, the fair value of loan is ₹ 8.76 lakhs as shown in table below: (₹ lakhs)

Year	Cash flow (₹)	PV @ 10%	PV (₹)
2025-2026	2.31	0.909	2.10
2026-2027	2.31	0.826	1.91
2027-2028	2.31	0.751	1.74
2028-2029	2.31	0.683	1.58
2029-2030	2.31	0.621	1.43
Total	11.55		8.76

The difference between transaction price and fair value is ₹ 1.24 lakhs (₹ 10 lakhs – ₹ 8.76 lakhs).

In the stated case, The Elites has provided a loan of ₹10 lakhs having fair value of ₹ 8.76 lakhs, it reflects the benefit provided to employees. Also, The Elites Ltd has to pay ₹ 1.24 lakhs excess amount which has been amortized over the period of loan.

In view of Para B5.1.2A of Ind AS 109, accounting treatment should be as follows:

Initial Recognition:

- Financial Asset at fair value of ₹ 8.76 lakhs
- Prepaid Staff Expenses ₹ 1.24 lakhs

Subsequent Recognition:

- Interest @10% p.a. will be accrued on the outstanding balance of financial asset every year till completion of the loan account.
- Prepaid staff expense to be amortized in Statement of Profit and Loss over the tenure of the loan.

7. Current Weaknesses in The Elites Hotels' Supply Chain***Demand Forecasting and Knowledge Reliance on Head Chefs***

The supply chain's heavy reliance on the head chef for demand forecasting presents significant risks. Demand forecasting, especially with respect to product variants and business volume, is not data-driven but relies on the chef's "common sense" and guesses based on factors such as the business cycle, location, and clientele.

Due to the lack of formal data tracking, there is an absence of historical trends or customer usage information to inform accurate forecasting.

High Job Mobility of Head Chefs and Knowledge Retention Issues

Head chefs tend to change jobs frequently, leading to a loss of key operational knowledge. This results in inefficiency when new chefs join and have to begin from scratch, employing trial and error to gauge inventory requirements, leading to inconsistencies and inefficiencies in food production.

Low Technology Adoption

Despite basic use of technology, such as the Internet in product planning, overall supply chain processes rely heavily on manual activities. Demand forecasting remains a guessing game, with little integration of technology to predict demand variants and optimize supply chain processes.

Manual inventory checks further hinder efficiency, as stock counts are done by physically counting items, which is prone to errors and inefficiencies.

Time-Consuming and Costly In-House Food Preparation

The in-house food preparation process requires significant time, labour, and capital investment. While it allows for customized food offerings, the high labour costs and fluctuating raw material prices put pressure on margins and overall profitability.

Recommendations to Overcome Challenges***Data-Driven Forecasting***

The Elites Hotels should implement a data-driven approach to demand forecasting. This can be achieved by collecting and storing information on past product offerings, sales

history, customer preferences, and inventory levels at each hotel. Utilizing this data will enable the company to move from a “guessing game” approach to data-backed decision-making.

By analyzing historical trends and customer demand patterns, The Elites can better align its inventory management practices with actual demand, reducing both food wastage and stockouts.

Improving Knowledge Retention

A *formalized knowledge management system* should be implemented to capture the operational knowledge of head chefs, including their approach to menu development, inventory management, and customer preferences. This will ensure that when a new chef is appointed, they can build on previous knowledge rather than starting from scratch.

This system could include standardized documentation of food supply chain procedures, customer preferences, and sales data that new chefs can easily access and use.

Increased Use of Technology in Supply Chain Processes

The Elites should digitize its supply chain processes, *introducing an integrated platform* for data sharing between hotels and suppliers. This platform would facilitate online ordering, real-time inventory tracking, and automated demand forecasting.

By sharing data with suppliers, The Elites can reduce lead times and ensure better coordination between supply and demand. This can also help implement a jointly managed inventory system, reducing the overall cost of inventory management throughout the supply chain.

Transitioning to digital tools for inventory checks, menu planning, and ordering will streamline operations and allow head chefs to focus more on creative aspects of their role, rather than manual administrative tasks.

Outsourcing Part of Food Preparation

The Elites Hotels could consider *outsourcing certain aspects of food preparation, particularly for high-volume, standardized food items* such as bread, desserts, or frozen goods. This would allow The Elites to reduce in-house labour costs and invest more in creating a distinctive, high-quality dining experience for items that require bespoke preparation.

By outsourcing routine or labour-intensive processes, the hotels can reduce costs, improve efficiency, and focus on enhancing the unique elements of their menu that differentiate their brand.

Supplier Collaboration and Dual-Sourcing Strategy

The Elites should maintain strong, cooperative relationships with its suppliers, especially for perishable items. Dual-sourcing strategies should continue to be employed, as they allow The Elites to manage supplier risks, ensuring both quality and cost efficiency.

Engaging suppliers in a more collaborative partnership, including integrating their expertise into menu development and allowing for joint planning of inventory, will strengthen supply chain resilience and add value to the hotel's offerings.

