

Mock Test Paper - Series II: October, 2024

Date of Paper: 7th October, 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



The hospitality industry is a dynamic and multifaceted sector that plays a pivotal role in the global economy, encompassing a wide range of services including lodging, food and beverage, tourism, and event management. Known for its emphasis on customer service and experience, the industry thrives on creating memorable and personalized experiences for guests, whether through luxurious accommodations, exceptional dining, or unique recreational offerings. Despite challenges like high job mobility and evolving consumer preferences, the hospitality industry continues to innovate through advancements in technology, sustainability practices, and the adoption of ESG (Environmental, Social, and Governance) principles.

SarTaj Hotels Limited, the country's largest listed hospitality company, continues to demonstrate industry-leading growth with consistency and conviction. This is reflected in its exceptional financial and non-financial performance, including portfolio expansion and the scaling of new businesses. The company achieved this while aligning with its sustainability commitment and ESG initiative. These attributes accentuate its remarkable journey and the ways it creates value for all stakeholders. SarTaj's consistency stems from its conviction in values and commitment to excellence.

With over 120 years of leadership in the industry, SarTaj Hotels is renowned for its exclusive properties, flawless service, and distinctive brands. These, all embodying the cherished notion of 'SarTajness,' create unforgettable experiences for guests. The company's deeply rooted values and rich legacy provide the confidence to re-imagine the future, enabling SarTaj to grow its ecosystem with greater speed, synergy, and success, bringing delight to its customers and driving enhanced value for all stakeholders. The company has evolved from a branded house into a House of Brands, offering a portfolio that includes luxury, upscale, lean luxe segments, and budget stays. This hospitality ecosystem is further strengthened by innovation and service excellence.

Hotel food service has historically been an integral part of the hotel business. Food service provide guests with food for consumption, business related functions, entertainment and celebrating events, and for some hotels food acts as an attraction in its own right.

Food service production

Food service production in hotels is primarily based on fresh produce. The perishable nature of this produce poses a challenge for hotels, further complicated by the presence of multiple food outlets and supply chain activities within each hotel. Additionally, hotel food is not designed to be stored for extended periods. Once prepared, it is expected to be consumed immediately or soon thereafter. The production of fresh food varies depending on the type of food services offered by individual hotels.

In terms of food sourcing, two main groups of food production are prevalent: 'push production' and 'pull production.'

Push production refers to services that have not been paid for in advance. These food services are available in restaurants, bars, guest rooms, or any other outlets where food can be ordered on demand. The number of these outlets varies depending on the hotel's designated food outlets and other areas where food may be served. Pull production caters to services such as functions, conferences, and other events that have been reserved in advance, with specific details provided (e.g., number of attendees, types of food required, and the venue). Payments for pull production services are typically made in advance, either partially or in full.

When it comes to food sourcing, push and pull productions have different conditions. Push production presents a greater challenge due to demand uncertainties. The data indicates that push production often involves a 'guessing game.' Accurately forecasting demand is considered difficult, and incorrect forecasts can result in either insufficient food to sell or excessive food wastage. In contrast, pull production is a more straightforward task in terms of planning for both the type and quantity of food to source.

Head chef as creator, memory and processor

The head chef plays a crucial role in hotel food service supply chains, being involved from the initial stage of product development through to the production stage. The extent to which the head chef influences supply chain activities depends on the configuration of the hotel's food service supply chain, which is shaped by the hotel's organizational characteristics. Head chefs are valuable resources of expertise and knowledge necessary for the smooth operation of the "production plant"—the kitchen—and all related activities. They function as creators, memory keepers, and processors who oversee production. Additionally, head chefs are responsible for key management areas beyond production, such as purchasing and inventory management.

The role of the head chef as a creator, stems from their responsibility for writing the menu. Menu writing is a form of product development, and in hotel food service, this development often appears to be intuitive. Several concepts emerged from the data that characterize the product development process. Menus not only serve as product offerings but also function as a tool to achieve target gross profit. Chefs

view menu writing as more than just a job requirement; they think about it even outside working hours and see it as a creative task. Menus were frequently changed, with some chefs updating their menus daily. These changes were not only based on inventory availability or the chef's imagination but were also adjusted according to the price of raw materials. The frequency of menu changes is based on the chef's judgment rather than following a fixed schedule, as is common in many hotel companies.

Another critical management area, inventory management, is often referred to as a "guessing game." The head chef's knowledge and experience are crucial for managing the hotel's food supply. The head chef is the person who holds the information regarding inventory management. Common practices in hotels include maintaining a minimum stock level, also known as "reserve" or safety stock, and using a "run out and replace" strategy, which involves replenishing stock when it runs low. Hotels that offer food service around the clock, such as restaurants, bars, and room service, must always have food in stock. If raw materials are unavailable in the market or deliveries are delayed, the hotels need to maintain a certain amount of food to ensure production continuity. Once the inventory drops below the level "guessed" by the head chef, an order is placed to restock to the minimum level. While some hotels can afford to use a "lean" strategy, which involves running out of stock and then ordering more, this approach is found in only a few hotels; most maintain a minimum stock level at all times.

Collaboration with suppliers

Suppliers not only play a crucial role in providing raw materials, but some SarTaj hotels also use their suppliers in menus and brochures to add value and differentiate their product offerings from competitors. It's interesting to note that SarTaj hotels maintain both traditional arm's-length relationships and long-term cooperative relationships with their suppliers.

SarTaj's foodservice outlets leveraged fresh produce and their supplier partnerships as key selling points. The company highlighted collaborations with local suppliers and producers, as well as those offering specialty, high-quality ingredients, to showcase the uniqueness of its offerings. The strong relationships between chefs and suppliers were communicated effectively to customers, reinforcing SarTaj's commitment to sourcing excellence and supporting local communities.

While lower raw material costs were constantly pursued, mainly for dry goods, prices were compared across various suppliers, with the cheapest options often being selected. SarTaj used a spreadsheet to track prices and select the best deals from different suppliers, which was seen as an advantage as the hotel was able to buy products at the lowest price.

In addition to making suppliers compete on price, SarTaj employed a "two-supplier strategy" to ensure the quality and price of certain products remained consistent. For instance, SarTaj had two suppliers for certain goods and alternated between them, as suppliers often raised prices or failed to maintain quality.

Use of technology

The exploitation of information technology in SarTaj group hotels is minimal, with a high degree of manual-based supply chain activities. Pen and paper are the primary tools used for product planning. Although some SarTaj hotels use electronic data interchange with their suppliers, it is limited to basic operational tasks, such as placing orders. The hotels rarely retain their point-of-sale data, and sharing such information with suppliers is almost non-existent. Demand forecasting for business volume may be supported by computer programs, but forecasting demand variants remains a "guessing game".

Additionally, stock checking for raw materials is manually performed by physically counting inventory items. While some larger hotels utilize online ordering channels, most rely on telephone communication for placing orders. The widespread use of telephone ordering in the hotel sector is attributed to the shorter ordering time, suppliers' lead times, and the fact that telephoning offers two-way communication, allowing for discussion of product availability.

Even though some hotels employ computer-generated demand forecasting, it only helps estimate the overall volume of food required by hotel guests and other markets related to push production. However, uncertainty remains regarding demand for restaurant food, which is further complicated by variations in food requirements.

In house activities

While in-house production facilities offer many benefits, they also require significant investment in infrastructure, equipment, and skilled labour. Having a captive model makes it easier to implement design changes and customize products according to specific customer requirements. As a result, the company is less reliant on external suppliers and manufacturers, reducing risks associated with supply chain disruptions. Additionally, the company uses in-house teams of highly trained hotel staff for food preparation, which is a time- and labour-intensive process. However, rising staff costs and the increasing cost of high-volume food items are putting pressure on margins.

Several years ago, SarTaj appointed Mr. Ramakrishnan as the company secretary, recognizing his extensive experience in the hotel industry and expertise in handling regulatory compliance. At the time of his appointment, the company promised him an annual salary hike ranging between 15% and 25% of his total compensation package (CTC). Over the past few years, Mr. Ramakrishnan's performance has been exceptional, consistently exceeding expectations and contributing significantly to the company's operational success, particularly in navigating complex compliance matters. His expertise has been instrumental in managing regulatory challenges and addressing cost pressures associated with labour.

During the audit planning meeting, the auditor was informed that the entity generates a substantial portion of its revenue through cash sales, with annual revenue amounting to ₹ 1,000 crores. Key managerial personnel and senior management often face intense pressure to meet or exceed financial targets set by investors or analysts, and their remuneration is based on achieving these performance targets. The internal auditor assessed the internal control system and did not observe any deficiencies in the revenue recognition process. Based on this

assessment, the auditor concluded that revenue is not susceptible to fraud risk and, accordingly, did not associate any fraud risk with revenue in the audit strategy.

SarTaj has a policy of providing loans to employees at a 5% annual interest rate, with the loan amount to be repaid in five equal annual installments. The market rate of interest (not a Level 1 input) for comparable loans is 10% p.a. On April 1, 2024, an employee took out a loan of ₹ 10 lakhs from SarTaj, with an annual EMI of ₹ 2.31 lakhs. SarTaj recognized the financial asset at ₹ 10 lakhs on April 1, 2024, accrued interest at 5% for the year, and received the EMI payment. The auditor raised concerns about the accounting treatment adopted by the entity for recognizing the financial assets.





The auditor also plans to communicate with the Audit Committee for several important reasons. Regular and open communication fosters a culture of transparency and builds trust between auditors and those charged with governance. This trust is crucial for the auditor to perform their duties without obstruction and for governance to have confidence in the audit process.

SarTaj has an overseas subsidiary, Black Pearl LLC. Under the FEMA (Overseas Investment) Regulations, 2022, SarTaj is required to file an Annual Performance Report (APR) with the Reserve Bank of India (RBI). The APR is part of the compliance framework to ensure that investments made by Indian entities abroad are monitored and reported accurately.

By adhering to these regulations and maintaining open communication with the Audit Committee, SarTaj Hotels fosters a culture of transparency, building trust between auditors and those charged with governance. This trust is essential for the smooth functioning of the audit process and ensures confidence in the financial oversight of the company.

