Mock Test Paper - Series I: September, 2024

Date of Paper: 21st September, 2024

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

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

SUGGESTED ANSWERS

ANSWERS TO THE CASE STUDY 1

I. Answers to the Multiple Choice Questions

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

Reason: Paragraph A29 of SA 210 provide that the auditor may decide not to send a new audit engagement letter or other written agreement each period unless factors exist (e.g. a recent change of senior management) to make it appropriate to revise the terms of audit engagement.

1.2 (b) Positive confirmation request

Reason: The auditor has designed a positive confirmation request. A positive external confirmation request asks the confirming party to reply to the auditor in all cases, either by indicating the confirming party's agreement with the given information, or by asking the confirming party to provide information. A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence

1.3 (a) ₹ 2,000 lakhs

Reason:

Accounting year	Particulars	Revenue (₹ in lakhs)
YE 31 March 2024	Music of first and second movie made available during the year ended 31st March, 2024	2,000
YE 31 March 2025	Music of third movie made available to the music company on 1st July, 2024*	1,000

*Had the third movie been shelved during the year ended 31 March 2024, the amount of ₹ 1,000 lakhs would have been refundable to the music company.

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

Reason: MCA has clarified that an independent director can be appointed for a term of less than 5 years. However, any appointment whether of 5 or less than 5 years will be regarded as 'one term'. Section 149 (11) of the Companies Act, 2013 clearly stipulates that no person can hold office as an independent director for more than 'two consecutive terms'. Thus, irrespective of the duration of each of the two terms (whether the same aggregates to 10 years or less) a person holding office for two consecutive terms shall be eligible for re-appointment only after the expiry of three years of ceasing to become an independent director.

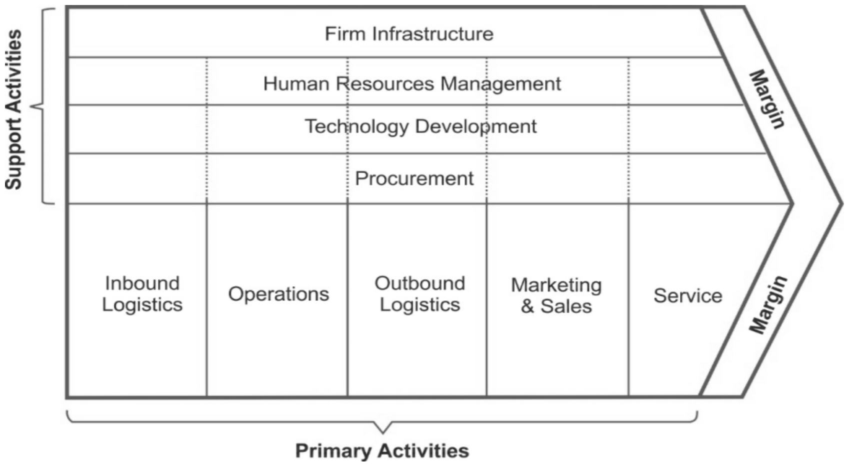
1.5 **(b)** Cost of production of abandoned movie can be claimed as a deduction while filing ITR by the company as revenue expenditure.

Reason: CBDT has clarified vide *Circular No. 16, dated 6.10.2015* that Rule 9A does not apply to abandoned feature films and that the expenditure incurred on such abandoned feature films is not to be treated as a capital expenditure. The cost of production of an abandoned feature film is to be treated as revenue expenditure and allowed as per the provisions of section 37 of the Income-tax Act, 1961.

II. Answers to the Descriptive Questions

1.6 Evaluation of the Value Chain of Rahul & Raj Films Ltd.

The value chain of R & R can be assessed by analyzing its primary and support activities that contribute to creating value and maintaining a competitive advantage in the entertainment industry. R & R engages in the production and acquisition of movies as well as distribution and exhibition.



Primary Activities

Inbound Logistics

In the context of R & R, inbound logistics plays a critical role in the company's ability *to consistently deliver high-quality content*.

The company's strategy of prioritizing quality over quantity is reflected in their meticulous approach to inbound logistics, where *careful planning and resource allocation are paramount*. Efficient management of these resources allows R & R to maintain a streamlined production process, minimizing delays and optimizing costs, which is crucial in an industry where time-to-market can significantly impact a film's success. This robust inbound logistics framework supports the company's overarching strategy of delivering captivating and innovative content, thereby strengthening its position in the competitive Indian film industry.

Operations

R & R has a strong presence in movie production and exhibition, largely due to its ownership of Sangam Theatres and Mangla Talkies. Sangam Theatres, a successful acquisition, has been modernized to improve profitability, while Mangla Talkies handles logistical operations for movie exhibitions (Outbound Logistics). The vertical integration of these operations ensures smooth transitions from production to exhibition, enhancing the company's control over its value chain.

Outbound Logistics

R & R's outbound logistics are crucial, particularly in the **distribution of movies** through its theatre chains and digital platforms. A key player in this process is Mangla Talkies, which manages the distribution logistics and ensures that movies are released on time and in an efficient manner. The company's integration across different stages of the value chain has significantly enhanced its ability to oversee and manage the distribution process effectively.

However, despite the strong performance of Sangam Theatres, the decline in Mangla Talkies' market share indicates a need for the company to reassess its distribution strategies. This reassessment is vital not only for maintaining its current market coverage but also for expanding it in the increasingly competitive landscape.

The rise of OTT platforms further complicates the situation, posing a substantial challenge to traditional movie exhibition operations. To maintain relevance and effectively compete with online platforms, it is crucial for the company to modernize its theatres and integrate digital technology into its operations. This modernization will ensure that R & R remains competitive in a rapidly evolving industry.

Marketing and Sales

R & R has built a strong brand in the Indian film industry, particularly through its focus on quality content and diversification into regional and niche markets. The company's strategic positioning in the movie exhibition space allows it to leverage its brand for both mainstream and niche content.

