

**Mock Test Paper - Series II: October, 2024**

**Date of Paper: 7<sup>th</sup> October, 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) No.** Risk of fraud risk exists in revenue. Remuneration based on achievement of performance targets can incentivize employees to manipulate revenue. Greater risks of fraud exist where a substantial portion of revenues are through cash sales.

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

- 1.2 (d)** Filing of Annual Performance Report should be based on audited financial statements of the Black Pearl since Black Pearl is controlled by SarTaj.

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

- 1.3 (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

**Reason:** Section 185 inter alia covers loans given to directors and loans to “any person in whom any of the director of the company is interested”. In the present case provisions of section 185 is not triggered since loans have neither been given to employees nor to “any person in whom any

of the director of the company is interested” - as employees are not covered within this expression.

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

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

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

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

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

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

- 1.5 (b)** i ,ii, iv

**Reason:**

- i. The number of **permanent** employees, not all employees, on the rolls of the company as of March 31, 20X4 should be disclosed.
- ii. The percentage increase in the median remuneration of employees should be provided for the entire **financial year**, not just based on 6 months.
- iii. The percentage increase in remuneration of each Director is correctly disclosed.
- iv. The percentage increase in remuneration of the **Company Secretary** should also be disclosed.

- v. The ratio of the remuneration of the CFO to the median remuneration of employees is **not required** to be disclosed. Only the ratio of each Director's remuneration to the median remuneration of employees is required.
- vi. Affirmation that the remuneration is in line with the remuneration policy is correctly disclosed.

The above explanation aligns with the disclosure requirements under Section 197 and Rule 5(1).

## II. Answers to the Descriptive Questions

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

| Year         | Cash flow - ₹ | PV @ 10% | PV - ₹      |
|--------------|---------------|----------|-------------|
| 2024-2025    | 2.31          | 0.909    | 2.10        |
| 2025-2026    | 2.31          | 0.826    | 1.91        |
| 2026-2027    | 2.31          | 0.751    | 1.74        |
| 2027-2028    | 2.31          | 0.683    | 1.58        |
| 2028-2029    | 2.31          | 0.621    | 1.43        |
| <b>Total</b> | <b>11.55</b>  |          | <b>8.76</b> |

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

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

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

### *Initial Recognition:*

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

### *Subsequent Recognition:*

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

## **1.7 Current Weaknesses in SarTaj Hotels' Supply Chain**

### **Demand Forecasting and Knowledge Reliance on Head Chefs**

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

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

### **High Job Mobility of Head Chefs and Knowledge Retention Issues**

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

### **Low Technology Adoption**

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

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

### **Time-Consuming and Costly In-House Food Preparation**

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

### **Recommendations to Overcome Challenges**

#### **Data-Driven Forecasting**

SarTaj Hotels should implement a data-driven approach to demand forecasting. This can be achieved by collecting and storing information on past product offerings, sales history, customer preferences, and inventory levels at each hotel. Utilizing this data will enable the company to move from a "guessing game" approach to data-backed decision-making.

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

#### **Improving Knowledge Retention**

A *formalized knowledge management system* should be implemented to capture the operational knowledge of head chefs, including their approach to menu development, inventory management, and customer preferences. This

will ensure that when a new chef is appointed, they can build on previous knowledge rather than starting from scratch.

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

### **Increased Use of Technology in Supply Chain Processes**

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

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

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

### **Outsourcing Part of Food Preparation**

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

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

### **Supplier Collaboration and Dual-Sourcing Strategy**

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

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

### **Increasing Efficiency with Outsourced or Hybrid Models**

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

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

### **Conclusion**

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

## **ANSWERS TO THE CASE STUDY 2**

### **I. Answers to the Multiple Choice Questions**

- 2.1 (b)** 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.

**Reason:** Paragraph D7AA of Ind AS 101 has been added to provide for transitional relief from the retrospective application of Ind AS 16: Property, Plant and Equipment. Paragraph D7AA, provides an entity option to use carrying values of all such assets as on the date of transition to Ind ASs, in accordance with previous GAAP as an acceptable starting point under Ind AS.

- 2.2 (d)** 1<sup>st</sup>April,2022

**Reason:** The date of transition will be 1<sup>st</sup> April, 2022 being the beginning of the earliest comparative period presented. To explain it further, Fastest Finger Limited is required to adopt Ind AS for F.Y.2023-24, and it will provide comparatives for F.Y.2022-23. Accordingly, the beginning of the comparative period i.e. 1<sup>st</sup>April,2022 will be considered as date of transition.

- 2.3 (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.

**Reason:** The participation of Directors in a meeting of the Board may be either in person or through video conferencing or other audio visual means, as may be prescribed, which are capable of recording and recognising the participation of the Directors and of recording and storing the proceedings of such meetings along with date and time.