ANNEXURE

Brand Portfolio of SarTaj

			
Kings Korner	Hocus Pokus	Stories	Silverline
India's strongest across sector, spacious suites with premium furnishings and state-of-the-art technology	Exclusive, agile upscale hotels	Simply better! Simple and functional design, focusing on practicality	Exclusive wellness experiences such as organic spa treatments or nature immersion activities
₹936 crores of revenue	₹195 crores of revenue	₹48 crores of revenue	₹90 crores of revenue
110 hotels	96 hotels	91 hotels	8 hotels
17,000 keys	11,200 keys	9,000 keys	3,000 keys



PARTICULARS OF EMPLOYEES

Information under Section 197 of the Companies Act, 2013 read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

- a. The ratio of the Remuneration of each Director to the median Remuneration of the employees of the Company for the financial year and percentage increase in Remuneration of each Director, Chief Executive Officer, Chief Financial Officer, or Manager, if any, in the financial year:

Name	% Increase of Remuneration in 2024 as compared to 2023	Ratio to median Remuneration
Non-Executive Directors		
Mr. Chandrasekaran T. @	-	-
Mr. Krishna Gupta	17%	21.95
Mr. Srinath Mehta	16%	18.96
Ms. Angel Gupta	15%	20.33
Mr. Sharad Aggarwal *	***	***
Mr. Ravi Gupta	32%	18.59
Executive Director		
Mr. Puneet Jaiswal – MD & CEO	28%	570.0
Chief Financial Officer		
Mr. Giridhar Krishnan – EVP & CFO	6%	-

@As a policy, Mr. Chandrasekaran T., Chairman, has abstained from receiving commission from the Company.
 *Retired as Director w.e.f. May 22, 2023. ***Since the remuneration is only for part of the year (either in CY or PY), percentage increase in remuneration and the ratio of their remuneration to median remuneration is not comparable and hence not stated.

- b. The percentage increase in the median remuneration of employees in the past 6 months was 5.5%.
- c. The number of employees as on March 31, 2024 was 5,756.
- d. Average Percentile increase already made in the salaries of employees other than the Managerial Personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration:
- During FY 2023-24, the average percentage increase / (decrease) in salary of the Company's employees, excluding Key Managerial Personnel ('KMP') was 8.8%.
 - During FY 2023-24, the average percentage increase / (decrease) in salary of the KMP was 42%.
- e. It is affirmed that the Remuneration is as per the Remuneration policy for Directors, Key Managerial Personnel, and other employees adopted by the Company.

I. Multiple Choice Questions

- 1.1 Whether the engagement partner is correct in claiming the presumptive risk of revenue recognition?
- (a) No. Risk of fraud risk exists in revenue. Remuneration based on achievement of performance targets can incentivize employees to manipulate revenue. Greater risks of fraud exist where a substantial portion of revenues are through cash sales.
 - (b) Yes. Risk of fraud risk does not exist since revenue is more than SEBI prescribed limit of ₹ 500 crores.
 - (c) Yes. Risk of fraud risk does not exist in revenue. Performance based service conditions are common in Indian industries. It does not necessarily lead to a fraud in revenue.
 - (d) Yes. Risk of fraud risk does not exist in revenue. Performance based service conditions and concentration of cash sales are common in hotel industries. These conditions do not necessarily lead to a fraud in revenue.
- 1.2 Should SarTaj obtain audited financial statements of Black Pearl LLC while filing its Annual Performance Report under FEMA (Overseas Investment) Regulations, 2022? Which is the MOST appropriate answer?
- (a) Filing of Annual Performance Report can be based only on audited financial statements of the Black Pearl.
 - (b) Filing of Annual Performance Report can be based only on reviewed financial statements of the Black Pearl.
 - (c) Filing of Annual Performance Report should be based on unaudited financial statements since the laws of the host country do not provide for mandatory audit.
 - (d) Filing of Annual Performance Report should be based on audited financial statements of the Black Pearl since Black Pearl is controlled by SarTaj.
- 1.3 Whether giving of loans to employees is in accordance with the requirements of the Companies Act, 2013?
- (a) The Company should have obtained special resolution before giving loans since section 185 of the Companies Act, 2013 require special resolution before giving loan to any person including employees. Section 186 of the Companies Act, 2013 permits charging concessional rate of interest for loans given to employees.
 - (b) Section 185 of the Companies Act, 2013 do not cover loans to employees (not being directors). Section 186 of the Companies Act, 2013 permits charging concessional rate of interest for loans given to employees. Accordingly, the employee loans are in accordance with the requirements of Companies Act, 2013.
 - (c) Section 185 of the Companies Act, 2013 do not cover loans to employees (not being managing or whole-time director). Section 186 of the Companies Act, 2013 do not cover loans to any employees (director

or otherwise). Accordingly, the employee loans are in accordance with the requirements of the Companies Act, 2013.

- (d) The Company should have obtained special resolution before giving loans since section 185 of the Companies Act, 2013 require special resolution before giving loan to any person including employees. Charging of interest at concessional rate is specifically prohibited under Section 186 of the Companies Act, 2013.
- 1.4 Why has SarTaj Hotels opted for different brands such as Kings Korner, Hocus Pokus, Stories, and Silverline within its portfolio?
- (a) To increase operational efficiency by standardizing services across all hotel brands
- (b) To focus solely on high-end customers and luxury travellers
- (c) To minimize investment in the food and hospitality sector
- (d) To target different customer segments by offering a variety of experiences ranging from luxury to budget accommodations
- 1.5 Which of the following information is NOT in line as required under Section 197 of the Companies Act, 2013, read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014? Refer with the extract.
- (i) The number of employees as on March 31, 2024
- (ii) The percentage increase in the median remuneration of employees
- (iii) The percentage increase in remuneration of each Director, if any, in the financial year
- (iv) The percentage increase in remuneration of Company Secretary, if any, in the financial year
- (v) The ratio of the remuneration of CFO to the median remuneration of the employees of the company for the financial year
- (vi) Affirmation that the remuneration is as per the remuneration policy

Options

- (a) i, ii, iii
- (b) i, ii, iv
- (c) ii, iii, iv
- (d) iii, iv, vi

(5 x 2 = 10 Marks)

II. Descriptive Questions

- 1.7 RECOMMEND the correct accounting treatment (initial and subsequent) as per Ind AS 109 of the loans given to employees at concessional rate.
- (5 Marks)**
- 1.8 EVALUATE the supply chain of SarTaj, identifying its current weaknesses and recommendations to overcome them.
- (10 Marks)**

CASE STUDY 2

As a sunrise sector, India's skill-based online gaming industry could play a crucial role in making India a US\$5 trillion economy by 2025. Online games may be categorized into two broad categories basis the involvement of element of skill and chance – skill-based games (i.e. where the outcome is mostly dependent upon player's skills, knowledge, training, etc. with less/minimal dependence on chance factor) and chance-based games (i.e. games where the outcome is primarily dependent upon chance and wherein player's skills, knowledge, etc. have limited influence over the same). The online skill-based gaming industry in India may be categorised into real money games (RMG) (a game where a user makes a deposit in cash or kind with the aim of earning winnings on the deposit) and non-real money games (non-RMG). Skill based games are played in one of the following formats, namely – casual games, card games, fantasy sports, etc.

The online game industry has undergone a significant evolution from its humble beginnings of pixelated arcade games in the 1970s to ~US\$ 200 billion industry with cutting-edge graphics, immersive gameplay, and an ever-expanding audience. With an estimated 3 billion active players worldwide, the gaming industry has a massive and growing audience. In fact, approximately 50% of these active players are also active buyers of in-game assets, such as virtual goods. This highlights the significant economic potential of the gaming industry and its ability to generate substantial revenue through in-game purchases and other related transactions. Gaming is rapidly emerging as the future of entertainment, with its market size already surpassing that of the global music and movie industries. In fact, the gaming industry is currently 7 times larger than the global music industry and 5 times larger than the global movie industry, making it a major player in the entertainment landscape.

India's online gaming segment is experiencing remarkable growth, indicating substantial economic potential. With a robust gaming community consisting of approximately 42.5 crore gamers—second globally after China – the sector has potential to accelerate Foreign Direct Investment inflows, job creation, and investments across various sectors. For the segment to truly thrive, a stable regulatory and legal framework is imperative. Uncertainties can impede the realization of its full potential and hinder rapid scalability. Over the past three years, the online gaming industry has grown at a CAGR of 28%, reaching ₹ 16,000 crore in F.Y.2023-24 and is likely to reach ₹ 32,000 crore by F.Y.2027-28. This boost is largely attributed to factors like widespread smartphone penetration, improved internet connectivity, a growing youth population, and the development of local gaming content. Over the course of time as younger generations become the key customers, the spending patterns and the market is expected to shift to become a core gaming market. Additionally, the pandemic played a significant role in driving up mobile game downloads as people sought digital entertainment. India continues to be a 'mobile first' market, with 94% of its gamer base engaging

in mobile gaming. Despite the rapid increase in game consumption, India's online gaming revenue is still merely 1.1% of global online gaming revenue.



As online gaming continues to catalyse ancillary sectors like fintech, cloud services, data analytics, and cybersecurity, India takes a significant leap in its digital economy landscape. The growth of this segment poses an enabling environment for future investments and potential economic development. Guidelines by the Ministry of Electronics and Information Technology have been instrumental in removing ambiguity, bolstering investor sentiment, attracting funding, and encouraging innovations in India's digital economy, while prioritising user safety. India is witnessing increasing financial and digital inclusion boosting the growth of the gaming industry. The growth mainly is driven by the following factors:

- India, with the highest population in the world at 1.4 billion also boasts of one of the largest markets for smartphones. This increased digital penetration catalysed by the affordability of mobile data and accessibility of smartphones is further supporting the expansion of the skill-based online gaming industry in India. Another pertinent development is the burgeoning production of smartphones in India that has led to the availability of advanced specifications of smartphones at an affordable rate.
- As 5G services are rolled out throughout the country, it may unlock a new era of cloud gaming, super-fast downloads, high-quality live streams, and seamless multiplayer online gaming. 5G may also enable more realistic Extended Reality (XR) and empower large-scale, platform-agnostic events and social experiences with seamless interactions between users.
- In absolute numbers, India may have a working-age population of more than a billion by 2030. With the largest youth population in the world, the median age in the country is just 28 years. A young demographic means an increasing inclination towards various types of gaming products and services available in the market.