Increasing Efficiency with Outsourced or Hybrid Models

The Elites could consider adopting a hybrid approach by combining in-house production for signature items with outsourced options for more standardized offerings. This model will allow for efficiency in operations while maintaining the brand's focus on delivering unique customer experiences.

Outsourcing routine tasks, such as bulk food preparation for events and conferences, can free up resources and staff time, allowing hotels to *focus on delivering exceptional service in high-impact areas*.

Conclusion: The Elites Hotels' supply chain has significant potential for improvement, especially in leveraging data for demand forecasting, increasing the use of technology, and optimizing labor costs through outsourcing. By addressing these weaknesses, The Elites can enhance its supply chain efficiency, reduce operational costs, and continue to deliver high-quality service, further strengthening its position as a leader in the hospitality industry.

8. Evaluation of The Elites Hotels Limited's Financial Performance

The benchmark WACC that THE ELITES HOTELS LIMITED's management wants to maintain is below 10%. The company's actual WACC is 7.636%. The Elites Hotels Limited has managed to maintain its WACC below the required benchmark primarily on account of its capital structure. Long term debt of ₹16 crores, which is the cheaper source of capital, makes up more than half of the total capital employed of ₹ 25 crores.

The Elites Hotels Limited's financial performance reflects a strong operational foundation, though its capital structure presents certain financial risks that require careful management.

With 64% of its capital sourced from debt financing, The Elites Hotels Limited carries a significant financial obligation in the form of ₹ 1.12 crores in interest payments. While leverage can enhance returns, it also increases financial risk, making strong cash flow management essential for ensuring timely debt repayment and mitigating the risk of financial distress.

Despite this high debt level, The Elites Hotels Limited has demonstrated strong operational efficiency, achieving an PBIT of ₹ 9 crores. This indicates the company's ability to generate substantial earnings before financial obligations. Additionally, its EVA of ₹ 4.391 crores shows that The Elites Hotels Limited is earning returns above its cost of capital, confirming that it is creating value for shareholders rather than merely covering financing costs.

To sustain this positive path, The Elites Hotels Limited must carefully assess new investment opportunities, ensuring they generate returns exceeding its benchmark 10% WACC to drive long-term value creation. Moreover, effective risk management strategies—such as hedging against interest rate fluctuations, optimizing capital allocation, and maintaining a financial buffer—will be crucial in mitigating potential risks and ensuring financial stability.

Overall, The Elites Hotels Limited's strong operational performance and positive EVA highlight its ability to generate value. However, its high reliance on debt necessitates vigilant financial management. To ensure sustainable growth and maximize shareholder value, The Elites Hotels Limited should focus on prudent debt management, strategic investment in high-return projects, and robust risk mitigation strategies to navigate potential financial challenges effectively.

Workings

$$\begin{aligned}
 \text{EVA} &= \text{NOPAT} - \text{WACC} \times \text{Capital Employed} \\
 &= ₹ 6.3 \text{ Cr.} - 7.636\% \times ₹ 25 \text{ Cr.} \\
 &= ₹ 4.391 \text{ Cr.} \\
 \text{Capital Employed} &= ₹ 5 \text{ Cr.} + ₹ 4 \text{ Cr.} + ₹ 16 \text{ Cr.} \\
 &= ₹ 25 \text{ Cr.} \\
 \text{WACC} &= (5 + 4)/25 \times 12.5\% + 16/25 \times 4.9\% \\
 &= 7.636\% \\
 \text{NOPAT} &= [\text{PBIT} - \text{Interest} - \text{Tax}] + \text{Interest (net of tax)}
 \end{aligned}$$

	₹ in Cr.
PBIT	9.000
Less: Interest	(1.120)
PBT	7.880
Less: Tax @ 30%	(2.364)
PAT	5.516
Add: Interest (net of tax) $[1.12 \times (1 - 0.30)]$	0.784
NOPAT	6.300

ANSWERS TO THE CASE STUDY 2

Answers to the Multiple Choice Questions

1. (a) No, amount of ₹ 0.05 cr. will be disallowed as deduction on account of excess interest

Reason: The EBITDA for the previous year 2024–25 is ₹4.5 crore. As per section 94B of the Income-tax Act, 1961, where an Indian company, or a permanent establishment of a foreign company in India, being the borrower, incurs any expenditure by way of interest or of similar nature exceeding ₹ 1 crore which is deductible in computing income chargeable under the head "Profits and gains of business or profession" in respect of any debt issued by a non-resident, being an associated enterprise of such borrower, then the maximum allowable interest deduction is 30% of EBITDA, which amounts to ₹1.35 crore (i.e., ₹4.5 crore × 30%) in present case. The actual interest paid/ payable to Symphony Inc. during the year was ₹1.40 crore.

Accordingly, ₹ 1.35 crore will be allowed as an interest deduction, while the excess amount of ₹ 0.05 crore will be disallowed under section 94B for the current year. However, this disallowed interest of ₹0.05 crore will be eligible for carry forward (in accordance with the provisions of the Act) upto eight assessment years immediately succeeding the assessment year for which the excess interest expenditure was first computed.