- 2.4 (c)** ₹ 9.80 crores

**Reason:** Under Rule 31B of the CGST Rules, 2017 any amount returned or refunded by the supplier to the player for any reasons whatsoever,

including player not using the amount paid or deposited with the supplier for participating in any event, should not be deductible from the value of supply of online money gaming. Accordingly, GST @28% is payable on the entire amount of ₹ 35 crores.

- 2.5 (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.

**Reason:** Where statutory dues have not been deposited on account of any dispute, then the name of statute, nature of dues, amount not deposited, period and the forum where dispute is pending should be mentioned in auditor's report under CARO. [Paragraph 3(vii)(b) of CARO 2020]. The auditor has not disclosed the period and forum where the dispute is pending.

## **II. Answers to the Descriptive Questions**

- 2.6** Appendix C to Ind AS 101 prescribes an optional exemption from retrospective restatement in relation to past business combinations. Paragraph C(4)(j) of Appendix C to Ind AS 101 prescribes that when the past business combinations are not restated and a parent entity had not consolidated an entity as a subsidiary in accordance with its previous GAAP (either because it was not regarded as a subsidiary or no consolidated financial statements were required under previous GAAP), then the subsidiary's assets and liabilities would be included in the parent's opening consolidated financial statements at such values as would appear in the subsidiary's separate financial statements if the subsidiary were to adopt the Ind AS as at the parent's date of transition.

It may be noted here that the above exemption is available only under those circumstances where the parent, in accordance with the previous GAAP, has not presented consolidated financial statements for the previous year; or where the consolidated financial statements were prepared in accordance with the previous GAAP, but the entity was not treated as a subsidiary, associate or joint venture under the previous GAAP. As such, if the consolidated financial statements were required to be prepared and there is a change in classification of the entity from subsidiary to associate or vice versa in accordance with Ind AS, then the above exemption does not apply.

In the present case, the subsidiary's separate financial statements would be prepared as if it was a first-time adopter of Ind AS i.e. after availing relevant first-time adoption mandatory exceptions and voluntary exemptions. The parent will adjust the carrying amount of the subsidiary's assets and liabilities to the amounts that Ind ASs would require in the subsidiary's balance sheet.

The deemed cost of goodwill equals the difference at the date of transition between:

- (a) the parent's interest in those adjusted carrying amounts; and
- (b) the cost in the parent's separate financial statements of its investment in the subsidiary.

The measurement of non-controlling interest and deferred tax follows from the measurement of other assets and liabilities.

**2.7** Applying McKinsey's 7S Framework to **Fastest Finger Limited (FFL)** highlights several areas where improvement is necessary for achieving strategic success.

**Strategy:** FFL is experiencing strategic drift, with unclear direction and resistance to new initiatives. To address this, the strategy must be communicated effectively to all managers and employees involved. The current approach, combining organic and inorganic growth, needs refinement, particularly in innovation and managing risks associated with the **Teen Patti** contract. A clearer focus on product development and enhancing the premium online gaming experience will help restore FFL's competitive edge.

**Structure:** FFL operates in domestic and international markets with a structure that supports diverse gaming and e-Sports segments. However, misalignment across functional units threatens the success of the change program. To support its growth and innovation objectives, FFL must streamline its structure to promote cross-functional collaboration and align with its strategic goals.

**Systems:** The company is transitioning to **Ind AS** and dealing with **GST compliance** issues, both of which are critical for managing growth and regulatory requirements. FFL needs robust financial systems to handle these complexities, and addressing compliance issues will be essential for maintaining investor confidence.

**Shared Values:** There is a lack of consensus on the need for new product development and strategic direction. This disconnects between leadership and staff underscores the importance of shared values. The CEO's concerns about the company's future have not been communicated clearly, leaving employees uncertain. Fostering a culture of innovation and ensuring alignment on strategic goals across the organization will help overcome resistance to change and drive growth.

**Skills:** FFL lacks expertise in new gaming technologies, which is critical for developing new products and maintaining competitiveness. The company must invest in hiring senior resources for research and development and possibly engage external designers. Strengthening its technical capabilities will be essential for supporting innovation and future product development.

**Style:** Internal disagreements over FFL's direction and investment strategies are causing friction. The CEO has not secured commitment from key managers, such as the operations and sales directors, who are skeptical about the need for technological advancements. To move forward, leadership must resolve these conflicts and create a collaborative environment that encourages innovation and adaptability.

**Staff:** FFL faces human resource issues, including potential redundancies and dissatisfaction among operations staff. The reliance on external resources and technical experts may be seen as a threat to existing employees. Additionally, the failure to coordinate the new program with the



sales team could undermine its success. Effective HR management, clear communication about strategic changes, and investment in talent acquisition and development are crucial to maintaining morale and productivity.

## **Conclusion**

Fastest Finger Limited needs to realign its strategic direction by refining its growth strategy, revising its organizational structure, and investing in key skills and technologies. Clear communication and fostering a shared vision are essential to overcoming resistance to change. By resolving internal conflicts and creating a collaborative environment, FFL can drive innovation, ensure compliance, and secure its competitive position in the gaming industry.