Fastest Finger Limited (FFL) founded by Mr. Viper Armstrong has embarked on the mission to enhance India's footing in the global landscape. With innovation and adaptability at core, FFL is positioned to not only match the pace of change in the gaming world but to take the lead as it undergoes a massive transformation. FFL is a diversified gaming and sports media platform headquartered in Bangalore, with a presence in both developing and developed global markets such as Africa and North America. FFL is confident in shaping the future and expanding its leadership, both in India and globally, with operational efficiencies and industry-leading mindset. Refer annexure for details on FFL's popular games.

F.Y. 2023-24 has proven to be another year of progress for the company, FFL continue to rank among the popular companies worldwide. While FFL faced certain challenges that tested its resilience, FFL emerged triumphant but delivered muted results.

FFL's existing business strategy comprise the following:

Segment	Organic growth	Inorganic growth
Gaming 	Focus on driving organic growth through strategic investments in user acquisition with a strong emphasis on sustainable unit economics. Consistently update product features and content to improve user retention, engagement, and satisfaction, fostering long-term customer loyalty.	Expand the gaming vertical by acquiring games with valuable intellectual properties (IPs) that demonstrate high growth potential and the ability to deliver a 20% EBITDA margin. Leverage existing expertise in user acquisition and analytics to maximize the post-acquisition performance and accelerate market presence.
eSport 	Fuel non-linear EBITDA growth by enhancing internal capabilities, expanding the local ecosystem, and consolidating leadership in the Indian market. Strengthen brand positioning through internal innovation, community engagement, and organic market penetration.	Develop a comprehensive 360-degree eSports ecosystem by exploring acquisitions of specialized brands or capabilities, particularly in the US sports sector. These strategic acquisitions will help diversify FFL's portfolio and expand its market reach globally.

Mr. Viper Armstrong, the CEO, is concerned about FFL's prospects for the future. FFL is suffering from strategic drift and has no clear vision about its purpose or direction. It is active in the domestic and international markets but is consistently losing its dominant presence. There are no plans to put more investment into promoting foreign revenue.

A particular concern is a long-term contract to provide Teen Patti (i.e., premium online new games) facilities to a major theme park in India. This five-year contract is due to end next year, and although it may be renewed, the CEO suspects that the customer may switch its business to a larger competitor. Loss of this contract would have a serious impact on FFL's business, reducing annual profit by as much as 10% and almost certainly leading to some redundancies among the work force.

The CEO is aware from lengthy discussions with the product development team that FFL could invest in developing a more engaging and revamped type of premium online gaming experience for the domestic market. Developing this new gaming experience would, however, require a substantial capital investment. It would also mean having to resort to from external designers/ resources. It would also mean having to appoint some experienced personnel to research and development unit, because FFL does not currently have resources with sufficient knowledge of the new technology.

The product development team are all in favour of the new investment, and the CEO believes that such investing will give FFL a much clearer strategic vision of what it should be trying to achieve. Some colleagues disagree strongly. The Operations Director sees no need to change the offering that FFL has been making successfully and the Sales and Marketing Director believes that the contract with the major customer will be renewed next year. Human Resources relations are also not good in FFL, following strike action last year in support of a claim for a pay rise and against planned redundancies amongst the staff. No one seems to understand the need for a new product, or the reason for change.

The achievement of the above objectives would entail significant funding. Considering the quantum of investment required FFL decided to list its shares on the recognised Indian stock exchanges. The Initial Public Offer would comprise of fresh issue of equity shares, aggregating up to ₹ 500 crores. FFL would utilize the Net Proceeds towards funding the following objects:

- The business is working capital-intensive, and FFL funds its working capital requirements in the ordinary course of business from internal accruals and financing from various banks and financial institutions. As of 31 December 2023, FFL had a total sanctioned limit of working capital facilities of ₹ 350 crores on a consolidated basis, including fund based and non-fund based sub-limits, and had an aggregated outstanding borrowing of ₹ 215 crores on a consolidated basis. FFL proposes to utilize an amount of up to ₹ 100 crores of Net Proceeds, towards working capital requirements of FFL in F.Y.2024-25 and F.Y. 2025-26.
- FFL seeks to continue expanding its offerings to include emerging areas such as Metaverse leveraging artificial intelligence, and ancillary services. FFL intends to expand into these new verticals through strategic partnerships and acquisitions. By diversifying into new related verticals, FFL seeks to be able to attract more users to its platforms, increase user engagement and serve as a comprehensive 'one-stop' solution. In addition to growing business organically, FFL have in the past and may continue to pursue targeted acquisitions or investments that complement its service offerings, strengthen or establish presence in target market or help in gaining access to new markets, technology and teams. FFL expects to utilize the remaining of the Net Proceeds towards funding inorganic growth segment through unidentified acquisitions and other strategic initiatives and general corporate purposes.

Since FFL is in the process of being listed, Companies Act, 2013 would require it to prepare its financial statements under Ind AS. The first set of financial statements under Ind AS which comprise the balance sheet as at the end of the financial year, statement of profit and loss, statement of cash flow for the financial year; statement of changes in equity; and any explanatory note annexed to. The first set of Ind AS financial statements would also include three balance sheets i.e., balance sheets as at 31stMarch 2024, 31stMarch 2023 and 1stApril 2022.

First time implementation of Ind AS posed many challenges including determination of comparative information including opening balance sheet and reconciliations as at the transition date. Accordingly, CFO was given the responsibilities to identify the GAAP differences and suggest the transition options. The CFO suggested as follows:

- Elected the deemed cost exemption in accordance with the relevant Ind AS which permits to continue with the carrying value for all of its property, plant and equipment as per the previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.
- Entity, being the first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind ASs).

The CFO also mentioned that FFL had made certain investments in Dream Play Limited's convertible debt instruments. The conversion rights are substantive rights and would provide FFL with a controlling stake over Dream Play. FFL has evaluated that Dream Play Limited would be treated as its subsidiary under Ind AS and, hence, would require consolidation in its Ind AS based consolidated financial statements. Dream Play Limited was not considered as a subsidiary, associate or a joint venture under previous GAAP.

Under the latest GST norms, the CFO's snapshot of amount received towards online money is as follows:

- The total amount received from online bets is ₹ 35 crores after 1st October, 2023. After accounting for refunds amounting to ₹ 1 crore and unused or returned amounts totaling ₹ 4 crores, the amount utilized for the purpose of placing online bets is ₹ 30 crores.
- FFL also received a demand cum show cause notice from the GST department alleging that non-payment of GST of ₹ 50 crores in the previous years. FFL filed an appeal by 31st March 2024 against the demand notice.

On 15th April, 2024, a Board Meeting was called to discuss the matters on hand. This included matter related to FFL's listing on 28th March, 2024 and approval of financial statements for the F.Y. 2023–24. Mr. Viper Armstrong, the CEO of FFL attended the Board Meeting through video conference. Other directors attended the Board Meeting physically.

ANNEXURE





Extract of Statement on Matters Specified in paragraphs 3 and 4 of the Companies (Auditors Report) Order, 2020 from the Independent Auditor's Report

vii) (a) According to the information and explanations given to us, and based on the audit procedures performed by us, in our opinion, amounts deducted/ accrued in the books of account in respect of undisputed statutory dues including Goods and Services Tax ('GST'), Provident fund, Employees State Insurance, Income-Tax, Duty of Customs, Profession Tax, Cess and other statutory dues have been regularly deposited by the Company with the appropriate authorities wherever applicable, and there are no such outstanding dues as at March 31, 2024, for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us and on the basis of our examination of the records of the Company, statutory dues relating to Goods and Services Tax ('GST') which have not been deposited on account of any dispute are as follow:

Name of Statute	Nature of dues	Amount not deposited on account of demand (In crore)
Goods and Service Tax, 2017	GST	50.00

FFL's Popular Games

Chakde India 	Teen Patti 	Z Sports 	NOX-A 
<ul style="list-style-type: none"> World's largest cricket simulation game with 1.5 million daily active users and 9 million monthly active users Revenue grew by 7% (last year: 10%) Shows reduced retention metrics with Day 1 retention of 46%, Day 7 retention of 18% and Day 30 retention of 7% in F.Y. 2023-24 	<ul style="list-style-type: none"> Classic card games. A Premium offering by FFL Revenue grew by 8% (last year: 12.5%) FFL is further strengthening its position in this sector 	<ul style="list-style-type: none"> Multi-sports destination. Dominant position in key markets Revenue grew by 14% (last year: 25%) Strong customer loyalty followed with high unique customer additions 	<ul style="list-style-type: none"> This innovative game is having a life cycle of less than one year Currently, it is in the introduction stage of its life cycle and is generating significant unit profits FFL adopted a market skimming pricing policy FFL expects that other companies will try to join the market very soon

I. Multiple Choice Questions

- 2.1 Which of the following statements is correct with respect to the Ind AS transition option chosen by Fastest Finger Limited for the property, plant and equipment?
- Not a carve out – Like IFRS 1, Ind AS 101 also does not provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.
 - Carve out – Unlike IFRS 1, Ind AS 101 provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.
 - Carve out – Unlike IFRS 1, Ind AS 1 provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.
 - Not a carve out – IFRS 1 and Ind AS 101 are identical with no changes in any of the paragraphs and provisions.

