**Mock Test Paper - Series I: March 2025**

**Date of Paper: 21st March, 2025**

**Time of Paper: 2 P.M. – 6 P.M.**

**FINAL COURSE: GROUP – II**

**PAPER – 6: INTEGRATED BUSINESS SOLUTIONS**

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

***Each Case Study carries 25 Marks.***

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

## CASE STUDY 1

Due to increased urbanization, there has been a strong demand for residential housing facilities in various cities in India. Residential housing construction in each region is largely a fragmented market dominated by local and regional builders. Few builders have a nationwide presence. Residential construction is segmented by type, that is apartments and condominiums, villas and other types. Most of the apartments' construction is aimed at the mid-range income to luxury segment of customers. There are very few players targeting the low-income customers who are also in need of affordable housing facilities. The need for affordable housing is especially felt in well-developed cities like Pune, Bangalore, Gurgaon and Ahmedabad that have become urban centers in the last few decades. Housing facilities catering to the low-income customer segment are generally of poor quality, consequently, are prone to unfortunate accidents.

BharatTech3D (B3D) is a company established by Mrs. Sinha, an architect and avid innovator. She has been a seasoned professional having more than 25 years of experience in the construction industry. She is also an innovator who wishes to harness the power of technology that can revolutionize the construction industry. ***"Provide over each head a safe and secure roof, without a huge debt" is the current vision for her latest project.*** B3D specializes on building 600 sq. ft to 800 sq. ft single- and two-bedroom homes using 3D technology. This is a revolutionary innovation in the construction industry. Traditional construction involved developing a blueprint for the home, then procure men, material and machines to work on the home. Completing a project the traditional way can take months, up to even more than a year in some cases.

B3D plans to turn this concept on the head, by introducing 3D printing technology for construction. Once the blueprint is finalized, the 3D construction printer takes over and creates the physical structure by printing out layers of concrete based on the design and specifications in the blue print. This substantially reduces wastes, errors and time required for construction in addition to generating better quality output. One housing project can be built within 6 months as compared to a period of 18 months for a similar project built using traditional construction techniques.

As compared to traditionally built homes, the cost of construction of 3D printed homes are expected to be cheaper. An advantage of using 3D construction technology is that it reduces the need for construction labourers as many of the processes are automated. This results in the reduction of construction labour cost by almost 40%. Also, reduction in wastes and errors helps in managing costs better. B3D is in talks with 3D construction printer manufacturers to procure machines needed for construction. These are costly machines that require huge initial investment. B3D is considering financing options for procurement of these machines, currently the loan financing rates are high. Due to limited supply in the face of high demand for prime locations, the cost of land procurement in these fast-developing urban centres is also high. Inflationary pressures on cost of materials, labour and other constructions costs, high financing costs etc. are challenges that B3D expects to encounter. Hence, generating a quick inventory turnover is critical.

B3D has well qualified engineers and architects who will be working on this project. Since B3D plans to build these 3D homes across different cities, their expertise will be required at multiple locations. Hence, in order to retain them and motivate them, the company has offered good remuneration packages to them. For the staff it is a matter of pride to be able to be part of such innovative projects.

B3D wants construction material such as cement and steel need to be of specific quality. There are limited suppliers who can provide material of such grade quality. Moreover, B3D's material requirements form a very small portion of the suppliers' market. Many times, the lead times for procuring these materials are uncertain. Construction material includes bricks and glass that are very fragile and difficult to store. These materials are widely available in the market with many suppliers and can be procured easily on demand. B3D is considering its strategy for inventory management for each of the requirements like cement, steel, bricks and glass.

B3D targets to achieve low cost of production, less lock in of time and capital for each project. Keeping this in mind, the company plans to price the houses at a very attractive price of ₹ 10 lakhs for a single bedroom flat and ₹ 12 lakh for double bedroom flat in prime locations in urban cities across India. On average, similar traditional homes costs around ₹ 15 lacs per single bedroom flat and ₹ 18 lakh for double bedroom flat in the same locality. This will bring a lot of relief for this segment of customers who until now were dependent on the traditional builders for their home shelter needs. B3D targets to make a profit of at least 8% on sale price per flat. At present, it plans to have a uniform selling prices for single bedroom and double bedroom flats across cities in order to popularize the projects. However, there is flexibility for B3D to charge according to the exact cost considerations for each location in each city. Incumbents in the real estate cannot compete at this low range pricing, hence the company expects them to concentrate their business on the higher end segments for middle income and luxury class segments.

B3D has received the requisite approvals for the projects from town planning and other regulatory authorities. To create awareness and generate demand among the lower income groups, it plans to advertise its products in vernacular newspapers and TV channels. This would ensure better reach to the target customer segment. The cost of advertising in these channels is also cheaper as compared to other mediums. B3D will have a sales office at each project website, which will handle customer enquiries and take them on site tours in order to familiarize themselves with this novel building project.

B3D wishes to create traction on its sales quickly in order to capitalize on its revolutionary concept. Hence, B3D has tied up with Smart Bank Ltd. This is a reputed bank that has a national presence. It has vetted and listed B3D's project across various cities as one of its approved projects for which it is willing to provide loans along with assistance with loan processing. This tie-up gives further credibility in the market for this novel housing project.

Since customers are of the lower income group, the probability of their requirement for loan financing would be higher. Hence where felt appropriate, the sales team of B3D would encourage customers to approach Smart Bank Ltd. for home loans. Fast loan processing due to pre-approved tie-up, speeds up fund procurement and the transaction can be completed quickly, improving churn in sales. Smart Bank Ltd. will also use its digital marketing activities and direct selling agents who will advertise the availability of home loan facilities through these channels. For each loan that gets approved through this tie-up, B3D gets a small commission on each transaction. B3D expects at least 85% of the potential customers to utilize the tip-up with Smart Bank Ltd. to avail loans.

Bhavna, an engineer in the research and development team, has been working on making the construction process more efficient. Consequently, it can reduce the cost of construction. Given, the spectre of inflationary pressures on cost of operations, this project is considered to be critical to business and has the support of the senior management at B3D. Required finances have been approved by the management for this project i.e., efficient 3D construction technology. Project costs are easily identifiable and quantifiable. Bhavna believes that the cost reductions will exceed the project costs within 36 months of their implementation. Regulatory testing, health and safety approvals were obtained on June 1, 2023. This removed uncertainties concerning the project, which was finally completed on April 30, 2024. Costs of ₹ 24,00,000 incurred till March 31, 2024 have been recognized as an intangible asset. An offer of ₹ 17,00,000 has been received from a third party potential buyer, but it was rejected by B3D, believes that the project will be a major success and that the B3D has the potential to save ₹ 19,00,000 in perpetuity. However, Mrs. Sinha, the head of the research and development team, is concerned about the long term prospects of the new process. She is of the opinion that competitors would have developed new technologies at some time which would require to replace the new process within five years. She estimates the present value of future cost savings over this period to be ₹18,00,000. After that, she feels there is no certainty about the future.

In order to know the state of art developments in the 3D construction business, B3D engages technical services of Pathway Consulting GMBH (having no PE in India), a consulting company in Germany for ₹ 25,00,000. On 31st December 2024, it paid the fees for technical services to this company. This was paid to the company's account in Germany. The accountant engaged at B3D was new to the job. He deducted the tax at source correctly but forgot to deposit the same. B3D paid the relevant TDS in December 2025. India and Germany have a Double Taxation Avoidance Agreement (DTAA) in place to prevent the double taxation of income earned in both countries. As per Article 12 of the India-Germany DTAA, the applicable TDS rate on royalties and fees for technical services (FTS) is 10%.

The management of B3D is considering the following capital budgeting report for its first project in Pune. Due to the novel nature of the project, the management wishes to know the guaranteed return that it would rather accept as compared to a higher but uncertain return. Accordingly, the capital budgeting analysis has incorporated the certainty equivalent co-efficient of future cash flows.

Total investment in the project in Pune ₹ 5 crores.

