Mock Test Paper - Series I: September, 2024

Date of Paper: 21st September, 2024

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

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

*Attempt any **four** out of **five** case study based questions.*

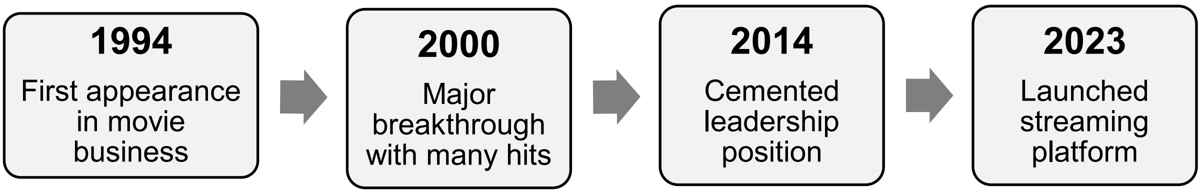
Each Case Study carries 25 Marks.

Time Allowed – 4 Hours **Maximum Marks – 100**

CASE STUDY 1

Journey of Rahul & Raj Films Ltd.

The journey of Rahul & Raj Films Ltd. ("R & R") began in 1994, weaving captivating tales that unfolded on small screen, followed by hitting the big screen in 2000. At the helm of this creative enterprise, is Mr. Shah Ratan Kumar, Ms. Rani Kapoor and Ms. Nutan Dubey orchestrated a symphony of talent and vision, propelling R & R to the forefront of India's entertainment industry. Recognized as pioneers in movie production, The company have carved a niche for itself, enchanting viewers with an array of captivating narratives across various mediums and genres.



The company has established strong Board of Directors comprising seasoned professionals from diverse backgrounds, who bring their expertise and guidance to steer the company towards sustainable growth. The Board exercises prudent oversight, ensuring strategic alignment, risk management and adherence to corporate governance standards. The Board of Directors and senior management details are given as per Annexure -A.

India's Film Industry: A Growing Giant

India's film industry is one of the largest in the world with more than 2,000 motion picture films ('movies') release per year viewed by over 3 billion moviegoers annually. It is ₹ 260 billion industry and is expected to grow to ₹ 600 billion by 2039. The Indian Film Industry comprises of motion picture films produced across India. This industry enjoys mass appeal and is probably the most important content feeder to other businesses in the Media & Entertainment space. Opportunity in the industry lies in meeting the demands of the new age consumer who seeks customized content tailored to their preferences. This shift in consumer behaviour presents a favourable environment for the company to thrive and capitalize on emerging opportunities. The industry is witnessing the following megatrends:

Megatrend 1: Witnessing the adoption of emerging technologies to offer immersive viewing experiences. Virtual Reality and Augmented Reality are being leveraged.	**Megatrend 2:** With the rise of digitalized communities, brands and platforms are actively incorporating features like 'go live' to build online communities.	**Megatrend 3:** The globalization of media and entertainment services presents new opportunities for content creators, distributors and advertisers.

Key Business Strategies: Expanding Horizons

R & R, remains committed to producing engaging content, leveraging experience and expertise and expanding customer base. The focus on quality, adaptability and innovation continues to drive success in the dynamic world of entertainment. Movie making broadly involves the following steps:

Ideation
- Budget study
- Recee
- Script scouting

Pre-production
- Script writing
- Audition of artists
- Set constuction

Production
- Film shooting
- Visual effects
- Dubbing

Release
- Marketing for release
- Event expenses

The key business strategies of R & R are as follows:

- **Expanding into Non-Fiction:** The company also enhances its focus towards non-fiction content and successfully launched 'Locked in' in the current year, which emerged as the highest-watched movie, showcasing the extensive reach of its business. This success encourages to continue emphasizing transforming passive audiences into engaged prospects by striving to bring more out-of-the-box content-led movies.

- **Quality over Quantity:** The company driven by fundamental principle of choosing quality over quantity when it comes to content. With decades of experience, the enhanced industry knowledge and ability to gauge ongoing and emerging trends have helped the company serve better. The company have built a better understanding of the choices and preferences of audience, enabling it to consistently deliver content that resonates with them.

- **Enhancing User Experience:** While the emphasis remains on connecting with more people in better way The company also stay aligned with the need of the time to adapt to the surrounding changes. Technological upgradation has become an integral part of our business as the company continue to cater to the entertainment needs of audiences through digital platforms. Refer Annexure B for customer feedback.

Box office hits of the current year

The swords of Wasseypur	**Locked Heart**	**Baahubal**

New Projects and Strategic Decisions

The movie ‘Simran’ is currently being conceptualised, where the primary focus is on gathering detailed information and developing a solid foundation for the storyline. The project aims to explore the theme of woman empowerment. The objective at this stage is to ensure the story is grounded in accurate, relevant, and engaging content. This includes examining historical contexts, cultural elements, scientific data, or other relevant fields to enhance the authenticity and depth of the narrative. The next steps involve synthesizing the gathered information into a coherent storyline, developing character profiles, and creating a detailed plot outline. Collaboration with subject matter experts will continue to ensure the highest level of accuracy and authenticity in the portrayal of the chosen themes.

The company decided to abandon the movie ‘Kaleen Bhaiya’. The decision to abandon the movie project was primarily due to the story not meeting the desired standards. Despite multiple revisions and considerable effort from the writing team, the narrative failed to captivate and engage in the way that was envisioned. The lack of a compelling and cohesive storyline made it difficult to move forward with production. The team agreed that it would be best to discontinue the project rather than invest further resources into a script that did not meet the creative expectations.

Music Rights and Revenue Growth

In India, music is an important feature of motion picture films. Music rights are generally sold to music companies during the production stage itself. As music plays an important role in the marketing of a motion picture film, music companies release the soundtrack prior to the theatrical release. These rights are generally assigned to the music company in perpetuity for a fixed fee. Where the producer has right to future royalty after achievement of threshold sales by the music company, royalty income is recognized as earned, when communicated/ confirmed by the music company.

On 1st September 2023, the company grants music rights of its three upcoming movies to 'GOLD', a music company for ₹ 3,000 lakhs receivable on date of contract signing. The contract condition stipulates that proportionate amount shall be refunded in case of non-release of music of any of the three movies. The music rights are made available to the music company for the first film on 1st December 2023, second film on 1st January, 2024 and for the third film on 1st July, 2024.

During the F.Y. 2023-24, R & R continued to thrive across various mediums, delivering captivating content that resonated with the audiences. The Group reported 76% increase in revenue to ₹ 593 crores vis-à-vis ₹ 337 crores in the previous financial year. Cost of production also increased to ₹ 511 crores vis-à-vis ₹ 327 crores in the previous financial year in line with increase in production hours, crossing the milestone of producing more than 1,000 hours of content during the fiscal year. EBIDTA loss at ₹ 19 crores was narrowed by 84% in the current financial year over loss of ₹ 122 crores in the previous financial year. The company has improved its accounts receivable collection efficiency, reducing the sales outstanding from 164 to 160 days

Auditor Engagement and Concerns

Ranveer and Ranbir LLP are appointed as auditors of the company since last 4 years. The firm's audit & assurance practise in different sectors including Media & Telecommunications is dedicated to delivering exceptional quality and innovative solutions with team of experienced professionals who offer in-depth industry expertise and insightful audits, ensuring that clients receive the highest level of assurance. The firm is an auditor to many of the country's most recognizable brands in the market today.

Considering the continuance of audit, the engagement partner is deliberating whether a new engagement letter should be sent for the audit of the current F.Y. ended 31st March, 2024. Till last year, an engagement letter was sent for audit of every F.Y. despite no change of laws and regulations, auditors/management responsibilities.

During the audit engagement, the auditor observed that the days outstanding are significantly higher than industry averages and decided to obtain independent balance confirmations of trade receivables. The confirmation letter requests the customer to respond directly to the auditor indicating whether the party agrees or disagrees with the information in the request or provide the requested information. Based on previous experience, the auditor believed that the responses to the confirmation requests would be insufficient. This is primarily due to the fact the company works in an unorganised sector and every customer may not readily maintain updated books and records. Also due to lack of interest, customers may generally be reluctant in confirming balances.

Subsidiary Operations and Market Position

R & R operates movie theatres in different parts of the country through the following group entities:

Mangla Talkies Ltd.