- 2.2 Date of transition to Ind AS for Fastest Finger Limited is_____?
- (a) 31st March, 2024
 - (b) 1st April, 2023
 - (c) 31st March, 2023
 - (d) 1st April, 2022
- 2.3 In the Board Meeting, Mr. Viper Armstrong expressed his concern that approval of financial statements for the year ended 31stMarch,2024 cannot be approved through video conferencing. Do you agree?
- (a) Disagree. Since there is quorum in a meeting through physical presence of directors, Mr. Viper Armstrong can participate through video conferencing on the matters relating to approval for annual financial statements as permitted under section 173 to the Companies Act, 2013.
 - (b) Partially Agree. Since there is quorum in a meeting through physical presence of directors, Mr. Viper Armstrong can participate in discussion through video conferencing but cannot approve the annual financial statements as it is not permitted under section 173 to the Companies Act, 2013.
 - (c) Agree. Rule 4 of the Companies (Meetings of Board and its Powers) Rules,2014 prohibits approval of annual financial statements in a Board Meeting conducted through video conferencing.
 - (d) Disagree. Section 173 to the Companies Act, 2013 do not prohibit approval of annual financial statements in a Board Meeting conducted through video conferencing. Meeting quorum through physical presence of directors is not necessary.
- 2.4 The amount of GST liability in respect of the amount received from online bets is_____.
- (a) ₹ 5.81 crores
 - (b) ₹ 11.30 crore
 - (c) ₹ 9.80 crores
 - (d) ₹ 30.11 crores
- 2.5 With reference to Paragraph 3(vii)(b) of CARO 2020, Whether reporting under CARO is appropriate (refer Annexure):
- (a) Reporting is appropriate. The extract includes all the information prescribed under CARO, 2020.
 - (b) Reporting is appropriate. The extract includes all the information prescribed under CARO, 2020, to the extent considered material by the auditor.
 - (c) Reporting is inappropriate. CARO, 2020, requires the auditor to also report the period to which the amount relate and the forum where the dispute is pending.
 - (d) Reporting is inappropriate. CARO, 2020, requires the auditor to also report the forum where the dispute is pending. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

- 2.6 How should Dream Play Limited be consolidated on transition to Ind AS considering that Fastest Finger Limited has opted to avail the exemption from retrospective restatement of past business combinations as permitted under the relevant Ind AS? **(4 Marks)**
- 2.7 How can Fastest Finger Limited (FFL) realign its strategic direction and address internal conflicts APPLYING McKinsey's 7S Framework to drive innovation, enhance compliance, and secure its competitive position in the gaming industry? **(3 Marks)**
- 2.8 Briefly describe the relevant provisions that would have been considered for the conduct of Board meeting through video conference on 15th April, 2024 as Mr. Viper Armstrong attending it through such mode? **(4 Marks)**
- 2.9 ANALYSE, with reasons, the changes, if any, to the unit selling price and the unit production (development) cost that could occur when NOX-A moves from the previous stage into each of the following stages of its life cycle in the context of the online gaming industry:
- (i) Growth
 - (ii) Maturity
- (4 Marks)**

CASE STUDY 3

From humble beginnings as a small trading business in 1970s Mumbai, Aadhya Ltd. has emerged as one of India's most prominent and diversified conglomerates. What started as a family-run operation is today a professionally managed group with a multinational presence and over 5,000 employees. Headquartered in a towering glass edifice in Mumbai's business district, Aadhya Ltd.'s operations span multiple verticals – infrastructure, power, telecom, retail and financial services. The company takes immense pride in its stellar senior leadership drawn from India's premier institutes.

At the helm is Rajesh Sharma, who rose through the ranks to become the Chairman and Managing Director in 2016. Assisting him is a dynamic top management team that includes Chief Financial Officer Nisha Patel and Chief Operating Officer Rakesh Raghavan. ***"Our vision is to build a globally respected Indian conglomerate that creates sustainable value through ethical business practices, innovation and operational excellence,"*** Rajesh articulates the group's driving philosophy. This vision extends beyond just financial growth to include environmental sustainability and holistic societal impact.

The group's entrepreneurial culture and diversity & inclusion policies have made it a dream employer, consistently ranked among India's best companies to work for. At the heart of Aadhya Ltd.'s operations is its state-of-the-art digital transformation journey cutting across business verticals. From smart factories and intelligent supply chains to mobile-first retail offerings, the conglomerate has thoroughly embraced emerging technologies. Its in-house R&D and innovation labs are at the cutting edge of fields like AI, IoT, Blockchain and more. However, Aadhya Ltd.'s impact transcends just

business. The Aadhya Foundation runs skills training programs, schools, hospitals and disaster relief efforts that have uplifted lakhs of underprivileged lives across India. The group is a pioneer in corporate social responsibility, deploying both human and financial capital to drive sustainable development initiatives.

Aadhya Ltd. is gearing up for its next phase of global growth, led by forward-thinking leadership and a motivated workforce. As a homegrown giant, it's set to create a lasting legacy as a leading Indian multinational. Its remarkable success stands as a testament to the entrepreneurial spirit and ambition of India.

It was a crisp autumn morning in October 2020 when Rajesh Sharma, the MD of Aadhya Ltd., stepped into the boardroom to meet his leadership team including Nisha Patel, the CFO. *"We've identified an opportunity with Suraksha Constructions,"* Rajesh began. Nisha explained that *Suraksha was a stagnant mid-sized construction firm but integrating it could unlock potential synergies.* After extensive negotiations and due diligence, Aadhya Ltd. announced the acquisition in December. The fair value of Suraksha's total assets excluding liabilities was ₹ 3,060 crore on acquisition, with ₹ 48 crore estimated as costs to sell. The fair value of liabilities stood at ₹ 510 crore. The integration was challenging, but eventually, cost savings and efficiencies materialized. However, Rajesh and Nisha intended to turn around Suraksha and spin it off. By the time, as Aadhya Ltd. explored selling the former Suraksha unit, the fair value of its total assets excluding liabilities had changed to ₹ 3,000 crore, while costs to sell remained ₹ 48 crore and liabilities were valued at ₹ 528 crores. After weighing various offers, they struck a deal with a global private equity firm specialized in construction. While inking the final documents, Rajesh had a pleased expression. The divestment would unlock capital to focus on Aadhya Ltd.'s core competencies. More importantly, it was a learning experience that would shape their approach to future growth opportunities. Nisha too was satisfied with the outcome and looked forward to redeploying resources optimally to create long-term shareholder value.

The month of July 2021 marked a transition of leadership at Aadhya Ltd., one of India's leading conglomerates. Vihaan Mehta, a rising star within the company, was appointed as the new Managing Director, succeeding the long-serving Rajesh Sharma. The boardroom buzzed with excitement as Vihaan took charge, outlining his vision to propel Aadhya Ltd. to new heights through strategic initiatives and operational excellence. However, his remuneration package soon became a subject of debate among certain shareholders. The company had decided to pay Vihaan a competitive compensation suitable to his new role and responsibilities. Rajveer Bhatia, a minority shareholder actively tracking company, sought to inspect the contract detailing Vihaan's remuneration terms. But he was denied access by the company on the grounds that no written contract existed with the new Managing Director.

It was early 2023 when Aadhya Ltd., the prominent Indian conglomerate, found itself under the scanner from some minority shareholders. The company had expanded rapidly into new verticals under the leadership of its newly appointed Managing Director Vihaan Mehta. However, these shareholders raised concerns over certain transactions entered into by Aadhya Ltd. They alleged that these transactions were not fully compliant with the provisions of the Companies Act, 2013 and were potentially prejudicial to the company's interests. Worried by these developments, the

shareholders decided to invoke their statutory rights. They moved to make an application to the Central Government in late 2023, seeking appointment of an Inspector to investigate the affairs of Aadhya Ltd. The shareholders were determined to ensure that Aadhya Ltd.'s growth plans didn't come at the cost of governance lapses or violating the legal framework governing the company's operations. Furthermore, a group of members of Aadhya Ltd., holding 12% of the company's issued share capital, has filed a petition before the Tribunal alleging acts of oppression and mismanagement by the majority shareholders. During the petition's pendency, some members holding 5% of the share capital wish to withdraw. The majority shareholders, along with these withdrawing members, argue that the petition should be dismissed as non-maintainable.

During the last quarter of the financial year 2023-24, the Aadhya Group navigated several complex transactions, focusing on meticulous financial practices and strategic decisions. One notable deal involved Aadhya Ltd. supplying specialized machinery to XYZ Traders for ₹ 2,95,000, inclusive of GST at 18%. In conjunction, XYZ Traders provided materials valued at ₹ 10,000, exclusive of GST, as part of the consideration. Vihaan Mehta, the new MD, keenly monitored this transaction. He convened a meeting with CFO Nisha Patel and COO Rakesh Raghavan to review the details. *"We need to ensure every aspect of this deal is handled meticulously,"* Vihaan emphasized. Around the same time, Aadhya Enterprises Ltd., a subsidiary of Aadhya Ltd., supplied the same machinery to another unrelated party for ₹ 2,97,360, inclusive of GST at 18%. This prompted the finance team to discuss the valuation and pricing strategies. Nisha explained, *"For the machinery supplied to XYZ Traders, we must calculate the value before GST and add the value of the additional materials provided."* Rakesh noted, *"Comparing this to the transaction made by Aadhya Enterprises Ltd. will help ensure our pricing strategy is consistent and competitive."* After careful calculation, they concluded that the value of the goods supplied to XYZ Traders needed thorough documentation for accurate financial reporting. This exercise not only clarified the value but also reinforced Aadhya Ltd.'s commitment to meticulous financial practices. Vihaan, satisfied with the outcome, reflected on the importance of detailed evaluations in maintaining the company's reputation for excellence and integrity.

Simultaneously, Aadhya Enterprises Ltd. was also deliberating over two significant loan proposals as part of its strategic focus on employee retention and welfare. The first proposal concerned a substantial personal loan requested by K. Ahuja, one of the company's directors, aimed at financing the construction of his residential property. This loan was being considered in light of Ahuja's long-standing contributions to the company and the potential role such financial assistance could play in ensuring his continued engagement with Aadhya Enterprises Ltd. The second proposal pertained to a loan sought by Bharat Mehta, the company's Whole-Time Director, though the specific purpose for this loan has not been explicitly stated. Despite the lack of clarity on the loan's objective, the Board was weighing carefully the request, considering the importance of supporting Key Managerial Personnel within the organization.