Risk free return 3%

Expected cash flow for the next five years

| Year | Expected cash flow (₹) | Certainty Equivalent co-efficient |
|---|---|---|
| 1 | 1 crore | 0.95 |
| 2 | 2 crores | 0.90 |
| 3 | 2 crores | 0.85 |
| 4 | 3 crores | 0.80 |
| 5 | 2 crores | 0.75 |

In May 2024, B3D enters into a lease with AK Enterprises for a 3D construction printer for the Pune project for a period of 3 years. The contract stipulates that AK Enterprises will perform maintenance of the leased 3D construction printer and receive consideration for that maintenance service. The contract contains the following fixed prices for the lease and non-lease component:

| | |
|---|---|
| Lease component for 3D printer | ₹ 6,00,000 per annum |
| Maintenance component for 3D printer | ₹ 1,00,000 per annum |
| Total payment made to AK Enterprises | ₹ 7,00,000 per annum |

Assume that the stand-alone prices cannot be readily observed, so B3D makes estimates maximizing the use of observable information of the lease and non-lease components as follows:

| | |
|---|---|
| Lease component for 3D printer | ₹ 8,00,000 per annum |
| Maintenance component for 3D printer | ₹ 2,00,000 per annum |
| Total payment made to AK Enterprises | ₹ 10,00,000 per annum |

B3D has not opted for the practical expedient option regarding the lease and non-lease component.

**Multiple Choice Questions**

1. Which type of disruption does the introduction of 3D printing in the real estate sector represent?

   (a) Low end disruption

   (b) New market disruption

   (c) competitive disruption

   (d) Generic disruption

2. From the case scenario, which stage of startup is B3D in and what is the value proposition match has it achieved?

   (a) Pre-start up stage with problem-market FIT stage

   (b) Pre-start up stage with problem-solution FIT stage

   (c) Start up stage with product-market FIT stage

   (d) Start up stage with scale-FIT stage

3. B3D is considering its strategy for inventory management. Given the information in the case study about the lead times, availability of suppliers and negotiating powers with suppliers, which of the following inventory management methodologies can the company follow for these products?

   (a) Just in Time Purchasing for all construction materials like bricks and glass, cement and steel.

   (b) Just in Time Production for all construction materials like bricks and glass, cement and steel.

   (c) inventory to stock for materials like bricks and glass and Just in Time Production for construction materials like cement and steel.

(d) Inventory to stock for construction materials like cement and steel while Just in Time purchasing for materials like bricks and glass.

4. The net present value of the project in Pune using the certainty equivalent technique shall be approximately

   (a) ₹ 3.35 crores

   (b) ₹ 2.60 crores

   (c) ₹ 4.07 crores

   (d) ₹ 5.00 crores

5. What will be the allocation of consideration paid by B3D for the lease and non-lease component against the contract with AK Enterprises for 3D printer?

   (a) Lease component ₹ 6,00,000 per annum and non lease component ₹ 1,00,000 per annum

   (b) Entire payment of ₹ 7,00,000 per annum as lease component as B3D has not opted for practical expedient regarding the lease and non lease components

   (c) Lease component ₹ 8,00,000 per annum and non lease component ₹ 2,00,000 per annum

   (d) Lease component ₹ 5,60,000 per annum and non lease component ₹ 1,40,000 per annum **(5 x 2 = 10 Marks)**

**Descriptive Questions**

6. What are the tax implications for B3D due to the non-deduction of TDS on payments made to Pathway Consulting GMBH? Additionally, is there any interest liability for failing to deduct TDS? **(5 Marks)**

7. B3D wants to ensure that its business model has a competitive advantage over its rivals. DEVELOP Osterwalder's Business Model Canvas to help the management understand the key elements of its business model. **(5 Marks)**

8. ADVISE the appropriate accounting treatment for the research and development costs incurred by Bhavna to make construction process more efficient that will consequently result in future cost savings. **(5 Marks)**

**CASE STUDY 2**

An article singing paeans for India's space-tech start-ups appeared in *"The New York Times"* recently. The article underlined that India has become home to many such start-ups. It pointed out that space technology is fulfilling smaller-scale and commercial purposes like helping farmers in timely insurance of their crops. Space technology is also helping commercial fishing fleets in tracking their catch by sending images back to Earth. Satellites are bringing phone signals to country's remotest corners and are helping in operation of solar farms far away from India's megacities. It's also one of India's most sought-after sectors for venture capital investors. Space technology is at the forefront of humanity's next great leap expanding our presence beyond Earth while enhancing life on our home planet. By making in-space resources available on demand, we are not only enabling sustainable exploration but also unlocking new opportunities for innovation, commerce, and scientific discovery.

Start-ups are mushrooming in different sectors of India's economy as varied as education, health, agriculture, fintech, clean energy, electric vehicles, bio technology, waste management, food processing and even drones. *Economic Survey for year 2021-22* highlights that by capitalising on the digital infrastructure support, India has also emerged as one of the world's most vibrant destinations for start-up ecosystems. Start-ups are being envisioned as the spine of new India. In fact, India is home to world's third largest start-up eco system.

Agrofine is an ed-tech start-up incorporated as a private company in April 2022. The founders of start-up believe that some benefits are available to start-ups under income tax law. However, they are unaware about nitty-gritty of the same as they are from engineering and management backgrounds. The company had launched its products in year 2024-25 itself and had a turnover of ₹ 20 crores. It is recognized by DPIIT (Department for Promotion of Industry and Internal Trade under Ministry of Commerce and Industry) and holds a certificate of eligible business and is recognized as a technology driven start-up by competent authority.

*Agrofine's vision is to help farmers with space & science and to accelerate humanity's expansion into space by making in-space resources available on-demand.*

*Agrofine's mission is make the earth a more vibrant and sustainable place to live in by ensuring education for all sects and to promote the higher standards of education and to revolutionizing space access by dramatically lowering costs.*

Agrofine has issued shares to certain investors who are familiar with founders of this ed-tech start-up during year 2024-25. They believe in the business idea of founders of the company and have decided to invest money out of their own resources. These investors are wedded to idea of providing quality affordable education to all and promoting standards of education in the country. In this way, their ideological belief stands aligned with mission of founders of start-up.

The start-up Agrofine has issued equity shares having face value of ₹ 10/-per share to these individuals @ ₹ 50/-per share during year 2024-25. The fair market value of equity shares of start-up as on valuation date is ₹ 11/-per share. The existing paid up share capital of company is ₹ 1.50 crores. The company has not issued shares at premium anytime in past.

Agrofine is still in nascent stages. However, it has already launched its products and has entered a segment of the market. The market has a considerable potential for company's business to grow. Start-ups not only need finance but they also require favourable and conducive eco system to grow. It includes not only hand holding at time of germination of a business idea but also policy measures having a legislative backing. In India, relaxations and benefits have been provided to start-ups under various laws like under Income tax Act,1961 and Companies Act,2013.

Agrofine needs talented and skilled employees for its business. However, the company is not in a position to pay high cash salaries to attract and retain employees. It is, therefore, considering route of employee stock option plans (ESOPs). Employee stock option plans provide a chance to employees to become shareholders in the company and also be benefitted by its future growth. The company plans to draft an ESOP scheme containing matters relating to grant of option, vesting period and manner of determining exercise price among others. The company is approaching many talented persons for assuming various senior roles in its organizational set-up. One such senior person, Mr. X, has shown interest in joining the company. However, he is sceptical regarding income tax implications pertaining to ESOPs. He has a doubt that it may lead to withholding of tax by start-up impacting his immediate "in-hand" salary.

Agrofine purchased a patent right in April, 2022, for ₹ 3,00,000, which has a legal life of 15 years. However, due to the competitive nature of the product, the management estimates a useful life of only 5 years. Straight-line amortisation is determined by the management to be the best method. As at 1st April, 2023, management is uncertain that the process can actually be made economically feasible, and decides to write down the patent to an estimated market value of ₹ 1,50,000 and decides to amortise over 2 years. As at 1st April, 2024, having perfected the related production process, the asset is now appraised at a value of ₹ 3,00,000. Furthermore, the estimated useful life is now believed to be 4 more years.