2. (b) Taking Long Position in Debt and Short Position in Equity

Reason: In a near-bankruptcy scenario, debt securities are prioritized over equity during liquidation, meaning debt holders are more likely to recover value before shareholders. If RSPL takes a long position in debt, it stands to benefit if the company recovers or during liquidation, as debt will be repaid first. At the same time, taking a short position in equity hedges the risk of further decline in share value, which is highly probable in a distressed firm. This strategy allows RSPL to benefit from the undervalued debt instruments while minimizing losses from potential equity collapse, thereby improving the chances of profitability.

3. (d) Total Cost to be capitalised is ₹ 8,38,273.

Reason: The software was acquired at a purchase price of ₹5,00,000, which was paid upfront and therefore included in the capitalised cost. An additional deferred payment of ₹2,50,000 is payable after one year. In accordance with Ind AS 38, this amount is discounted to its present value using the company's cost of capital

at 10%, resulting in a present value of ₹2,27,273. Only this discounted amount will be capitalised. Further costs incurred include legal fees of ₹36,000 and consultancy fees for implementation amounting to ₹75,000. Accordingly, the total amount capitalised in the books is ₹8,38,273 (i.e. comprises of the upfront payment ₹5,00,000 + present value of the deferred payment ₹2,27,273 + legal fees ₹36,000 + consultancy charges ₹75,000).

4. (a) The auditor should report the issue of shrinkages in inventories in 'Key Audit matter paragraph' and also state how the matter has been dealt with by audit team

Reason: Since RSPL is a listed company and inventory shrinkage involves significant judgment and materiality, it qualifies as a Key Audit Matter (KAM). As per SA 701 – Communicating Key Audit Matters in the Independent Auditor's Report, matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period are reported as KAMs. Inventory shrinkage involves significant management judgment in estimation and materiality due to the scale of inventories held by RSPL (₹150 crore) and the amount of allowance recognized (₹7.25 crore)

5. (c) The amount calculated is incorrect as the amount which can be transferred to Pune registration is ₹ 1 Crores

Reason: Section 25 enables a taxpayer to obtain separate registrations for multiple places of business within a State/ Union territory. The registered person (transferor), having separate registrations for multiple places of business within a State/Union Territory, can transfer the unutilised ITC (wholly or partly) lying in his electronic credit ledger to any or all of the newly registered place(s) of business in the ratio of the value of assets held by them at the time of registration. Here, the 'value of assets' means the value of the entire assets of the business irrespective of whether ITC has been availed thereon or not.

Therefore, the amount which can be transferred to Pune registration is

$$= (25 + 11) / (200+250) * 12.5$$

$$= ₹ 1 Crores$$

Answers to the Descriptive Questions

6. Since value of taxable supply of RSPL for the month of September 2024 exceeds ₹ 50 lakh, rule 86B of the CGST Rules, 2017 is applicable to it.

Thus, as per rule 86B, amount available in the electronic credit ledger will be utilized only to the extent of 99% of the output tax liability while discharging such tax liability. Balance 1% of the output tax liability needs to be discharged from electronic cash ledger.

In terms of the restriction imposed by rule 86B, RSPL can discharge 99% of its output tax liability, i.e. ₹ 3.09375 crores (99% of ₹ 3.125 crores) from the amount available in electronic credit ledger. However, it has to mandatorily discharge the balance 1% of the output tax liability i.e. ₹ 3,12,500 (1% of ₹ 3.125 crores) through electronic cash ledger only.

The nature of documents on the basis of which ITC would have been taken by RSPL are:

- (i) Invoice or revised invoice issued by the supplier of goods and/or services
- (ii) Invoice issued by the recipient receiving goods and/or services from unregistered supplier in case of reverse charge, subject to payment of tax
- (iii) Debit note issued by the supplier
- (iv) Bill of entry or similar document prescribed under the Customs Act
- (v) Document issued by input service distributor

7. An investor can earn profit from distressed securities by taking long position in Debt and Short position in equity.

Following are the examples of earning arbitrage profit:

- (i) In case company's condition improves because of priority, the investor will get his interest payment which will be more than dividend on his short position in equity shares.
- (ii) If company's condition further deteriorates the value of both share and debenture goes down. He will make good profit from his short position.

ALTERNATIVE

The RSPL will take long position in Debt and Short Position in Equity of MNC Ltd.

This strategy will be profitable because if MNC Ltd. go bankrupt though both Debt and Equity will lose value but since debt has a priority over Equity in repayment it will be a safe bet. However, if financial position of company improves any loss on account of short position in Equity will be compensated by gain in the Debt position.

8. With increasing completion, dynamic market changes, changing needs of customers, non-financial and ethical considerations have gained relevance in the decision-making process. A company may face the dilemma of meeting customers' needs while protecting employees' rights. While there are no clear-cut parameters to measure the impact of such decisions, they have a long-term impact on the company's operations that ensures profitability and sustainability of an organization.