- 2.8** Section 173(2) of Companies Act, 2013 read with Rule 3 of the Companies (Meetings of Board and its Powers) Rules, 2014, provide that participation of directors in a meeting of the Board may be either in person or through video conferencing or other audio-visual means as may be prescribed, which are capable of recording and recognizing the participation of the directors and of recording and storing the proceedings of such meetings along with date and time. Chairman of the Meeting and Company Secretary should safeguard the integrity of the meeting by ensuring sufficient security and identification procedures, ensure availability of proper video conferencing or other audio visual equipment or facilities for providing transmission of the communications for effective participation of the directors and other authorised participants at the Board meeting and other matters as prescribed in the above Rule.

The **notice of the meeting** shall be sent to all the directors 7 days in advance as per section 173 (3) of the Act and the notice shall inform the directors regarding the option available to them to participate through video conferencing mode or other audio-visual means and shall provide all the necessary information to enable the directors to participate through video conferencing mode or other audio-visual means.

Key points to be observed before/ during the meeting are as follows:

### ***STEP 1: Roll Call***

At the commencement of the meeting, a Roll Call should be taken by the Chairperson when every director participating through video conferencing or other audio-visual means shall state, for the record, the prescribe matters including name; location from where participating and that he has received the agenda and all the relevant material for the meeting

### ***STEP 2: Considerations for the Chairman or Company Secretary***

The Chairperson / Company Secretary would then read out the names of persons (other than the Directors who are present at the meeting) to assist/guide/witness the proceedings of the Meeting the Board. The **attendance register shall be deemed to have been signed by the directors** participating through electronic mode, if their attendance is recorded by the Chairman or FFL Secretary in the attendance register and the minutes of the meeting.

### **STEP 3: Requirement of Quorum**

The Chairperson / Company Secretary should confirm that the **required quorum** is present throughout the meeting.

The statutory registers which are required to be placed in the Board meeting should be placed at the scheduled venue of the meeting.

### **STEP 4: Transaction during Meeting**

Each item of business should be taken up one by one as per the agenda specified in the notice. If a motion is objected to and there is a need to put it to vote, the Chairperson shall call the roll that is to say that he shall first announce that he shall be doing the roll call and call out the name of each director who shall identify himself while casting his vote and the Chairperson shall then note the vote of each director. The Chairperson shall then **announce the summary of the decision** taken on such item along with names of the directors, if any, who dissented from the decision taken by majority.

## **2.9 (i) Growth**

### **(ii) Maturity**

#### **Growth Stage**

Compared to the introduction stage, the likely changes for NOX-A in the online gaming industry are as follows:

**Unit Selling Prices (In-game purchases or subscriptions):** The prices for in-game purchases or subscription fees may reduce for several reasons:

- *Competitors are likely to enter the market* with similar games, pushing NOX-A to reduce prices to stay competitive.
- To increase its user base and discourage new entrants, NOX-A might adopt *aggressive pricing strategies, offering discounts or promotions*.
- As the player base expands, lowering prices might make the game accessible to a wider audience, driving growth in terms of both revenue and user engagement.

**Unit Production (Development) Costs:** Development and operational costs are likely to decrease due to:

- Economies of scale: Larger player volumes lead to more efficient server utilization and *reduced per-user maintenance costs*.
- Improved efficiency in game updates: As the development team becomes more familiar with the game mechanics and platform, the *learning curve effect helps in streamlining production processes*.
- Bulk purchasing of cloud and IT services: With increased demand, NOX-A can negotiate better deals for cloud hosting, IT infrastructure, and other development resources, *reducing overhead costs*.

## **Maturity Stage**

Compared to the growth stage, the changes in the maturity stage for NOX-A are as follows:

**Unit Selling Prices (In-game purchases or subscriptions):** At this stage, the game has likely captured a significant share of the market. Hence:

- *Prices are likely to stabilize* as NOX-A has now established itself in the online gaming community. There may be *occasional promotions or limited-time offers, but overall pricing remains consistent*.
- There might be less pressure to lower prices further as the *focus shifts to customer retention* rather than rapid expansion.

**Unit Production (Development) Costs:** Costs are likely to Stable or Slightly Increasing Costs due to:

- The efficiency gains from the learning curve and scale have plateaued, leading to more stable development costs.
- Direct development costs may remain constant but could also rise due to ongoing investment in keeping the game relevant with new features, content, and user experience improvements.
- As the game reaches a stable player base, additional resources might be needed for customer service, moderation, and security, particularly as user expectations evolve.

## **Conclusion**

In conclusion, during the **growth stage**, the key trend for NOX-A is likely a reduction in both unit selling prices and production costs as it seeks to expand its user base and benefit from economies of scale. However, in the **maturity stage**, prices tend to stabilize while production costs could slightly increase or remain constant as the focus shifts to retaining players and maintaining the game's relevance through continuous development.