The company's ventures into niche markets through Vijay Screens demonstrate an effort to cater to diverse audience preferences. However, with the growing influence of OTT platforms, the company needs to enhance its marketing strategies, possibly integrating digital marketing and *partnerships with online platforms* to reach broader audiences.

Service

For R & R, the after-sale service value chain is a strategic tool that not only enhances customer satisfaction but also differentiates the brand in a competitive landscape. Maintaining an ongoing dialogue with customers through personalized communication, whether via email newsletters or social media interactions, helps in keeping them connected with the brand. This engagement fosters a loyal customer base that is more likely to return for future screenings.

The feedback from customers like Yusuf J. and Tina M. highlights the critical role that after-sales service plays in the overall value chain at R & R. At Sangam Theatres, the commitment to enhancing the movie-going experience from start to finish has resulted in positive customer experiences, reinforcing the importance of maintaining high standards in service quality, convenience, and comfort. However, the feedback from Mangla Talkies suggests areas where service can be strengthened, particularly in addressing service delays and seating comfort. These insights underscore the need for continuous improvement in customer engagement, issue resolution, and facility upgrades.

By actively responding to customer feedback and making necessary adjustments, R & R can ensure that every visit, whether to Sangam Theatres or Mangla Talkies, leaves a lasting positive impression, ultimately strengthening its position in the competitive entertainment industry.

Support Activities

Firm Infrastructure

The company's strategic acquisitions and vertical integration are key components of its infrastructure. However, the management must address inefficiencies in regional operations and adapt to the changing technological landscape to sustain growth.

The modernization of Sangam Theatres has been successful, but similar efforts may be needed across other subsidiaries, particularly those struggling with operational inefficiencies. While the company has seen revenue growth, particularly in regional markets, the higher-than-expected operating costs suggest a need for better financial management practices, especially in cost control and resource allocation.

Human Resource Management

The success of R & R's operations depend on its ability to attract and retain skilled professionals in movie acquisition, production, distribution, and exhibition. Investment in training and development is crucial for maintaining high operational standards and adapting to industry changes.

With challenges in managing operating costs at Payal Movies, there may be a need for improved human resource management practices to enhance employee efficiency and reduce costs.

Technology Development

The company's ability to integrate new technologies into its operations, such as digital projectors in theatres and partnerships with OTT platforms, is critical for maintaining competitiveness. Investment in R&D for innovative exhibition formats and digital platforms could create additional value.

Procurement

The process begins with ***securing top-tier scripts and story ideas, which serve as the foundation for the company's productions***. Given the company's focus on both fiction and non-fiction genres, the selection and acquisition of compelling narratives are vital. This includes purchasing rights to intellectual properties, collaborating with accomplished directors, and bringing on board renowned actors, all of which are essential inputs in the filmmaking process.

The company's procurement strategies for acquiring content and technology are essential for maintaining quality standards. Developing strong relationships with content producers and technology suppliers can ensure access to high-quality inputs at competitive prices.

The higher operating costs at Payal Movies highlight the importance of effective procurement strategies in managing expenses and maximizing profitability.

Conclusion

R & R has established a comprehensive value chain that integrates multiple stages of the film industry, from content acquisition to exhibition. The company's strategic acquisitions and modernization efforts have created value across its primary and support activities. However, challenges in managing operational costs, particularly in regional markets, and adapting to technological shifts suggest areas for improvement. By enhancing its technology development, human resource management, and procurement strategies, Rahul & Raj can strengthen its value chain and sustain its competitive advantage in the evolving entertainment industry.

1.7 Determination of research and development assumes significance for self - generated intangible assets as capitalisation of cost are permitted only from such time as recognition criteria Ind AS 38 are met. Under Ind AS 38, research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Whereas development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

As per paragraph 57 of Ind AS 38, no intangible asset arising out of research phase of an internal project should be recognised. Thus, an intangible asset can be recognised only on the commencement of the development stage where the intangible asset can be identified, and the entity can demonstrate that future economic benefits are probable from the asset. Further, as per para 58 of Ind AS 38, an intangible asset arising from development or from the development phase of an internal project demonstrates that the asset will generate future economic benefits because development phase is further advanced than the research phase.

In a movie production cycle, the ideation phase is likely to be 'research' that is undertaken with the prospect of understanding the potential market for such a movie. Expenses, incurred prior to the date of the finalization of concept should be expensed considering the same as a cost in the research phase. This is because in the research phase of a project, it cannot be demonstrated that an intangible asset exists from which future economic benefits are probable.

In the extant case, there is no identification of key cast and crew or the location. The filming set is also being deliberated and have not yet been finalised. Booking of the lead star cast is pending. Date of shooting has not been frozen. Accordingly, the production of movie 'Simran' is at the research phase. Thus, cost incurred till date cannot be capitalised and should be expensed out in the statement of Profit and Loss when it is incurred.

1.8 External confirmation procedures are an effective and efficient way to obtain audit evidence about financial statement assertions such as trade receivable with number of days outstanding – being significantly higher than industry average. External confirmations also help auditor obtain audit evidence from third parties with a high level of reliability when responding to significant risks. Decision whether to use external confirmation procedures requires significant judgement as envisaged in SA 505 including the objectivity of the confirming party and the willingness of the confirming party to respond.

The auditor should exercise an appropriate level of professional skepticism throughout the confirmation process. Professional skepticism is important in designing the confirmation request, performing the confirmation procedures and evaluating the results of the confirmation procedures.

When the auditor do not receive replies to positive confirmation requests, the auditor as required under SA 505 apply alternative procedures to the non-responses to obtain the evidence necessary to reduce audit risk to an acceptably low level. The nature of alternative procedures to be performed varies according to the account and assertion.

Alternative procedures related to the confirmation of trade receivables may include examination of subsequent cash receipts or other entity documentation to provide evidence for the existence assertion. The auditor should evaluate the combined evidence provided by the confirmations and the alternative procedures performed to determine whether it is sufficient to achieve our audit objectives and if it is relevant and reliable.