In the given scenario, a customer who contributes close to 30% of RIL's Profits has been making turnaround demands that are unreasonable for the company employees to meet. RIL has to decide whether to continue doing business with the customer based on the current terms or protecting the work environment of its employees. In the current scenario, it is in RIL's long term interests to protect its employees' rights (a non-financial consideration). Keeping this approach in mind, RIL decided to terminate business with the profitable client. While this had a significant impact on revenues in the short term, in the long run RIL was able to get business from new clients. Also, realizing the value of service provided, the dropped client came back with projects on equitable terms.

Therefore, even though it did not make financial sense in the short run, decisions based on non-financial metrics played an important role in ensuring RIL's long term sustainability.

9. (i) General disclosures w.r.t. intangible assets including acquisition of software:-
- An entity should disclose the following for each class of intangible assets:
- (a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;
 - (b) the amortisation methods used for intangible assets with finite useful lives;
 - (c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;
 - (d) the line item(s) of the statement of profit and loss in which any amortisation of intangible assets is included; and
 - (e) a reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;
 - (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind As 105 and other disposals;
 - (iii) increases or decreases during the period resulting from revaluations and from impairment losses recognized or reversed in other comprehensive income;
 - (iv) impairment losses recognized in profit or loss during the period;

- (v) impairment losses reversed in profit or loss during the period;
- (vi) any amortisation recognized during the period;
- (vii) net exchange differences arising on the transaction of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and
- (viii) other changes in the carrying amount during the period.

(ii) Conditions for derecognition of intangible assets

An intangible asset should be derecognized:

- (a) on disposal; or
- (b) when no future economic benefits are expected from its use or disposal.

The disposal of an intangible asset may occur in a variety of ways (e.g. by sale, by entering into a finance lease, or by donation).

ANSWERS TO THE CASE STUDY 3

Answers to the Multiple Choice Questions

1. (d) Only Statement II

Reason: ECB proceeds cannot be utilised for working capital purposes since it falls under the negative list.

2. (c) Business income (non-speculation) from commodities derivative ₹ 4,00,000 and speculation business income from day trade in share ₹ 2,00,000

Reason: Day trading (buying and selling equity shares on the same day without taking delivery) is treated as a speculative business under Section 43(5).

Trading in commodity derivatives through a recognized stock exchange is specifically.

excluded from the definition of speculative transaction

Speculation income = ₹ 14,00,000 (BSE) – ₹ 12,00,000 (NSE) = ₹ 2,00,000

Non-speculative business income = Profit = ₹ 4,00,000

3. (b) ₹ 1,20,000

Reason: Base fee = ₹ 4cr × 0.2% = ₹ 80,000

Incentive fee = ₹ (4.8 - 4.4) cr × 1% = ₹40,000

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

Reason: Reversal of impairment loss on goodwill is prohibited under Ind AS 36.

Ind AS 33 requires both basic and diluted EPS to be disclosed.

5. (c) CA Kailash can accept the audit engagement only if he discontinues the portfolio management services.

Reason: Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor. An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely (i) accounting and book-keeping services; (ii) internal audit; (iii) design and implementation of any financial information system; (iv) actuarial services; (v) investment advisory services; (vi) investment banking services; (vii) rendering of outsourced financial services; (viii) management services; and (ix) any other kind of services as may be prescribed.

Answers to the Descriptive Questions

6. In the given case, since the service provider – Click Ltd. is outside India, and the service recipient – ESL is in India and given service viz. technical services, does not get covered under any of the specific provisions of section 13 of the IGST Act, 2017, place of supply will be governed by the default provision, i.e. location of recipient of service, which in this case is Bengaluru (India).

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

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

Therefore, ESL Ltd. Will pay GST under reverse charge on ₹ 2,00,000 paid by it to Click Limited in UK.

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

- (a) Date of payment
- (b) 61st day from the date of issue of invoice, in cases where invoice is required to be issued by the supplier
- (c) Date of issue of invoice by the recipient, in cases where invoice is to be issued by the recipient.

Thus, time of supply is 28th December, 2024.

Since tax liability arises in December, 2024, payment is to be made in the month of January, 2025.

7. (i) Inventory and debtors need to be classified in accordance with the requirement of Ind AS 1, which provides that an asset shall be classified as current if an entity expects to realise the same or intends to sell or consume it in its normal operating cycle. In this case, time lag between the purchase of inventory and its realisation into cash is 18 months [12 months + 6 months]. Both inventory and the debtors would be classified as current if the entity expects to realise these assets in its normal operating cycle.
- (ii) No, the answer will be the same as the classification of debtors and inventory depends on the expectation of the entity to realise the same in the normal operating cycle. In this case, time lag between the purchase of inventory and its realisation into cash is 32 months [15 months + 17 months]. Both inventory and debtors would be classified as current if the entity expects to realise these assets in the normal operating cycle.
- (iii) As per para 74 of Ind AS 1, where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

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

8. (i) Ever-increasing and demanding environmental regulation is forcing companies to change their practices. In many countries, numerous pieces of legislation cover

areas such as air quality, climate change, hazardous substances, packaging, waste, and water quality. The trend is very much in the direction of increased and more stringent legislation. Environmental sustainability is not an issue that can be avoided by any organisation.