# **ANSWERS TO THE CASE STUDY 3**

## **I. Answers to the Multiple Choice Questions**

- 3.1 (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.

### **Reason:**

Option (a) illustrates a balanced approach to the VFM framework by addressing **effectiveness** through the use of AI for improved care delivery and patient tracking, ensuring the foundation meets its healthcare objectives. It also incorporates **efficiency** by optimizing

workflows and **economy** by securing quality supplies at competitive rates. In contrast, option (b) focuses on efficiency and effectiveness but involves higher costs without clear long-term economic benefits. Option (c) prioritizes speed but neglects monitoring, risking errors. Option (d) increases participation without assessing long-term effectiveness, compromising the foundational aim of sustainable outcomes.

**3.2 (a)** ₹ 2,52,000

**Reason:** In the given case, price is not the sole consideration for the supply. Apart from monetary consideration, the buyer has given some material to the supplier as consideration for such supply. Hence, the value of the supply cannot be determined on the basis of the transaction value in terms of section 15(1) of the CGST Act, 2017. Here, the value will be determined with the help of rule 27 of the CGST Rules, 2017 which specifies that where the consideration for a supply is not wholly in money, the value will be the open market value. Open market value of a supply means the full value in money, excluding the applicable GST, where the supplier and the recipient of the supply are not related and the price is the sole consideration, to obtain such supply at the same time when the supply being valued is made. Therefore, in the given case, the open market value of the goods supplied is ₹ 2,52,000 ( $₹ 2,97,360 \times 100/118$ ) and is therefore, the value of such goods.

**3.3 (a)** ₹ 106.98

**Reason:**

$$\begin{aligned}
 D_0 &= ₹5 \\
 D_1 &= ₹5 (1.18) = ₹5.90 \\
 D_2 &= ₹5 (1.18)^2 = ₹6.96 \\
 D_3 &= ₹5 (1.18)^2 (1.08) = ₹7.52 \\
 P &= D_1/(1+k_e) + D_2/(1+k_e)^2 + TV/(1+k_e)^2 \\
 TV &= D_3/(k_e-g) \\
 &= 7.52/(0.14-0.8) \\
 &= 125.33 \\
 P &= 5.90/(1+0.14) + 6.96/(1+0.14)^2 + 125.33/(1+0.14)^2 \\
 &= 5.90 \times 0.8772 + 6.96 \times 0.7695 + 125.33 \times 0.7695 \\
 &= 5.18+5.36+96.44 \\
 &= 106.98
 \end{aligned}$$

**3.4 (b)** The proceedings shall continue irrespective of the withdrawal of consent by some petitioners.

**Reason:** The proceedings shall continue irrespective of withdrawal of consent by some petitioners. It has been held by the Supreme Court in Rajmundhry Electric Corporation vs. V. Nageswar Rao, AIR (1956) SC 213 that if some of the consenting members have subsequent to the

presentation of the petition withdraw their consent, it would not affect the right of the applicant to proceed with the petition. Thus, the validity of the petition must be judged on the facts as they were at the time of presentation. Neither the right of the applicants to proceed with the petition nor the jurisdiction of the Tribunal to dispose of it on its merits can be affected by events happening subsequent to the presentation of the petition.

- 3.5 (c)** Inspect the invoices issued by M/s Builders Corp and the related payments made.

**Reason:** By scrutinizing the original invoices and cross-verifying the payment trails, auditors could obtain direct evidence validating the existence and accurate valuation of this key accounts payable component in Aadhya Ltd.'s books as on the balance sheet date.

## II. Answers to the Descriptive Questions

- 3.6 Guidance from standard:** Ind AS 105 defines a disposal group as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, alongwith liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 80-87 of Ind AS 36, Impairment of Assets, or if it is an operation within such a cash-generating unit.

**Analysis and Conclusion:** In the given case, Suraksha Constructions was acquired exclusively with a view to sell. Hence, it meets the criteria to be classified as a discontinued operation.

The discontinued operation would be measured in accordance with paragraphs 15 and 16 of Ind AS 105.

- As per para 15, an entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.
- As per para 16, if a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale (see paragraph 11), applying paragraph 15 will result in the asset (or disposal group) being measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Hence, if the asset (or disposal group) is acquired as part of a business combination, it shall be measured at fair value less costs to sell.

Therefore, **on acquisition date**, in line with paragraph 16, Aadhya Ltd. would have measured Suraksha Constructions as a disposal group at fair value less costs to sell which would have been calculated by Aadhya Ltd. as:

- Fair value of total assets excluding liabilities on acquisition – Costs to sell = ₹ 3,060 Crores - ₹ 48 Crores = ₹ 3,012 Crores.
- Fair value of liabilities on acquisition = ₹ 510 Crores.