Company has recently developed a Soil & Water Diagnostic equipment, AgriSense-20, featuring advanced environmental analysis Instruments for soil testing, water pH evaluation and indicate the presence of dissolved salts or minerals. The company projects a total profit of ₹75,000 from the first 256 equipments produced. The first equipment required 112.50 hours to manufacture, with a labor rate of ₹20 per hour. A 90% learning curve is expected to apply indefinitely, improving efficiency as production scales. This efficiency gain will play a crucial role in making soil and water analysis more accurate and accessible, aligning with Agrofine's mission to drive sustainable agricultural and environmental solutions. With the AgriSense-20 equipment, Agrofine takes another step toward pioneering the next generation of precision farming, empowering farmers and researchers with cost-effective and reliable diagnostic tools for improved resource management.

Agrofine is planning to merge another start-up company engaged in similar line of activity to increase its size, revenue and scalability. However, founders of the company are clueless regarding modalities of the same under relevant laws. Valuation of start-ups is often required for bringing in investments. The value of a start-up is dependent upon its future growth prospects. It is also quite likely that such a business idea has never been tested before. It only lies in realms of future. Another problem in start-up valuation is totally new or non-comparable business products and strategies. Start-ups also depend upon many rounds of funding. Agrofine may also approach another set of investors in further rounds of funding. It is actively exploring multiple avenues for funding to support its growth and business expansion. Agrofine is also planning to approach venture capital (VC) funds, which specialize in providing financial support to high-growth startups with significant market potential.

**Multiple Choice Questions**

1. From the description given in case study relating to finance brought by individuals from their own resources and whose belief in promoting affordable education to all in the country and also improving its standards is aligned with mission of founders, which type of financing for a start-up is being referred to?

   (a) Bootstrapping

   (b) Venture capital financing

   (c) Funding by angel investors

   (d) Factoring

2. The founders of Agrofine believe that some benefits are available to start-ups. Considering the description provided in case study, which of the following statements is in accordance with provisions of income tax law?

   (a) Company is eligible to deduction @ 75% of its profits from eligible business for any 5 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by Inter-Ministerial Board for Certification.

(b) Company is eligible to deduction @ 100% of its profits from eligible business for any 3 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by Inter-Ministerial Board for Certification.

(c) Company is eligible to deduction @ 75% of its profits from eligible business for any 5 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by CBDT.

(d) Company is eligible to deduction @ 100% of its profits from eligible business for any 3 consecutive years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by CBDT.

3 As regards doubt of Mr. X regarding withholding tax in relation to ESOPs is concerned, which of the following statements is most appropriate?

(a) Income tax would be withheld at rates in force when option is exercised and shares are allotted to Mr. X.

(b) The company is an eligible start-up holding certificate of eligible business. Income tax would not be withheld when option is exercised and shares are allotted to Mr. X as such transactions are exempted from withholding tax in case of eligible start-ups.

(c) The company is an eligible start-up holding certificate of eligible business. However, such start-up is allowed to defer withholding tax when option is exercised and shares are allotted to Mr. X. It is deducted in required manner after expiry of certain timelines and/ or happening of certain events.

(d) Income tax would be withheld when option is granted. Such withholding tax would be deducted at the rates in force at time option is granted to Mr. X.

4. The start-up is planning merger with another start-up engaged in similar activities. Which of the following statements is in line with provisions of law regarding proposed merger of these start-ups?

(a) It requires filing of proposed scheme with NCLT and final order in respect of merger is made by NCLT after following a detailed procedure.

(b) It involves giving notice of proposed scheme to Registrar and Official Liquidators and approval of scheme by both the companies. After approval of scheme by creditors, the scheme is approved by Registrar of Companies.

(c) It involves giving notice of proposed scheme to Registrar and Official Liquidators and approval of scheme by both the companies. After approval of scheme by creditors, the scheme is filed with Regional Director, Registrar and Official Liquidators. The scheme is finally registered by Regional Director.

(d) It requires filing of proposed scheme with NCLT and final order in respect of merger is made by NCLT after following a fast-track procedure.

5. Which of the following is not a factor to be considered for valuing a start-up like Agrofine?

(a) Past performance indicators

(b) Educational background of founders

(c) Uniqueness of product launched by start-up

(d) Traction **(5 x 2 = 10 Marks)**

**Descriptive Questions**

6. Determine the value of the intangible asset i.e. patent right, as of the financial year ending 31$^{st}$ March, 2025. Consider factors such as amortization, impairment, market valuation, and any relevant financial adjustments that may impact its final valuation. **(5 Marks)**

7. Explain the different stages of Venture capital funding and also state an indicative Risk Matrix along with period and activity to be financed during each of these stages.

**(6 Marks)**

8. For the developed Soil & Water Diagnostic equipment,

i. What will be the total labour cost for the first 256 equipments produced at 90% learning curve effect?

ii. What should be the revised labour cost required to achieve zero profit, and at revised labour cost what will be the cumulative average time (Revised) required per equipment for producing 256 equipments? **(4 Marks)**

**CASE STUDY 3**

**Shakti Agrochemical Limited (SAL)**

Shakti Agrochemical Limited (SAL) is engaged in the business of producing agrochemical chemicals, specializing in fertilizers. Known as the Crop Nutrition Business (CNB) the company has a portfolio of 20 products offering different grades of fertilizers for different requirements of farmers. Crop nutrition is an important part of any farming activity as it has a direct impact on productivity and sustainability. An active management of micro and macro nutrients is required to ensure that the crop yield is maximized. Maximizing crop yield has become a significant global challenge due to the food requirement demands of a growing population. Hence, companies like SAL need to provide top grade fertilizers in order to ensure that farmers can maximize the crop yield from their farming activity.

**Government grants**

SAL carries out various projects with government's financial assistance. It received two grants of ₹ 5 crores each in April 2024 for ongoing research and development initiatives. The first unconditional grant pertains to research on "Soil degradation due to misuse of fertilizers", focusing on the long-term effects of excessive fertilizer use, such as soil acidification, hardening, and pollution in a designated agricultural belt in Punjab. However, as of March 31, 2025, no major steps have been taken to commence this research. The second grant supports the commercial development of crop-specific nutrition solutions, designed to provide tailored nutrients based on crop variety and growth stage to enhance yield and meet the country's food requirements. SAL is confident in the technical feasibility and financial viability of this research, with the product expected to be available for sale by April 2026. Additionally, in September 2024, an earthquake led to a complete production loss at one of SAL's factories, forcing a two-month shutdown. The state government introduced a compensation package for affected manufacturing entities, entitling SAL to claim compensation based on the average sales of the preceding three months. To avail of this relief, SAL must submit an application with the necessary figures by May 30, 2025. However, by the time SAL's financial statements were adopted on May 31, 2025, the claim form had not yet been submitted.

**Development of customized micronutrient mixture fertilizers for specific crops**

After considerable research, SAL developed customized micronutrient mixture fertilizers that are designed to meet specific needs of certain soil type and crop variety. These are specialized fertilizers made by enriching mixing and blending fertilizers along with the crop or soil specific nutrient requirements. They promote growth of healthy crops and enhance soil nutrition. In recent years, in order to improve crop yield and soil productivity, there has been a lot of research and development done on such specialized fertilizers. They are not covered under any government subsidy scheme. The manufacturer can fix the Maximum Retail Price (MRP) and can also offer discounts as needed.

Recently, SAL has introduced 3 new grades of such fertilizers in the market. All three grades can be primarily used for growing vegetables. SAL has decided to test the market by launching these products in a limited scale.

After the end of the financial year in April 2025, the sales manager Mr. Ray looked up the sales volume report. The SAL had sold 11,000 units of all 3 grades put together during the year, this was more than the budget of 10,000 units for the period. Mr. Ray planned to mention this in his annual performance assessment report in order to get a good bonus for the year. He approaches Mr. Bose, the management account of the company, to help him analyse the sales performance.

The budget for the year 2024-25 projected sales of 2,000 kg for Grade 1, 3,000 kg for Grade 2, and 5,000 kg for Grade 3, totaling 10,000 kg. The average selling price per kg was set at ₹ 500 for Grade 1, ₹ 300 for Grade 2, and ₹ 200 for Grade 3. The direct material cost per kg was budgeted at ₹ 150, ₹ 100, and ₹ 75 for Grades 1, 2, and 3, respectively, while the direct labour cost was projected at ₹ 100, ₹ 60, and ₹ 75 per kg for the three grades. Variable overhead costs were expected to be ₹ 50 per kg for Grade 1, ₹ 40 per kg for Grade 2, and ₹ 10 per kg for Grade 3.