Organisations need to consider how environmental regulation will impact their operations and the cost of doing business. By engaging in the business of manufacturing of smart grid components and hybrid energy storage solutions even in the absence of any statutory compulsion, ESL gained advantages over its rivals. ESL's actions were integral to its own strategic success and instrumental in driving through the subsequent legislation from which the company later benefited. This also helps ESL improve its brand image among stakeholders as responsible corporate citizens.

- (ii) Organisations increasingly have to demonstrate that they are managing all their risks systematically and responsibly. This includes environmental risks - risks that arise from the impacts of the organisation on the environment. By assessing the environmental risks associated with their activities, processes, products, and services, organisations can identify their potential legal and business exposure. Non-compliances can result in enormous financial impacts such as fines, penalties, legal costs, and damages.

Thus, ESL is exposed to environmental risks.

- (iii) Focusing on environmental sustainability often provides opportunities for reducing costs. For example, reducing carbon emissions typically saves energy costs. Similarly, waste-reduction programmes improve environmental performance while lowering operating costs. Reducing environmental impacts can also reduce or eliminate fines, levies, and other compliance costs.

Focusing on environmental sustainability thereby making investments in developing clean technologies and more energy-efficient products and processes will not only save the organization money but could also be patented and/ or sold to other organizations, providing an additional source of income. ESL may have carbon credit for efficiency in reducing energy and selling on the open market, thereby actually generating revenue.

- 9. As per section 51 of CGST Act, 2017 read with section 20 of the IGST Act, 2017 and Notification No. 50/2018 CT 13.09.2018, Notified persons are required to deduct CGST @ 1% [Effective tax 2% (1% CGST + 1% SGST / UTGST)] or IGST @ 2% from the payment made/credited to the supplier (deductee) of taxable goods or services or both, where the total value of such supply, under a contract, exceeds ₹ 2,50,000.

As far as the answer to GST law is concerned, TDS is required to be deducted under GST law is ₹ 45 lakhs under the IGST Act. In respect of Income tax law, TNEB entered into a contract with ESL for the supply of 20 lakhs unit of product "TBU" with total value of ₹ 25 crores. There should be a work contract to deduct tax u/s 194C. However, in this case, since there is no information regarding usage of the raw material provided by TNEB for manufacturing the product, this contract is a contract for sale. Hence, tax u/s 194C would not be deducted. For purchase of goods, section 194Q cast a responsibility on any person, being a buyer who is responsible for paying any sum to any resident-seller for purchase of goods of the value or aggregate of such value exceeding ₹ 50 lakhs in a previous year, to deduct tax at source @0.1% of such sum exceeding ₹ 50 lakhs. In this case, TNEB is required to deduct tax at source u/s 194Q @0.1% on ₹ 24,50,00,000, being the sum exceeding ₹ 50 lakhs. Tax to be deducted is ₹ 2,45,000.

ANSWERS TO THE CASE STUDY 4

Answers to the Multiple Choice Questions

1. (b) Competitive Rivalry

Reason: The correct answer is D) Competitive Rivalry. While all factors in Porter's Five Forces framework are relevant to assessing BBL's competitive landscape, the factor of competitive rivalry specifically refers to the intensity of competition among existing industry players. In the case of BBL, established brands and emerging players constantly strive to differentiate themselves through product innovation, pricing strategies, and marketing initiatives. This intense competition poses a threat to BBL's market share and profitability as rivals vie for dominance. Therefore, competitive rivalry represents a crucial aspect influenced by Porter's Five Forces in understanding BBL's strategic challenges within the coffee and tea industry.

2. (d) GST on the sitting fees paid to a director, who is not an employee of the company, shall be paid by the company (BBL) under the reverse charge mechanism.

Reason: Sitting fee paid to director – As per reverse charge notification, tax on services supplied by a director of a company/ body corporate to the said company/ body corporate, located in the taxable territory, is payable under reverse charge. Hence, in the present case, the sitting fee amounting to ₹ 34,000, payable to Mr. Ravish by BBL, is liable to GST under reverse charge and thus, recipient of service BBL is liable to pay GST on the same.

3. (c) Yes, a company is permitted to provide more comparative data than the minimum financial statements mandated by Ind AS, provided such data adheres to Ind AS. Nevertheless, the company must also furnish corresponding explanatory notes for these supplementary statements.

Reason: Yes as per Para 38C of Ind AS 1, an entity may present comparative information in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. This comparative information may consist of one or more statements referred to in paragraph 10 but need not comprise a complete set of financial statements. When this is the case, the entity shall present related note information for those additional statements.