Established 10 years ago in Mumbai with the strategic objective to identify movie theatres at different parts of the country and secure time slot of exhibitions and other logistical aspects. At the moment logistical related aspects of about 50% of the movies exhibited by R & R is handled by this subsidiary. In recent years, competition between theatre owners has intensified. It has been estimated that total annual turnover for the movie exhibition in the country has fallen by 5% in the past two years. The estimated market share of Mangla Talkies, which operates the fifth largest movie logistics management company, has fallen from 14% to 13% in the same period. It has a low-profit margin.

Prospects for the entertainment industry is uncertain, partly because of lower box office collections but also because of availability of alternate entertainment avenues. OTT platforms have limited the number of movies that are released each year. There is concern that the OTT platform will reduce movie production over time.

Sangam Theatres Ltd.

Sangam Theatres was acquired about 20 years ago when it was a newly established company. At the moment about 50% of the movies released by R & R is exhibited by Sangam Theatres. R & R used government grants, available at the time (but no longer) to invest in modernisation of the theatre. Sangam Theatres is now a leading theatre operator, and it attracts a large amount of its business from other companies, partly because of its operating capabilities but also because of its relatively low costs. The low costs are achievable because Sangam Theatres uses relatively modern equipments having larger capacities. The market is fairly static, increased in size by just 2% in the past two years. Annual turnover for Sangam Theatres has risen by 8% in the same period, and its profits are also rising. Sangam Theatre also exhibits movies of other movie producers.

Payal Movies Ltd.

Payal was acquired 7 years ago as a strategic response to the declining regional movie market. It operates several movie theatres at various states. R & R has experienced problems with Payal Movies since its acquisition. Operating costs have been higher than expected. Over the past 2 years the market has increased by 20%. Annual revenue of has risen by 12% in the same period, but its annual profits have risen only slightly.

Vijay Screens Ltd.

R & R established a subsidiary company - Vijay Screens to create a platform for documentaries and similar movies created by the upcoming directors. Competition in the business is strong, and profit margins for Vijay Screens are narrow, but R & R considered that owning a platform for documentary movies would give it greater control over its movies' portfolio.

ANNEXURE-A

The Board of Directors of R&R comprises of following persons:

Mr. Shah Ratan Kumar ***Promoter and Non-Executive Chairman***	A celebrated movie star and starring in more than 200 movies in his career of 50 years. He is particularly popular as a romantic lead. He is also a reputed film producer. He has won a number of prestigious awards, including the Lifetime Achievement Award, as well as Dadasaheb Phalke Academy Award
Ms. Rani Kapoor ***Promoter and Managing Director***	Has been in charge of company's operational management and efficiency and in controlling 'on set' activity. She has won a number of prestigious awards including CEO of the Year and Businesswoman of the Year. Earlier the position was held by Mr. A. Suleiman.
Ms. Nutan Dubey ***Promoter and Joint Managing Director***	Undertakes the day-to-day creative direction of movies produced by the company. She has won a number of prestigious awards, including the Businesswoman of the Year and Entrepreneur of the Year.
Ms. Sanna Mukherjee ***Independent Director***	An industry veteran with over three decades of experience in the media and entertainment business. Appointed as CEO of Vianet19 to drive its transition into a truly integrated media company across broadcast and digital, and across entertainment and sports in over 8 languages. Her initial appointment as an Independent Director was for 1 year and was then reappointed for another term of 5 years which would end on 30th July, 2024. The Board proposes to appoint her for another term of 5 years. If her appointment proposal is accepted as per applicable laws and regulations, Ms. Sanna will attain 68 years of age on completion of her third term.
Mr. S. Dutt ***Independent Director***	Chartered Accountant by profession and is a Life & Fellow Member of the Institute of Chartered Accountants in England and Wales and a Fellow Member of the Institute of Chartered Accountants of India. He was a partner at CA firm, Salman & Aamir from 1969 and was the Senior Partner (Chairman) of the firm from 1989 till 1999.
Mr. Prem Naryan Chopra ***Group CFO***	A Chartered Accountant by profession and is a Life & Fellow Member of the Institute of Chartered Accountants in Australia and a Fellow Member of the Institute of Chartered Accountants of India. He also served as the Chairman of the Direct Taxation Committee of the Southern India Chamber of Commerce & Industry and was a member of the Board of Governors of the Doon School, Dehradun. Earlier this position was held by Amrish Nath till last year.
Ms. Juliya Jain ***Group Head – Secretarial***	Joined the company in the current year and holds a Bachelor's Degree in Commerce and a Bachelor's Degree in Law from the University of Delhi. She has over 36 years of rich experience in the Finance, Capital Markets, Banking, General Corporate Advice and Regulatory Practices. She was a Senior Partner at BZA Legal, Executive Vice President and Head of Legal & Compliance Department at Credit Bank Ltd. Previously this position was held by Ms. Deepika Singhal.

ANNEXURE-B

EXTRACTS FROM CUSTOMER'S FEEDBACK

Yusuf J., Friday, 4:00 p.m., August 15, 2024

At Rahul & Raj, I believe that the movie-going experience doesn't end when the credits roll. Every visit to Sangam Theatres is an opportunity to create lasting memories, and I'm committed to making each one better than the last.

★★★

Thank you so much for your kind words! We're thrilled to hear that you had such a positive experience at Sangam Theatres. We've worked hard to make sure every visit is as seamless and enjoyable as possible; from the moment you park to the end.

Tina M., Friday, 2:30 p.m., August 15, 2024

While I've always enjoyed watching movies at Mangla Talkies, my recent visit left me with mixed feelings. The movie itself was fantastic, but I noticed that the service quality has slipped a bit. The concession stand took longer than usual, and the seating wasn't as comfortable as I remembered.

★☆☆

Thank you for sharing your experience. We truly appreciate your loyalty to Mangla Talkies and sorry to hear that your recent visit didn't meet your expectations. Your feedback is invaluable, and we want you to know that we're taking it seriously. We're already looking into the service delays at the concession stand and the seating comfort, and we're committed to making improvements. We hope you'll notice the difference on your next visit, and We look forward to welcoming you back to a better experience soon.

I. Multiple Choice Questions

1.1 Should the auditor send an engagement letter for the audit of the current financial year of R & R? Choose the correct statement.

(a) New engagement letter should be sent if there is recent change of senior management or similar at R & R.

(b) New engagement letter should be sent every year including recurring audit engagements under the Companies Act, 2013.

(c) It is optional to obtain to new engagement letter for recurring audit engagements as envisaged under SA 210.

(d) The Companies Act, 2013 mandates auditors to obtain engagement letter for every audit.

1.2 What type of confirmation request have been designed by the auditor while auditing trade receivables?

(a) Negative confirmation request

(b) Positive confirmation request

(c) Hybrid confirmation request

(d) Blank confirmation request

1.3 What amount of revenue from music rights be recognised in the financial statements of FY 2023-2024?

(a) ₹ 2,000 lakhs

(b) ₹ 3,000 lakhs

(c) ₹ 1,000 lakhs

(d) ₹ 593 crores

1.4 Can Ms. Sanna Mukherjee be reappointed as an independent director for another term of 5 years?

(a) Under the Companies Act, 2013, an independent director can be appointed for a maximum period of 10 years. Ms. Sanna Mukherjee can be reappointed as an independent director for the remaining period of 4 years.

(b) Under the Companies Act, 2013, an independent director can be appointed for 2 consecutive terms – each term being 5 years (i.e. 10 years). Ms. Sanna Mukherjee can be reappointed as an independent director for another term of 5 years since her first term was lesser period (i.e. 1 year instead of 5 years) as provided under the Companies Act, 2013.

(c) Under the Companies Act, 2013, an independent director can be appointed for maximum 2 consecutive terms – each term can be upto 5 years (i.e. 10 years). Ms. Sanna Mukherjee cannot be reappointed as an independent director since she would attain 68 years of age on completion of the proposed term of 5 years. Any person attaining 68 years of age cannot be appointed as an independent director.

(d) Under the Companies Act, 2013, an independent director can be appointed for maximum 2 consecutive terms – each term can be upto 5 years (i.e. 10 years). Ms. Sanna Mukherjee cannot be reappointed as an independent director since she has completed 2 consecutive terms. Appointment for a term less than 5 years is treated as one term.

1.5 Whether the cost of production of 'Kaleen Bhaiya' can be claimed as a deduction while filing ITR by the company?

(a) Cost of production of abandoned movie can be claimed as a deduction while filing ITR by the company as a capital expenditure.

(b) Cost of production of abandoned movie can be claimed as a deduction while filing ITR by the company as revenue expenditure.

(c) Deduction of cost of production cannot be claimed under Rule 9A of the Income Tax Rules 1962, since the movie was not certified for release by Board of Censors.