**At the reporting date**, in line with paragraph 15, Aadhya Ltd. would have remeasured the disposal group at the lower of its cost and fair value less costs to sell, which would have been calculated by Aadhya Ltd. as:

- Fair value of total assets excluding liabilities on subsequent reporting date – Costs to sell = ₹ 3,000 Crores - ₹ 48 Crores = ₹ 2,952 Crores
- Fair value of liabilities on reporting date = ₹ 528 Crores.

At the reporting date, Aadhya Ltd. would have presented these assets and liabilities separately from other assets and liabilities in its consolidated financial statements.

In the statement of profit and loss, Aadhya Ltd. would have recognized loss on subsequent measurement to fair value less cost to sale of the disposal group i.e. Suraksha Constructions, which equals ₹ 60 crores (₹ 3,060 Crores - ₹ 3,000 Crores).

- 3.7 (a)** No, the company's decision to deny Rajveer Bhatia access to Vihaan's remuneration details was likely not justified.

Section 197(4) expressly requires that the remuneration payable to the directors of a company, including any managing or whole-time director or manager, shall be determined, in accordance with and subject to the provisions of Section 197 of the Companies Act, 2013. Determination of Remuneration can be made either by the articles or by a resolution or if the articles so require, by a special resolution passed by the company in general meeting. The remuneration so determined to be payable is required to be inclusive of the remuneration payable to him for the services rendered by any such director in any other capacity.

**As per Section 171(1) of the Companies Act, 2013:**

- (1) register of directors and key managerial personnel of the company
- (A) Shall be open for inspection during business hours and the members shall have a right to take extracts therefrom and copies thereof, on a request by the members, be provided to them free of cost within thirty days; and
  - (B) Shall also be kept open for inspection at every annual general meeting of the company and shall be made accessible to any person attending the meeting.

Even though a written contract might not exist, the company should still be able to provide details on Vihaan's remuneration package. This could include information like salary, benefits, stock options, and performance-based bonuses.

In conclusion, the company's decision to deny access without proper explanation is likely questionable. Transparency is crucial for maintaining good corporate governance, and shareholders have the right to be informed about such matters.

- (b) Section 185 of the Companies Act, 2013 contains provisions which impose restrictions on the loans, etc. being given to directors, etc. According to the provision:

As per sub-section (1), a company is not permitted to advance any loan, or to give any guarantee or provide any security in connection with any loan taken by, -

- (i) any director of company, or of a company which is its holding company or any partner or relative of any such director; or
- (ii) any firm in which any such director or relative is a partner.

Further sub-section (3) states that above provision shall not apply:

- (a) where any loan is given to a managing or whole-time director-
  - (i) as a part of the conditions of service extended by the company to all its employees; or
  - (ii) pursuant to any such scheme which is approved by the members by a special resolution.
- (b) where a company in the ordinary course of its business:
  - provides loans or gives guarantees or securities for the due repayment of any loan; and
  - In respect of such loans an interest is charged at a rate not less than the rate of prevailing yield of one year, three years, five years or ten years Government security closest to the tenor of the loan.

Accordingly, following are the answers to the stated problems:

- (i) In the first case it would violate section 185(1) of the Companies Act, 2013. Aadhya Ltd. is not permitted to advance any loan, or to give any guarantee or provide any security in connection with any loan taken by K. Ahuja (director) of the company.
- (ii) In the second case, as per section 185(3), restrictions imposed in section 185(1), will not apply to giving of loan to Bharat Mehta, the whole-time director if it is given as a part of the conditions of service extended by the company to all its employees.

### **3.8 Facts which become known to the auditor after the date of the auditor's report but before the date the financial statements are issued:**

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

- (i) Discuss the matter with management and, where appropriate, those charged with governance.

- (ii) Determine whether the financial statements need amendment and, if so,
- (iii) Inquire how management intends to address the matter in the financial statements.

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

In the instant case, Aadhya Ltd. received an amount of ₹ 20 crore on account incentives pertaining to the year 2023-24 in the month of May 2024 i.e. after finalization of financial statements and signing of audit reports. The management of Aadhya Ltd. amended the accounts, approved the same and requested DRT & Co. (auditor) to consider this event and issue a fresh audit report on the financial statements for the year ended on 31.03.2024.

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

### 3.9 Possible Options are as under:

- (i) Pay the supplier in 60 days

|  |                       |
|--|-----------------------|
| If the payment is made to supplier in 60 days, the applicable forward rate for 1 USD | ₹ 84.10               |
| Payment Due  | USD 20,00,000         |
| Outflow in Rupees (USD 2,000,000 × ₹ 84.10)  | ₹ 16,82,00,000        |
| Add: Interest on loan for 30 days @10% p.a.  | ₹ 14,01,667           |
| <b>Total Outflow in ₹</b>  | <b>₹ 16,96,01,667</b> |

- (ii) Availing supplier's offer of 90 days credit

|   |                       |
|---|-----------------------|
| Amount Payable                                      | USD 20,00,000         |
| Add: Interest on credit period for 30 days @8% p.a. | USD 13,333            |
| Total Outflow in USD                                | USD 20,13,333         |
| Applicable forward rate for 1 USD                   | ₹ 84.50               |
| <b>Total Outflow in ₹ (USD 2,013,333 × ₹ 84.50)</b> | <b>₹ 17,01,26,639</b> |

Alternative 1 is better as it entails lower cash outflow.



