

Mock Test Paper - Series II: December, 2025

Date of Paper: 15th December, 2025

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

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

SUGGESTED ANSWERS

ANSWERS TO THE CASE STUDY 1

I. Answers to the Multiple Choice Questions

1.1 The correct answer is (A) – No.

Reason: Ind AS 12 on “Income Taxes”, require exercise of prudence while recognizing tax assets and required only probable existence of taxable profit against which deductible temporary differences can be utilized. Ind AS 12 is more realistic focusing only on probable existence of taxable profits. Ind AS 12 moves to exercise caution only in case of unused tax losses, where it specifies that deferred tax asset arising from unused tax losses or tax credits can be recognized only to the extent that the entity has sufficient temporary differences of there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the entity. Considering that there is no such convincing evidence available in this case, deferred tax asset should not be recognized.

1.2 The correct answer is (C) – 290 Lakhs.

Reason: According to Ind AS 7, Statement of Cash Flows, cash and cash equivalents are defined as short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. In this case, opening cash and cash equivalents has been given as ₹ 40 Lakhs and this excludes the amount of bank balances that are restricted. The aggregate of the amount of cash flows during the year from operating, investing and financing activities is ₹ 250 lakhs. Since there is no movement in the opening and closing restricted cash balance, it does not impact net cash flows for the year. Accordingly, the closing cash and cash equivalents as at 31 March 2025 is ₹ 290 lakhs (₹ 40 lakhs plus ₹ 250 lakhs.)

1.3 The correct answer is (A) – 130 Lakhs.

Reason: Ind AS 37 on 'Provisions, Contingent Liabilities and Contingent Assets' defines contingent liability as a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more of the uncertain future events not wholly within the control of the enterprise or a presents obligation that arises from past events but is not recognised because (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) a reliable estimate of the amount of obligation cannot be made.

As per the facts of the case study:

The Company currently has disclosed ₹ 125 lakhs as contingent liabilities.

LCs opened for imports – is not a past or present obligation and it arises only in the future bases on when the vendor supplies the goods. Hence, an LC is not a contingent liability.

In respect of the tax liable to be paid of ₹ 5 lakhs, whilst the company believes it has a fair chance, it is a possible obligation the outcome of which will be confirmed by the outcome of the appeal process. Hence, the same is to be disclosed as contingent liability.

On the legal notice of ₹ 300 lakhs, since the legal opinion states that probability of a cash outflow is more likely than not, it is not a contingent liability but is a provision to be accounted for in the financial statements.

1.4 The correct answer is (C) – Assertion (A) is true, but Reason (R) is false.

Reason: Assertion (A) is true - a legal notice can indeed be served for patent infringement.

Reason (R) is false - a patent does not allow unlimited time benefits; it provides exclusive rights only for a limited period (generally 20 years).

1.5 The correct answer is (A) – Incorrect since it is a financial asset/ contractual asset.

Reason: As per Ind AS 109 on Financial Instruments, an entity shall recognize a loss allowance for credit loss on the following:

- A financial asset that is recognized at amortized cost.
- A financial asset that is measured at fair value through other comprehensive income.
- A lease receivable.
- A contract asset or a loan commitment
- A financial guarantee contract.

Retention money receivable would normally meet the definition of a financial asset or a contract asset based on facts and circumstances applicable to a contract. Accordingly, ECL would be applicable for retention receivables under Ind AS 109.

II. Answers to the Descriptive Questions

- 1.6.** To investigate the profitability of the business for judging the accuracy of the schedule of repayment furnished by the borrower, as well as the value of the security in the form of assets of the business already possessed and those which will be created out of the loan, the investigating accountant should take the under-mentioned steps:
- (1) Prepare a condensed income statement from the Statement of **Profit and Loss for the previous five years**, showing separately therein various items of **income and expenses, the amounts of gross and net profits earned and taxes paid** annually during each of the five years. The amount of maintainable profits determined on the basis of foregoing statement should be increased by the amount by which these would increase on the investment of borrowed funds.
 - (2) Compute the under-mentioned ratios separately and then include them in the statement to show the trend as well as changes that have taken place in the financial position of the company:
 - (i) Sales to Average Inventories held.
 - (ii) Sales to Fixed Assets.
 - (iii) Equity to Fixed Assets.
 - (iv) Current Assets to Current Liabilities.
 - (v) Quick Assets (the current assets that are readily realizable) to Quick Liabilities.
 - (vi) Equity to Long Term Loans.
 - (vii) Sales to Book Debts.
 - (viii) Return on Capital Employed.
 - (3) Enter in a separate part of the statement the break-up of annual sales product-wise to show their trend.
- 1.7** In respect of tips collected by the company from the guests and distributed to the employees, the person responsible for paying the employee was not the employer at all, but **a third person, namely the guest**. The payments of collected tips included and paid by way of credit cards, UPI or Net Banking in the bills by guest, would not be **payments made “by or on behalf of” an employer**.