(d) Deduction of cost of production can be claimed under Rule 9A of the Income Tax Rules 1962, since the cost of production did not exceed the monetary limit of ₹ 500 crores prescribed in aforesaid Rule.

(5 x 2 = 10 Marks)

II. Descriptive Questions

1.6 EVALUATE the intricate value chain of R & R, focusing on the production, acquisition, distribution, and exhibition of movies. DISCUSS the operational challenges in each stage and how they affect the company's efficiency and overall success. **(6 Marks)**

1.7 Whether the production of the movie 'Simran' is at the research or development stage under the relevant Ind AS. Explain the accounting treatment for the cost incurred till date with respect to the said movie? **(4 Marks)**

1.8 Explain the reason for obtaining independent confirmation prescribed under SA 505? What alternate procedures should the auditors, Ranveer and Ranvir LLP, perform if the response of independent confirmation of trade receivable was inadequate? **(5 Marks)**

CASE STUDY 2

Dev Products Ltd. (DPL): A Journey of Strategic Growth

Founded in the heart of India's industrial hub, Lucknow, in the early 1980s, Dev Products Ltd. (DPL) began its journey as a modest manufacturing unit specializing in agricultural implements. The company's entrepreneurial spirit and a keen understanding of rural India's needs propelled its initial growth. Recognizing the burgeoning construction sector, DPL expanded its product line in the late 1990s to include basic building materials. This strategic move proved to be a cornerstone in solidifying the company's position in the market.

Over the decades, DPL consistently reinvested its profits into research and development, enabling it to diversify its product portfolio. The early 2000s witnessed DPL's foray into the consumer durables market with the introduction of essential home appliances. This expansion was driven by the growing middle class and the increasing demand for modern conveniences. The company's commitment to quality and affordability quickly garnered a loyal customer base. By the mid-2010s, DPL had established itself as a formidable force in the Indian manufacturing industry. The company's ability to adapt to evolving market trends and consumer preferences allowed it to navigate economic challenges and emerge stronger. A strategic focus on building a robust distribution network and prioritizing customer satisfaction further cemented DPL's position as a trusted brand.

The company's product portfolio is strategically categorized to cater to different market segments, offering a comprehensive range of building materials essential for various construction projects, including pipes, wires, electrical fittings, and prefabricated building components. In the home appliances sector, DPL meets the needs of modern households with a selection of essential appliances like refrigerators, washing machines, and water purifiers, potentially expanding to include smaller appliances like kettles or toasters. Recognizing the importance of long-lasting consumer durables, DPL's offerings in this category include products like bicycles, furniture, and even electronics like televisions. Beyond product diversification, DPL prioritizes exceptional customer service and has established a robust distribution network across North India, ensuring easy product availability for retailers and consumers. Additionally, DPL emphasizes responsive after-sales support through a network of service centres, fostering customer satisfaction and brand loyalty.

Strategic Acquisition of BDM Ltd.

In a strategic move to enhance synergy and expand its market presence, Dev Products Ltd. (DPL) acquired BDM Ltd. BDM Ltd. is projected to generate an expected free cash flow of ₹ 2 crores for the upcoming year, with a forecasted growth rate of 5%. The company's cost of equity is calculated at 12%, while the after-tax cost of debt stands at 6%. Notably, the market value of BDM Ltd.'s equity is estimated to be three times its book value, whereas the book value as well as the market value of its debt is equivalent to book value of equity.

The acquisition process saw significant milestones, beginning with the receipt of the certified copy of the order of amalgamation from the National Company Law Tribunal (NCLT) on 26th April 2023. This document, dated 25th April 2023, was subsequently filed with the Registrar of Companies (ROC) for registration on 2nd May 2023, within the stipulated timeline. The amalgamation was officially registered by the ROC on 10th May 2023, with the scheme of amalgamation indicating an appointed date of 5th May 2023.

Initially, BDM Ltd. was valued at ₹50 crores by an analyst for the purpose of amalgamation. However, a registered valuer of DPL later discovered that the analyst had utilized the book values of debt and equity in his calculations, which necessitated a revision of BDM Ltd.'s value in the amalgamation scheme. As a part of the acquisition, DPL also gained two valuable trade secrets from BDM Ltd. — 'Design A,' a patented interlocking bricks design, and 'Design B,' which pertains to the internal component design of bricks but lacks legal protection.

Legal Challenges and Risk Management

To commemorate two significant milestones—the successful acquisition of BDM Ltd. and the 25th anniversary of its founding—Dev Products Ltd. (DPL) hosted a grand celebration for the major shareholders of both companies. However, the festive atmosphere was soon overshadowed by a controversy that emerged in the media, shedding light on legal issues involving a former director of BDM Ltd. This unexpected revelation posed a significant legal challenge for DPL, as the company had to address the complexities surrounding the personal liability of directors for actions taken before the acquisition.

Following the acquisition, DPL's management prioritized strengthening its internal controls to ensure smooth integration of the merged entities and to mitigate potential risks. As part of this initiative, DPL's management met with their statutory auditors, LR & Co., to discuss implementing a risk-based audit approach. To further bolster its internal controls, particularly in Accounts & Finance, DPL purchased standardized finance software at a list price of ₹15 lakhs, paying ₹0.25 lakh towards non-refundable purchase tax. The company was also granted a trade discount of 5% on the initial list price and incurred a cost of ₹3.5 lakhs for customizing the software for its intended use. Additionally, DPL secured a 5-year maintenance contract with the vendor company for ₹ 1 lakh.

Audit and Financial Reporting

During the audit of DPL's consolidated financial statements for the year 2023-24, which are required to be prepared in accordance with Division II of Schedule III to the Companies Act, 2013, CA Lokesh, the engagement partner from LR & Co., noticed important details. The notes to the accounts in respect of consolidated financial statements disclosed additional information pertaining to the holding company and its subsidiaries. This included percentages of consolidated net assets, consolidated profit and loss, and total comprehensive income, along with their respective amounts. Additionally, during the year 2023-24, goodwill of ₹10 crores arose from the acquisition of a subsidiary, with no impairment loss as of the balance sheet date. Adjustments were made in the consolidated financial statements concerning intra-group indebtedness and harmonizing different accounting policies adopted by the parent and its subsidiaries.

DPL's journey from a small manufacturing unit to a leading player in multiple sectors showcases its strategic foresight and adaptability. The recent acquisition of BDM Ltd. and the company's ongoing efforts to strengthen internal controls reflect DPL's commitment to sustainable growth and strong governance.

ANNEXURE

City Times

Lucknow, May 15, 2024 — In the aftermath of a high-profile corporate amalgamation, Mr. Ashok, a former director of BDM Ltd., finds himself embroiled in a legal controversy that could have significant implications for corporate governance and accountability. The amalgamation, which saw BDM Ltd. being acquired by Dev Products Ltd. (DPL), has brought to light a series of alleged offenses committed by Mr. Ashok in violation of the Companies Act, 2013.

Mr. Ashok, who was a key figure in BDM Ltd. before the company's amalgamation with DPL, is now under scrutiny for actions that reportedly breached corporate regulations. The offenses, which include several violations of the Companies Act, 2013 were committed prior to the completion of the amalgamation. However, Mr. Ashok is attempting to distance himself from the legal consequences of these actions, arguing that since the offenses occurred before the amalgamation, he should not be held liable for any resulting penalties or punishments.

Legal experts are closely watching the case, as it raises important questions about the extent of personal liability for directors in the context of corporate mergers and acquisitions. The key issue at hand is whether a director can be absolved of responsibility for actions taken before a amalgamation simply because the company has changed ownership or structure.

I. Multiple Choice Questions

2.1 From the following options you are required to choose the correct 'effective date' of amalgamation:

(a) 25/04/2023

(b) 26/04/2023

(c) 10/05/2023

(d) 05/05/2023

2.2 Under McKinsey's 7S framework, DPL's acquisition of BDM Ltd. and subsequent efforts to strengthen internal controls would most likely be classified under:

(a) Strategy and Systems

(b) Shared Values and Skills

(c) Structure and Staff

(d) Style and Strategy

2.3 At what cost the intangible asset i.e. the finance software will be recognised by DPL?

(a) ₹ 17.95 lakhs

(b) ₹ 18 lakhs

(c) ₹ 18.2 lakhs

(d) ₹ 17.75 lakhs

2.4 Considering disclosure of additional information in consolidated financial statements, which of the following statements is correct?