In contrast, actual sales for the year stood at 2,500 kg for Grade 1, 3,100 kg for Grade 2, and 5,400 kg for Grade 3, bringing the total to 11,000 kg. The average selling price per kg realized was ₹ 450 for Grade 1, ₹ 280 for Grade 2, and ₹ 180 for Grade 3. Direct material costs per kg increased to ₹ 170 for Grade 1, ₹ 120 for Grade 2, and ₹ 95 for Grade 3. Meanwhile, direct labour costs remained consistent with the budget at ₹ 100, ₹ 60, and ₹ 75 per kg for Grades 1, 2, and 3, respectively. Similarly, variable overhead costs remained unchanged at ₹ 50, ₹ 40, and ₹ 10 per kg for the respective grades.

The main sales responsibility of Mr. Ray is restricted to these grades of fertilizers. Due to the novelty of these products, the management of SAL decided not to stock up the products as inventory as they want to first test the demand and market conditions. Rather for these products alone, SAL follows Just in Time system for purchasing and production and does not hold any inventory. Mr. Ray co-ordinates as an intermediary with the whole sale dealers in various regions and SAL's production department. Mr. Ray is not in charge of any other function or operation of the manufacturing process.

**Sales campaign of customized micronutrient mixture fertilizers for specific crops**

The above grades Grade 1, Grade 2 and Grade 3 are of a variety of fertilizers that can substitute one another based on the requirements of the farmer. SAL launched a sales and marketing campaign through social media that helped them reach out to farmers directly all across the country. This campaign was spearheaded by Mr. Ray. This was done to understand how product pricing can impact sales of each of these grades. Since the products are similar, SAL expects the product price to play a primary role in generating sales. As a threshold for analysis, the company considers a product to be price sensitive only if there is an impact of 5% of sales volume due to a change in price.

During the campaign, SAL offered slightly higher discounts on bulk purchases beyond a certain limit. This helped spur the sales volumes. The additional discount policy was not factored in the budgets. The campaign also helped SAL overcome the problem of good sales personnel who have been hard to find in the recent past. There have been times when there is a sudden spike in demand for a particular grade of fertilizer since the conditions to grow and sell that crop is favourable in that season.

Combined with a successful sales and marketing campaign that spurred sales volume, the procurement department had to procure the raw material from the open market at prevailing prices. Generally, the current prevailing market prices are higher than that agreed with the JIT supplier partners.

**Educational and promotional campaign for effective use of fertilizers**

Crop yield can be maximized only if the farmers use the fertilizers effectively. There is not much awareness about customized micronutrient mixture fertilizers. The above-mentioned grades of customized micronutrient mixture fertilizers have the potential to improve agricultural productivity of farmers. SAL's management expects the demand for such customized mixture fertilizers to increase in future. Hence it was important to promote the potential such products, educate and spread awareness about them among farmers and agriculturalists.

Sales campaigns such as those above have been helpful in generating preliminary interest in these products. They are more temporary and seasonal in nature. Proper awareness about the application techniques of these fertilizers would generate more regular sales. This requires SAL to be able to connect even better with the farmers by educating them and making them aware about these products. With this in mind, the company bought a plot of agricultural land, which was used exclusively to showcase fertilizer application techniques for farmers. By being able to understand firsthand from the experts at SAL, the farmers can better understand the potential benefits of these fertilizers. These promotional events are held almost all year round, where depending on the season, fertilizers can be customized to suit the crop that requires it. After gaining adequate knowledge, many farmers who attend such events buy such customized fertilizers from the stalls in such events, based on their requirements. No actual agricultural production occurs on this land.

**Financial performance**

As of 31st March 2025, SAL has a share capital of ₹5 crores; reserves and surplus of ₹4 crores; long term debt of ₹16 crores; trade payables of ₹0.2 crores. SAL has demonstrated strong financial performance by achieving a profit before interest and tax (PBIT) of ₹9 crores; Interest paid for the financial year is ₹1.12 crores. The corporate tax rate is 30%; the cost of equity is 12.50% and the cost of debt is 4.9%.

To effectively evaluate the company's financial performance and make informed investment decisions, SAL utilizes the weighted average cost of capital (WACC) as a key metric. At all times, the management wishes to keep the average cost of financing the company's operations across all sources of capital (debt and equity) to be below 10%.

**Regulatory scrutiny: Refer Annexure 1**

Out of the 20 products in its portfolio, SAL sells 3 products that have a red label and 2 products that have a yellow label. Such products generate higher margins and thus far they have contributed around 25% of SAL’s annual revenue. Central Insecticide Board (CIB) has periodically raised queries and investigations about these products in the recent years. Due to the increased scrutiny of these harmful products, SAL’s management has decided to gradually phase out them from its portfolio. On stopping their production, the revenue is likely to fall by at least 25% in the short term. Meanwhile, SAL plans to invest in R&D to develop more environmentally safe products. PAL which is a competitor of SAL in the same industry also derives around 30% of its annual revenue from sale of red and yellow labelled products. CIB has recently launched an investigation into these highly toxic products that PAL is manufacturing. Yet PAL, on account of them being high margin products, plans to increase its production of these products despite regulatory concerns of imposition of a ban in the near future. PAL expects revenues to grow by at least 10% in the coming year.

**Merger with Unlimited Urea Limited (UUL): Refer Annexure 2**

SAL (transferee company) decided to acquire UUL (transferor company) by acquiring its shares via a process of takeover under section 235 of the Companies Act, 2013. SAL prepared a scheme by which an offer was made to the shareholders of UUL. The offer was made on 1st August 2024. The offer has remained open for 4 months and was approved by shareholders having 92% value of the shares. Subsequently, SAL gave notice to the remaining dissenting shareholders that it desires to acquire their shares. Such notice was given on 5th January 2025. Certain dissenting shareholders made an application to the Tribunal that acquisition of their shares should not be permitted. However, the application was dismissed by the Tribunal. Hence, SAL acquired shares of 5% of the dissenting shareholders (out of the balance 8%). The shareholding of the remaining 3% shareholders continued to remain with the dissenting shareholders.

**Annexure 1**

## State Times

### Hidden Dangers of Agrochemicals

*Jaipur, 21st February 2025* – A bountiful harvest, at affordable prices is the need of the hour to feed the world's growing population. Enter agrochemicals, in particular chemical fertilizers and pesticides which have ensured higher crop yield. Chemical formulations are precise and deliberate, depending on the intended use, and they are relatively cost effective. This has helped farmers across the globe get better control over their crop production. In the short-term farmers can produce more and higher quality crops. However, excessive usage of these fertilizers erodes soil health in the long run. They can seep into groundwater and other water sources leading to contamination, which can be toxic in the long run. Greenhouse gases emitted during the production of nitrogen fertilizers have had a profound impact on climate change and caused immense biodiversity losses.

Human health issues also crop up as due to the use of fertilizers, crops are not as nutritious as they should be. It also increases the risk of developing cancer in adults and children. The nervous, endocrine and immune systems are severely affected by their usage, especially with that of pesticides. Many other health issues have been highlighted by medical fraternity over the past few decades.

The recent months have seen a lot of public outcry and debate over the excessive use of fertilizers in India. There has been increasing pressure on the government to force companies to label their products based on their toxicity. Due to the profound, sometimes adverse impact that agrochemicals (including fertilizers) can have on human health and other natural resources, the Central Insecticide Board (CIB) has categorised agrochemical toxicity levels based on a labelling system – using red, yellow, blue and green labels – where red is the most toxic while green is the least toxic. In addition, to prevent counterfeit products companies are adding barcode or other identifying technologies to identify their product packaging.

Red-labelled products have come under a lot of scrutiny in recent years following public outcry about their harmful effects. The regulatory authorities are severely curtailing the use of these products and are also gradually bringing restrictions for the yellow labelled products as well. It is very likely that they will be banned in the near future as per ESG guidelines. All packages carry labels to help users identify their toxicity level. Despite this certain companies are increasing production of such products since they are highly profitable to them.