The contract of employment not being the proximate cause for the receipt of tips by the employee from a guest, such **payments would be outside the scope of Sections 15 and 17** of the Income tax Act, 1961.

There is no employer-employee relationship between customers and the employees of Nahar Hotels and Resorts Ltd. and therefore, **such payments do not fall in the nature of salary**. This view is supported by Supreme Court judgment (ITC Ltd v. CIT (2016) 384 ITR 14 (SC)).

On account of such tips being received from guests and not from the employer, Section 192 of the Income tax Act, 1961, would not get attracted at all in the hands of Nahar Hotels and Resorts Ltd. Thus, the company is **not responsible for deducting tax at source from disbursement of tips to its employees**.

- 1.8 As borrower does not want to pay more than 9.00% p.a., on this loan where the rate of interest is likely to rise beyond this, hence, he has to hedge the risk by entering into an agreement to buy interest rate caps with the following parameters:

- Notional Principal: ₹ 200,00,000/-
- Strike rate: 9.00% p.a.
- Reference rate: Rate of interest declared by Central Bank or the rate of interest applicable to this loan.
- Calculation and settlement date: 31st March every year.
- Duration of the caps: till 31st March 2028.
- Premium for caps: Negotiable between both the parties.

To purchase the caps, this borrower is required to pay the premium upfront at the time of buying caps. The payment of such premium will entitle him with right to receive the **compensation from the seller** of the caps as soon as the rate of interest on this loan **risers above 9.00%**.

The compensation will be at the rate of the difference between the rate of none of the cases the cost of this loan will rise above 9.00% calculated on ₹ 200,00,000.

This implies that in none of the cases the cost of this loan will rise above 9.00%. This hedging benefit is received at the respective interest due dates at the cost of premium to be paid only once.

ANSWERS TO THE CASE STUDY 2

I. Answers to the Multiple Choice Questions

2.1 The correct answer is (B) Both (ii) & (iii).

Reason: In the given case, during the audit, auditor failed to discover the fraud. It is clearly given that investigation indicated that the auditor did not exercise reasonable skill and care and performed his work in a casual and unmethodical manner. According to the Clause (7) of Part I of Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties". As per SA 240, "The auditor's responsibilities relating to fraud in an audit of financial statements", it can be concluded that the auditor did not plan and perform the audit with an attitude of professional scepticism. Thus, having regard to this and a fraud has actually taken place during the year, committed by the absconding cashier, it is reasonable to think that prima facie there is a case against the auditor for gross negligence. From the facts given in the case and by applying Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 and SA 240, it is clear that the auditor is guilty of professional misconduct.

2.2 The correct answer is (D) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of outstanding loans and borrowings of rupees 100 crore or more.

Reason: In given case, A Ltd. crosses the threshold limit of outstanding loans and borrowings of rupees 100 crore or more for getting Secretarial Audit conducted. Accordingly, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013.

[In terms of Rule 9(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, for the purposes of sub-section (1) of section 204, Every Company having outstanding loans or borrowings from banks or public financial institutions of 100 crore rupees or more.]

2.3 The correct answer is (A) No, as the Chairperson of the Audit Committee shall be an independent director.

Reason: As per Regulation 18(1) of LODR Regulations, the chairperson of the Audit Committee shall be an independent director and he shall be present at Annual General Meeting to answer shareholder queries.

- 2.4 The correct answer is (C)** There will be no GST liability on purchase of building while office furniture and fixtures will be liable to GST.

Reason: There will be no GST liability on purchase of building as sale of building is covered under Schedule III to the CGST Act, 2017. However, Office furniture and fixtures will be liable to GST.

- 2.5 The correct answer is (C)** Procurement since it supports to perform primary activities.

Reason: The EDI system will improve the system for sourcing and purchasing materials. This is procurement. Note that inbound logistics refers to inventory management - not the purchasing of inventory itself.

II. Answers to the Descriptive Questions

- 2.6** HR Head needs to evaluate multiple options and identify the most suitable option in light of the relevant provisions, guidance and overall governance of the organization. HR head also needs to evaluate different options for his administrative reporting and various options for functional reporting of Chief Internal Auditor. The possible options to be considered and evaluated may include the Board of Directors, Audit Committee, Managing Director of the Company, Chief Executive Officer or Chief Financial Officer.