(a) The said disclosure is not proper as percentage of consolidated revenue from operations along with respective amount pertaining to holding company and its subsidiaries is also required.

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

(c) The said disclosure is not proper as percentages of consolidated revenue from operations as well as other comprehensive income along with their respective amounts pertaining to holding company and its subsidiaries are also required.

(d) The said disclosure is proper.

2.5 Which of the following statements best reflects the proper treatment of goodwill and the other consolidation adjustments within the context of these financial statements?

(a) Goodwill represents current period consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments.

(b) Adjustments relating to goodwill, intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by parent and its subsidiaries represent current period consolidation adjustments.

(c) Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments.

(d) Goodwill and adjustments relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments. Adjustments relating to intra-group indebtedness represent current period consolidation adjustments.

(5 x 2 = 10 Marks)

II. Descriptive Questions

2.6 How should DPL APPLY the relevant Indian Accounting Standards (Ind AS) to account for the acquisition of Design A and Design B and at what amount?

(5 Marks)

2.7 Determine the accurate valuation of BDM Ltd. as calculated by the registered valuer of DPL, and provide an ANALYSIS based on the revised valuation.

(6 Marks)

2.8 Can Mr. Ashok be absolved of responsibility for actions taken prior to the acquisition solely because the company has undergone a change in ownership or structure? COMMENT. **(4 Marks)**

CASE STUDY 3

Company Overview

Founded by Manish Jha and Keyur Vasai in 2006, Doormato is a public company whose shares are traded on a stock exchange. The company has developed a multifaceted business model within the food and restaurant industry, incorporating various revenue streams and services. Despite facing stiff competition both domestically and internationally, Doormato's ability to adapt, diversify its services, and leverage technology has secured its strong position in the market. The company utilizes AI across multiple aspects of its operations.

Understanding that trust is paramount in the online food delivery business, Doormato has introduced the "food soldier" program. This initiative goes beyond data security, involving representatives who personally interact with restaurant partners to address concerns and foster positive relationships. Additionally, Doormato’s user-driven review system creates a sense of community where users can share their food experiences and engage in creating stories. This engagement builds a community centered around shared culinary experiences, encouraging users to return to the platform and explore new restaurants.

Doormato’s user base of over 20 million, which includes both restaurants and individual consumers, fuels a powerful network effect. The platform's value to each user increases as more participants join. For users, a vast pool of restaurants ensures a diverse selection of cuisines, while restaurants benefit from a wider customer reach and increased order volume. This cycle of growth and satisfaction enhances user loyalty and enables Doormato to negotiate better deals with restaurants, offering more competitive options to customers.

Revenue Streams

One of Doormato’s primary revenue streams is the commission it charges restaurants for each order placed through its food delivery service. When a user orders food from a restaurant via the Doormato app, the restaurant pays a percentage of the order value as a commission to Doormato. This commission varies but is typically in the range of 15% to 25% of the order amount, depending on the restaurant’s agreement with Doormato. Also, Doormato earns a commission from the restaurant for each successful reservation made through its platform.

In addition to the commission received from restaurants, Doormato imposes delivery fees charged directly to customers at checkout. These fees are not a flat rate, but rather a calculated amount that considers several factors to ensure fairness and affordability. The primary determinant is the order value itself. Larger orders, with a higher order subtotal, typically incur proportionally lower delivery fees compared to smaller orders.

Furthermore, Doormato recognizes the impact of location on delivery logistics. Delivery fees may be slightly higher in areas with greater geographical spread or limited delivery personnel, reflecting the additional cost of fulfilling the order. This dynamic pricing approach allows Doormato to maintain a competitive edge while ensuring the sustainability of their extensive delivery network. Ultimately, transparency in delivery fee calculation fosters trust with customers, who can make informed decisions based on their order details and location.

Beyond connecting users with restaurants, Doormato offers a robust suite of advertising and promotional services designed to enhance a restaurant's presence on the platform. Restaurants can leverage these services to gain a competitive edge by featuring their listings more prominently in search results, running targeted ad campaigns to specific customer segments, and offering enticing deals to attract new patrons. This focus on restaurant visibility translates into a significant revenue stream for Doormato, as restaurants are willing to invest in promoting themselves to the platform's vast user base.

One such customer-centric initiative by Doormato is the voucher program. Here, users can purchase a voucher for ₹1,000 that unlocks a value of ₹1,200 worth of food credit. This effectively provides a 20% discount on any food items from participating restaurants within a 3-month validity period. This program incentivizes users to explore new restaurants and potentially spend more due to the increased credit value, ultimately benefiting both Doormato and participating restaurants by increasing order volume.

Furthermore, many restaurants listed on Doormato operate their own loyalty programs, allowing customers to earn points on each order. These points can then be redeemed for future discounts, further enhancing customer loyalty and encouraging repeat business. Imagine a scenario where a customer has accumulated enough points through Doormato's loyalty program with a specific restaurant to earn ₹ 200 discount on their next order. If their current bill amount at the same restaurant is ₹900, they can seamlessly combine the discount with the Doormato voucher, effectively reducing their final bill to just ₹700. This combination of promotional efforts by Doormato and individual restaurants creates a win-win situation for all parties involved – users enjoy significant savings, restaurants attract new customers and retain existing ones, and Doormato benefits from increased platform activity.

Doormato Gold is a subscription-based loyalty program that offers members exclusive discounts and perks at partner restaurants. Users pay a subscription fee to access these benefits. While a portion of this fee is passed on to the partner restaurants, Doormato retains a share, contributing to its revenue. Subscription to Doormato Silver provides customers with a printed copy a high-quality magazine focusing on food and health, that will be delivered to their doorstep each month and access to the magazine’s online content.

Strategic Expansion Consideration

In lieu of strategic expansion, management wants to place an agenda in its coming meeting to acquire a company **“African Eats”**. African Eats is an online food ordering and delivery platform. The meals are delivered by couriers using various methods, including cars, scooters, bikes, or on foot. It is operational in over 60 cities in 5 African countries. These countries use common currency ‘African Rand’. In 2023, the company was sued for antitrust price manipulation, from forcing restaurants to charge the same price for delivery as for dine-in if the restaurant wants to be listed on the African Eats app, along with charging fees of 13–40% of revenue. The exchange rate for the African Rands is extremely volatile. The rate of inflation in this African Region is presently 10% a year. Inflation in India is currently 5% a year. Management of Doormato expects these rates likely to continue for the foreseeable future. Estimated projected cashflows, in real terms, for the first three years of the project are as follows:

	Year–0	Year–1	Year–2	Year-3
Cash flows in Indian ₹ (000)	-1,00,000	-3,00,000	-4,00,000	-50,000
Cash flows in African Rand (000)	-4,00,000	+5,00,000	+6,50,000	+7,50,000

Doormato assumes the year 3 nominal cash flows will continue to be earned each year indefinitely. It evaluates all investments using nominal cash flows and a nominal discounting rate. The present exchange rate is African Rand 4.5 to ₹ 1.

Audit Considerations

JS & Associates are at a crossroads regarding their audit approach for Doormato for the financial year ending March 31st, 2024. Historically, they have identified management override of controls and revenue recognition as significant risks. However, their audits in the past 2 financial years yielded clean reports with no issues detected in these areas.

This absence of recent red flags presents a dilemma. On one hand, maintaining a conservative approach suggests continuing to assess these areas as significant risks. This ensures a thorough examination and mitigates the chance of missing potential issues that could arise due to unforeseen circumstances or changes within Doormato.

On the other hand, consistently clean reports raise the question of continued significance. JS & Associates might consider performing a more focused assessment or reducing the emphasis on these risks while still acknowledging their potential impact. This could streamline the audit process without compromising effectiveness.

As part of a risk-based audit approach, JS & Associates focus on areas with a higher likelihood of material misstatement.

ANNEXURE

The New Age

Food Presentation Discrepancy Sparks Trust Concerns Among Customers on Doormato App

In a recent development, Shyam, a loyal customer of Doormato, has raised concerns about the disparity between the food images displayed on the Doormato app and the actual dishes served by restaurants. This issue, which has been described as a breach of trust between customers and restaurants, has sparked a broader discussion on the authenticity of food presentation in online food delivery services.

Ravi, a prominent figure in the culinary industry, expressed his concerns over the misleading nature of these images. He pointed out that while the images were initially intended to enhance the visual appeal of dishes and attract customers, they have inadvertently led to dissatisfaction and disappointment when the reality does not match expectations. Doormato is yet to comment on the issue, but industry experts believe that addressing this concern promptly will be crucial in preserving customer loyalty and trust.