If the combined evidence provided by the confirmations, alternative procedures and other procedures is not sufficient, the auditor should request additional confirmations or perform other tests, such as tests of details or analytical procedures, to the extent needed to obtain the desired audit evidence.

ANSWERS TO THE CASE STUDY 2

I. Answers to the Multiple Choice Questions

2.1 (d) 05/05/2023

Reason: Section 232(6) of the Companies Act, 2013, the scheme under this section shall clearly indicate an appointed date from which it shall be effective and the scheme shall be deemed to be effective from such date and not at a date subsequent to the appointed date.

Here, the scheme of such amalgamation had indicated an 'appointed date' - 05/05/2023 and accordingly, the effective date' of amalgamation would be 05/05/2023.

2.2 (a) Strategy and Systems

Reason: Under McKinsey's 7S framework, "Strategy" refers to the plan devised to maintain and build a competitive advantage over the competition. DPL's acquisition of BDM Ltd. is a strategic move aimed at enhancing synergy, expanding market presence, and strengthening its product portfolio. This aligns with the "Strategy" aspect of the 7S framework.

"Systems" refers to the processes and procedures used to manage the organization. The efforts to strengthen internal controls post-acquisition—such as implementing a risk-based audit approach and purchasing standardized finance software—are related to the "Systems" aspect. These efforts are aimed at ensuring smooth integration of the merged entities and improving governance.

Therefore, the acquisition and subsequent focus on internal controls fit within the "Strategy and Systems" elements of McKinsey's 7S framework.

2.3 (b) ₹ 18 lakhs

Reason: In accordance with Ind AS 38 'Intangible Assets', the cost of a separately acquired intangible asset is its purchases price and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use. Therefore, the initial cost of the intangible asset should be:

Particulars	₹
List price	15,00,000
Less: Trade discount (5%)	(75,000)
Non-refundable purchase tax	25,000
Customisation cost	3,50,000
Total cost	18,00,000

The maintenance contract of ₹ 1,00,000 is an expense and therefore should be taken as a prepaid expense and charged to profit and loss over a period of 5 years.

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

Reason: In addition to the information required pursuant to Schedule III to the Companies Act, 2013 ('general instructions for the preparation of consolidated financial statements') following information is also required to be disclosed in the consolidated financial statements separately for the parent and each of its components (including foreign component) which has been consolidated:

(i) amount of net assets and net assets as a percentage of consolidated net assets;

(ii) amount of share in profit or loss and the percentage share in profit or loss as a percentage of consolidated profit or loss;

(iii) amount in other comprehensive income (OCI) and the percentage of OCI as a percentage of Consolidated OCI.

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

Reason: Permanent consolidation adjustments are those adjustments that are made only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity which is consolidated. Examples are determination of goodwill or capital reserve, equity attributable to minority shareholders.

Current period adjustments are those adjustments that are made in the accounting period for which the consolidation of financial statements is done like elimination of intra-group transactions and account balances.

II. Answers to the Descriptive Questions

2.6 Ind AS 38, "Intangible Assets," provides detailed guidance on the recognition, measurement, and disclosure of intangible assets, which are non-monetary assets without physical substance. The standard emphasizes the importance of identifying intangible assets distinctly from goodwill, particularly in the context of a business combination.

Identifiability of Intangible Assets

Paragraphs 11 and 12 of Ind AS 38 set out the criteria for an asset to be recognized as an intangible asset:

1. Separable Criterion: An asset is considered identifiable if it is separable, meaning it can be separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or

together with a related contract, identifiable asset, or liability, regardless of whether the entity intends to do so.

2. Contractual-Legal Criterion: An asset can also be identifiable if it arises from contractual or other legal rights, irrespective of whether those rights are transferable or separable from the entity or from other rights and obligations.

Application to Design A and Design B

In the context of a business combination, the identification of intangible assets is critical because they must be recognized separately from goodwill. Goodwill represents the future economic benefits that arise from other assets acquired in a business combination that are not individually identified and separately recognized.

Design A:

Contractual-Legal Criterion: Design A is protected by a patent, which means it arises from legal rights that are enforceable. According to Ind AS 38, an asset that arises from contractual or other legal rights is identifiable as an intangible asset, regardless of whether these rights are transferable or separable. Therefore, Design A meets the contractual-legal criterion and must be recognized as a separate intangible asset in the business combination.

Design B:

Separable Criterion: Although Design B is not protected by a patent and does not meet the contractual-legal criterion, it still qualifies as an intangible asset under the separable criterion. The separable criterion emphasizes that an asset is identifiable if it can be separated from the entity and sold, transferred, licensed, or exchanged. In practice, unpatented designs like Design B can often be exchanged, licensed, or leased to others. This ability to be separated and dealt with independently of the entity fulfills the separable criterion. Consequently, Design B should also be recognized as a separate intangible asset in the business combination.

Measurement

Once identified, these intangible assets must be measured at their fair value at the acquisition date, as per Ind AS 103, "Business Combinations," which is closely aligned with Ind AS 38. The fair value reflects the price that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

2.7 Step 1: Calculate Correct Weights

- Let E = Market value of equity and D = Market value of debt = Book value of equity

- Total market value (V) = E + D = 3B + B = 4B (where B is book value of equity)
- Weight of equity (W_e) = E / V = 3B / 4B = 0.75
- Weight of debt (W_d) = D / V = B / 4B = 0.25

Step 2: Calculate Correct WACC

- WACC = $W_e \times K_e + W_d \times K_d$ = 0.75 × 12% + 0.25 × 6% = 10.5%

Step 3: Calculate Correct Firm Value

- Firm value (V_0) = $FCFF_1$ / (WACC - g) = ₹2 crores / (0.105 - 0.05) = ₹ 36.36 crores

Conclusion

The correct valuation of BDM Ltd. is ₹ 36.36 crores. This figure is notably lower than the initial valuation of ₹ 50 crores provided by the analyst, who incorrectly relied on book values rather than market values in the Weighted Average Cost of Capital (WACC) calculation. This discrepancy underscores the critical importance of using accurate market value weights when determining the value of a company, especially in strategic acquisitions like that of BDM Ltd. by DPL. The revised valuation provides a more realistic assessment, aligning with DPL's commitment to prudent financial management and informed decision-making during the acquisition process.