4. (a) Yes, such comparative data can consist of one or more specified statements but does not necessarily have to be a complete set of financial statements

Reason: Yes, as per Para 38C of Ind AS 1, an entity may present comparative information in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. This comparative information may consist of one or more statements referred to in paragraph 10 but need not comprise a complete set of financial statements. When this is the case, the entity shall present related note information for those additional statements.

5. (c) (iv) or (v)

Reason: For determining the CIF price of the imported goods, certain additions have to be made to the value of imported goods under rule 10(2) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007. If cost of insurance is not ascertainable from the documents submitted before the customs authorities, then such amount is determined as follows:

- (i) 1.125% of free on board value of imported goods;
- (ii) Where free on board value is not ascertainable, but sum of free on board value and cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to place of importation is ascertainable; then 1.125% of such sum.

Answers to the Descriptive Questions

6. (i) Section 15(1)(b) of the Customs Act, 1962 provides that in the case of goods cleared from a warehouse, rate of duty applicable is the rate of duty in force on

the date on which a bill of entry for home consumption in respect of such goods is presented.

In the given case, since BBL has filed the bill of entry for home consumption on 1st September, rate of duty is the rate prevalent on the said date viz. 30%.

- (ii) Third proviso to section 14 of the Customs Act, 1962 provides that the rate of exchange notified by the CBIC as prevalent on the date of presentation of bill of entry for warehousing is the applicable rate of exchange for conversion of foreign currency into local currency.

Therefore, in the given case, rate of exchange that would be prevalent on date of presentation of bill of entry for warehousing i.e. 5th July and not the one prevalent on date of presentation of bill of entry for home consumption i.e., 1st September, would be adopted.

- (iii) As per explanation to rule 12 of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, the chief reasons on the basis of which the proper officer can raise doubts on the truth or accuracy of the declared value may include:-

- (a) the significantly higher value at which identical or similar goods imported at or about the same time in comparable quantities in a comparable commercial transaction were assessed;
- (b) the sale involves an abnormal discount or abnormal reduction from the ordinary competitive price;
- (c) the sale involves special discounts limited to exclusive agents;
- (d) the misdeclaration of goods in parameters such as description, quality, quantity, country of origin, year of manufacture or production;
- (e) the non-declaration of parameters such as brand, grade, specifications that have relevance to value;
- (f) the fraudulent or manipulated documents.

7. Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued:

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

the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

- (i) Discuss the matter with management and, where appropriate, those charged with governance.
- (ii) Determine whether the financial statements need amendment and, if so,
- (iii) Inquire how management intends to address the matter in the financial statements.

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

In the instant case, BBL received an amount of rupees ₹ 300 crore on account of incentives pertaining to F.Y. 2024-25 in the month of May 2025 i.e. after finalisation of financial statements and signing of audit report. The management of BBL amended the accounts, approved the same and requested DRC & Co. (auditor) to consider this event and issue a fresh audit report on the financial statements for the year ended on 31.03.2025.

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

8. External market dynamics play a pivotal role in shaping Bengali Brew Ltd.'s (BBL) strategic choices and competitive stance within the coffee and tea industry using Porter Five Forces. The same is discussed below:

- (i) **Bargaining Power of Buyers:** The bargaining power of buyers in the coffee and tea industry is moderate. While BBL's commitment to quality and diverse product range attracts customers, buyers still wield influence, particularly if they have alternative suppliers. Price sensitivity and the availability of substitutes can also impact buyers' bargaining power. Therefore, BBL must balance pricing strategies with maintaining customer satisfaction to preserve market share and profitability.
- (ii) **Bargaining Power of Suppliers:** BBL's bargaining power with suppliers is relatively high due to its ability to source the finest coffee beans and tea leaves globally. Their stringent selection process for quality and freshness strengthens their position, enabling them to negotiate favorable terms with suppliers. However,

fluctuations in global commodity prices and dependence on specific suppliers could pose challenges and impact BBL's cost structure.

- (iii) **Threat of Substitutes:** The threat of substitutes in the coffee and tea industry varies depending on consumer preferences and trends. While coffee and tea have enduring popularity, substitutes such as soft drinks, energy beverages, and health-focused alternatives pose a moderate threat. BBL can mitigate this threat by emphasizing the unique taste, quality, and experience offered by its products, as well as by innovating to meet changing consumer demands.
- (iv) **Threat of New Entrants:** The coffee and tea industry presents a moderate threat of new entrants for Bengali Brew Ltd. (BBL). The market is relatively accessible due to the popularity of these beverages, BBL's established brand reputation, extensive distribution network, and investment in state-of-the-art processing facilities act as barriers to entry. However, innovative startups or established players from related industries could pose a potential threat by introducing new products or leveraging existing resources to penetrate the market.
- (v) **Competitive Rivalry:** Competitive rivalry in the coffee and tea industry is intense, with numerous local and international players vying for market share. Established brands and emerging startups continuously innovate to differentiate themselves through product offerings, pricing strategies, and marketing initiatives. BBL's strong brand reputation, diverse product range, and commitment to quality position it well amidst this competition. However, price wars and aggressive marketing tactics remain potential challenges, requiring BBL to continuously adapt and innovate to maintain its competitive edge.