I. Multiple Choice Questions

3.1 Assuming Doormato is planning to acquire hyper-local delivery company "Kit-Kit', which enables to order grocery, fruits & vegetables, and other daily essential products with intention to diversify in this field. "Kit-Kit' has over the period 10 million registered users throughout the country. However, "Kit-Kit' does not have any intention to sell the customer list. Should this customer list be recorded as an intangible in such a business combination?

(a) Such customer list should be recorded as an intangible in a business combination as "Kit-Kit' has the ability to transfer it.

(b) Such customer list should not be recorded as an intangible in a business combination as "Kit-Kit' has not the ability to transfer it.

(c) Such customer list should be recorded as an intangible in a business combination as it gives rise to legal or contractual right.

(d) The recording of such customer list depends upon the business combination agreement between both the companies.

3.2 As part of a risk-based audit approach, JS & Associates focus on areas with a higher likelihood of material misstatement. Which of the following statements best describes the concept of significant auditor attention in the context of scenario given in the case study?

(a) JS & Associates will spend an equal amount of time reviewing all sections of Doormato's financial statements

(b) JS & Associates will prioritize audit procedures for areas with a lower risk of material misstatement.

(c) JS & Associates will design the audit procedures based on their assessment of risks that could potentially cause errors in the financial statements of Doormato.

(d) JS & Associates will rely solely on past audit results to determine the scope of their procedures.

3.3 Under GST, what is the time of supply and taxable value for Doormato at the time of voucher purchase of ₹ 1,000?

(a) Time of supply is date of issue of the voucher and taxable value is ₹ 1,000 (face value of voucher)

(b) Time of supply is date of issue of the voucher and taxable value is ₹ 1,200 (credit value of voucher)

(c) Time of supply is date of redemption of the voucher and taxable value is ₹ 1,200 (credit value of voucher)

(d) Time of supply is date of redemption of the voucher and taxable value is ₹ 1,000 (face value of voucher)

3.4 Considering the above scenario, which of the following statements is MOST ACCURATE regarding the dynamic QR code and invoice for ₹ 900 meal order, where a customer has accumulated enough points through Doormato's loyalty program with a specific restaurant to earn a ₹ 200 discount on their next order?

(a) The QR code will only display the final payable amount of ₹ 700 (after ₹ 200 discount). No mention of the original bill amount or discount details will be shown.

(b) The QR code will display the final payable amount of ₹ 700 and reference of ₹ 200 discount on a separate invoice, but the invoice won't mention the original bill amount.

(c) The QR code will display the final payable amount of ₹ 700. The invoice will mention the original bill amount of ₹ 900, ₹ 200 discount details (including reference to the loyalty program), and the final payable amount.

(d) The QR code cannot be generated in this scenario because the discount reduces the taxable value, requiring a revised invoice without the discount information.

3.5 According to Ind AS 115 - Revenue from Contracts with Customers, how many performance obligations does Doormato have relating to the Doormato Silver subscription?

(a) One performance obligation: The overall subscription service.

(b) Two performance obligations: The delivery of the printed magazine and providing access to online content.

(c) Three performance obligations: Delivery of the printed magazine, access to online content, and customer support.

(d) No performance obligations, as the services are not distinct.

(5 x 2 = 10 Marks)

II. Descriptive Questions

3.6 To place agenda regarding Strategic Acquisition African Eats before the board it was required to:

i. To CALCULATE the net present value (NPV) of the proposed investment. While the nominal discount rate used by Doormato is 8% but considering risk nature of the project, 6% risk premium is required to be considered. Notes - (1) Taxation to be ignored in this calculation (2) PVF and exchange rates to be considered upto four decimal (3) final calculations to be rounded off the whole number. **(4 Marks)**

ii. EVALUATE the external environment for Doormato's strategic acquisition of African Eats, considering the non-financial factors. (HINT- How do political, economic, social, cultural, technological, legal, and ethical factors influence the success of this investment? What strategies should Doormato implement to address these challenges and ensure a successful acquisition?) **(3 Marks)**

3.7. i. ADVISE on how to address and maintain customer trust and relationships in response to the concerns raised in the recent newspaper article. **(2 Marks)**

ii. How can blockchain technology be APPLIED by Doormato and finance professionals in the following areas:

(a) Supply chain operations

(b) Audit processes

(c) Managing sensitive customer data **(3 Marks)**

3.8. DRAW a Business Model Canvas of Doormato. **(3 Marks)**

CASE STUDY 4

Emergence of Green Entrepreneurship

India's remarkable economic progress, marked by its position as the fastest-growing major economy, has been driven by a comprehensive strategy that emphasizes entrepreneurship and self-employment. The government's policies have fostered an environment conducive to starting businesses, particularly in emerging sectors like sustainability and renewable energy.

Amidst this entrepreneurial renaissance, the story of Priya and Arjun stands out. Both graduates from a prestigious engineering college, they shared a passion for environmental conservation and a desire to contribute to a greener future. Inspired by the government's initiatives to promote clean technologies and the growing global demand for eco-friendly solutions, Priya and Arjun decided to take the entrepreneurial leap. In 2021, they founded EcoTech Innovations Pvt. Ltd., a company dedicated to developing cutting-edge technologies for sustainable energy generation and waste management.

Guided by their **mission *"to pioneer innovative, sustainable technologies that drive environmental conservation, enhance waste management efficiency, and contribute to a cleaner future for all,"*** and their **vision "*to become a global leader in sustainable energy and waste management solutions*"** Priya and Arjun aimed to build their company that not only thrived in the market but also made a significant positive impact on the environment.

Growth, Expansion, and Strategic Partnerships

The waste management industry, where EcoTech operates, is on a robust growth trajectory, projected to exceed $500 billion globally by 2025. With urbanization and industrialization surging, the industry is witnessing rapid advancements in AI, IoT, and recycling technologies. In 2023, the global waste management market was valued at approximately $380 billion, highlighting significant expansion potential. Government regulations and initiatives, such as the European Union's Circular Economy Action Plan and India's Swachh Bharat Mission, are driving improvements in waste desegregation, recycling rates, and plastic waste reduction. Public-private partnerships are also increasing, enhancing infrastructure and innovation. This sector is becoming crucial in achieving global environmental sustainability and resource efficiency goals.

Initially, Priya and Arjun were the sole shareholders and directors of EcoTech Innovations Pvt. Ltd. However, as the business grew, they brought on board their friend, a sustainability expert, Rahul, as a co-shareholder with a 15% stake. Priya and Arjun each retained 42.5% ownership. To navigate the complexities of finance, accounting, and compliance, they appointed their trusted friend Megha as the Chief Financial Officer (CFO).

As EcoTech experienced rapid growth and expansion, the need for a new state-of-the-art head office became evident. The construction of the new office building commenced on 1st September, 2023 and continued until 31st December 2023. At the beginning of September month, the directly attributable expenditure on this asset was ₹ 1,00,000. However, as construction progressed, the costs increased, with the company incurring ₹ 2,50,000 in each of the subsequent months from October to December 2023. Although EcoTech Innovations Pvt. Ltd. did not take any specific borrowings to finance the construction, the company incurred finance costs on its general borrowings during the construction period. To meet its capital requirements, EcoTech issued 10% debentures with a face value of ₹ 20 lakhs during the year.

Additionally, the company had an existing overdraft facility of ₹ 5,00,000, which was increased to ₹ 7,50,000 in December, 2023. The interest rate on the overdraft was 15% until 1st October, 2023, after which it was increased to 16%. Megha was tasked with ensuring proper accounting treatment and compliance with the relevant accounting standards for the capitalization of borrowing costs related to the construction of the new head office building during the construction period. Her expertise in finance was crucial in navigating these complex financial decisions.

In addition to its domestic operations, EcoTech also exports its eco-friendly solutions to European and Middle Eastern countries. During FY 2023-24, EcoTech Innovations Pvt. Ltd. acquired a 55% equity stake in GreenWave Ltd., a company engaged in manufacturing and selling a product named ‘EcoClean.’ The fair value of GreenWave Ltd.’s identifiable net assets as per the relevant Ind AS is ₹ 12 crore, and its paid up share capital is ₹ 10.50 crore. For the acquistion, EcoTech paid a cash consideration of ₹ 10 crore, with the fair value of the non-controlling interest on the date of acquisition being ₹ 3 crore. GreenWave Ltd. appointed Mr. Rahul as its whole-time company secretary and Mr. Arjun as its managing director, positions they also held at EcoTech Innovations Pvt. Ltd. On 25th August, 2023, GreenWave Ltd. sold two of its machines to Mr. Arjun out of which one machinery was exchanged for a vehicle owned by Mr. Arjun, and the other was sold for cash consideration.