As per section 138 of the Companies Act 2013, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in the practice or not), or such other professional as may be decided by the Board to conduct an internal audit of the functions and activities of the company.

As per the revised definition of the term 'Internal Audit' as per para 3 of the ICAI's Framework Governing Internal Audits, "Internal audit provides independent assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives".

The Internal Auditor shall be free from any undue influences which force him to deviate from the truth. This independence shall be not only in mind but also in appearance. Also, the internal auditor shall resist any undue pressure or interference in establishing the scope of the assignments or the manner in which these are conducted and reported, in case these deviate from set objectives.

As per the requirement of the above stated provision, Chief Internal Auditor needs to be independent of the operational activities and report of Audit Committee / Board of Directors to enjoy his true status of independent auditor. He may administratively report to CEO or Managing Director for his administrative reporting purpose or any other similar authority till the time it is approved by Board of Directors, and it does not impact his

independence to be able to perform his duties and report to audit committee / Board of Director independently.

- 2.7** Form 15CB is a certificate of an accountant wherein he certifies that he has examined the agreement between the remitter and the beneficiary requiring such remittance as well as the relevant documents and books of account required for ascertaining the nature of remittance and for determining the rate of deduction of tax at source. The chartered accountant certifying the form undertakes to have verified the agreement between the remitter and the beneficiary as well as the relevant documents and books of account to ascertain the nature of remittance and determine the rate of TDS. In this case, however, the chartered accountant mentioned that he had only verified KYC of signatory to invoice and the invoices thereof, He had not only failed to justify as to how verification of invoices was considered as sufficient compliance for certifying the forms but also failed to bring on record the said invoices. Thus, he failed to provide any basis on which he relied for issuing Form 15CB certificates to the company. On account of such failure, clauses (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 for failure to exercise due diligence in discharging his professional responsibilities and failure to obtain sufficient information may be invoked.

2.8 ROI

ROI expresses divisional profit as a percentage of the assets employed in the division. Assets employed can be defined as total divisional assets, assets controllable by the divisional manager, or net assets. ROI is a common measure and thus ideal for comparison across corporate divisions for companies of similar size and in similar sectors.

Division 'F'

controllable profit = ₹ 5,200K

Net Assets = ₹19,500k + ₹ 5,000K - ₹ 6,200K = ₹ 18,300K

ROI = 28.42%

Division 'G'

Controllable profit = ₹ 4,000K

Net Assets = ₹ 30,000K + ₹ 6,500K - ₹ 2,800K = ₹ 33,700K

ROI = 11.87%

Responsibility accounting advocates that managers performance shall be judged based upon how well he or she manages the items under his or her control, hence in computation Of ROI of division, controllable profit has been taken into consideration,

because head Office costs are not controllable by divisional managers. Figures of non-current and current assets apart from the current liabilities have been taken into consideration as they are such items over which divisional managers have complete control.

Bonus

Bonus to be paid for each whole percentage point is ₹ 21,600 (₹ 7,20,000 x 3%). But there is ceiling limit as well, i.e. 20% of salary hence the maximum Bonus be ₹ 1,44,000 (₹ 7,20,000 x 20%).

Division 'F'

Divisional ROI is 28.42%, which results in 16 whole percentage points above the minimum required ROI of 12%. Hence the bonus according to each whole percent of excess ROI will be ₹ 3,45,600 (16 x ₹ 21,600). But there is upper cap of ₹ 1,44,000. Therefore, BAO be paid the bonus of ₹ 1,44,000.

Division 'G'

Divisional ROI is 11.87%, since same is less than the minimum required ROI of 12%, hence PAO will not be rewarded with a bonus.

PAO will not receive any bonus since he has not earned any point above minimum percentage. This is due to the larger investment base on which the ROI figure has been computed. Total investment of Division 'G' is almost 1.84 times to that of Division 'F'. The major reason behind this is that Division 'G' invested ₹ 13.6 million (₹ 13,600K) in new equipment during the year. Ignoring this investment of division D is just 0.91 times to that of division 'F' and net Investments would have been only ₹ 20,100K and the ROI for Division 'G' would have been 19.9% resulting in payment of a bonus ₹ 1,44,000 (7 x ₹ 21,600 i.e. ₹ 1,51,200 but subject to upper cap of ₹ 1,44,000) rather than the nothing. So, PAO is being penalized for making investment decisions which are in the best interests of his division and company, because new investment enhance productivity which will support customer loyalty, dedication to customer services and quality, the CSFs for Q Ltd. It is very surprising that he decided to invest where he knew that he would receive a lesser bonus subsequently. On the other hand, BAO has benefited from the fact that he has not invested in anything even though it was needed for computer system updation. This is an example of sub-optimal decision making.