2.8 Section 240 of the Companies Act, 2013 states that notwithstanding anything in any other law for the time being in force, the liability in respect of offences committed under this Act by the officers in default, of the transferor company prior to its merger, amalgamation or acquisition shall continue after such merger, amalgamation or acquisition.

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

With reference to the above quoted section and the given case, the contention of Mr. Ashok is not correct since the liability in respect of offences committed under the Companies Act 2013 by the officers in default, of the transferor company prior to its merger, amalgamation or acquisition shall continue after such merger, amalgamation or acquisition.

ANSWERS TO THE CASE STUDY 3

I. Answers to the Multiple Choice Questions

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

Reason: In this situation, the customer database does not give rise to legal or contractual right. Accordingly, the assessment of its separability will be assessed. The database can be useful to other players and "Kit-Kit' has the ability to transfer this to them. Accordingly, the intention not to transfer will not affect the assessment whether to record this as an intangible or not. Hence customer list should be recorded as an intangible in a business combination.

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

Reason: As per SA 701

The concept of significant auditor attention recognizes that an audit is risk-based and focuses on identifying and assessing the risks of material misstatement of the financial statements, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. Options (a), (b), and (d) do not accurately represent the emphasis on risk assessment in a significant auditor attention approach.

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

Reason: As per section 13(4) of the CGST Act, 2017, the time of supply of vouchers is -

Date of issue of the voucher, if the supply that it covers is identifiable, at that point, or

Date of redemption of the voucher in other case

Here, food ordering credit voucher can be used on any food items and so the time of supply of vouchers is the date of redemption of the voucher.

In terms of rule 32(6) of the CGST Rules, 2017 relating to valuation, the value of a voucher is equal to the money value of the goods or services redeemable against it. Therefore, though the voucher is sold for ₹1,000, its value is ₹1,200

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

Reason: When the part-payment for any supply has already been received from the customer/ recipient, either in advance or by adjustment (e.g. using a voucher, discount coupon etc.), before the dynamic QR Code is generated, then the dynamic QR code may provide only the remaining amount payable by the customer/ recipient against "invoice value". The details of total invoice value, along with details/ cross reference of the part payment/ advance/ adjustment done, and the remaining amount to be paid, should be provided on the invoice.

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

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

Reason: Under **Ind AS 115 - Revenue from Contracts with Customers**, a performance obligation is defined as a promise to transfer a distinct good or service to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and

(b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

In the case of the Doormato Silver subscription:

- **Monthly delivery of the printed magazine** is a distinct good, as customers can benefit from the magazine independently each month.
- **Access to the online content** is a distinct service that provides additional value separate from the physical magazine.

Since both the printed magazine and online content meet the criteria for being distinct goods or services, they are considered separate performance obligations under **Ind AS 115**.

Therefore, Doormato has **two performance obligations** related to the Doormato Silver subscription:

1. Delivery of the printed magazine.
2. Providing access to the online content.

This approach ensures that each distinct service is accounted for and recognized in line with the benefits provided to the customer.

II. Answers to the Descriptive Questions

3.6 (i) Calculation of NPV

Year	0	1	2	3
Inflation factor in India	1.00	1.05	1.1025	1.1576
Inflation factor in Africa	1.00	1.10	1.21	1.331
Exchange Rate (as per IRP)	4.50	4.7143	4.9388	5.1741
Cash Flows in ₹'000				
Real	-1,00,000	-3,00,000	-4,00,000	-50,000
Nominal (1)	**-1,00,000**	**-3,15,000**	**-4,41,000**	**-57,880**
Cash Flows in African Rand'000				
Real	-4,00,000	5,00,000	6,50,000	7,50,000
Nominal	-4,00,000	5,50,000	7,86,500	9,98,250
In Indian ₹'000 (2)	**-88,889**	**1,16,666**	**1,59,249**	**1,92,932**
Net Cash Flow in ₹'000 (1) + (2)	**-1,88,889**	**-1,98,334**	**-2,81,751**	**1,35,052**
PVF@14%	1	0.8772	0.7695	0.6750
PV	**-1,88,889**	**-1,73,979**	**-2,16,807**	**91,160**

NPV of Terminal value = 1,35,052/ 0.14 × 0.6750 = 6,51,144 (₹ '000)

NPV of 3 years = -4,88,515 (₹ '000)

Total NPV of the Project = -4,88,515 (₹ '000) + 6,51,144 (₹ '000) = 1,62,629 (₹ '000)

Note: There can be a slight difference in exchange rate in 3rd year. Accordingly, the final answer may be slightly varied.

(ii) Recommendations for Strategic Consideration

When evaluating the strategic acquisition of African Eats, Doormato must consider a range of non-financial factors that could impact the success of the investment. These factors are crucial for understanding the broader implications of the acquisition beyond the immediate financial metrics. Below is an elaboration on each relevant point:

Political Environment

The political environment in the countries where African Eats operates can significantly influence the business's operational stability. Doormato needs to *assess the risk of political instability, such as changes in government, civil unrest, or policy shifts that could disrupt business operations*.

In countries with unstable governments, there is a *higher risk of unexpected regulatory changes*. A thorough understanding of the regulatory landscape in each country is necessary. This includes the ease of doing business, regulatory requirements for foreign investments, and potential barriers to entry. *Uncertain or frequently changing regulations can create challenges in compliance and increase operational costs*.

Economic Factors

The extreme volatility of the exchange rate in the African country where African Eats operates poses a significant risk. Currency fluctuations can erode profit margins, especially when revenues are earned in a depreciating currency while costs or financial obligations are in a stronger currency. Doormato should consider hedging strategies or other financial instruments to mitigate this risk.