In parallel, Aadhya Ltd. prepared for an important international trade operation, set to import goods worth USD 2 million from an overseas supplier. Typically, the company required 90 days to make the payment. The supplier offered a 60-day interest-free

credit period, along with an additional 30-day credit extension at an 8% per annum interest charge. Meanwhile, Aadhya Ltd.'s bankers presented a 30-day loan facility at a 10% per annum interest rate. The finance team, led by CFO Nisha Patel, evaluated these options against current foreign exchange rates: a spot rate of 1 USD = ₹ 83.50, a 60-day forward rate of ₹ 84.10, and a 90-day forward rate of ₹ 84.50, recognizing the potential impact on the company's financial position.

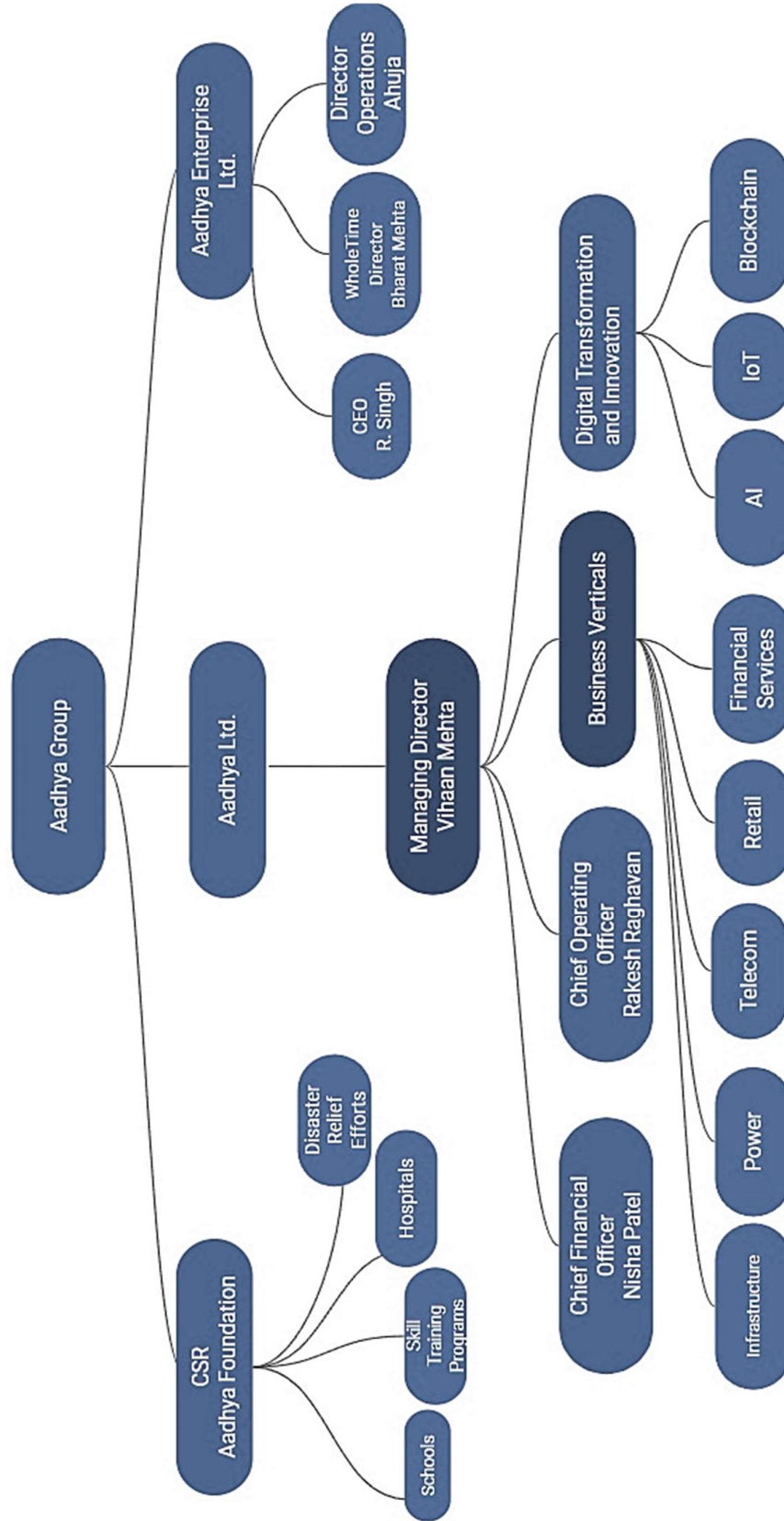
While addressing these corporate developments, Vihaan also led discussions about the Aadhya Foundation, emphasizing the importance of aligning social responsibility programs with core values and actively engaging with local communities. *"We must adapt our strategies based on their feedback to ensure that our foundation uplifts communities and fosters a lasting legacy,"* he stated.

As the financial year 2023-24 near to close, Aadhya Ltd. was gearing up for its annual audit process. Nisha Patel, the Chief Financial Officer, had the accounts payable break-up ready for scrutiny. DRT & Co. were appointed to conduct Aadhya Ltd.'s audit for the year. As they reviewed the accounts payable, one particular vendor – M/s Builders Corp. with a sizable ₹ 14.56 Lakhs payable – caught their attention.

In May 2024, an important financial issue arose that required immediate attention. DRT & Co., the auditors of Aadhya Ltd. for the year ended on 31/03/2024, had signed the audit report on 04/05/2024. The Annual General Meeting was scheduled for August 2024. On 06/05/2024, the company received a communication from the Central Government that an amount of ₹ 20 crore, kept pending on account of incentives pertaining to the financial year 2023-24, had been approved and would be paid before the end of May 2024. When asked about this by the management, Chief Financial Officer Nisha Patel informed them that this amount had not been recognized in the audited financial statements due to uncertainty of receipt before the financial year end. Now, having received confirmation of the amount, the management wished to include it in the financial statements for the year ended 31/03/2024. On 08/05/2024, the management amended the accounts and approved the same. During the intervening period between 04/05/2024 and 08/05/2024, the audited financial statements and audit report were not issued to anybody. The management requested the auditor to consider the situation and issue a fresh audit report on the financial statements for the year ended 31/03/2024.

Aadhya Ltd. recently declared and paid an annual dividend of ₹ 5 per share for the most recent financial year, reflecting its commitment to returning value to shareholders. According to management's guidance, the dividend is expected to experience a robust growth rate of 18% per annum over the next two years, signaling confidence in the company's near-term financial performance and expansion potential. Beyond this period, the growth rate is projected to moderate to a more sustainable 8% per annum indefinitely. With the required rate of return for equity investors in Aadhya Ltd. set at 14%, the company's dividend strategy plays a crucial role in shaping investor expectations and valuation considerations, providing a balanced outlook between short-term growth and long-term stability.

Aadhya Ltd. Organizational Structure



I. Multiple Choice Questions

- 3.1 Aadhya Foundation is applying the Value for Money (VFM) framework to enhance its programs. Which of the following actions best balances the principles of effectiveness, efficiency, and economy?
- (a) The Foundation implements AI to automate patient record-keeping and optimize hospital workflows, resulting in improved care delivery. It also continuously tracks patient recovery rates and uses this data to adjust its healthcare strategies. In addition, the Foundation ensures that it secures quality supplies at competitive rates after comparing several vendors.
 - (b) The Foundation partners with Aadhya Ltd.'s R&D team to deploy IoT-enabled tracking systems in its disaster relief supply chains. These systems improve real-time monitoring of resource usage and minimize wastage, while data-driven insights are used to enhance service delivery efficiency, even if it involves higher initial investment.
 - (c) Aadhya Ltd. launches a new blockchain-powered solution to manage the Foundation's financial aid programs, prioritizing faster transaction times, but without adequately monitored for potential errors in fund distribution.
 - (d) The Foundation expands its skills training programs by focusing on providing courses in emerging technologies like Blockchain, increasing the number of participants, while delaying the introduction of performance metrics to track how many trainees benefited in the long run.
- 3.2 Based on the transaction described in the case study, what should be the value of the goods supplied by Aadhya Ltd. to XYZ Traders?
- (a) ₹ 2,52,000
 - (b) ₹ 2,95,000
 - (c) ₹ 2,97,360
 - (d) ₹ 2,50,000
- 3.3 The intrinsic value of Aadhya Ltd.'s equity shares using the two-stage dividend growth model shall be approximately _____.
- Note: Use PVF up to 4 decimal points.
- (a) ₹ 106.98
 - (b) ₹ 105.57
 - (c) ₹ 107.34
 - (d) ₹ 104.98
- 3.4 Evaluate the status of petition filed by the group of members of Aadhya Ltd., holding 12% of the company's issued share capital in contention in light of the Companies Act, 2013.

- (a) The petition must be dismissed as the petitioners no longer meet the minimum shareholding requirement.
 - (b) The proceedings shall continue irrespective of the withdrawal of consent by some petitioners.
 - (c) The Tribunal must consider the current shareholding percentage of the petitioners before making a decision.
 - (d) The petitioners must file a new petition reflecting the current shareholding situation.
- 3.5 DRT & Co. knew they had to thoroughly validate the existence and valuation of the significant liability (M/s Builders Corp.) as on March 31, 2024. But which audit procedure would yield the most reliable evidence?
- (a) Inspect each and every journal entry passed in Aadhya Ltd.'s books
 - (b) Ask Aadhya Ltd. to provide the details of payments made to vendors during the year
 - (c) Inspect the invoices issued by M/s Builders Corp. and the related payments made
 - (d) Interrogate Aadhya Ltd.'s cash management team **(5 x 2 = 10 Marks)**

II. Descriptive Questions

- 3.6 RECOMMEND how the discontinued operation pertaining to Suraksha Constructions was measured and presented in Aadhya Ltd.'s consolidated financial statements:
- 1. On the **acquisition date**.
 - 2. On the **reporting date** of the divestment. **(4 Marks)**
- 3.7. (a) In light of the tenets of corporate governance and shareholder rights enshrined in the Companies Act, 2013, evaluate whether Aadhya Ltd.'s decision to deny Rajveer access to Vihaan's contract was justified. Substantiate your answer with relevant provisions of the Act and principles of transparency and disclosure that a company like Aadhya Ltd. should uphold. **(2 Marks)**
- (b) In the context of the two loan proposals by K. Ahuja and Bharat Mehta, analyze the legal permissibility and conditions under the Companies Act, 2013 for a company to grant such loans to its directors. **(2 Marks)**
- 3.8. With reference to the information given in the case study, analyze the issues involved and give your views as to whether or not the auditor, DRT & Co., could accept the request of the management. **(3 Marks)**
- 3.9 Considering the import transaction, what would have been the most likely recommendation made by the finance team to Vihaan Mehta during the meeting? (Assume 360 days in a year) **(4 Marks)**

CASE STUDY 4

CA. Radhika Sharma is an audit partner in L & V LLP, a firm of Chartered Accountants. The Firm was founded by CA. Lata Subramanian in 1960. With a strong legacy of spanning over multiple decades and its humble origins in the steel city of Jamshedpur, the Firm has established offices across key cities in India. The firm caters to clients across diverse market segments including industrial markets, infrastructure, consumer products, financial services, technology and telecommunications.