Compliance Challenges

EcoTech Innovations Pvt. Ltd. has been self-funded since its inception, relying on the founders' expertise, determination, and the support of environmentally conscious investors. The company's innovative solutions have garnered recognition both domestically and internationally, exemplifying the potential of Indian entrepreneurship to drive sustainable development while contributing to the nation's economic growth. To further expand their operations and accommodate their growing team, EcoTech Innovations Pvt. Ltd. entered into a lease agreement for a new office space in April 2023. The lease term is 10 years, with a single lease payment of ₹ 1,00,000 payable at the beginning of each year. According to the lease contract, the annual lease payments will increase by the rate of SOFR. Megha highlighted the importance of accurately measuring the lease liability as per the relevant Ind AS. This financial decision would play a crucial role in ensuring accurate financial reporting and compliance, which are vital for the company's continued success and growth.

Priya and Arjun understood the intricate interplay between inflation, project costs, demand patterns, and financing implications. They realized the importance of conducting comprehensive project appraisals that account for these factors. They appreciated Megha's expertise in guiding them through the complexities of project evaluation, ensuring that EcoTech Innovations Pvt. Ltd. made well-informed decisions about its future growth strategies. During a board meeting in April 2023, Megha informed the directors that the company's financial statements for the current year would be prepared in accordance with the Indian Accounting Standards (Ind AS). Priya and Arjun expressed their growing concerns to Megha about the lack of progress following the company's recent decentralization efforts. Despite granting greater autonomy to local managers in hopes of boosting performance and fostering innovation, the anticipated improvements had not materialized. They sought Megha's expertise and strategic insight on how to navigate this complex situation, improve local managers' engagement, and ensure the company's growth trajectory remained on track. Megha's role as CFO and her understanding of the company's financial health and strategic goals positioned her uniquely to provide the guidance needed to overcome this significant hurdle.

EcoTech Innovations Pvt. Ltd. had an outstanding interest liability of ₹ 1 crore towards a loan payable to GreenFinance Ltd., a public financial institution that had been a crucial supporter in the early stages of the company's growth. To manage this liability more effectively and preserve cash flow, EcoTech issued debentures of ₹ 275 lakhs carrying an interest of 7.5% to GreenFinance Ltd. in lieu of the outstanding interest as well as for the outstanding loan payable to it. This strategic move allowed the company to defer the immediate cash outflow and focus on its operational needs. While computing the profits and gains of business for the A.Y. 2024-25, EcoTech Innovations Pvt. Ltd. deducted the said interest, anticipating it would be a legitimate business expense. However, the Assessing Officer rejected the deduction of interest on the loan claimed by EcoTech, creating an unexpected challenge for the financial team.

Additionally, EcoTech achieved a gross profit of ₹ 18 crores and incurred indirect expenses of ₹ 4 crores for the financial year, reflecting its robust financial performance despite the complexities in interest liability management. During the annual audit of EcoTech Innovations Pvt. Ltd., the tax consultant raised a concern regarding a notice issued by the Commissioner of Income-tax. The Commissioner had initially issued a notice to revise the order passed by an Assessing Officer under section 143. While the proceedings were ongoing before the Commissioner, based on material gathered during a survey under section 133A after the issuance of the first notice, the Commissioner of Income-tax issued a second notice with different contents from the first notice. The tax consultant questioned whether the action of the Commissioner in issuing the second notice with divergent contents was justified.

Finally, in a separate event, EcoTech Innovations Pvt. Ltd. imported a machine from France for ₹ 180 lakh during March 2023, paying all duties of customs. Due to a technical manufacturing defect, the machine was sent back to the supplier for repairs in October 2023 and re-imported in August 2024 without any re-manufacturing or reprocessing, after repairs. Since the machine was under warranty, the repairs were carried out free of cost, although the fair cost of repairs would have been ₹ 5 lakh (excluding the cost of material, which was ₹ 10 lakh). The actual insurance and freight charges (to and from) were ₹ 5 lakh (₹ 2.50 lakh each way). The ownership of the machinery did not change during this period.

I. Multiple Choice Questions

4.1 Referring to the lease transaction in the case study, at the date of commencement of the lease, SOFR is 2 percent and the interest rate implicit in the lease is 5 percent. The amount of lease liability to be recognized initially will be -

(a) ₹ 8,60,789

(b) ₹ 8,80,889

(c) ₹ 8,75,645

(d) ₹ 8,74,889

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

(a) The interest so converted into debentures shall be deemed as actual payment but would not be allowed as deduction while computing its profits and gains of business for A.Y.2024-25. The action of the Assessing Officer is correct.

(b) The interest so converted into debentures shall be deemed as actual payment, and hence, would be allowed as deduction but while computing 'Income from other sources' for A.Y.2024-25 even though the liability to pay is deferred to a future date. Thus, the action of the Assessing Officer is partially correct, as the said interest though not allowed while computing profits and gains of business but would be allowed as deduction while computing 'Income from other sources'.

(c) The interest so converted into debentures shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y.2024-25. The action of the Assessing Officer is correct.

(d) The interest so converted into debentures shall be deemed as actual payment as in the given case loan is provided by a public financial institution and hence, would be allowed as deduction while computing its profits and gains of business for A.Y.2024-25. The action of the Assessing Officer is not correct.

4.3 Whether there was any statutory requirement for GreenWave Ltd. to appoint a whole-time Company Secretary (CS) and whether Mr. Rahul was eligible to be appointed as its whole-time Company Secretary?

(a) No, as its paid-up capital had not exceeded the prescribed limit and also Mr. Rahul was not eligible as he was already holding office as a whole-time CS in one other company i.e. EcoTech Innovations Pvt. Ltd.

(b) Yes, as its paid-up capital had exceeded the prescribed limit and also Mr. Rahul was eligible to be appointed as its whole-time CS in GreenWave Ltd. as it was the subsidiary company of EcoTech Innovations Pvt. Ltd.

(c) Yes, as its paid-up capital had exceeded the prescribed limit. However, Mr. Rahul was not eligible to be appointed as its whole-time CS as he was already holding office as a whole-time CS in one other company i.e. EcoTech Innovations Pvt. Ltd.

(d) No, as its paid-up capital had not exceeded the prescribed limit. However, Mr. Rahul was eligible to be appointed as its whole-time CS as it was the subsidiary company of EcoTech Innovations Pvt. Ltd.

4.4 What will be the capitalization rate for construction period of four months for computation of borrowing cost in accordance with the relevant Ind AS related to the construction of a new office building?

(a) 3.987%

(b) 3.756%

(c) 2.607%

(d) 3.188%

4.5 What shall be the value of goodwill for EcoTech Innovations Pvt. Ltd. on the acquisition of 55% shares of GreenWave Ltd. as per the fair value method and proportionate share method?

(a) ₹ 1,00,00,000, ₹ 7,40,00,000

(b) ₹ 2,00,00,000, ₹ 3,40,00,000

(c) There is no goodwill arising but there is a gain on bargain purchase of ₹ 1,00,00,000

(d) ₹ 1,00,00,000, ₹ 3,40,00,000 **(5 x 2 = 10 Marks)**

II. Descriptive Questions

4.6 EcoTech Innovations Pvt. Ltd. owns 30% of the share capital in GreenTech Solutions Pvt. Ltd. and has the ability to exercise significant influence over it. GreenTech Solutions Pvt. Ltd. holds the following investments:

70% of the share capital of its subsidiary, SustainCo Ltd., and 30% of the share capital of EcoEnergy Pvt. Ltd., with the ability to exercise significant influence. EcoTech Innovations Pvt. Ltd. transacts with SustainCo Ltd. and EcoEnergy Pvt. Ltd.

Should EcoTech Innovations Pvt. Ltd. disclose these transactions as related party transactions in its separate financial statements? Also, explain the disclosure of such transactions in the financial statements of SustainCo Ltd. and EcoEnergy Pvt. Ltd. as related party transactions. **(3 Marks)**

4.7 Priya and Arjun, the founders of EcoTech Innovations Pvt. Ltd., were concerned about the potential implications of this notice on the company's tax compliance. They sought guidance from their Chief Financial Officer, Megha. Accordingly, examine whether the action of the Commissioner is justified as to the second notice. **(5 Marks)**

4.8 You are required to advice EcoTech Innovations Pvt. Ltd. on the concessions (if any) available for importation of the machinery after repairs, also state the conditions to be satisfied for availing such concession. Also compute the customs duty and integrated tax payable (if any) on the re-import of the machine after repairs. The rate of basic customs duty is 15% and integrated tax is 12%. Ignore Agriculture infrastructure and development cess.