With an inflation rate of 10% in the African Region and 5% in India, Doormato must assess how these rates will affect both the costs and revenues of African Eats. High inflation can lead to increased operational costs, reduce consumer purchasing power, and impact demand for services. The company should explore pricing strategies that account for inflation while maintaining competitiveness.

Moreover, evaluating the broader economic environment in the target countries is essential. This includes assessing the potential for economic growth, consumer spending trends, and the overall demand for online food delivery services. Economic downturns or recessions could reduce disposable income, impacting the frequency and volume of orders on the platform.

Social and Cultural Factors

Understanding the cultural distinctions in each of the countries where African Eats operates is crucial for customer engagement and brand positioning. Doormato must ensure that its marketing strategies, customer service, and overall business approach are culturally sensitive and resonate with local consumers. Misunderstanding cultural norms or preferences can lead to reputational damage and lost market opportunities. Language plays a significant role in communication with customers, partners, and employees. Ensuring that the platform is available in local languages and that customer support can effectively communicate in these languages is critical for building trust and loyalty.

Doormato should also consider how social trends, such as consumer attitudes toward food delivery, and health consciousness, might vary across the region. Understanding these trends can help tailor the service offerings to meet local preferences and increase market penetration.

Technological Considerations

African Eats' business model relies heavily on technology, including mobile apps, online payment systems, and delivery logistics. Doormato needs to evaluate the technological infrastructure in each country, such as internet penetration rates, mobile network coverage, and availability of reliable payment gateways. Poor infrastructure can lead to operational inefficiencies and limit the platform's reach.

The success of an online food delivery platform depends on the willingness of consumers and restaurants to adopt and use the technology. Doormato should assess the level of technological adoption among the target population, including the prevalence of smartphones and familiarity with online ordering systems.

Moreover, operating in multiple countries exposes African Eats to a range of cybersecurity threats. Doormato should ensure robust cybersecurity measures are in place to protect sensitive data, including customer information and payment details. Data breaches or cyber-attacks could severely damage the platform's reputation and lead to legal liabilities.

Legal and Regulatory Environment

Each country may have its own set of laws and regulations governing online businesses, consumer protection, labor practices, and competition. Doormato must ensure that African Eats complies with all relevant legal requirements in each market. Failure to comply could result in fines, legal disputes, or even the suspension of operations.

African Eats was previously sued for antitrust price manipulation, which highlights the importance of understanding and complying with competition laws in the target countries. Doormato needs to evaluate the legal implications of continuing or altering African Eats' pricing strategies and business practices to avoid future legal challenges.

In addition, Doormato should also consider the local labor laws, including those related to employment contracts, worker rights, and minimum wage requirements. Given that African Eats employs delivery personnel in various countries, it is crucial to ensure compliance with these laws to avoid legal disputes and maintain a positive relationship with the workforce.

Moreover, some African countries may impose restrictions on the repatriation of profits, making it challenging to transfer earnings back to India. Doormato needs to understand the legal and regulatory framework governing profit repatriation and plan accordingly. This might involve exploring alternative methods of moving funds, such as reinvesting profits locally or negotiating special agreements with the host government. While taxation has been ignored in the NPV calculation, it is important to consider the local tax laws for repatriating profits. Double taxation treaties, withholding taxes, and local tax rates could all affect the net returns from the investment.

Ethical Considerations

In some African countries, issues like child labor or poor working conditions may be prevalent. Doormato must ensure that African Eats adheres to ethical labor practices, not only to comply with international standards but also to maintain its corporate social responsibility (CSR) image. Moreover, this can help mitigate the risk of reputational damage. Engaging in CSR activities that benefit local communities can enhance

Doormato's brand image and foster goodwill among consumers. This could include initiatives such as supporting local farmers, reducing the environmental impact of delivery operations, or contributing to social causes in the regions where African Eats operates.

Conclusion

While the financial analysis indicates a positive NPV for the acquisition, the strategic benefits of entering the African market may still be compelling. However, Doormato must carefully consider the non-financial risks and challenges associated with this acquisition. Conducting thorough due diligence, addressing potential legal, cultural, and ethical issues, and implementing robust risk management strategies will be critical for the success of the acquisition. A comprehensive understanding of the external environment will enable Doormato to make an informed decision and potentially mitigate the risks associated with expanding into the African market.

3.7 **(i)** This situation serves as a reminder that while marketing and presentation are vital, maintaining customer trust through authenticity is equally, if not more, important. Customers expect honesty, and when there is a significant difference between what they see and what they receive, it can damage the relationship between the restaurant and the customer. The company should plan to actively remove AI-generated images (if any) from menus by as earliest as possible and should also reject new submissions of such images. CEO should urge restaurant partners and Doormato's internal marketing team to cease using AI-generated images for promotional purposes. Instead, Doormato's should provide free real food photography service and encourage restaurants to avail this service. This service may be given at no profit or loss basis. In addition, Doormato should give a clarification like “At Doormato, we use various forms of AI, to make our workflows efficient. However, one place where we strongly discourage the use of AI is images for dishes in restaurant menus. AI-generated food/dish images are misleading” This decision highlights the growing concern surrounding the ethical implications, particularly in contexts where authenticity and accuracy are paramount. Doormato's proactive approach aims to restore trust and ensure a more transparent experience for its users.

(ii) **(a)** With blockchain technology, Doormato can create a decentralized ledger that records every step of the supply chain process, from picking food package from the restaurants to final product delivery. Each transaction is securely recorded on the blockchain, providing real-time visibility and transparency to all stakeholders involved. The finance professional can easily access the blockchain to verify the authenticity and accuracy of transactions, ensuring compliance with regulatory requirements and building trust with customers, investors, and auditors.