In summary, by understanding and strategically addressing each aspect of Porter's Five Forces, Bengali Brew Ltd. (BBL) can navigate the complexities of the coffee and tea industry, capitalize on opportunities, and mitigate threats to sustain its competitive advantage and drive long-term success.

9. The issue under consideration is whether, in a case where debentures are issued with maturity at the end of five years, and the debenture holders are given an option of upfront payment of interest in the first year itself, can the entire upfront interest paid, be claimed as deduction by the company in the first year or should the same be deferred over a period of five years; and would the treatment of such interest as deferred revenue expenditure in the books of account have any impact on the tax treatment.

The facts of the case are similar to the facts in *Taparia Tools Ltd. v. JC IT* (2015) 372 ITR 605, wherein the above issue came up before the Supreme Court. In that case, it

was observed that under section 36(1)(iii), the amount of interest paid in respect of capital borrowed for the purposes of business or profession, is allowable as deduction.

The moment the option for upfront payment was exercised by the subscriber, the liability of BBL to make the payment in that year had arisen. Not only had the liability arisen in the previous year in question, it was even quantified and discharged as well in that very year.

As per the rationale of the Supreme Court ruling in *Taparia Tools Ltd.'s case*, when the deduction of entire upfront payment of interest is allowable as per the Income-tax Act, 1961, the fact that a different treatment was given in the books of account could not be a factor which would bar the company from claiming the entire expenditure as a deduction.

Accordingly, the action of the Assessing Officer in spreading the upfront interest paid over the five year term of debentures and restricting the deduction in the P.Y.2022-23 to one-fifth of the upfront interest paid is not correct. The company is eligible to claim the entire amount of interest paid upfront as deduction under section 36(1)(iii) in the P.Y.2022-23.

ANSWERS TO THE CASE STUDY 5

Answers to the Multiple Choice Questions

1. (a) Opinion II is correct.

Reason: The IGST liability of company pertaining to zero-rated supplies (export) in Oct 2024 is 5% of ₹ 5crores i.e. ₹ 0.25 crore. It is discharged by setting off eligible ITC of ₹ 0.20 crore. It is immaterial whether ITC is availed on inputs, capital goods or input services. The export supplies are zero-rated supplies and IGST paid of ₹ 0.25 crore would be refunded/refundable directly in bank account of the company by customs upon monthly filing of GSTR-3B and GSTR-1 for each tax period. Further, filing of GSTR-9 is an annual affair and hence nothing to do with refund of IGST.

The refund by customs is system generated upon filing of GSTR-3B and GSTR-1 for each tax period. The invoices transmitted to customs via GST network are matched with shipping bills and others details which are also system driven and refund scroll is generated. After scroll generation, refund is credited in bank account of exporter.

2. (a) Combination (1) and (i).

Reason: The TDS amount to be deducted during financial year 2024-25 is as

under -

TDS to be deducted on clearing charges of ₹ 2.00 lakhs u/s 194C is 2% in case of payment to companies.

TDS to be deducted on freight paid of ₹ 3.00 lakhs u/s 194C is 1% in case of payment to individuals.

TDS to be deducted on payment made to building contractor company of ₹ 1.50 crore u/s 194C is 2% in case of payment to companies.

Hence, total TDS to be deducted by company comes to ₹ 3,07,000/- (4,000 + 3,000 + 3,00,000).

It is to be remembered that TDS is not to be deducted on GST amount included in payments made to above service contractors in accordance with provisions of CBDT circular number 23/2017 dated 19.7.2017. Hence, for calculation of TDS, pre-GST amounts have to be arrived at.

Further, company has correctly availed IGST on services amounting to ₹ 51,000/-. The company is eligible to avail ITC on services for import of machinery amounting to ₹ 36,000/-. Further, credit of IGST paid on reverse charge basis by the company on freight services amounting to ₹ 15,000/- is also available to the company. The IGST on building contractor services is not eligible as amount would be capitalised under building and the same is blocked under section 17(5) of CGST Act.

3. (c) Growth

Reason: Given the scenario, Sparkle made-ups have received a very good response, and they have captured a significant share of export orders, indicating that the product is experiencing rapid market acceptance and sales growth.

4. (c) ii, iii, v, vi

Reason: Most appropriate statements are (ii) Sparkle has a responsibility to a *wide range of stakeholders*, including vulnerable children affected by its supply chain practices. (iii) Sparkle is accountable for ensuring the well-being of employees in its *supply chain*, especially regarding the exploitation of child labour by subcontractors. (v) Although Sparkle may not engage in illegal activities, it has a *moral obligation to protect children's rights*, as child labour is illegal in many countries and contradicts their right to education. (vi) Negative publicity surrounding unethical production practices can harm Sparkle's *brand reputation and customer trust*, which are critical for long-term success.