Further, Division 'F's trade payables are more than double those of Division 'G'. In part, one would expect this due to higher sales (almost 71% more than Division 'G') and low cash levels at Division 'F'. Higher trade payable leads to a reduction in net assets figures. The fact that Q Ltd. is rewarding BAO with a bonus, even though relationships with suppliers may be badly affected, is again a case of sub-optimal decision making.

If the profit margin (excluding head office cost) as percentage of sales is calculated, it comes to 17.33% (₹ 5,200 / ₹ 30,000) for division 'F' and 22.86% (₹ 4,000 / ₹ 17,500) for division 'G'. Therefore, it can be seen that division 'G' is performing better if capital employed is ignored. ROI is simply distorting the division 'G's performance.

PAO might feel extremely disappointed by getting nothing and in the future, he may opt to postpone the investment to increase the bonus. Non-investing in new technology and equipment will mean that the Q Ltd. will not be kept updated with industry changes and its overall future competitiveness will be affected.

Briefly, the use of ROI results in sub-optimal decision making and a lack of goal congruence i.e. what is good for the managers is not necessarily good for the company too and vice versa. Hence ROI is not a justifiable basis to compute the bonuses of divisional managers and also cause problem for Q Ltd.

2.9 The acquisition of the state-of-the-art building from P Ltd. offers A Ltd. several competitive advantages that can significantly enhance its position in the hospitality industry:

1. **Enhanced Service Offerings:** The new building will include modern conference spaces, food labs, beverage research and development facilities, and common areas. These additions allow A Ltd. to diversify its services, catering to a broader range of clients, including business travellers, corporate clients, and event organizers. By offering comprehensive, high-quality amenities, A Ltd. can attract new customer segments and retain existing ones, giving it a competitive edge over other players in the market.
2. **Differentiation in the Market:** The integration of cutting-edge facilities and high-quality furnishings sets A Ltd. apart from its competitors. In an industry where customer experience is paramount, the ability to provide state-of-the-art accommodations and services positions A Ltd. as a premium provider. This differentiation can lead to increased brand loyalty and the ability to command higher prices, further strengthening the company's market position.
3. **Future-Proofing and Innovation:** By incorporating food labs and beverage R&D facilities, A Ltd. is positioning itself as a leader in hospitality innovation. These facilities enable the company to experiment with new offerings and trends, staying ahead of market demands and setting trends rather than following them. This proactive approach to innovation helps A Ltd. maintain relevance in a rapidly evolving market.
4. **Operational Efficiency and Cost Savings:** The acquisition allows A Ltd. to consolidate its operations into a single, well-equipped location, leading to potential

cost savings in terms of logistics, maintenance, and management. Efficient operations can improve profit margins and provide the financial flexibility needed to invest in further growth or offer competitive pricing.

5. **Attracting High-Profile Clients and Events:** The availability of modern conference spaces and advanced facilities makes A Ltd. an attractive venue for high-profile clients and large-scale events. Hosting such events not only generates significant revenue but also enhances the company's reputation, leading to positive word-of-mouth and further business opportunities.
6. **Scalability and Growth Opportunities:** With an expanded and upgraded infrastructure, A Ltd. can scale its operations more effectively. Whether it's expanding into new markets, launching new services, or increasing capacity, the acquisition provides the physical and operational foundation needed for sustained growth.
7. **Strategic Positioning:** As part of A Ltd.'s Future Ready Action Plan, this acquisition aligns with the company's long-term strategy of making conferences, virtual offices, and collaborative workspaces more accessible. This strategic alignment ensures that A Ltd. remains competitive in the face of evolving market trends, particularly in response to the increasing demand for hybrid and virtual work environments.

In summary, the acquisition offers A Ltd. a comprehensive set of competitive advantages, from enhanced service offerings and market differentiation to innovation, operational efficiency, and strategic growth. These factors collectively strengthen A Ltd.'s market position, ensuring it remains a leader in the hospitality industry.