(b) Traditionally, audits involve manually reviewing numerous financial transactions and reconciling data from different sources, which can be time-consuming and prone to errors. However, with blockchain technology, the e-commerce platform, Doormato, can implement a blockchain-based payment system that automatically records and timestamps every transaction. During the audit process, the finance professional can access the blockchain ledger to instantly verify transaction details, reconcile data, and ensure compliance with accounting standards and regulatory guidelines. This streamlined approach improves audit efficiency, reduces the risk of human error, and enhances the accuracy of financial reporting.

(c) By utilizing blockchain technology, Doormato can implement a secure and encrypted blockchain network to store and share customer data. The finance professional can ensure the integrity and security of the data by leveraging blockchain's cryptographic algorithms and consensus mechanisms. This eliminates the risk of unauthorized access, data tampering, or data loss. With blockchain, the finance professional can confidently handle customer data, knowing that it is protected by a robust and transparent system, enhancing data privacy, and maintaining the trust of customers and regulatory bodies.

3.8 Business Model Canvas of Doormato

Key Partners	**Key Activities**	**Value Proposition**	**Customer Relationship**	**Customer Segments**
▪ Partnership with restaurants for food delivery ▪ Delivery personnel ▪ Technology companies offering payment gateways, app development, and data security ▪ Restaurants offering loyalty programs and deals via Gold and Silver Subscription (Subscription Partners)	▪ Platform Management to ensure smooth operation of the Doormato app and website ▪ Managing logistics and delivery of food orders ▪ Addressing customer and restaurant partner concerns ▪ Promoting restaurants and running targeted ad campaigns ▪ Fostering a	▪ Convenience i.e., easy and quick food ordering, reliable delivery, transparent delivery fee calculation ▪ Wide selection of cuisines and restaurant options ▪ Discounts through vouchers, loyalty programs,	▪ User-generated reviews and stories ▪ Responsive customer service ▪ Personal interaction through "Food Soldiers"	▪ Users ordering food ▪ Companies looking to reach Doormato's extensive user base ▪ Businesses seeking visibility

	user-driven review system and customer engagement	and subscription benefits		
	Key Resources		**Channels**	
	▪ Over 20 million users (restaurants and individual consumers) ▪ Technology Infrastructure i.e., robust app and website platform ▪ Trusted name in the food delivery industry		▪ Desktop/ Mobile/ Laptops ▪ Push notifications, and in-app messages	

Cost Structure	**Revenue Streams**
▪ Maintaining and upgrading the app and website ▪ Costs associated with delivery personnel and operations ▪ Operating a customer service team ▪ Costs related to the "Food Soldier" program and partner relationships	▪ Commission from restaurants on food delivery orders ▪ Charged to customers, varying based on order size and location ▪ Revenue from restaurants promoting their listings ▪ From Doormato Gold and Doormato Silver memberships ▪ Revenue from users purchasing vouchers for discounts on food orders ▪ Commission from the restaurant for each successful reservation

This Business Model Canvas outlines how Doormato operates, generates revenue, and delivers value to its customers and partners. The company's focus on trust, community, and variety, along with its multifaceted business model, positions it strongly in the competitive food delivery and restaurant aggregation market.

ANSWERS TO THE CASE STUDY 4

I. Answers to the Multiple Choice Questions

4.1 (b) ₹ 8,80,889

Reason: As per Ind AS 116, the lease payments should initially be measured using SOFR of 2 percent as at the commencement date. Therefore, while measuring the lease liability, each year the payments will be increased by 2 per cent, as follows:

Year	Lease Payment	Discount Factor	PV of lease payments (₹)
1	1,00,000	1	1,00,000
2	1,02,000	0.952	97,104
3	1,04,040	0.907	94,364
4	1,06,121	0.864	91,689
5	1,08,243	0.823	89,084
6	1,10,408	0.784	86,560
7	1,12,616	0.746	84,012
8	1,14,869	0.711	81,672
9	1,17,166	0.677	79,321
10	1,19,509	0.645	77,083
			8,80,889

Therefore, the lease liability will initially be measured at ₹ 8,80,889.

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

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

As per section 43B, interest payable by the assessee on interest on loan from a public financial institution is allowable as deduction only in the year in which such interest is actually paid by the assessee. The proviso to section 43B permits deduction if such sum is paid on or before the due date of filing of return under section 139(1) in respect of the previous year in which the liability to pay such sum was incurred. Explanation 3C to section 43B clarifies that if any sum payable by the assessee as interest on any such loan is converted into a loan or borrowing or debenture or any other instrument by which the liability to pay is deferred to a future date, the interest so converted shall not be deemed as actual payment, and hence, would not be allowed as deduction. In this case, since EcoTech has converted the interest of ₹ 1 crore payable to GreenFinance Ltd. on loan borrowed from it, the interest so converted into debentures shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y.2024-25. Accordingly, the action of the Assessing Officer in rejecting the deduction of interest on the loan claimed by EcoTech while computing its profits and gains of business for A.Y. 2024-25, is correct.

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

Reason: Requirement of Company Secretary in certain other companies Section 203 read with Rule 8 and Rule 8A of Companies (Appointment and Managerial Personnel) Rules 2014, as amended provides that every–

Listed company or

Public company having paid up share capital ₹ 10 crore or more or

Private company having paid up share capital of ₹ 10 crore or more shall have a Whole time Company Secretary.