**Annexure 2**

**The Chronicle**

**Shakti Agrochemicals Limited to Acquire Unlimited Urea Limited in a ₹ 1,000 Crore Deal**

*Jaipur, 2nd September 2024* – Unlimited Urea Limited (UUL) to change hands by sale of unit to Shakti Agrochemicals Limited (SAL). Unlimited Urea Limited (UUL) based at Gadepan in Kota district of Rajasthan, is set to change hands with the company revealing sale of its entire business to Shakti Agrochemical Limited (SAL) for a total consideration of ₹ 1,000 crores.

The company disclosed the information as part of the mandatory disclosure to the stock exchanges, the BSE and the NSE, under Regulation 30 of SEBI (listing obligations and disclosure requirements) Regulations, 2015. The disclosure states that the board of directors at its recent meeting granted in-principal approval for the sale of its business to SAL. The agreed consideration value is expected to be ₹ 1,000 crores. The notice adds that the sale is subject to approval from shareholders, other regulatory and statutory approvals and financial due diligence.

The acquisition is of particular interest since the Government of India had announced New Investment Policy (NIP) to facilitate fresh investment in the urea sector and to make India self-sufficient in the urea sector. SAL is a well-established player in the fertilizer industry, its portfolio includes both chemical and organic fertilizers and crop nutrition solutions. The acquisition of the urea business of UUL will give a fillip to unlocking value within its business. Recent geo-political tensions have led to supply chain disruptions and sent price of raw materials including that of urea skyrocketing. Having a captively owned urea manufacturing unit will help it mitigate risks of supply chain disruptions and price fluctuations.

**Multiple Choice Questions**

1. Which of the following statements are true?

   (i) One of the reasons for actual material procurement to be higher than the budget is on account of SAL following JIT procurement which had to cater to higher than anticipated demand due to a successful marketing campaign by SAL.

(ii) Mr. Ray is solely responsible for the contribution generated from sale of each grade of fertilizer.

(iii) JIT production system may not always be suitable since there have been instances of sudden spike seasonal demand for certain products depending on the seasonal conditions for growing crops. Production department may not be able to account for this in their annual planning exercise.

(iv) JIT procurement of raw materials is suitable since production is also done on a just in time basis.

**Options:**

(a) (i) and (iii)

(b) (i), (ii) and (iii)

(c) (i), (iii) and (iv)

(d) (ii), (iii) and (iv)

2. Referring to sale of highly toxic red and yellow labelled products, which of the following should be the consideration by the auditors of SAL and PAL in the audit of the financial statements?

(i) Auditors of SAL and PAL need to obtain audit evidence regarding compliance with laws and regulations and audit procedures have to be designed accordingly.

(ii) Auditors of SAL and PAL do not need to obtain audit evidence regarding compliance with laws and regulations since these products are not explicitly banned in India.

(iii) Auditors of PAL need to keep in mind SA 250 where non-compliance with laws and regulations may result in fines and litigations or other consequences that may have a material effect on the financial statements.

(iv) Auditors of SAL need to be concerned about the phase out of these products that can impact revenue negatively by 25%. In addition, the company plans to invest in R & D to develop environmentally safe products despite losing revenue following this decision.

**Options:**

(a) (i) and (iv)

(b) (ii) and (iv)

(c) (i) and (iii)

(d) (ii), (iii) and (iv)

3. Based on the sales variance analysis, which product(s) should the management prioritize for future discounts to maximize sales volume while ensuring continued profitability?

   (a) Grade 1 and Grade 2 since they both have increased sales volumes as well as positive net contribution

   (b) Grade 1 and Grade 3 since they both are price sensitive, given the 5% threshold for analysis as considered by the company.

   (c) Grade 1, Grade 2 and Grade 3 since the volume increased in all the cases for the discount that was given

   (d) Grade 1 only as that is the only product that is both price sensitive as well as has the capability of yielding positive contribution due to high margins.

4. Which of the following statements would be true regarding the takeover of UUL by SAL?

   (a) The takeover of UUL by SAL is valid as the Tribunal dismissed the application made by the dissenting shareholders.

   (b) The takeover of UUL by SAL is invalid as even after the Tribunal dismissed the application made by the dissenting shareholders, UUL acquired the shares of only 5% out of the total 8% dissenting shareholders.

   (c) The takeover of UUL by SAL is valid as shareholders having 92% of shareholding value gave approval to the offer and this was done within 4 months of receiving the offer from SAL.

   (d) The takeover of UUL by SAL is invalid as shareholders having 8% of the shareholding value have dissented to the takeover and they cannot be legally bound to surrender their ownership to SAL.

5. How should SAL's income from the sale of such customized micronutrient mixture fertilizers at these stalls be classified under the Income Tax Act, 1961?

   (a) The income qualifies as agricultural income because SAL acquired agricultural land to promote awareness of fertilizer usage in farming.

   (b) The income qualifies as agricultural income only if SAL's fertilizers are applied on the acquired land for agricultural production.

   (c) The income does not qualify as agricultural income and is taxable as business income under "Profits and Gains of Business or Profession," despite acquiring agricultural land.

   (d) The income can be partially considered agricultural if the fertilizers sold by SAL are used by farmers trained on the acquired land. **(5 x 2 = 10 Marks)**

**Descriptive Questions**

6. ADVISE the appropriate accounting treatment, if any, for the two grants received and the earthquake-related compensation in the books of accounts of SAL as at March 31, 2025.

   **(5 Marks)**

7. PERFORM a detailed variance analysis of the budgeted and actual contributions. Include a comprehensive breakdown of all elements causing the variances, such as volume differences, variations in selling prices, changes in cost structures, and the impact of discounting strategies. **(5 Marks)**

8. EVALUATE SAL's financial performance based on the given data. **(5 Marks)**

**CASE STUDY 4**

**JayZee Ltd.**

Indian automotive industry is a cornerstone of the nation's economy, contributing around 7.1% to the GDP and nearly 49% to the manufacturing GDP. In the fiscal year 2020-2021, the industry produced over 22 million vehicles, including passenger cars, commercial vehicles, and two-wheelers. The two-wheeler segment dominates the market, with over 80% of the total automotive sales. In the same period, India exported approximately 4.5 million vehicles, showcasing its growing influence in the global automotive market. The government aims to make India a hub for electric vehicles (EVs), targeting a 30% EV adoption rate by 2030. This ambitious goal is supported by policies such as the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME) scheme, which allocates significant funds to boost EV infrastructure and adoption.

Raj Malhotra, founder of JayZee Ltd. , a leading manufacturer of automotive spare parts, envisioned the company's potential during one of his visits to the USA. In 1998, he anticipated the forthcoming boom in the Indian automotive industry, particularly from 2011 to 2020. Foreseeing this growth, he decided to establish JayZee Ltd. to provide high-quality and affordable spare parts for the Indian market. The company is based in Gurgaon, Haryana, with manufacturing facilities in Uttarakhand and Uttar Pradesh strategically located to leverage government benefit schemes.

Over the years, JayZee Ltd. has expanded its product range to include various components such as engine parts, brake systems, suspension systems, electrical components, and more. The company has a state-of-the-art manufacturing facility spread over 20 acres, equipped with advanced machinery imported from Germany and Japan. JayZee Ltd. employs over 1,000 skilled technicians, engineers, and support staff dedicated to maintaining the highest standards of quality. JayZee Ltd.'s commitment to quality has earned it a reputation as a trusted supplier among domestic and international customers. The company follows stringent quality control measures adhering to international standards like ISO 9001, TS 16949, and IATF 16949, ensuring its products meet stringent performance, safety, and environmental regulations. While Raj Malhotra provided the technical vision, his sons Arjun and Karan, have been instrumental in driving the company's financial strategy and decision-making processes. Their astute financial acumen and business insights have played a crucial role in JayZee Ltd.'s growth and expansion plans.

In addition to the domestic market, JayZee Ltd. has a strong global presence, exporting to over 30 countries across Asia, Europe, Africa, and North America. Major export destinations include the UAE, Saudi Arabia, South Africa, Germany, USA, and Canada. The company has established robust distribution networks and partnerships in these regions. In line with the government's vision, Raj Malhotra knows that the next decade, from 2021 to 2030, will be a boom period for the EV market in India. He foresees this due to the recent government push towards Atmanirbhar Bharat with its Production Linked Incentive (PLI) Scheme and the global shift towards India as part of the China Plus One strategy. This strategy essentially means that companies do not want all their manufacturing footprint in China due to geopolitical tensions. Additionally, the fast acceleration towards EVs is driven by climate and sustainability strategies of companies.