ANSWERS TO THE CASE STUDY 3

I. Answers to the Multiple Choice Questions

- 3.1 **The correct answer is (A)** – ₹ 25 Crore is Third stage funding, ₹ 15 Crore is second stage funding and risk perception for 10 Crore is extreme.
- 3.2 **The correct answer is (D)** – ₹ 5,44,00,000

Reason:

Computation of taxable value of machinery

Particulars	Amount (₹)
Basic price	5,00,00,000

Add: Installation	20,00,000
Add: Municipal tax	1,00,000
Less: Discount (Known at time of supply & recorded on invoice)	2,00,000
Add: Subsidy from non-Government body linked to price (includible if directly linked to price)	25,00,000
Taxable Value of machinery	5,44,00,000

Note: Interest collected later not included now (will be taxed when received)

3.3 The correct answer is (B) – Only statement (i)

3.4 The correct answer is (C) – (ii) and (iv)

Reason: Adjust the financial statements for impairment of receivables – Correct

Reason: Insolvency of a debtor provides evidence of conditions existing at the reporting date – hence, an adjusting event.

Disclose the dividend in notes as a non- adjusting event – Incorrect

Reason: Declaration of dividend after the reporting period is a non-adjusting event, requiring disclosure in the notes to accounts only. (Ind AS 4.69)

No accounting adjustment but disclose the event – Correct

Reason: Fire occurred after the reporting period and is not related to conditions existing at the reporting date – a non-adjusting event requiring disclosure. (Ind AS 4.71)

Reclassify the division as held for sale as at 31st March 2025 – Incorrect.

3.5 The correct answer is (A) – Both Assertion (a) and Reason (r) are true, and Reason (r) is the correct explanation of Assertion (a).

Reason: The company is deploying Advanced Material Handling Systems (AMHS), RFID-based scanning, automated sorting and packing stations, and ERP-integration, all of which replace manual handling with machine-driven warehouse operations. This transformation reflects Automation, as tasks such as order picking, scanning, sorting, and dispatch will now be performed with minimal human involvement.

The Reason correctly explains the Assertion as automation increases operational speed, minimises human error, provides inventory visibility in real time, reduces turnaround time in order processing etc. Therefore, both the Assertion and Reason are true, and the Reason is the correct explanation of the Assertion.

II. Answers to the Descriptive Questions

3.6 (a) Gross margin is calculated as the difference between the selling price and the bought-in (purchase) cost of goods. While this provides a basic profitability measure, it is inadequate for decision-making in modern retail due to the following reasons:

- **Ignores Indirect Costs:** It excludes overheads, storage, transport, labour for shelf stocking, and inventory financing, which are substantial in a retail setup.
- **Distorts Product Profitability:** Products with high gross margins may still be unprofitable after considering indirect costs like space consumption or handling time.
- **Misguides Strategic Decisions:** Using gross margin as the sole metric may lead to poor product mix choices, under-pricing, or failure to identify cost-draining SKUs.

(b) **Strategic Profitability Analysis** - Operating Profit of a firm is affected by various components which are responsible for changes in the revenue and costs.

Majorly there are three components –

- (i) **Growth Component** measures the change in the quantity of output sold. The growth component of the change in the operating income measures the increase/ decrease in revenue and in costs due to selling more/ less quantity units from the previous period.
- (ii) **Price Recovery Component** of change in operating income measures the changes in the revenue and costs solely due to changes in prices.
- (iii) **Productivity Component** measures the change in the operating income due to changes in the product mix and/ or yield of inputs as compared with the last year. This component uses current year's prices of input to measure the changes in costs only.

3.7 **As per SA 580, "Written Representations"**, as written representations are **necessary audit evidence**, the auditor's opinion cannot be expressed, and the auditor's report cannot be **dated before the date of the written representations**.

As per **SA 560 "Subsequent Events"**, the auditor is concerned with events occurring up to the date of the auditor's report that may require **adjustment to or disclosure in the financial statements**, the written representations are dated as near as practicable to, but **not after, the date of the auditor's report** on the financial statements.

In some circumstances it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the course of the audit. Where this is the case, it may be necessary to request an updated written representation.

The written representations are for all periods referred to in the auditor's report because management needs to reaffirm that the written representations, it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

Situations may arise where current management were not present during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all the written representations because they were not in place during the period. **This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole.**

Accordingly, the requirement for the auditor to request from them, written representations that cover the whole of the relevant period(s) still applies. Therefore, as per the above requirement of SA 580 auditors should take written representation letter from management of the company for the financial year 2022-23 and 2023-24 also.

In case the management does not provide written representation as requested, the auditor shall discuss with the management, re-evaluate the integrity of management, and take appropriate actions including the impact on the audit report as per SA 705.