CA. Radhika was waiting at the Mumbai office to meet CA. Archana Kumari, a Fellow Chartered Accountant. CA. Archana had been appointed by a competent authority to inspect and evaluate adherence to SQC-1 and review selected audit documentations in relation to statutory audit of the financial statements for the year ended 31 March 2023, conducted by L & V LLP for a listed entity. The review focused on three significant audit areas—Revenue, Trade Receivables, and Investments—due to their inherent higher risk of material misstatement in the audit engagement.

The receptionist informed CA. Radhika about the arrival of CA. Archana. Both of them exchanged pleasantries and CA. Archana was guided into a pre-booked meeting room. CA. Archana requested for the audit files for initiating audit inspection. CA. Radhika explained that the audit documents are maintained electronically. For ease of review, the archived version of the audit file has been hosted on the laptop of the firm. CA. Archana explained that she would need some time to understand the policies of L & V and discuss her initial observations. At the end of the day, following discussions took place:

CA. Archana: *Can you tell me about the service offerings of the firm? Does it also provide advisory services?*

CA. Radhika: *We are a multidisciplinary firm providing a wide array of services. Our service offerings can be bifurcated between:*



Audit and Assurance

Audits are the fundamental building blocks of effective capital markets. Auditors use their knowledge, skills and experience to deliver high-quality audits with independence, integrity, objectivity and professional skepticism. In doing so, they help to support sustainable, long-term value creation. High-quality audits facilitate economic growth and enhance trust and confidence in business and the capital markets. More than 1,500 audit professionals support the delivery of data-driven audits, powered by leading-edge technology, including foundational audit technologies.

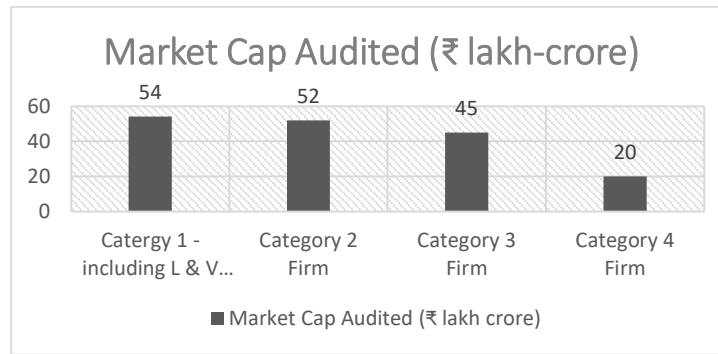
The firm provide consistent audits by assembling the right multidisciplinary teams to address the most complex issues, using a proven audit methodology and deploying the latest, high-quality auditing tools and technologies. The Firm understands that to achieve the desired potential a tailored assurance service as much as a consistent methodology, clients benefit from sector and subject-matter knowledge is provided.



Tax services



Advisory services



The Firm's tax professionals offer services across all tax disciplines to help thrive in this era of rapid change. The coordinated tax professionals offer connected services across all tax disciplines to help the entities thrive in an era of rapid change. The Firm combine its exceptional knowledge and experience with the people and technology platforms that make us an ideal partner for tax-related needs. The Firm has competencies in business tax, international tax, transaction tax and tax-related issues, compliance and reporting as well as legal matters.

Complying with the tax laws and regulations that are constantly changing is a challenge. The Firm provides services from tax filing to tax planning. For global businesses, accurate tax compliance is an instrumental piece of the tax puzzle. Getting this piece right is increasingly complicated because of the rapid pace of legislative and regulatory change, and the increasing digitalization of revenue authorities. Additionally, staying current on tax developments at the local and national level, while meeting the demands needed for more transparency and financial information, strains the resources of tax departments and further complicates tax compliance.

Advisory at the Firm helps in realizing business transformation through the power of people, technology and innovation. Faced with an increasingly complex and uncertain operating environment, organizations — and the people within them — are under pressure to make decisions better, faster, and smarter. Yet, as stakeholder expectations shift, and as technology advances, new ways of working and regulatory change are making it harder for people to make the right decisions.

To further support clients, the Firm provides business strategy consulting, utilizing frameworks such as the Boston Consulting Group (BCG) Matrix and McKinsey's 7S model. Our diversified services in business strategy help organizations assess market positions, allocate resources efficiently, and devise competitive strategies for sustained growth. By leveraging strategic tools like these, the Firm enables businesses to build resilient, scalable

models that adapt to changing environments while driving long-term value creation.

In addition, the firm offers bookkeeping service as well. Our bookkeeping services ensures the integrity of transactions and company data. Hence, it requires experienced and skilled professionals, who hold deep knowledge of the subject. Our services help businesses streamline activities, make better business decisions, decrease execution costs, reduce time spend, and manage budget whenever necessary.

CA. Archana: *That's interesting. But how do you ensure that no independence conflict arise while accepting/ performing an audit engagement? If there is an independence policy, can you please share a copy of such policy?*

CA. Radhika: *If you browse to the client acceptance section of the electronic audit file, we have documented our independence policy. In a nutshell, our independence policy is based on the requirements of SQC 1 as issued by the ICAI. As per SQC 1, the firm has established policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements, maintain independence where required by the ICAI's Code of Conduct. Accordingly, the firm is able to identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement. The Code also require us to consider the requirements of applicable laws and regulations e.g. the Companies Act, 2013.*

CA. Archana: *Great. I would go through the independence policy in detail. Was any breach of independence requirements were observed for the engagement under inspection?*

CA. Radhika: *No breach of independence was observed. We have a close relationship with the audit client. During the last year due to high level of attrition the client approached us to help in preparing the financial statements– which the Firm decided to support. A team (separate from the audit team) was formed to avoid any independence threat.*

CA. Archana: *Considering the engagement under discussion is in industrial equipment segment, did you involve an engagement control quality reviewer ('EQCR') for this engagement?*

CA. Radhika: *It is essential that the quality of our work is of the highest standard. One of the ways in which we seek to achieve this high standard is through engagement quality control reviews. The objective of such review is to provide an objective evaluation, on or before the date of the engagement report, of the significant judgments the engagement team made, and the conclusions reached thereon. Pursuant to our quality management and risk management policies, we have appointed Mr. Qureshi as the EQCR for this engagement.*

CA. Archana: *I am not too sure about the skill and experience of the EQCR. Could you please elaborate about his experience?*

CA. Radhika: Please be rest assured, the EQCR involved in this engagement is very experienced in accounting and audit. He leads the banking and financial services audit practice. He is a member of the ICAI and have over 30 years of experience in statutory audits, financial accounting advisory and accounting due diligence services relating to financial service sector. We have extensively leveraged his vast experience in all aspects of audit. He has also made decisions for the engagement team.

CA. Archana: Could you please elaborate about the revenue recognition policy of the entity under discussion?

CA. Radhika: Revenue is recognised as per the relevant Ind AS when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. For example, revenue from sale of equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. The company has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer. The normal credit term is 30 to 90 days upon delivery. The company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of equipment, the company considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

CA. Archana: I was inclined to ask you about the revenue transaction with Customer P. I could see you concluded that the revenue recognition was appropriate, but it required exercise of significant judgement. Please explain this transaction.

CA. Radhika: The company had a Customer P which was undergoing restructuring due to issues related to liquidity. The company has decided not to do any further business with Customer P. The customer has informed that it will provide Letter of Credit from a nationalised bank against which the company can despatch goods. Company has manufactured the goods exclusively for Customer P, but the Letter of Credit was not yet arranged because it was in process till the date of our audit report. However, basis the past experience of no default by Customer P, the company recognised revenue.

CA. Archana: A qualified audit opinion was issued in the current year due to the inability to comment recoverability of the company's investment in subsidiaries. Could you please explain the rational for the same?

CA. Radhika: The qualification was limited only to the investments of the company in one subsidiary. It does not have an impact on the recoverability of the outstanding loans given to the subsidiary. Since the undetected misstatements were limited to specific investments, in absence of sufficient appropriate audit evidence, there is no pervasive impact as per the requirements of the SA 705 and accordingly a qualified opinion was appropriate.

CA. Archana: *In how many days was the electronic audit file assembled?*

CA. Radhika: *The firm has established policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. In the case of an audit the time limit is ordinarily not more than 65 days after the date of the auditor's report.*

Post completion of discussion, CA. Archana continued to review the electronic file till next week. Multiple rounds of discussions were held between CA. Radhika and CA. Archana. On the last working day, CA. Archana set up a meeting to discuss the findings of the draft inspection report. **Excerpt of the draft inspection report is enclosed as Annexure.**

Simultaneously, a business review meeting was held by the firm's partners to evaluate the firm's operations and to assess the potential implications if the firm were to cease providing bookkeeping services, given the concerns highlighted in the draft inspection report. The bookkeeping division (under advisory services), launched in November 2014, initially expanded rapidly, growing to about 50 locations within three years, primarily in metro cities. However, this rapid expansion exposed weaknesses in the division's systems and infrastructure, which were unable to support such growth. As a result, the Firm encountered operational difficulties.

The bookkeeping services offer low-margin services while facing high operational costs, including rent and payroll. These challenges were further exacerbated by issues like high staff attrition, supply-chain inefficiencies, and infrastructure limitations. Consequently, the division was forced to close nearly 10 offices within two years of its launch. In response to these challenges, the bookkeeping division has since standardized its operations, streamlined processes, and centralized its supply chain to improve efficiency.