To meet the burgeoning demand, JayZee Ltd. has implemented aggressive expansion plans, including the construction of two new state-of-the-art manufacturing units in Gujarat and Tamil Nadu. The company has also invested heavily in R&D, collaborating with leading automotive engineering institutes to develop innovative products using advanced materials and cutting-edge technologies.

**Apr'2023 Begining**

To support the company's strategic objectives, JayZee Ltd. relies on its skilled workforce, who are considered as the backbone of the organization. In order to foster long-term loyalty and engagement, the company is offering Employee Stock Ownership Plans (ESOPs) to its employees. As the company achieves its earnings targets, shares will vest, granting employees ownership in the company. JayZee Ltd. grants 100 shares to each of its 500 employees on 1st April, 2023. The employees should remain in service during the vesting period. Annexure 1 containing Terms and Conditions of Employee Stock Option Plan has been approved by the shareholders of JayZee Ltd. passing a special resolution.

JayZee Ltd.'s success is attributed to its strong leadership team, employee-friendly policies, continuous training programs, and a culture that fosters innovation. The company provides competitive compensation, growth opportunities, and a positive work-life balance, resulting in high employee satisfaction and low attrition rates. Despite challenges like increased competition, fluctuating raw material prices, and regulatory changes, JayZee Ltd. has maintained a steady growth trajectory with consistent profitability and a strong balance sheet.

Guided by Raj Malhotra's principles and the financial expertise of his sons, Arjun and Karan, JayZee Ltd.  Ltd thrived under the directors' unwavering dedication and the collective efforts of its team. As JayZee Ltd. looked towards the future, the directors' global vision and local roots served as a powerful combination, propelling the company's success in the competitive automotive spare parts industry.

JayZee Ltd. is focused on enhancing its manufacturing processes and assessing the efficiency of its operations in relation to their full potential, while also identifying areas of loss. The company has a state-of-the-art production facility that operates in two shifts of 9 hours each, for 6 days a week. Under the leadership of Raj Malhotra, the founder, and his sons Arjun and Karan, the company emphasizes efficiency and productivity in its operations. One of JayZee Ltd.'s critical production lines, responsible for manufacturing essential spare parts, has been closely monitored by the team. Over the last 4 weeks, the following details have been collected for one of their important equipment: Lunch break is 30 mins and other miscellaneous breaks add up to 15 minutes; Hours for Planned Preventive Maintenance is 15 minutes per shift; For Breakdown Maintenance is 6 hours total; Set up Changes require 14 hours in total; Power Failure is 4 hours in total; Standard Cycle Time per piece is 3 minutes; No of Parts Produced per shift are 140; and Parts Accepted per shift are 131.

**Year Ended Mar 2024**

In an effort to build long-term loyalty and enhance employee engagement, the company introduced Employee Stock Ownership Plans (ESOPs) in 2023. The ESOPs were designed to provide employees with a direct stake in the company’s growth and success. By offering employees the opportunity to become shareholders, the company aims to foster a culture of ownership, where every team member has a vested interest in the organization’s performance and outcomes. One year has now elapsed since the implementation of the ESOPs. The program has proven to be an effective way to show appreciation for the hard work of employees and to build stronger ties between the workforce and the company.

At the end of FY 2023-24, earnings is 11%, and 29 employees left the organisation. The company expects that the shares will vest at the end of March 2025 subject to earnings target achieve. The company also expects that an additional 31 employees will leave the organisation in the FY 2024-25 and that 440 employees will receive their shares at the end of the FY 2024-25.

JayZee Ltd., has always been proactive in capitalising on strategic opportunities for growth and diversification. Under the astute leadership of Raj Malhotra, the founder, and his sons, Arjun and Karan, the company has consistently made sound investment decisions to strengthen its position in the market.

JayZee Ltd. acquired a building from Moon Ltd, another reputed manufacturing company, for a cost of ₹10 million on 1st April, 2020. The building, which Moon Ltd had previously used as a factory, was accounted for under the cost model. At the time of acquisition, JayZee Ltd.'s management, guided by their financial advisors, estimated the building's expected useful life to be 10 years.

Initially, JayZee Ltd. had plans to repurpose the building and integrate it into their expanding operations. However, a few years down the line, the company faced a significant decline in demand for one of its product lines. As a result, the need for an additional factory became redundant. Recognizing the opportunity to generate alternative revenue streams, Arjun and Karan, known for their strategic foresight, proposed renting out the building to a third party. On 1st April, 2024, after conducting a thorough market analysis and obtaining necessary approvals, JayZee Ltd. successfully leased (in an operating lease agreement) the building to a reputable tenant, ABC Industries.

At the time of leasing, JayZee Ltd.'s valuation experts assessed the fair value of the building to be ₹8 million, reflecting the current market conditions and the building's condition. In accordance with the company's accounting policies, JayZee Ltd. adheres to the cost model for recognizing its owned investment properties.

With Arjun and Karan's strategic guidance, JayZee Ltd. is well-positioned to capitalise on emerging trends and maintain its leadership in the automotive spare parts industry. At the helm of JayZee Ltd. were three dynamic directors - Mr. Rajesh Sharma, Mr. Anil Gupta, and Ms. Priya Mehta. These directors were globetrotters, frequently travelling abroad to develop and secure sustainable business opportunities for JayZee Ltd. From exploring new markets to forging strategic partnerships, they left no stone unturned in their pursuit of growth. Despite their global pursuits, the directors remained deeply rooted in Gurgaon, understanding the importance of maintaining a strong presence at the company's registered office for legal compliance and organizational stability.

Mr. Raj Malhotra, is dedicated to developing and securing sustainable business opportunities while exploring new markets and forging strategic partnerships. His recent business tour took him to North America, where he visited the USA and Canada to identify potential business ventures. After 4 months, Mr. Raj is now preparing to return to India. During his stay abroad, he acquired various items and, being a responsible citizen, he is mindful of the customs regulations. He sent an email (Annexure 2) to Mr. Sanjay, Finance and Taxation head to sought guidance his guidance, who is well-versed in legal and financial matters.

**Year Ended Mar 2025**

Gumber & Associates has been appointed as Statutory Auditor for JayZee Ltd. for the financial year 2024-25. With a strong track record of excellence, Gumber & Associates has experience in auditing and tax advisory services, ensuring the highest standards of financial oversight and compliance. The firm has earned a stellar reputation for its meticulous attention to detail, in-depth knowledge of regulatory frameworks, and a proactive approach to addressing complex financial and tax matters.

It has already been two years lapsed since the launch of ESOP 2023. At the end of FY 2024-25, the company's earnings is 19%. Therefore, the shares did not vest, only 29 employees left the organisation during second year. Company believes that additional 23 employees will leave during the third year and earnings will further increase so that the performance target will be achieved in FY 2025-26.

Additionally, it's important to note that JayZee Ltd. has consistently maintained high standards of corporate governance and regulatory compliance, as overseen by Arjun and Karan. The company's financial statements are audited annually by a reputed firm, ensuring transparency and adherence to accounting principles. In a significant strategic move, JayZee Ltd. was considering expanding its market reach through acquisition of BM Autos Ltd., a company renowned for its strong foothold in the global automotive sector. Arjun and Karan, with their financial expertise, meticulously analysed the acquisition's potential benefits. They anticipated that the combined resources and expanded market reach would significantly bolster JayZee Ltd.'s position in the industry. This strategic acquisition was not just about expanding market presence but also about integrating innovative technologies and best practices from BM Autos Ltd. into JayZee Ltd.'s operations. JayZee Ltd.'s shares are currently traded at ₹ 20. The company has 25,00,000 shares outstanding and its earnings after taxes (EAT) amounted to ₹ 50,00,000. On the other hand, BM Autos Ltd. had 12,50,000 shares outstanding, with a current market price of ₹ 10. Its EAT was ₹ 12,50,000.