- 3.8** If a taxable person is making **both taxable and exempt supply**, he is entitled to avail full credit of ITC in respect of capital goods exclusively used for taxable supply and **no credit at all can be availed for capital goods exclusively used for exempt supply.**

Where the registered person has **claimed depreciation** on the tax component of the cost of capital goods and plant and machinery under the provisions of the Income-tax Act, 1961, the **input tax credit on the said tax component shall not be allowed.**

BLOCKED CREDIT: ITC of tax paid on capital goods used for supply of taxable goods and/or services is allowed under GST except a small list of items provided u/s 17(5) of the CGST Act, 2017. Thus, ITC on such items is not allowed even though the same may qualify as capital goods and are used in the course or furtherance of business.

The blocked list of credit covers mainly items of personal consumption, use of which results into formation of an immovable property (except plant and machinery), telecommunication towers, pipelines laid outside the factory premises, etc.

ANSWERS TO THE CASE STUDY 4

I. Answers to the Multiple Choice Questions

- 4.1 The correct answer is (B) – Improper use of operational metrics as Critical Success Factor

Reason: This is actually a Key Performance Indicator (KPI). CSFs are broader areas that influence success, not measurable targets.

- 4.2 The correct answer is (D) – A Company not registered under FCRA must obtain prior permission before accepting any foreign contribution.

Reason: Under Section 11 of the FCRA, 2010, no person (including a company) having a definite cultural, economic, educational, religious, or social programme can accept foreign contribution unless has either obtained registration or prior permission. In this case, the contribution for research is considered a foreign contribution for a social / educational /economic purpose, and accepting it without prior permission is a violation.

- 4.3 The correct answer is (C) – The legal settlement gain and inventory write -down must be recognised in Q2 2024-25; actuarial gain should be recognised in OC; comparative figures for Q2 2023-24 should be restated for the revenue error and new Ind AS adoption.

Reason: *Legal Settlement Gain:* Recognised in the interim period (Q2) when it become virtually certain and measurable (as per Ind AS 37 and Ind AS 34)

Inventory Write -down: Must be recognised in the interim financials if evidence arises during the period (Ind AS 2 and Ind AS 34).

Actuarial Gains: As per Ind AS 19, they are recognised in OCI, even in interim financials. Ind AS 34 requires consistent application of accounting policies.

Prior Period Error: Requires retrospective restatement under Ind AS 8, including in interim reports.

New Ind AS Adoption: Retrospective application means comparatives should also be restated as per Ind AS 8. (3.93 Ind AS 34)

4.4 The correct answer is (A) – ₹ 17,84,800

Reason:

Calculation of Long Terms Capital Gain Tax Liability

Particulars	Without Revers Mortgage	Without Revers Mortgage	With Reverse Mortgage	With Reverse Mortgage
	With Index	Without Index	With Index	Without Index
Sales	1,25,00,000	1,25,00,000	1,25,00,000	1,25,00,000
Less: Brokerage	75,000	75,000	75,000	75,000
Less: Amount received under reverse mortgage	---	---	9,60,000	9,60,000
Net Consideration	1,24,25,000	1,24,25,000	1,14,65,000	1,14,65,000
Less: Index Cost	25,41,000	---	25,41,000	---
Less: Non-Index Cost	---	7,00,000	---	7,00,000
Long term Capital Gain	98,84,000	1,17,25,000	89,24,000	1,07,65,600
Tax %	20%	12.5%	20%	12.5%
Tax Liability	19,76,800	14,65,625	17,84,800	13,45,625

4.5 The correct answer is (D) – Statement (ii) and (iii)

Reason: Option (i) is incorrect: Supply to SEZ is inter -State supply even if supplier and SEZ are in same State (Section 7 of IGST Act).

Option (ii) is correct: Supply to SEZ is zero-rated, and supplier needs to supply either under bond /LUT without payment of tax or charge IGST.

Option (iii) is correct: SEZ has to deposit RCM and then claim refund.

II. Answers to the Descriptive Questions

4.6 When departments and functions try to maximise their own performance and efficiency at the expense of the whole organisation it leads to **sub-optimisation**.

Business integration can be seen as proposed solution because, through it –

- Processes are viewed from an entity's perspective (rather than from the viewpoint of an individual department or function), that stretch from the initial order to the final delivery of a product.
- Information Technology breakthroughs can be used to integrate these processes and activities.

4.7 Realisation and Repatriation of Export Proceeds:

As per FEMA (Export of Goods & Services) Regulations, 2015, and the Master Direction on Export of Goods and Services, export proceeds must be realised and repatriated to India within the prescribed time limit:

For normal goods and services: 9 months from the date of export.