Despite providing a comprehensive range of boutique services under one roof—offering a broader portfolio than many local advisory firms—L & V LLP struggles to compete effectively with smaller, politically connected local advisory firms – who are not a firm of Chartered Accountants. These local advisory firms often offer limited but highly competitive services, particularly in terms of pricing. In 2016, L & V LLP faced significant setbacks when it was forced out of several profitable regions due to intense opposition from small, locally connected firms, highlighting the challenges posed by local competition.

One of the key issues L & V LLP faces is the uneven pricing structure among local advisory firms. Although L & V LLP offers its services at comparable prices, and provides a superior quality of service, local businesses frequently prefer to work with local firms, valuing proximity and political ties over service quality.

Moreover, the bookkeeping division requires continuous investment, yet it lacks strategic synergy with the firm's broader activities. The division continues to incur losses despite the improvements in operations. For the firm to achieve its expansion goals and maintain profitability across all offices, it must rethink its strategy. The aim is to ensure that every office not only sustains itself but also contributes to the overall profitability of the firm, which is crucial for scaling the business in a sustainable way. The firm is contemplating various strategic measures including establishment of a Centre of Excellence.

ANNEXURE

Excerpt of the Draft Inspection Report

Review of Firm-wide Audit Quality Control System

- The firm has formulated an EQCR policy which inter-alia requires EQCR in audit of listed entities. Such review was conducted in a timely manner at appropriate stages during the engagement so that significant matters may be promptly resolved to the reviewer's satisfaction before the report is issued. However, the firm's policies and procedures on appointment of engagement quality control reviewers and their eligibility conditions are not in line with SQC 1. In the extant case, EQCR has experience in audit of banking and financial services entities and did not possess experience in the sector where the entity belongs (i.e. industrial equipment sector). Also, the EQCR's involvement in making decisions for the engagement team is also not in line with SQC 1.
- The firm has established policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. The audit report was signed on 15 May 2023. At present the assembly period is maximum of 65 days from the date of the audit report and accordingly the electronic audit file was assembled on 19 July 2023. The extant archival policy of the firm is not aligned with the requirements of SQC 1.

Independence threat

- The firm's independence policy does not restrict rendition of non-audit services that are prohibited under ICAI's Code of Ethics. For instance, the independence policy of the firm does not prohibit the rendering of bookkeeping services to the audit client. We observe that the firm has prepared the financial statements of the audit client by forming a separate team of professionals (other than the audit team professional). This tantamount to providing bookkeeping services to the listed company. However, such service cannot be provided to the listed company as per ICAI's Code of Ethics. The firm is advised to create a negative list, which should, at a minimum, cover the services prohibited under the ICAI's Code of Ethics, and appoint an Independence and Ethics Partner.

Failure to consider 'Material and Pervasive' impacts of misstatements while expressing audit opinion on the financial statements

- The firm expressed a qualified audit opinion due to its inability to comment upon recoverability of the company's investments in the subsidiary. However, the audit firm did not consider other financial exposures - which were in the form of the loans. It is quite obvious that a doubt on recoverability of investment equally creates doubt on recovery of loans given to subsidiary. Accordingly, the basic premise of focusing solely on investments and not considering the total financial exposure to the subsidiary is fundamentally flawed. The total financial exposure, including investments in the subsidiary, represented 60% of the company's total net worth at the year-end. A very high-level estimate performed indicated a possible reduction in profit before tax by 70% as impairment indicators exist as at the year end.
- The rationale documented by the engagement partner is inappropriate since the engagement partner failed to consider the total exposure of the company in its subsidiary, while evaluating the possible effects of undetected misstatements on the financial statements. There is no explanation for how the engagement concluded that there was no impact on the recoverability of the loans given to the subsidiary. The firm's contention that since such undetected misstatements were limited to specific investments, there is no pervasive impact (as per the requirements of SA 705), is not satisfactory.

Unapproved related party transactions not considered while forming the audit opinion

During the year the listed company purchased goods amounting to ₹150 crores from related parties as defined under the Companies Act, 2013. Turnover for the year amount to ₹1,300 crores. Under Section 188 of the Companies Act, 2013, shareholders' approval is required if purchases of goods from related party exceeds 10% of the turnover of the year – in the extant case it amounts to 12%. The electronic audit file simply states that the transactions are at arm's length and in the ordinary course of business. No detailed assessment is included. Considering non-compliance of the Companies Act, 2013, the audit opinion should have been modified in respect of this matter.

I. Multiple Choice Questions

- 4.1 Do you agree with CA. Archana's findings related to the EQCR? Choose the correct statement.
- (a) **No.** The observation is incorrect, as an EQCR is not required to be assigned for audits of listed entities unless specifically mandated by the engagement's complexity or regulatory body.
 - (b) **Yes.** Mr. Qureshi does not possess the necessary sectoral experience and knowledge to perform the EQCR role effectively, and under SQC 1, he cannot make decisions for the engagement team.
 - (c) **Yes.** Mr. Qureshi does not possess sectoral experience and technical knowledge, which disqualifies him from being an EQCR as per SQC 1, but he may still support the engagement in a limited capacity.
 - (d) **No.** An individual can be appointed as an EQCR for multiple audit engagements, even in cases where they do not possess specific sectoral knowledge, as long as they fulfil other technical qualifications under SQC 1.
- 4.2 In accordance with SQC 1 and SA 230, the audit firm should have completed the assembly of final audit files by-
- (a) **13 August 2023** – The firm is allowed total 90 days from the audit report date (including extended time (of 30 days) to accommodate additional reviews and documentation for complex audits, in line with regulatory flexibility for listed entities as permitted under SQC 1.
 - (b) **24 July 2023** – SQC 1 and SA 230 set a standard time limit of 60 days but allow for a flexibility of up to 10 additional days for firms auditing multiple subsidiaries, provided that sufficient documentation justifies the extension.
 - (c) **3 August 2023** – Certain international regulatory frameworks permit an additional 20 days beyond the standard time limit of 60 days prescribed under SQC 1 to address complexities arising from cross-border audit engagements.
 - (d) **14 July 2023** – SQC 1 requires audit firms to establish policies for the timely completion of audit files, and as per SA 230, this should ordinarily be no more than 60 days after the auditor's report date.

- 4.3 The threat to auditors independence identified in the inspection report represents_____.
- (a) **Self-review threat.** The Firm will not appropriately evaluate the results of an activity performed by an individual within the firm as part of a non-audit service on which the audit team will rely when forming a judgment as part of an audit.
 - (b) **Self-interest threat.** Financial interest will inappropriately influence auditor's judgment or behaviour.
 - (c) **Advocacy threat .** Auditor will promote the Company's position to the point that his/ her objectivity is compromised.
 - (d) **Familiarity threat.** Due to a long or close relationship with the Company, the auditor will be too sympathetic to their interests or too accepting of their work.
- 4.4 Considering non-availability of audit evidence, CA. Radhika should have issued _____?
- (a) Adverse audit opinion
 - (b) Disclaimer of audit opinion
 - (c) Unmodified audit opinion with an emphasis of matter paragraph
 - (d) Adverse audit opinion on the investment and disclaimer of audit opinion on the remaining portion of the financial statements
- 4.5 Do you agree with CA. Radhika's observation relating to related party transactions?
- (a) **No.** Companies Act, 2013 requirements do not apply to an listed entity if they are conflict with SEBI Listing Regulations. SEBI Listing Regulations do not mandate shareholder approval
 - (b) **No.** Section 188 do not cover routine transactions like purchase of goods
 - (c) **No.** Shareholders' approval under section 188 is not triggered if the transaction is at arm's length.
 - (d) **No.** Shareholders' approval under section 188 is not required if the transaction is at arm's length and at ordinary course of business.

(5 x 2 = 10 Marks)

II. Descriptive Questions

- 4.6 When should revenue from the Customer P be recognised by the Company?
(3 Marks)
- 4.7 RECOMMEND the strategic measures L & V LLP can implement to enhance the profitability and competitiveness of its bookkeeping division, considering internal inefficiencies, external market challenges, and the establishment of a Centre of Excellence.
(4 Marks)
- 4.8 In light of the Ms. Archana's observation RE-DRAFT a policy to identify and evaluate possible threats to independence considering SQC 1? **(8 Marks)**

CASE STUDY 5

Mr. Aditya: From Corporate Professional to Entrepreneur

Before founding Sprinter Private Limited, Mr. Aditya P. had a distinguished career in the textile industry, working for over two decades in a leading multinational corporation. Starting as an entry-level employee, he rose through the ranks due to his expertise in manufacturing, international trade, and operational management. His experience gave him deep insights into the textile market, both domestically and globally. With a vision to build a brand of his own and tap into the booming textile exports market, Mr. Aditya ventured into entrepreneurship. He brought with him not just years of industry knowledge but also an entrepreneurial spirit, leading to the incorporation of Sprinter Private Limited in May 2023.

Sprinter Private Limited's Journey

Incorporated in May 2023, Sprinter Private Limited has quickly made significant strides in the textile industry. Headquartered in New Delhi, the company embarked on the construction of a state-of-the-art factory building in NOIDA using prefabricated structure, which is common and prevalent in modern times. The building, comprising about 1,00,000 square ft. of covered area, was ready to use by the end of July 2023 at a cost of ₹ 6.50 crores. The company also obtained GST registration the state of Uttar Pradesh in May 2023.

In anticipation of launching production quickly, the company had placed advance orders for new textile machinery from South Korea, costing ₹ 8.65 crores. Additionally, it planned to install previously used indigenous machinery valued at ₹ 2.00 crores. By the first week of August 2023, both imported and indigenous machinery were brought at the NOIDA premises, enabling Sprinter to kick-start commercial production of textile made-ups by September 1, 2023.

The early success of Sprinter's made-up textiles became evident when they quickly gathered attention in the U.S. market. Operating under the "Sprinter" brand, the company skillfully leveraged digital and online marketing platforms to secure export orders, effectively competing with and surpassing Chinese rivals in terms of quality and innovation. The company's strategic focus on digital outreach helped it capture a significant chunk of the export market, further fueling its rapid growth.