Bar on multiple appointments- A whole-time key managerial personnel shall not hold office in more than one company at the same time except in its subsidiary company. [Section 203(3)]

4.4 (c) 2.607%

Reason: Since the entity has only general borrowing, hence first step will be to compute the capitalisation rate. The capitalisation rate of the general borrowings during the period of construction is calculated as follows-

Particulars	Amount (in ₹)
Finance cost on ₹ 275 lakhs 7.5% debentures during September-December 2023	6,87,500
Finance cost on ₹ 20 lakhs 10% debentures during September-December 2023	66,667
Interest @15% on overdraft of ₹ 5,00,000 in September 2023	6,250
Interest @16% on overdraft of ₹5,00,000 in October and November 2023	13,333
Interest @16% on overdraft of ₹ 7,50,000 in December 2023	10,000
Total finance cost during September-December 2023	7,83,750

Weighted average borrowings during period

= [(2,75,00,000 × 4) + (20,00,000 × 4) + (5,00,000 × 3) +(7,50,000 × 1)]/4

= ₹ 3,00,62,500

Capitalisation Rate for 4 months period = Total finance costs during the construction period/ Weighted average borrowing cost during the construction period

= 7,83,750 /3,00,62,500

= 2.607%

4.5 **(d)** ₹ 1,00,00,000, ₹ 3,40,00,000

Reason:

Fair Value Method	**Amount (in ₹)**
Fair value of cash consideration transferred	10,00,00,000
Fair value of non-controlling interest	3,00,00,000
	13,00,00,000
Less: Value of subsidiary's identifiable net assets as per Ind AS 103	12,00,00,000
Goodwill	**1,00,00,000**

Proportionate Share Method	**Amount (in ₹)**
Fair value of cash consideration transferred	10,00,00,000
Proportional share of non-controlling interest in the net identifiable assets of acquiree (12,00,00,000 x 45%)	5,40,00,000
	15,40,00,000
Less: Value of subsidiary's identifiable net assets as per Ind AS 103	12,00,00,000
Goodwill	**3,40,00,000**

II. Answers to the Descriptive Questions

4.6 **Disclosure by EcoTech Innovations Pvt. Ltd.:** Under Ind AS 24, "Related Party Disclosures," related parties are defined as entities or individuals that have the ability to exercise control or significant influence over the reporting entity, or vice versa. In this scenario, EcoTech Innovations Pvt. Ltd. owns 30% of the share capital in GreenTech Solutions Pvt. Ltd., which gives it the ability to exercise significant influence over GreenTech. This significant influence extends to the subsidiaries of GreenTech as well, making SustainCo Ltd. a related party to EcoTech Innovations Pvt. Ltd. because SustainCo Ltd. is a subsidiary of GreenTech Solutions Pvt. Ltd. Therefore, any transactions between EcoTech Innovations Pvt. Ltd. and SustainCo Ltd. are considered related party transactions and must be disclosed in EcoTech Innovations Pvt. Ltd.'s separate financial statements.

Disclosure of Transactions with EcoEnergy Pvt. Ltd.: Although GreenTech Solutions Pvt. Ltd. holds 30% of the share capital in EcoEnergy Pvt. Ltd. and has significant influence over it, EcoTech Innovations Pvt. Ltd. neither directly own any share capital in EcoEnergy Pvt. Ltd. nor it have significant influence or control over EcoEnergy Pvt. Ltd. Therefore, according to Ind AS 24, EcoEnergy Pvt. Ltd. is not considered a related party to EcoTech Innovations Pvt. Ltd. The mere fact that EcoTech Innovations Pvt. Ltd. transacts with EcoEnergy Pvt. Ltd. through its associate GreenTech Solutions Pvt. Ltd. does not establish a related party relationship under Ind AS 24. Consequently, EcoTech Innovations Pvt. Ltd. is not required to disclose transactions with EcoEnergy Pvt. Ltd. as related party transactions in its financial statements.

Disclosure by SustainCo Ltd.: SustainCo Ltd. is required to disclose its transactions with EcoTech Innovations Pvt. Ltd. in its financial statements. According to Ind AS, a related party relationship exists between SustainCo Ltd. and EcoTech Innovations Pvt. Ltd. because EcoTech Innovations Pvt. Ltd. has significant influence over GreenTech Solutions Pvt. Ltd., which is the parent company of SustainCo Ltd. This creates a relationship where EcoTech Innovations Pvt. Ltd. can influence the decisions of SustainCo Ltd., making it a related party. As a result, any transactions between SustainCo Ltd. and EcoTech Innovations Pvt. Ltd. must be disclosed in SustainCo Ltd.'s financial statements as related party transactions.

Disclosure by EcoEnergy Pvt. Ltd.: EcoEnergy Pvt. Ltd. is not required to disclose its transactions with EcoTech Innovations Pvt. Ltd. as related party transactions. Under Ind AS, for entities to be considered related parties, there must be a direct or indirect control, joint control, or significant influence. In this case, EcoTech Innovations Pvt. Ltd. does not exert control or significant influence over EcoEnergy Pvt. Ltd. through GreenTech Solutions Pvt. Ltd. Therefore, no related party relationship is established between EcoEnergy Pvt. Ltd. and EcoTech Innovations Pvt. Ltd. As a result, EcoEnergy Pvt. Ltd. does not need to disclose its transactions with EcoTech Innovations Pvt. Ltd. as related party transactions in its financial statements.

4.7 The action of the Commissioner in issuing the second notice is not justified. The term "record" has been defined in clause (b) of Explanation 1 to section 263(1). According to this definition "record" shall include and shall be deemed always to have included all records relating to any proceeding under the Act available at the time of examination by the Commissioner. In other words, the information, material, report etc. which were not in existence at the time the assessment was made and came into existence afterwards can be taken into consideration by the Commissioner for the purpose of invoking his jurisdiction under section 263(1). However, at the same time, in view of the express provisions contained in clause (b) of the Explanation 1 to section 263(1), such information, material, report etc. can be relied upon by the Commissioner only if the same forms part of record when the action under section 263 is taken by the Commissioner.

Issuance of a notice under section 263 succeeds the examination of record by Commissioner. In the present case, the Commissioner initially issued a notice under section 263, after the examination of the record available before him. The subsequent second notice was on the basis of material collected under section 133A, which was totally unrelated and irrelevant to the issues sought to be revised in the first notice. Accordingly, the material on the basis of which the second notice was issued could not be said to be "record" available at the time of examination as emphasized in clause (b) of the Explanation 1 to section 263(1).