(4 Marks)

4.9 Whether there were any restrictions for GreenWave Ltd. to sell its machinery to Mr. Arjun in exchange for a vehicle and if yes, then what legal requirements would have been followed by it? **(3 Marks)**

CASE STUDY 5

A Ltd., an established player in the hospitality industry, oversees its subsidiary B Ltd., which specializes in the tourism sector, contributing to synergies between hospitality and tourism through interconnected services and offerings. In a strategic move to bolster its operational capabilities, A Ltd. undertook a significant expansion by purchasing a new building and pre-installed office furniture and fixtures from P Ltd., a well-known construction company that operates under two distinct divisions: commercial real estate and residential real estate, managed by Manager 1 and Manager 2 respectively.

A Ltd.'s purchase of the new building from P Ltd. marks a significant enhancement in its infrastructure, directly impacting its ability to deliver superior services in the hospitality sector. The integration of state-of-the-art facilities and high-quality furnishings ensures that A Ltd. can offer a first-rate experience to its clients, setting a benchmark in the industry. This strategic move also positions A Ltd. to better accommodate the growing demands and complexities of the modern businesses, which increasingly values seamless, high-quality service delivery.

Moreover, this also facilitates greater collaboration between A Ltd. and its subsidiary, B Ltd., fostering an ecosystem where both entities can thrive through mutual support and shared resources. For instance, the new building could also serve as a central hub for both managing operations and hosting client meetings, workshops, and corporate events, thereby enhancing the synergy between A Ltd.'s hospitality services and B Ltd.'s tourism offerings.

P Ltd. is recognized for its diversified portfolio, catering to a broad spectrum of clients. The commercial real estate division, under the leadership of Manager 1, focuses on developing and selling properties tailored for businesses, such as office spaces and commercial complexes. This division is renowned for its turnkey solutions, providing clients with ready-to-use spaces that are modern, functional, and well-equipped. The residential real estate division, managed by Manager 2, deals with housing projects ranging from high-rise apartments to luxury villas, emphasizing comfort, aesthetics, and community living.

P Ltd.'s ability to deliver such tailored real estate solutions stems from its robust relationships with suppliers like Q Ltd., whose high-quality materials are crucial for the construction and maintenance of premium properties. Their materials are pivotal in ensuring the structural integrity and aesthetic quality of buildings. This relationship highlights the importance of a reliable supply chain in maintaining the quality and reliability of real estate developments. P Ltd.'s strategic choice of materials ensures durability and aesthetic appeal, which are critical for properties serving the high expectations of the hospitality and tourism sectors. Q Ltd.'s commitment to quality and timely delivery helps P Ltd. maintain its reputation for reliability and excellence in the construction industry.

As A Ltd. continues to grow and adapt to the changing dynamics of these industries, the strategic foresight demonstrated in such acquisitions will be pivotal. By aligning its physical assets with its service goals, A Ltd. enhances its competitive edge and cements its reputation as a leader in providing comprehensive hospitality and tourism experiences. This strategic alignment not only benefits A Ltd. but also sets a standard for operational excellence and integration within the industry, ultimately leading to sustained growth and success in a competitive marketplace.

Overall, the interconnections between these companies exemplify a well-integrated supply chain and strategic business relationships that span different sectors, each contributing to the final delivery of quality real estate solutions tailored to the specific needs of industries such as hospitality and tourism.

The case centres around A Ltd., where a cashier committed fraud by absconding with the company's funds. The Chief Accountant of A Ltd. was unaware of the fraudulent activity until the audit had been completed. The audit, conducted in an unfocussed and haphazard manner, failed to detect the fraud, which was only discovered by the Chief Accountant post-audit. An investigation later found that the auditor had not exercised proper skill and care.

Soon, another scandal follows. The Income-tax department collected documents from ABC Bank which revealed that B Ltd. had remitted substantial amounts abroad. The documents collected include Form 15CB issued by the Chartered Accountant, list of passengers, copy of their passports, date of travel and invoice raised by the foreign party. On enquiring from the passengers and verifying their passports, it is found that they did not travel abroad during the dates mentioned in the documents. Further, the passengers denied any sort of transactions with B Ltd. The department, therefore, concluded that the amounts were remitted abroad on the basis of false invoices and for wrong reasons, leading to FEMA violations and that the Form 15CB issued by the Chartered Accountant facilitated such violations. During the nine-month period in question, the chartered accountant had issued 150 certificates in Form 15CB approximately involving remittances of 40 crores in favour of B Ltd.

The Chartered Accountant submitted that he had issued Form 15CB based on invoices produced by the company and verifying the KYC documents of the signatory to the invoices. He however, failed to bring on record the invoices. He further submitted that since he was not the statutory auditor of the company, he did not examine the books of account before issuance of Form 15CB or conduct due diligence of its business activities. He had charged ₹ 4,000 per certificate. Mostly, the fee was collected in cash. Some part of the fee was credited to his bank account.

In the wake of such huge scandals, A Ltd. wants to know the provision for applicability to conduct secretarial audit as they never conducted secretarial audit thinking they don't have enough business transactions to consider these requirements earlier. Company provides you information: Paid-up Share Capital ₹ 45 crore, Turnover ₹ 170 crore and Outstanding Loans and Borrowings of ₹ 120 crore from banks.

A Ltd has decided to appoint Mr. Anurag as Chief Internal Auditor to lead the internal audit function for the Company. The CEO of the Company has asked the HR head to define the reporting structure of the Chief Internal Auditor, so that he can discharge his duties objectively.

Further, CEO is also sceptical regarding the provisions of the Companies Act, 2013, applicable with respect to the constitution of the audit committee, he accordingly discussed his understanding with you and asked him to rectify in case he is not correct. He told you that he has the following understanding with respect to the provisions applicable for Audit Committee.

- *Any senior member of the company having expertise of accounting and financial management can be appointed as the chairperson of the Audit Committee.*

As discussed earlier, P Ltd. procures its raw materials from Q Ltd., a supplier specializing in metals. P Ltd. has recently decided to invest in an Electronic Data Interchange system that will enable P Ltd. to automatically place orders with its major suppliers. Currently, P Ltd.'s purchasing department staff have to place orders using postal mails and telephone to the company's suppliers, which is slow and inefficient.

Q Ltd. began its operations in 1991, starting as a modest enterprise and gradually transforming into a key player in the metal supply sector. Over the years, it has become an essential resource for a variety of industries, now supporting more than twelve distinct sectors with its extensive range of metal products. These sectors include Wood & Panel Products Manufacturing, Hearth Products, Site Furnishings, and both Commercial and Residential Construction, among others. This diversity has not only broadened Q Ltd.'s market presence but has also enhanced its expertise in delivering tailored solutions across various fields.

The growth of Q Ltd. can largely be attributed to its unwavering commitment to its clientele. The company has always prioritized customer satisfaction, ensuring that each client receives personalized service and support tailored to their specific industry needs. This customer-centric approach has been pivotal in fostering strong, long-lasting relationships and in securing a loyal customer base. Moreover, Q Ltd. prides itself on its dedication to quality. Each product in their extensive catalogue is a testament to meticulous craftsmanship, designed to meet the highest industry standards.

Employing a team of experts, Q Ltd. ensures that each sector it serves is backed by professionals with deep knowledge and specialized skills. These experts not only understand the unique demands of their respective industries but are also equipped to advise and assist customers in selecting the best materials for their specific applications. This level of expertise is critical in industries where the quality and specifications of materials can significantly influence the overall success of a project.

The operational structure of Q Ltd. is divided into two main divisions: Division 'F' and Division 'G'. Division 'F' focuses on serving industrial and commercial construction needs, providing robust materials that are essential for large-scale construction projects. This division is known for its ability to supply large volumes of materials reliably and efficiently, thereby supporting some of the most demanding construction timelines and project specifications.

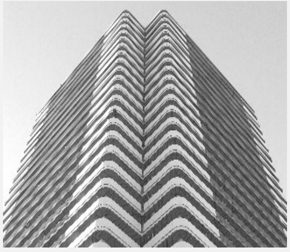
On the other hand, Division 'G' caters more to specialized industries like Hearth Products and Site Furnishings, offering bespoke solutions that often require a finer attention to detail and aesthetics. This division combines technical expertise with creative design, ensuring that even the most aesthetically driven projects benefit from the highest standards of structural integrity and material excellence.