Where an exporter receives advance payment (with or without interest), from a buyer / third party named in the export declaration made by the exporter, outside India, the exporter shall be under an obligation to ensure that –

The shipment of goods is made within one year from the date of receipt of advance payment.

In case of **full conversion of ECB into equity**, the reporting to the Reserve Bank will be as under:

the entire portion is to be reported in **Form FC-GPR, while reporting to DSIM in Form ECB 2** Return should be done with remarks "ECB fully converted to equity". **Subsequent filing of Form ECB 2 Return is not required.**

Limit for financial commitment - (1) The total financial commitment made by an Indian entity in all the foreign entities taken together at the time of undertaking such commitment shall not exceed **400 percent of its net worth as on the date of the last audited balance sheet** or as directed by the Reserve Bank, in consultation with Central Government from time to time.

4.8 Checklist for documentary evidence to be submitted:

A statement containing:

- number and date of export invoices along with copy of such Invoices,
- the number and date of shipping bills or bills of export along with copy of such shipping bills or bills of export,
- the number and date of Bank Realisation Certificate (BRC) or Foreign Inward Remittance Certificate (FIRC) in respect of such shipping bills or bills of export along with copy of such BRC / FIRC.

- the details of:
 - ✓ refund already sanctioned,
 - ✓ the number and date of relevant supplementary invoices or debit note issued subsequent to the upward revision in prices along with copy of such supplementary invoices/debit notes.
- the details of:
- payment of additional amount of IGST,
- proof of payment of such additional amount of integrated tax and interest paid thereon,
- number and date of FIRC in respect of additional FOREX received in respect of upward revision in price of exports along with copy of such FIRC.

Certificate issued by a practicing-chartered accountant or a cost accountant to the effect that the said additional FOREX remittance is on account of such upward revision in price of the goods subsequent to exports

Copy of contract or other documents, as applicable. A reconciliation statement reconciling the value of supplies declared in supplementary invoices, debit notes or credit notes issued along with relevant details of BRC or FIRC.

ANSWERS TO THE CASE STUDY 5

I. Answers to the Multiple Choice Questions

5.1 The correct answer is (A) – Arriving at the cost of capital which in turns depend on Beta.

Reason:

5.2 The correct answer is (C) – RSL should have one independent Women Director on its Board and any one of Rahul, Raman or Mohit should also be a director in the Board of RLV.

Reason: Board of Directors [Regulation 17]

Composition of Board: The composition of board of directors (BOD) of the listed entity shall be as follows:

- BOD shall have optimum combination of executive and non -executive directors with at least one-woman director and not less than 50% of the BOD shall comprise of non-executive directors.

Provided that the BOD of the top 1,000 listed entities shall have at least one independent woman director.

Regulation 24- At least one independent director on the board of directors of the listed entity shall be director on the board of directors of an unlisted material subsidiary, whether incorporated in India or not.

- 5.3 The correct answer is (C)** – It is not valid as it is based on the information and documents which were collected prior to marriage.

Reason: Power to collect information and record statements in connection with any function, ceremony or event [Section 133A(5)]: The income -tax authorities would also have the power to collect information and record the statements of any of the persons concerned at any time after any function, ceremony or event but even before the state of commencement of assessment proceedings for the following year for which the information may be relevant, if they are of the opinion that having due regard to the nature, scale and extent of the expenditure incurred, it is necessary or expedient to do so. This provision is intended to help in collecting evidence about ostentatious expenditure incurred for any function, etc., immediately after the event which may be used at the time of the assessment.

Meaning of “income tax authority” and restriction to exercise the power under this section [Clause (a) of Explanation to section 133A]. “Income tax authority”. For the purpose of this section, means-

- (i) a principal Commissioner or Commissioner, a Principal Director or Director, a Joint Commissioner or Joint Director, an Assistant Director or Deputy Director or Deputy Director or an Assessing Officer or a Tax Recovery Officer; and
- (ii) includes an inspector of Income tax (only for the purpose of inspection of books of account or other documents, placing marks of identification on such books of account or other documents inspected by him and making or causing to be made extracts or copies therefrom and recording statements from any person in connection with any ceremony, function or event mentioned in section 133A(5) above).

- 5.4 The correct answer is (B)** – RR Enterprises and RSZ(P) Ltd. are deemed Associated Enterprises as Ravi and Rajeev are relatives and they both control their respective enterprises.

Reason:

5.5 The correct answer is (C) – Classification is incorrect as the same is treated as zero rated supply and also the correct provisional refund amount is ₹ 34.20 lakh and the same will be received within 7 days after giving the acknowledgement.