## ANSWERS TO THE CASE STUDY 4

### I. Answers to the Multiple Choice Questions

- 4.1 (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.

**Reason:** Under paragraph 68 of SQC 1 the firm's policies and procedures should address the appointment of EQCRs and establish their eligibility through technical qualifications required to perform the role, including the necessary experience and authority. Also, as per paragraph 70 of SQC 1 an EQCR does not make decisions for the engagement team.

- 4.2 (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.

**Reason:** SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files.

As per paragraph A21 of SA 230, an appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.

- 4.3 (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.

**Reason:** Under ICAI's Code of Ethics providing accounting and bookkeeping services to an audit client create a self-review threat. As per the provisions of the Guidance Note on Independence of Auditors, it is not permitted to do the book keeping work of the auditee client.

- 4.4 (b) Disclaimer of audit opinion**

**Reason:** The implication arising due to non-availability of information relating to recovery of total financial exposure can possibly have a pervasive effect on the financial statements.

SA 705 defines pervasiveness as follows:

Pervasive – A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- (i) *Are not confined to specific elements, accounts or items of the financial statements;*

**(ii) If so confined, represent or could represent a substantial proportion of the financial statements; or**

**(iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.**

Since the total financial exposure, including investments in the subsidiary, represented 60% of the company's total net worth at the year-end and a possible reduction of 70% of profit before tax (basis high level estimate), the impact can be pervasive. Accordingly, as per SA 705, disclaimer of opinion should have been issued by CA. Radhika Sharma.

**4.5 (d) No.** Shareholders' approval under section 188 is not required if the transaction is at arm's length and at ordinary course of business.

**Reason:** First proviso to Section 188(1) of the Companies Act, 2013 inter alia require companies to obtain shareholder approval if the prescribed threshold is met. However, fourth proviso to section 188(1) state that the requirements of section 188(1) including proviso do not apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.

## **II. Answers to the Descriptive Questions**

**4.6** As per paragraph 9 of Ind AS 115, "An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

- (a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- (b) the entity can identify each party's rights regarding the goods or services to be transferred;
- (c) the entity can identify the payment terms for the goods or services to be transferred;
- (d) the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- (e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession".

Paragraph 9(e) above, requires that for revenue to be recognised, it should be probable that the entity will collect the consideration to which

it will be entitled in exchange for the goods or services that will be transferred to the customer.

In the given case, as the customer has liquidity issues, the collection is not considered to be probable. Accordingly, till the time the Letter of Credit (LoC) is arranged from a nationalised bank, criterion as mentioned in paragraph 9(e) is not met. Hence, revenue recognition from sale to customer P should be deferred till receipt of LoC.

- 4.7** To enhance the profitability and competitiveness of the bookkeeping division at L & V LLP, the firm must address both internal inefficiencies and external market challenges. Here are strategic recommendations based on the analysis provided:

#### **Analyse the Value Chain**

To enhance profitability and operational efficiency, the firm should analyse its value chain thoroughly. By *optimizing key activities* such as client engagement, service delivery, and reporting, the firm can improve the quality of its offerings. This could involve establishing *stronger communication and collaboration between departments* to ensure that resources are used effectively and aligned with client needs.

#### **Addressing Buyer Power**

Currently, local firms have an advantage because they allow clients to negotiate prices, whereas L & V LLP offers fixed-price services.

To address this, the firm could offer customized pricing based on client size, volume of transactions, or complexity of work. For example, providing tiered pricing or discounted packages for long-term contracts could help attract *price-sensitive clients*.

In addition, highlight the superior quality of L & V LLP's services in client communications, positioning the firm as a trusted advisor with more to offer than local firms. Educating clients about the long-term benefits of high-quality, error-free bookkeeping could justify a *premium price*.

#### **Create a Centre of Excellence (CoE) and Leverage Local Talent**

Establishing a Centre of Excellence would enable the firm to *create a pool of highly skilled professionals* focused on standardizing best practices, improving operational efficiency, and reducing costs across the organization. The CoE can implement standardized operating procedures, ensuring consistency and high-quality output throughout the bookkeeping division, minimizing errors and inefficiencies.

In conjunction with the CoE, the firm should actively participate in placement activities at local colleges to hire skilled but more affordable graduate-level employees for bookkeeping roles. This approach would not only lower staffing costs but also help increase profitability. By providing ongoing professional development, mentorship, and growth opportunities through the CoE, the firm can foster loyalty, reduce staff attrition, and create a sustainable talent pipeline that aligns with long-term organizational goals.