Each division works as an investment centre separately. The salary of each divisional manager is ₹ 7,20,000 per annum with the addition of an annual performance-related bonus based on divisional return on investment (ROI). A minimum ROI of 12% p.a. is expected to be achieved by each divisional manager. If a manager only achieves the 12% target, he will not be rewarded with a bonus. However, for every whole 1% point above 12% which the division achieves for the year, a bonus equal to 3% of annual salary will be paid subject to a maximum bonus of 20% of annual salary. The figures belonging to the year ended 31 March 2024 are given in Annexure. During the financial year 2023-24, PAO, manager of Division 'G' invested ₹ 13.6 million in new equipment including an advanced cutting machine, which will increase productivity by 10% per annum. BAO, manager Of Division 'F', has made no investment during the year, even though its computer system needs updation. Division 'F's manager has already delayed payments of its suppliers due to limited cash & bank balance although the cash balance at Division 'F' is still better than that of Division 'G'.

ANNEXURE

The News

A Ltd. Expands Infrastructure with Strategic Acquisition of State-of-the-Art Building from P Ltd.



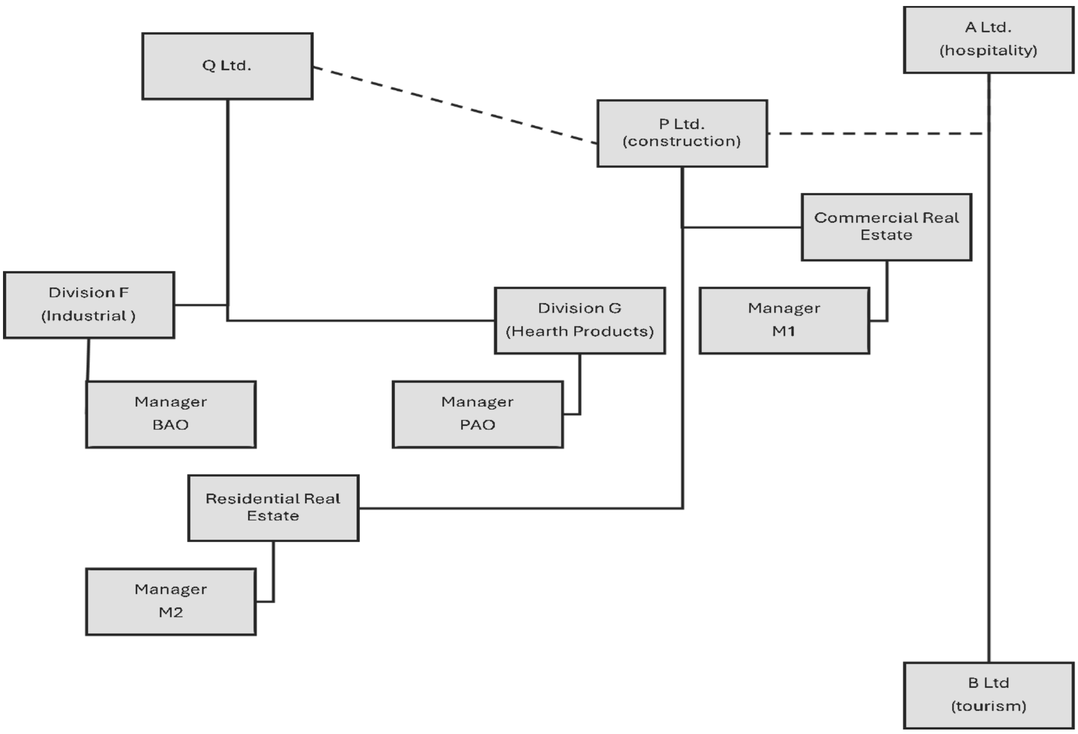
Gurugram, 20th April 2024 – In a major step towards enhancing its infrastructure and broadening its service offerings, A Ltd. has successfully acquired a state-of-the-art building from P Ltd. This acquisition is a key element of A Ltd.'s Future Ready Action Plan, aimed at revolutionizing its ability to deliver top-tier services in the hospitality sector and reinforcing its status as an industry leader.

The newly acquired building will house modern conference spaces, food labs, beverage research and development facilities, and versatile common areas. These cutting-edge additions will make conferences, virtual offices, and collaborative workspaces more accessible, affordable, and relevant, providing businesses with the tools they need to thrive in an increasingly competitive market.

With these advanced facilities and high-quality furnishings, A Ltd. is set to offer an unparalleled experience to its clients, setting new standards in the hospitality industry. This strategic investment not only reflects A Ltd.'s unwavering commitment to excellence in service delivery but also positions the company to meet the evolving demands of the modern business market.

As the complexities of the hospitality industry grow, A Ltd. is well-prepared to address the needs of today's businesses, who prioritize seamless and high-quality service. This expansion marks a pivotal moment in A Ltd.'s growth journey, underscoring its dedication to providing exceptional hospitality experiences and solidifying its future-ready approach.

Ecosystem



Financial Performance and Asset Overview of Division F and Division G

(₹ in '000)

	Division F	Division G
Revenue	30,000	17,500
Profit	5,200	4,000
Less: head office cost	(2,500)	(1,400)
Net profit	2,700	2,600
Non-current assets	19,500	30,000
Cash, inventory and trade receivables	5,000	6,500
Trade payable	6,200	2,800
Manager responsible	**BAO**	**PAO**

I. Multiple Choice Questions

5.1 Which of the following statements accurately characterize the situation of fraud committed by the cashier and the subsequent action:

(i) The auditor exhibited due diligence and careful conduct.

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

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

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

Options

(a) Only (iv)

(b) Both (ii) & (iv)

(c) Both (ii) & (iii)

(d) Both (i) & (iii)

5.2 The Board of director of A Ltd. appointed you to analyse the business of the organisation and advise whether they are contravening the provision of the Companies Act, 2013 with respect to Secretarial Audit.

(a) 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.

(b) No, A Ltd. is not required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. does not cross the threshold limit of outstanding loans and borrowings of rupees 200 crore or more.

(c) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of Paid-up share capital of rupees 25 crore or more.

(d) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of Turnover of rupees 100 crore or more.

5.3 Whether the understanding of CEO of A Ltd. is correct with respect to the appointment of chairperson of the Audit Committee?

(a) No, as only the company secretary of the company can be appointed as the chairperson of the Audit Committee.

(b) No, as the Chairperson of the Audit Committee shall be an independent director.

(c) Yes

(d) Partly correct as the chairperson should have expertise of accounting and financial management, however he should be a Chartered Accountant also.

5.4 With respect to the purchases made by A Ltd. from P Ltd., which of the following is correct regarding the GST liability?

(a) There will be no GST liability on purchase of building while Office furniture and fixtures will be liable to GST.

(b) There will be no GST liability on purchase of building and Office furniture and fixtures.

(c) There will be GST liability on both purchase of building and Office furniture and fixtures.

(d) There will be GST liability on purchase of building while Office furniture and fixtures will be not liable to GST.

5.5 Given the diverse functionalities of EDI systems in automating and standardizing transactional data across different departments and stakeholders, which specific area within P Ltd.'s value chain is expected to see the most significant improvement due to the implementation of this new EDI system?

(a) Infrastructure since it supports to perform primary activities.

(b) Inbound Logistic since it is directly involved in the transformation of a product or provisioning of a service.

(c) Procurement since it supports to perform primary activities.

(d) Outbound Logistic since it is directly involved in the transformation of a product or provisioning of a service. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

5.6 ADVISE the ideal reporting structure of the Chief Internal Auditor that HR head may propose to the Managing Director? **(4 Marks)**

5.7 EXAMINE the ethical implications of the chartered accountant's issuance of Form 15CB without proper verification and due diligence in this case.

(3 Marks)

5.8 For each division of Q Ltd., COMPUTE, ROI for the year ending 31 March 2024. JUSTIFY the figures used in your calculation also COMPUTE bonus of each manager for the year ended 31 March 2024. DISCUSS whether ROI provides a justifiable basis for computing the bonuses of managers and the problems arising from its use at Q Ltd. for the year ended 31 March 2024.

(5 Marks)

5.9 DISCUSS how the strategic acquisition of a state-of-the-art building from P Ltd. will provide A Ltd. with a competitive advantage in the hospitality industry.

(3 Marks)