Reason: Zero rated supply: Zero rated supply shall have the meaning assigned to it in section 16 of the IGST Act, 2017 [Section 2 (23) of the IGST Act, 2017]. As per section 16(1) of IGST Act, “zero rated supply” means any of the following supplies of goods or services or both, namely:-

- (a) export of goods or services or both; or
- (b) supply of goods or services or both for authorized operations to a Special Economic Zone developer or a Special Economic Zone unit.

GST law provides for grant of provisional refund of 90% of the total refund claim, in case the claim relates for refund arising on account of zero -rated supplies. The provisional refund would be paid within 7 days after giving the acknowledgement

II. Answers to the Descriptive Questions

5.6 A target company can adopt a number of tactics to defend itself from hostile takeover through a tender offer:

- **Divestiture** - In a divestiture the target company divests or spins off some of its businesses in the form of an independent, subsidiary company. Thus, reducing the attractiveness of the existing business to the acquirer.
- **Crown jewels** - When a target company uses the tactic of divestiture it is said to sell the crown jewels. In some countries such as the UK, such tactic is not allowed once the deal becomes known and is unavoidable.
- **Poison pill** - The tactics used by the acquiring company to make itself unattractive to a potential bidder is called poison pills. For instance, the acquiring company may issue substantial amount of convertible debentures to its existing shareholders to be converted at a future date when it faces a takeover threat. The task of the bidder would become difficult since the number of shares having voting control of the company increases substantially.
- **Poison Put** - In this case the target company issues bonds that encourage the holder to cash in at higher prices. The resultant cash drainage would make the target unattractive.
- **Greenmail** - Greenmail refers to an incentive offered by management of the target company to the potential bidder for not pursuing the takeover. The

management of the target company may offer the acquirer a higher price for its shares than the market price.

- **White knight** - In this a target company offers to be acquired by a friendly company to escape from a hostile takeover. The possible motive for the management of the target company to do so is not to lose the management of the company as the hostile acquirer may change the management.
- **White squire** - This strategy is essentially the same as white knight and involves sell out of shares to a company that is not interested in the takeover. Consequently, the management of the target company retains its control over the company.
- **Golden parachutes** - When a company offers hefty compensations to its managers if they get ousted due to takeover, the company is said to offer golden parachutes. This reduces acquirer's interest for takeover.
- **Pac-man defence** - This strategy aims at the target company making a counter bid for the acquirer company. This would force the acquirer to defend itself and consequently may call off its proposal for takeover.

5.7 Supplementary Information Presented with the Financial Statements

If supplementary information that is not required by the applicable financial reporting framework is:

- presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's professional judgment, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion.
- not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited.

In the case of Retail Stores Limited [RSL], the auditor shall evaluate the nature and presentation of the supplementary inventory disclosures, including the breakdown of inventory categories, aging, geographical segmentation, obsolete and slow-moving

items, purchase commitments, impact of inflation or price changes, and seasonality effects, for the year ended 31st March 2024.

As per SA700, if these disclosures are considered integral to the financial statements (for example, forming part of the notes to accounts on inventory), they shall be covered by the auditor's opinion.

If they are not integral, the auditor must ensure that they are clearly differentiated from the audited financial statements.

Where such differentiation is not made and management refuses to revise the presentation, **the auditor shall appropriately identify in the audit report that the supplementary information has not been audited and is not covered by the auditor's opinion.**

5.8 IGST on goods imported into India is levied and collected in accordance with the provisions of section 3 of the Customs Tariff Act, 1975 [Proviso to section 5(1) of the IGST Act, 2017]. Thus, though goods imported into India are leviable to IGST under the IGST Act, **machinery of the customs law is used to levy and collect the same.**

- (i) The place of supply of goods, imported into India is the location of the importer [Section 11 of the IGST Act, 2017] - Punjab.
- (ii) IGST on goods imported into India is levied and collected at the point when duties of customs are levied on the said goods under the Customs Act, 1962. Customs duty is leviable when importation of goods gets complete, i.e. when the goods become part of the mass of goods within the country; the taxable event being reached at the time when the **goods reach the customs barriers and bill of entry for home consumption is filed**. Thus, the point of levy and collection of IGST is the point when the bill of entry for home consumption is filed.

The value of the goods for the purpose of levying IGST is the assessable value of the imported goods determined under section 14 of the Customs Act, 1962 plus customs duty levied under that Act and any other sum chargeable on the said goods under any law for the time being in force as customs duties excluding IGST and GST Compensation Cess (wherever applicable).