## Market Differentiation and Competitive Positioning

While local clients may initially be drawn to the lower prices of local firms, L & V LLP should focus on *communicating the long-term benefits* of working with a firm that provides higher-quality, more reliable service.

Moreover, rather than competing solely on price, the firm should work on *retaining existing clients by* building strong relationships, offering personalized services, and providing value-added solutions, such as financial reporting, advisory, or tax planning services in addition to bookkeeping.

## Streamlined Expansion Strategy

Rather than expanding rapidly into new regions, the firm should focus on *strengthening operations in existing markets* and ensuring each office becomes profitable. Centralized support functions, such as IT and HR, could help standardize processes and reduce overhead costs.

The firm should consider *expanding in regions* where local competition is weaker, focusing on sectors or industries that require more complex, high-quality bookkeeping services. This would help the firm build a *niche presence* and avoid direct competition with local firms.

## Conclusion

By addressing inefficiencies in its value chain, adopting more flexible pricing strategies, leveraging local talent, and enhancing its competitive positioning, L & V LLP can improve the profitability of its bookkeeping division.

- 4.8 L & V LLP establishes procedures to identify and evaluate possible threats to independence and objectivity, including the familiarity threat that may be created by using the same senior personnel on an audit or attest engagement over a long period of time, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards. Following is an illustrative independence policy that may be drafted by L & V LLP considering the requirements of SQC 1:

- **Requiring the engagement partner to provide relevant information about client engagements**, including the scope of services, to enable him to evaluate the overall impact, if any, on independence requirements.
- **Providing training** to partners and professional staff on what constitutes threats to independence and the nature of safeguards that may be taken to eliminate or reduce the threats to an acceptable level. Such training should include ICAI's responses to matters dealing with ethical conduct.
- **Accumulating and communicating relevant information to appropriate personnel** so that the following can occur:
  - The firm, the engagement partner, firm personnel and others, if any, can readily determine whether they satisfy independence requirements.

- The firm can maintain and update information relating to independence.
- The firm and the engagement partner can take appropriate action regarding identified threats to independence, in consultation with the independence and ethics partner.
- Requiring personnel to **promptly report** circumstances and relationships that create a threat to independence and independence breaches of which they become aware to the independence and ethics partner so that appropriate action can be taken.
- Establishing criteria to determine the **need for safeguards for engagements** where the following have taken place:
  - The firm's monitoring procedures or peer review has identified weaknesses in previous years.
  - The same senior personnel have been used for five years or more on an audit or attestation engagement.
  - The client pressurizes the engagement partner to take a particular position or an accounting or auditing issue.
- **Promptly communicating identified breaches of these policies and procedures**, and the required corrective actions, to the following personnel:
  - The engagement partner who, with the firm, needs to address the breach.
  - The independence and ethics partner who should report the breaches to the managing partner for necessary action.
  - Other relevant personnel in the Firm and those subject to the independence requirements who need to take appropriate action.
- Requiring the engagement partner and the other individuals referred to in the previous list to confirm to the firm that the required **corrective actions** have been taken.
- Having the independence and ethics partner, or an individual designated by him, periodically review unpaid fees from clients to ascertain whether any outstanding amounts impair the firm's independence.
- Establishing additional procedures that provide safeguards when the firm performs audit or other attest work for a) significant clients or b) clients at which partners or other senior personnel are offered key management positions or have accepted offers of employment.
- Documenting the threats and the safeguards applied to eliminate or reduce them to an acceptable level for each instance.

## ANSWERS TO THE CASE STUDY 5

### I. Answers to the Multiple-Choice Questions

#### 5.1 (a) Opinion II is correct.

**Reason:** The IGST liability of company pertaining to zero-rated supplies (export) in Oct 23 is 5% of ₹ 5crores i.e. ₹ 0.25 crore. It is discharged by setting off eligible ITC of ₹ 0.20 crore. It is immaterial whether ITC is availed on inputs, capital goods or input services. The export supplies are zero-rated supplies and IGST paid of ₹ 0.25 crore would be refunded/refundable directly in bank account of the company by customs upon monthly filing of GSTR-3B and GSTR-1 for each tax period. Further, filing of GSTR-9 is an annual affair and hence nothing to do with refund of IGST.

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

#### 5.2 (a) Combination (1) and (i).

**Reason:** The TDS amount to be deducted during financial year 2023-24 is as under -

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

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

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

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

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

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

#### 5.3 (c) Growth

**Reason:** Given the scenario, Sprinter made-ups have received a very good response, and they have captured a significant share of export

orders, indicating that the product is experiencing rapid market acceptance and sales growth.