After extensive deliberation, BM Autos Ltd. agreed to be get acquired under which JayZee Ltd. would offer the current market value of BM Autos Ltd.'s shares in a stock swap exchange. This acquisition was seen as a strategic fit, enabling JayZee Ltd. to leverage BM Autos Ltd.'s robust market presence and enhance its competitive edge. The acquisition promised to enhance shareholder value, improve operational efficiencies, and foster a more resilient business model, well-equipped to navigate the complexities of the global automotive market.

JayZee Ltd. places a strong emphasis on its employees as key assets to the company, understanding that their well-being and professional growth directly contribute to the organization's achievements. For many years, JayZee Ltd. has consistently paid bonuses to its employees, recognizing the constructive obligation to reward their hard work and dedication.

JayZee Ltd. discovered that a provision for constructive obligation for payment of bonus to selected employees in the corporate office (material in amount), which was required to be recognized in the annual financial statements for the year ended 31st March, 2023, was not recognized due to oversight of facts. The bonus was paid during the financial year ended 31st March, 2024 and was recognized as an expense in the annual financial statements for the year 2024-25.

JayZee Ltd. has significantly expanded its global presence by acquiring a major stake in a Singapore-based company. During the financial year 2022-23, JayZee Ltd. acquired a 54% stake in SYD Pte Ltd. (SPL), marking its first subsidiary company. This move underscored JayZee Ltd.'s commitment to international presence and leveraging new market opportunities.

Mr. Rajesh Sharma, one of the dynamic directors at JayZee Ltd., was instrumental in this acquisition. His vision strengthening its for international expansion aligned perfectly with the company's growth strategy. Moreover, in the financial year 2024-25, his daughter, Sunita, who has been residing in Singapore for the past six years, was appointed as a director in SPL. Sunita's extensive experience in the region made her a valuable asset to SPL. She was appointed at a monthly remuneration of SGD 5082. (SGD 1 = INR 59). Sunita's appointment was a strategic decision aimed at ensuring strong leadership and effective governance at SPL. Her presence in Singapore facilitated smoother operations and stronger ties between JayZee Ltd. and its first international subsidiary. This expansion into Singapore not only broadened JayZee Ltd.'s market reach but also reinforced its position as a formidable player in the global automotive spare parts industry.

Gumber & Associates has worked with a wide range of industries, providing tailored auditing services that align with the unique needs of each client, and has a long history of successfully navigating intricate tax laws to deliver optimal solutions. The firm's commitment to quality is reflected in its robust internal processes and a team of highly skilled professionals who continually update their expertise to stay ahead of industry trends. CA. Krish, engagement partner, is concerned about the non-verification of physical inventory.

Management of JayZee Ltd. has not undertaken the physical verification of inventories at regular intervals. Inventories constitute 30% of the total assets of the company. Due to non-maintenance of adequate inventory records at the factory, audit team could not undertake the physical verification of inventory. Hence value of inventory as on 31st March, 2025 could not be verified.

**Annexure: 1**

**JayZee Ltd.**

(Regd. Office: JayZee tower, Gurgaon, Haryana)

Jz

**Employees Stock Option Plan 2023**

(Plan as approved by the Shareholders through Special Resolution)

**1. Name, Objective and Term of plan**

1.1 This Employee Stock Option Plan shall be called Employee Stock Option Plan 2023 (“ESOP 2023” / “Plan”).

1.2 The objective of ESOP 2023 is to reward employees for association, dedication and contribution to the goals of the Company.

1.3 ESOP 2023 is applicable with effect from 1st April, 2023 on which the shareholders have approved the Plan by way of a special resolution and shall continue to be in force until earlier of:

i. 31st March, 2026; or

ii. The date all the options reserved under the Plan are granted and exercised; or

iii. The date of termination, if any, of the Plan.

**2. Grant and Acceptance of Grant**

2.1 **Grant of Options**: Each grant under this ESOP 2023 shall be made in writing by the Company to the eligible employees fulfilling the eligibility criteria in a Letter of Grant as may be approved under the ESOP 2023 from time to time.

2.2 **Acceptance of the Grant**: Any employee who wishes to accept the Grant made under ESOP 2023 must deliver to the Company a duly signed acceptance of the Letter of Grant on or before the date (Closing Date) which shall not be more than 60 (Sixty) days from the date of the grant, as specified in the letter of Grant.

3. **Vesting Schedule and Vesting Conditions:**

Options granted under ESOP 2023 would vest as the company achieves its targets. The shares will vest at the end of

- First year- if the company's earnings is 15%;
- Second year- if the company's earnings is 23% over the two-year period;
- Third year- if the entity's earnings is 29% over the three-year period.

4. **Fair value of option:** The fair value per share at the grant date is ₹ 122.

**Annexure: 2**

Raj Malhotra/ Managing Director / JayZee Ltd.

| | |
|---|---|
| From: | "Raj Malhotra" < rajmalhotra@jayzee.com > |
| Sent: | 15th April 2024 10:00 |
| To: | "Sanjay Kumar" < sanjay@jayzee.com > |
| Cc: | "Manik Paul" < paul@jayzee.com > |
| Subject: | Custom baggage's related |
| Attachments: | |

CA. Sanjay,

Trust you are doing well!

After a productive 4 months business tour in the USA, I am now preparing to return to India. During my stay abroad, I have acquired a few personal items, and as a responsible citizen, I want to ensure that I comply with all customs regulations upon my arrival.

The following are the items I will be bringing back with me:

- Personal Effects items: ₹59,000
- 13-Inch Laptop: ₹37,000
- Jewellery (15 grams, purchased in the USA): ₹67,000
- Music System: ₹1,25,000

I would appreciate it if you could kindly guide me on the proper procedures and any applicable customs duties or exemptions, I should be aware of regarding these items.

Your expertise in finance and taxation matters would be greatly helpful in ensuring everything is in order for a smooth entry into India.

Thank you for your time and assistance. Looking forward to hearing from you soon.

Best regards,

Raj Malhotra

**Multiple Choice Questions**

1. JayZee Ltd. has previously intended to use the building for its business operations. However, due to changes in the business environment, the company leased the property to ABC Industries. Determine the value at which the investment property should be recognized and calculate the gain or loss to be recognised from the reclassification of the asset on 1st April, 2024.

   (a) ₹10 million and no gain or loss

   (b) ₹8 million and gain of 2 million

   (c) ₹4 million and loss of 2 million

   (d) ₹6 million and no gain or loss

2. You are required to compute the customs duty payable by Mr. Raj Malhotra with reference to the Baggage Rules, 2016, Assuming if the effective rate of customs duty is 38.50% inclusive of social welfare surcharge, while ignoring the Agriculture Infrastructure and Development cess.

   (a) ₹ 67,875

   (b) ₹ 43,320

   (c) ₹ 38,500

   (d) ₹ 54,670

3. Determine the amount of expenses to be recognized in the Statement of Profit and Loss at the end of second year in respect of options granted to employees under "ESOP plan 2023" as approved by the shareholders of JayZee Ltd.

   (a) ₹ 6,78,750

   (b) ₹ 7,23,867

   (c) ₹ 8,94,667

   (d) ₹ 7,46,703

4. JayZee Ltd aims to enhance its manufacturing efficiency and productivity by reducing breakdown losses and defective products. To achieve this, management seeks to assess Overall Equipment Effectiveness (OEE), a key metric for evaluating the performance of the manufacturing process. You are required to calculate 'OEE'.

   (a) 83.65%

   (b) 81.03%

(c) 81.87%

(d) 83.14%

5. Whether JayZee Ltd. was required to pass resolution with respect to appointment of Mrs. Sunita in SPL considering it to be a related party transaction?

   (a) No, as such appointment did not amount to appointment of Mrs. Sunita to an office or place of profit in SPL.

   (b) Yes, as Mrs. Sunita was a related party to JayZee Ltd. and she would be drawing a monthly remuneration exceeding ₹2.5 lakhs in its subsidiary company.

   (c) No, as even though Mrs. Sunita was a related party to JayZee Ltd., she would be drawing remuneration from SPL, its subsidiary company and not JayZee Ltd., itself.