4.8 As per *Notification No. 45/2017 Cus. dated 30.06.2017*, duty payable on re-importation of goods which had been exported for repairs abroad is the duty of customs which would be leviable if the value of re-imported goods after repairs were made up of the fair cost of repairs carried out including cost of materials used in repairs (whether such costs are actually incurred or not), insurance and freight charges, both ways. However, following conditions need to be satisfied for availing this concession:

(a) goods must be re-imported within 3 years, extendable by further 2 years, after their exportation;

(b) exported goods and the re-imported goods must be the same;

(c) ownership of the goods should not change.

Since all the conditions specified above are fulfilled in the given case, the customs duty payable on re-imported goods will be computed as under:

Particulars	₹
Value of goods re-imported after exports [Cost of materials ₹10 Lakh + fair cost of repairs ₹ 5 Lakh + actual insurance and freight ₹ 5 lakh]	20,00,000
Add: Basic Customs duty @ 15% …(A)	3,00,000
Add: Social Welfare Surcharge @ 10% on ₹ 3,00,000 …(B)	30,000
Value for computing integrated tax	23,30,000
Integrated tax @ 12% (₹ 23,30,000 x 12 %) - …(C)	2,79,600
Customs Duty and integrated tax payable …[(A) + (B) + (C)]	**6,09,600**

4.9 According to Section 192(1) of the Companies Act, 2013, no company shall enter into an arrangement by which:

(a) A director of the company or its holding, subsidiary, or associate company, or a person connected with him, acquires or is to acquire assets for consideration other than cash from the company; or

(b) The company acquires or is to acquire assets for consideration other than cash from such director or person so connected.

The above restriction is relaxed under certain conditions. A company may enter into an arrangement involving non-cash transactions as stated above if prior approval for such arrangement is accorded by a resolution of the company in a general meeting. Furthermore, if the director or connected person is a director of its holding company, approval must also be obtained by passing a resolution in the general meeting of the holding company.

The notice for approval of the resolution in the general meeting issued by the company or holding company must include:

- The particulars of the arrangement.
- The value of the assets involved in such arrangement, duly calculated by a registered valuer.

In the given instance, GreenWave Ltd. entered into a non-cash transaction with its managing director, Mr. Arjun, by selling its machinery in exchange for a vehicle. To comply with Section 192(1) of the Companies Act, 2013, GreenWave Ltd. would have needed to:

Obtain prior approval for such an arrangement through a resolution in its general meeting.

Since Mr. Arjun is also a director of its holding company, EcoTech Innovations Pvt. Ltd., prior approval would also need to be obtained by passing a resolution in the general meeting of EcoTech Innovations Pvt. Ltd.

By following these legal requirements, GreenWave Ltd. and EcoTech Innovations Pvt. Ltd. would ensure compliance with the Companies Act, 2013, regarding non-cash transactions involving directors and connected persons.

ANSWERS TO THE CASE STUDY 5

I. Answers to the Multiple Choice Questions

5.1 **(c)** Both (ii) & (iii).

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

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

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

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

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

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

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

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

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

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

II. Answers to the Descriptive Questions

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

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

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

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

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

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

5.8 ROI

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

Division 'F'

controllable profit = ₹ 5,200K

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

ROI = 28.42%

Division 'G'

Controllable profit = ₹ 4,000K

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

ROI = 11.87%

Responsibility accounting advocates that managers performance shall be judged based upon how well he or she manages the items under his or her control, hence in computation Of ROI of division, controllable profit has been taken into consideration, because head Office costs are not controllable by divisional managers. Figures of non-current and current assets apart from the current liabilities have been taken into consideration as they are such items over which divisional managers have complete control.

Bonus

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

Division 'F'

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

Division ‘G'

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

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

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

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

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

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

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

1. **Enhanced Service Offerings**: The new building will include modern conference spaces, food labs, beverage research and development facilities, and common areas. These additions allow A Ltd. to diversify its services, catering to a broader range of clients, including business travellers, corporate clients, and event organizers. By offering comprehensive, high-quality amenities, A Ltd. can attract new customer segments and retain existing ones, giving it a competitive edge over other players in the market.

2. **Differentiation in the Market**: The integration of cutting-edge facilities and high-quality furnishings sets A Ltd. apart from its competitors. In an industry where customer experience is paramount, the ability to provide state-of-the-art accommodations and services positions A Ltd. as a premium provider. This differentiation can lead to increased brand loyalty and the ability to command higher prices, further strengthening the company’s market position.

3. **Future-Proofing and Innovation**: By incorporating food labs and beverage R&D facilities, A Ltd. is positioning itself as a leader in hospitality innovation. These facilities enable the company to experiment with new offerings and trends, staying ahead of market demands and setting trends rather than following them. This proactive approach to innovation helps A Ltd. maintain relevance in a rapidly evolving market.

4. **Operational Efficiency and Cost Savings**: The acquisition allows A Ltd. to consolidate its operations into a single, well-equipped location, leading to potential cost savings in terms of logistics, maintenance, and management. Efficient operations can improve profit margins and provide the financial flexibility needed to invest in further growth or offer competitive pricing.

5. **Attracting High-Profile Clients and Events**: The availability of modern conference spaces and advanced facilities makes A Ltd. an attractive venue for high-profile clients and large-scale events. Hosting such

events not only generates significant revenue but also enhances the company's reputation, leading to positive word-of-mouth and further business opportunities.

6. **Scalability and Growth Opportunities**: With an expanded and upgraded infrastructure, A Ltd. can scale its operations more effectively. Whether it's expanding into new markets, launching new services, or increasing capacity, the acquisition provides the physical and operational foundation needed for sustained growth.

7. **Strategic Positioning**: As part of A Ltd.'s Future Ready Action Plan, this acquisition aligns with the company's long-term strategy of making conferences, virtual offices, and collaborative workspaces more accessible. This strategic alignment ensures that A Ltd. remains competitive in the face of evolving market trends, particularly in response to the increasing demand for hybrid and virtual work environments.

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

The suggested answers provided here includes a variety of potential solutions/ alternative points *where applicable*. This is intended to assist students by offering multiple perspectives and approaches to problem-solving.