**5.4 (c)** ii, iii, v, vi

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

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

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

**5.5 (b)** i, ii, iii, iv

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

## **II. Answers to the Descriptive Questions**

**5.6** In a major tax policy initiative, section 115BAB has been inserted w.e.f. A.Y. 2020-21 to provide an option to new manufacturing or electricity generating domestic companies set up and registered on or after 1.10.2019 and commences manufacturing or generating electricity on or before 31.3.2024 for availing concessional income tax rates subject to fulfilment of certain conditions contained thereunder like non-availability of profit-linked deductions and investment-linked tax deduction under the Act, non-availability of deduction for contribution to research and development, additional depreciation etc.

Section 115BAB provides for concessional rate of tax @15% (plus surcharge@10% plus HEC@4%).

The option for section 115BAB has to be exercised in the **very first year** in which the **eligible company is set up**, failing which it cannot exercise such

option in the future years. However, once the company exercises such option under 115BAB, as the case may be, in a year, it would continue to be governed by the special provisions u/s 115BAB thereafter and cannot opt for regular provisions in any subsequent year.

It may be noted that companies exercising option under section 115BAB are not liable to minimum alternate tax under section 115JB.

The following are the conditions specified under section 115BAB:

(a) the company has been set-up and registered on or after the 1.10.2019, and has commenced manufacturing or production of an article or thing on or before the 31.3.2024 and, —

- (i) the business is not formed by splitting up, or the reconstruction, of a business already in existence:
- (ii) does not use any machinery or plant previously used for any purpose.

Any machinery or plant which was used outside India by any other person shall not be regarded as machinery or plant previously used for any purpose, if the following conditions are fulfilled -

- (A) such machinery or plant was not, at any time previous to the date of the installation used in India;
- (B) such machinery or plant is imported into India from any country outside India; and
- (C) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of this Act in computing the total income of any person for any period prior to the date of the installation of machinery or plant by the person.

Further, where in the case of a person, any machinery or plant or any part thereof previously used for any purpose is put to use by the company and the total value of the machinery or plant or part so transferred does not exceed 20% of the total value of the machinery or plant used by the company, then, the condition specified that the company does not use any machinery or plant previously used for any purpose would be deemed to have been complied with.

(b) the company is not engaged in any business other than the business of manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it.

The business of manufacture or production of any article or thing referred to in clause (b) shall not include business of,—

- (i) development of computer software in any form or in any media;
- (ii) mining;
- (iii) conversion of marble blocks or similar items into slabs;



- (iv) bottling of gas into cylinder;
  - (v) printing of books or production of cinematograph film; or
  - (vi) any other business as may be notified by the Central Government in this behalf; and
- (c) the total income of the company has to be computed -
- (i) without any deduction under the provisions of section 10AA or section 32(1)(ia) or section 33AB or section 33ABA or section 35(1)(ii)/(ia)/(iii) or section 35(2AA) or section 35(2AB) or section 35AD or section 35CCC or section 35CCD or under any provisions of Chapter VI-A other than the provisions of section 80JJAA or section 80M;
  - (ii) without set-off of any loss or allowance for unabsorbed depreciation deemed so under section 72A where such loss or depreciation is attributable to any of the deductions referred to in sub-clause (i).
  - (iii) by claiming the depreciation under the provision of section 32 determined in such manner as may be prescribed. However, additional depreciation u/s 32(1)(ia) cannot be claimed.

In the present case, company is eligible to opt for concessional tax rate of 15% (plus surcharge @ 10% plus HEC @ 4%), since it satisfies the following condition -

- (1) It is a company registered after 1.10.2019 and has started production on or before 31.3.2024.
- (2) Its business is not formed by splitting or reconstruction of business already in existence.
- (3) Although it has used plant and machinery previously used, it falls within overall cap of 20% stipulated u/s 115BAB. The total value of plant and machinery used by the company is ₹ 10.65 crores. However, value of machinery previously used is only ₹ 2.00 crore which is 18.78% of total value of plant and machinery. Hence, this newly set up domestic company satisfies this criterion also.
- (4) The company is engaged in business of manufacturing of an article or thing and research in relation to it.
- (4) The company's business does not fall into prohibited categories.
- (5) The company has not taken benefit of other beneficial provisions as listed out under section 115BAB.
- (6) The company has to exercise the option by filing Form 10-ID by due date of filing first return of income under section 139 for A.Y. 2024-25.

**5.7** As per section 16(3) of the IGST Act, 2017, a registered person making zero rated supply may supply goods and/or services under bond or Letter of Undertaking (LUT) without payment of IGST and claim refund of unutilized ITC. Further, notified class of persons may make zero-rated supply or notified class of goods or services may be exported, on payment of IGST and refund

of such tax paid on goods and/or services supplied may be claimed. Accordingly, suppliers of textiles made-ups are permitted to export on payment of IGST and claim refund of such tax paid.

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

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

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

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

#### **Export under LUT or bond**

|                          |              |
|--------------------------|--------------|
| Tax liability            | 0            |
| Refund of unutilized ITC | ₹ 1.64 crore |

#### **Export on payment of IGST**

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

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

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

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

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