To further optimize its operational efficiency, in February 2024, Sprinter outsourced 20% of its production to factories in countries with lower operational costs. These factories cater exclusively to Sprinter's procurement demands but operate independently, with no direct involvement from Sprinter. Products from these suppliers are stored at Sprinter's distribution centers and dispatched for sales as needed.

The company's rapid production ramp-up, combined with Managing Director Mr. Aditya's strategic vision, and its successful penetration of international markets, led to significant profitability during the financial year 2023-24. This success reflects Sprinter's ability to swiftly scale operations, utilize cost-effective solutions, and establish a strong foothold in the global market.

Sprinter Private Limited's **mission** is to *become a globally recognized textile brand by delivering innovative, high-quality products, while maintaining integrity and*

*placing sustainability at the forefront of its operations. The company's **vision** is to lead the global textile industry by setting new standards in quality, innovation, and ethical practices, ensuring sustainable growth and contributing positively to the community. Sprinter's **long-term goals** include achieving global market leadership by expanding into key international markets, sustaining 20% annual growth while maintaining operational excellence, investing in cutting-edge technology and research for continuous innovation, and ensuring ethical supply chain practices by maintaining transparency across operations.*

GST Compliance Challenges

During the fiscal year ended March 31, 2024, Sprinter achieved an impressive export turnover of ₹ 50 crores. The company opted to export with the payment of IGST and benefited from duty drawbacks, amounting to ₹ 2.00 crores, credited to its statement of profit and loss. By the end of the year, Sprinter's financial statements reflected a net profit before tax of ₹ 7.50 crores. Additionally, the company invested ₹ 10 lakhs in research and development, further strengthening its innovative edge in the market.

Despite its commercial success, the company's in-house GST team faced challenges in navigating GST liability on IGST payments and refunds, particularly concerning the export sales that began in Oct 2023. The made-ups valuing ₹5 crores were exported during Oct 2023, carrying a GST rate of 5%. The break-up of ITC for month of Oct 2023 is as under:

Eligible ITC on inputs	0.15 crores
Eligible ITC on capital goods	0.03 crores
Eligible ITC in input services	0.02 crores

There were divergent opinions among team members pertaining to discharge of tax liability and refund issues given below before they could approach their tax consultant.

Opinion I - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 2023 is ₹ 0.25 crores and it would be discharged by the company by availing ITC on inputs of ₹ 0.15 crores and balance of ₹ 0.10 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said amount of ₹ 0.25 crore would be refunded/refundable directly by customs in bank account of company.

Opinion II - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 2023 is ₹ 0.25 crores and it would be discharged by the company by availing ITC on inputs of ₹ 0.15 crores, ITC on capital goods of ₹ 0.03 crore and ITC on services of ₹ 0.02 crores and balance of ₹ 0.05 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said amount of ₹ 0.25 crore would be refunded /refundable directly by customs in bank account of the company.

Opinion III - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 23 is ₹ 0.25 crores and it would be discharged by the company by availing ITC on inputs of ₹ 0.15 crores, ITC on capital goods of ₹ 0.03 crore and ITC on services of ₹ 0.02 crores and balance of ₹ 0.05 crore would be

discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B, GSTR-1, and GSTR-9, the above said amount of ₹ 0.25 crore would be refunded/refundable directly by customs in bank account of the company.

Opinion IV - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 2023 is ₹ 0.25 crores and it would be discharged by the company by availing ITC on inputs of ₹ 0.15 crores, ITC on capital goods of ₹ 0.03 crores and ITC on services of ₹ 0.02 crores and balance of ₹ 0.05 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said ITC amounting to ₹ 0.20 crore would be refunded/refundable directly by customs in bank account of the company.

The GST team's uncertainty highlighted the complexities of navigating export-related tax laws.

Capital Investments and Other Costs

The company imported machinery worth ₹ 8.65 crores from South Korea, with the cost being CIF at Mundra port. However, the company incurred ₹ 2.36 lakhs as clearing charges paid to DK Services Private Limited (including ₹ 0.36 lakhs on account of IGST) for availing services for getting consignments cleared from port.

Further, the company incurred ₹ 3.00 lakhs for freight services, paid to D Transport Services, a proprietary concern that is not registered under GST and owning 15 goods carriage. As a result, the company deposited ₹ 0.15 lakhs in IGST under the reverse charge mechanism.

Moreover, the company paid ₹1.77 crores to another company providing building construction services during the financial year 2023-24, which included ₹ 27 lakhs of IGST.

Rapid Growth and Strategic Leadership Under Mr. Aditya

Under the visionary leadership of Mr. Aditya, Sprinter Private Limited has rapidly established itself as a competitive force in the textile industry. The company's early success in penetrating the U.S. market, combined with its strategic investments in modern infrastructure, innovative marketing approaches, and capital expansion, has paved the way for sustained growth. Despite facing some challenges in GST compliance, Sprinter's strong performance and rapid export expansion reflect Mr. Aditya's entrepreneurial acumen, strategic foresight, and unwavering determination to drive the company forward.

ANNEXURE



The Time

The New AgeSprinter Faces Scrutiny Over Child Labour and Unethical Practices in Overseas Supply Chain

Recent reports from several Third World countries have uncovered alarming instances of child labor within factories linked to global supply chains, including those associated with Sprinter, a leading global apparel brand. Despite child labor being illegal in these nations, it has been reported that factories outsource work to contractors who, in turn, illegally hire children, bypassing local law enforcement.



Although Sprinter itself has not directly engaged in these practices, acting only as a customer for these factories, its lack of initial intervention has drawn criticism. Working conditions in many of these factories are described as unhygienic and oppressive, with the exploitation of vulnerable workers being a widespread issue.

I. Multiple Choice Questions

- 5.1 Regarding tax liability of the said company for the month of Oct 2023 under provisions contained in GST laws and rules, which statement is correct?
- Opinion II is correct.
 - Opinion III is correct.
 - Opinion I is correct.
 - Opinion IV is correct.
- 5.2 In context of the information given in under “**Capital Investments and Other Costs**” of the case study, consider the following table of compliances under income tax law as well as under GST law:

<i>Nature of Compliances</i>	<i>Appropriate response of company in accordance with law</i>
(1) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(i) TDS of ₹ 3,07,000/- is deducted on account of above three transactions and company is availing ITC of ₹ 51,000/- in respect of these transactions
(2) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(ii) TDS of ₹ 2,30,250/- is deducted on account of above three transactions and company is availing ITC of ₹ 36,000/- in respect of these transactions
(3) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(iii) TDS of ₹ 2,30,250/- is deducted on account of above three transactions and company is availing ITC of ₹

	27,51,000/- in respect of these transactions
(4) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(iv) TDS of ₹ 3,07,000/- is deducted on account of above three transactions and company is availing ITC of ₹ 27,36,000/- in respect of these transactions

Which of the following forms appropriate response by the company in accordance with law?

- (a) Combination (1) and (i)
- (b) Combination (2) and (ii)
- (c) Combination (3) and (iii)
- (d) Combination (4) and (iv)

5.3 Given this scenario, in which stage of the product life cycle is Sprinter's made-up products most likely positioned?

- (a) Shakeout
- (b) Maturity
- (c) Growth
- (d) Introduction

5.4 Why should Sprinter address the issue of child labour in its supply chain? Select the **most appropriate** statements:

- i. Sprinter is directly responsible for any faulty practices of its suppliers.
- ii. Sprinter has a moral duty of care towards a broad range of stakeholders, even if they are not directly related to the company.
- iii. Sprinter has a responsibility to ensure the well-being of employees working within its supply chain. The issue involves child labour exploitation by subcontractors.
- iv. Sprinter has a responsibility to ensure the well-being of employees working within its factory only. The issue involves child labour exploitation by subcontractors.
- v. Even though Sprinter hasn't done anything illegal, it has a moral obligation to protect the rights of these children. Child labour is prohibited in most countries because children have a right to education.
- vi. Negative publicity regarding unethical production practices could damage Sprinter's business reputation.

Options

- (a) ii, iii
- (b) i, ii, iii, iv
- (c) ii, iii, v, vi
- (d) iii, iv, v, vi

5.5 Which of the following are the **most proactive steps** Sprinter can take to address the unethical practices in its supply chain?

- i. Sprinter can develop a Code of Conduct that details the acceptable standards for conducting business.
- ii. Sprinter can set up an audit team to regularly audit factories in both pre-sourcing and follow-up stages.
- iii. Sprinter can list location-wise suppliers on its website, from whom it procures its products.
- iv. The Board must take immediate action to address unethical practices in the supply chain by implementing strict measures to eliminate child labour and ensuring transparent communication of this commitment to all stakeholders.
- v. Close production in countries with unethical practices.
- vi. Play an active role in managing the business operations of its suppliers.

Options

- (a) ii, iv
- (b) i, ii, iii, iv
- (c) i, iii, iv, vi
- (d) i, ii, v, vi

(5 x 2 = 10 Marks)

II. Descriptive Questions

5.6 The promoters of the company are law compliant and do not want to be seen on the wrong side of law. However, they are also prudent minded and want to take tax benefits available legally and seek your advice.

Advise promoters of company of any such legally permissible benefits to lower its income tax liability for A.Y. 2024-25.

Ignore the adjustment on account of depreciation under the Income-tax Act, 1961.

(9 Marks)

5.7 The company has exported made ups of ₹ 50 crores on payment of IGST during year 2023-24 carrying a GST rate of 5%. Further, the company had availed ITC of ₹ 2.00 crore during year 2023-24. The details of same are as under:

Eligible ITC on inputs	₹ 1.50 crore
Eligible ITC on capital goods	₹ 0.36 crore
Eligible ITC on services	₹ 0.14 crore

DISCUSS whether there was any other legally permissible way to export its goods keeping in view provisions of GST law assuming that there are no domestic sales. Also make a cross comparison of export on payment of IGST vs. other legally compliant way in terms of financial burden/benefit and procedural requirements to the taxpayer company.

Make suitable assumptions.

(6 Marks)