Statements (i) & (iv) are less appropriate.

(i) While Sparkle *may not be directly liable* for suppliers' actions, it is responsible for ensuring they adhere to ethical standards, highlighting the interconnectedness of its operations and supply chain. (iv) While the Sparkle does have a responsibility toward its factory employees, it must also extend this obligation to those working in its supply chain.

5. (b) i, ii, iii, iv

Reason: Sparkle can take several proactive steps to ensure ethical practices in its supply chain. These include developing a robust Code of Conduct (i), conducting regular audits to ensure compliance (ii), and publicly disclosing supplier information to enhance transparency (iii). Furthermore, the Board's commitment to eliminating child labour and communicating this effort (iv) strengthens the company's ethical stance. Closing production in certain countries (v) and directly managing supplier operations (vi) are less feasible and may not effectively address the root issues. Instead, enforcing strict standards and conducting audits will ensure compliance while maintaining supplier independence.

Answers to the Descriptive Questions

6. Under section 179(3) of the Companies Act, 2013, the Board of Directors of a company shall exercise the following powers on behalf of the company by means of resolutions passed at meetings of the Board:
- (a) To make calls on shareholders in respect of money unpaid on their shares,
 - (b) To authorise buy-back of securities under section 68;
 - (c) To issue securities, including debentures, whether in or outside India;
 - (d) To borrow monies;
 - (e) To invest the funds of the company;
 - (f) To grant loans or give guarantee or provide security in respect of loans;
 - (g) To approve financial statement and the Board's report;
 - (h) To diversify the business of the company;
 - (i) To approve amalgamation, merger or reconstruction;
 - (j) To take over a company or acquire a controlling or substantial stake in another company;
 - (k) Any other matter which may be prescribed.

Provided that the Board may, by a resolution passed at a meeting, delegate to any Committee of Directors, the Managing Director, the manager or any other principal officer of the company or in the case of a branch office of the company, the principal officer of the branch office, the powers specified in clauses (d) to (f) on such conditions as it may specify.

From the foregoing provisions, it is evident that the Board of Sparkle Private Limited is well within its rights to delegate the power to borrow monies, as permitted under clause (d) of Section 179(3), to the Managing Director, manager, or any other principal officer. However, the power to issue securities, including debentures, for the purpose of raising funds under clause (c) of Section 179(3), cannot be delegated and must be exercised solely by the Board itself.

7. As per section 16(3) of the IGST Act, 2017, a registered person making zero rated supply may supply goods and/or services under bond or Letter of Undertaking (LUT) without payment of IGST and claim refund of unutilized ITC. Further, notified class of persons may make zero-rated supply or notified class of goods or services may be exported, on payment of IGST and refund of such tax paid on goods and/or services supplied may be claimed. Accordingly, suppliers of textiles made-ups are permitted to export on payment of IGST and claim refund of such tax paid.

Rule 89(4) of the CGST Rules, 2017 stipulates that in the case of zero-rated supply of goods or services or both without payment of tax under bond/LUT in accordance with the provisions of section 16(3) of the IGST Act, 2017, refund of ITC shall be granted as per the following formula:

$$\text{Refund Amount} = \frac{(\text{Turnover of zero-rated supply of goods} + \text{Turnover of zero-rated supply of services})}{\text{Adjusted Total Turnover}} \times \text{Net ITC}$$

Here, Net ITC means ITC availed on inputs and input services during the relevant period other than the ITC availed for which refund is claimed under sub-rules (4A) or (4B) or both. Thus, refund of ITC on capital goods is not allowed.

However, in case of export on payment of IGST, entire IGST paid would be refunded and ITC on input, input services and capital goods can be utilized for making payment of IGST. Refund under both the cases will be computed as follows:

Export under LUT or bond

Tax liability	0
Refund of unutilized ITC	₹ 1.64 crore

Export on payment of IGST

Tax liability	₹ 2.50 crore
Set off by using ITC	₹ 2.00 crore
Set off by payment of cash	₹ 0.50 crore
Refund of IGST paid	₹ 2.50 crore

In export under bond/LUT, ITC of input and input services amounting to ₹ 1.64 crore is refundable. In case of export on payment of IGST, refund of IGST paid of ₹ 2.50 crore is available and IGST payable in cash is ₹ 0.50 crore.

In terms of procedural requirements, a separate refund application has to be filed electronically for exports under LUT. However, for exports on payment of IGST, refund is automatically granted by customs on valid filing of GSTR-3B and GSTR-1 and validation of tax invoice data with shipping bills and other information.

Further, in case of export under LUT, no tax is to be deposited by the company and refund of ITC has to be applied by way of separate application. Therefore, it does not involve any cash outflow at the time of export.

In case of export on payment of IGST, it involves cash outflow of ₹ 50.00 lakh which is refunded subsequently. Therefore, it involves temporary blockage of working capital for certain period of time. However, since refund process is system driven and automated as provided in rules under this route, it results in quicker refunds including refund of entire ITC and cash deposited.