   (d) No, as such provisions with respect to related party are not applicable in relation to a foreign subsidiary company. **(5 x 2 = 10 Marks)**

**Descriptive Questions**

6. You are required to analyse whether the situation relating to constructive obligation for payment of bonus is an error requiring retrospective restatement of comparatives, considering that the amount is material. **(4 Marks)**

7. (A) Referring to the merger transaction with BM Autos Ltd. in the case study, answer the following questions:

   (i) Determine the number of shares of JayZee Ltd, will be issued to the shareholders of BM Auto Ltd. as per the arrangement entered.

   (ii) Suppose if BM Autos Ltd.'s P/E ratio is 6.4, then what will be its current market price and what will be exchange ratio on this basis. Also determine JayZee Ltd.'s post-acquisition EPS.

   (iii) What should be the exchange ratio if JayZee Ltd.'s shareholders desire that pre-acquisition and post-acquisition EPS should remain the same?

   Note: - Round off your calculations upto 2 decimal points.

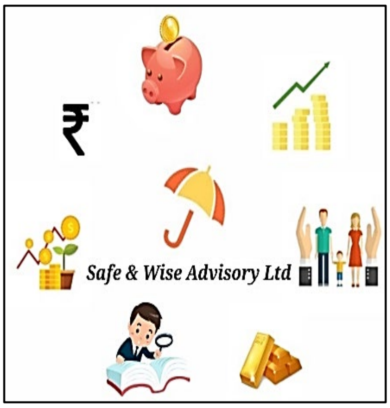
   (B) What is take over by reverse bid? **(5 Marks)**

8. How should auditors deal with the issues in the audit report of JayZee Ltd.? **(6 Marks)**

## CASE STUDY 5

### Safe and Wise Advisory Limited

**Safe and Wise Advisory Limited (SWAL)** is well established financial planning & risk advisory firm of the country with nation-wide presence. SWAL is engaged in selling third party products be it financial products or insurance products (life assurance only). Financial advisory business of SWAL is doing well and contributing to the half of gross revenue of group and two-third of overall group's bottom line, but insurance brokerage business is not performing as per expectation. 'Independent and impartial advice' to client is unique selling point of SWAL.




SWAL was established by Mr. Ravi Verma around two decade ago (when life-assurance business goes private), at then it was one division business i.e. assurance brokerage business. Mr. Ravi Verma is dynamic leader and presently leading the company as CEO, apart from being major shareholder of the company.

SWAL is widely acknowledged in market for two distinct features, first being presence wide across the nation, in form of 'sub-agency offices' equipped with professionally trained sale staff headed by financial planner or advisor, where customer can take advise and discuss opinion prior to investing/ buying any insurance or financial product. SWAL has 'sub-agency offices' in 580 cities, towns and blocks. Locations are semi-commercial in nature but prominent. SWAL has practice to sign 30-year lease, when so ever taking and 'sub-agency office' on lease in order to reduce the lease cost and bring stability.

*Secondly, SWAL sold product of all third parties, hence provide a range of products to its client to choose from. In 2010, SWAL signed a 15 year's agency agreement with all 23 life insurance companies recognised then. SWAL's tagline is also depicting the same 'we are ethically committed to understand and deliver your needs'. SWAL believes in organic growth and listed on stock market 3 years back to float additional capital to fund more 'sub-agency offices'.*

22 out of these 23 life assurance companies are private and registered themselves with regulatory between the year 2000-2009 for a period of 25 years. Considering the default by few insurance firms and increasing customer complaints, regulator of insurance business in country tighten the registration criteria and harden the norms.

Typically each of ‘sub-agency office’ comprises three regular and one contractual employee. One being financial planner/ advisor, 2 sales and relationship officer and contractual worker in role of support staff and vested with miscellaneous clerical responsibilities. The on-roll number of employees engaged in assurance brokerage business has been increased to 1,564 from 720 five year ago (up-till 3 year ago number was 845 but since expansion of ‘sub-agency’ office division it is around 1,500).

Market trend is changing, since the SWAL commence the business. Each of such insurance company, now has their own network of branch offices to sale their insurance product directly; that too at more prominent locations. SWAL counter this step by highlighting its ‘independence and impartial advice’ practice, although SWAL managed to retain the revenue at same level, but this result in low profitability of ‘sub-agency office’ business. Now these insurance companies are not authorising any new agent.

Safe and Wise Advisory Limited (SWAL), a service-oriented company, sought to expand its market reach. To achieve this, SWAL established a dedicated 'E-platform' division, 'Policy at Your Click,' staffed by 50 professionals. Giganet is a service provider offering broadband and voice call services. SWAL intends to obtain broadband connectivity from Giganet to support the operational needs of its E-platform. For data security reasons, SWAL also wants to retain the right to procure the modem from any vendor of its choice at any time. So, SWAL has entered into an agreement (Annexure1) with Giganet for Broadband Services and for Modem procurement on 15th June 2024.

SWAL Ltd. requires a robust data management software to store, manage, and secure its valuable data against unauthorized access and malware threats. In pursuit of a reliable solution, SWAL engaged with DBMS Ltd., a renowned and experienced leader in data security solutions. After extensive negotiations spanning over a month, both parties have reached an agreement under which DBMS Ltd. shall provide SWAL with a license to use its proprietary data management software ("Software"). DBMS Ltd. is the sole owner and developer of the Software and agrees to grant SWAL a license under the terms and conditions set forth in Annexure 2.

SWAL’s **‘E-platform’** enables the seamless online sale of life insurance policies, strategically compensating for losses incurred by its sub-agency network. The insurance company has introduced multiple life insurance plans, all of which are available for purchase through SWAL’s E-platform. Acting as an intermediary, SWAL facilitates the sale of these policies and earns a commission from the insurance company on each policy sold through its platform. This commission-based model ensures a sustainable revenue stream for SWAL while streamlining the insurance purchasing process for customers.

The insurance company offers a range of life insurance plans, each with distinct premium structures and allocations for investment or savings components. Below is a detailed description of these plans:- **Investment-Linked Policy** – This policy requires an annual premium payment of ₹1,00,000. A portion of ₹60,000 is explicitly allocated towards investment or savings, which is clearly communicated to the policyholder at the time of service supply. The remaining amount covers risk protection and other associated costs. **Single Premium Annuity** – This plan involves a one-time premium payment of ₹5,00,000. Unlike investment-linked policies, this plan does not have a separate investment or savings component. The entire premium is utilized to provide annuity benefits, ensuring a steady stream of income for the policyholder. **Regular Life Insurance** – Under this policy, the policyholder pays an annual premium of ₹80,000. However, there is no explicit allocation for investment or savings, meaning the distribution of funds between risk coverage and any potential savings component is not clearly defined. **Pure Risk-Cover Policy** – This policy is designed solely for risk coverage, with an annual premium of ₹50,000. The entire premium is dedicated to providing financial protection against life risks, without any portion being allocated for investment or savings. These plans cater to different financial and coverage needs, offering flexibility based on the policyholder's preferences and risk appetite.

JS & Associates are at a crossroads regarding their audit approach for SWAL for the financial year ending March 31st, 2025. Historically, they have identified management override of controls and revenue recognition as significant risks. However, their audits in the past 2 financial years yielded clean reports with no issues detected in these areas.

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

On the other hand, consistently clean reports raise the question of continued significance. JS & Associates might consider performing a more focused assessment or reducing the emphasis on these risks while still acknowledging their potential impact. This could streamline the audit process without compromising effectiveness. As part of a risk-based audit approach, JS & Associates focus on areas with a higher likelihood of material misstatement.

*Supported by revenue figures given below (in '000 Crores), analysts reach to conclusion that growth in the assurance brokerage business is slowing down both for SWAL and industry overall–*

| Market Size/Year | 2024-25 | 2023-24 | 2022-23 | 2021-22 | 2020-21 |
|---|---|---|---|---|---|
| SWAL's assurance brokerage business | 326 | 320 | 312 | 298 | 280 |
| Total market size of life assurance | 2,240 | 2,198 | 2,122 | 2,004 | 1,960 |

Revenue earned by each division of assurance brokerage business (in term of age of the client), is shown in table below for F.Y. 2024-25–

| Division/Age | 20-30 | 30-40 | 40-50 | 50-60 | 60+ | Total |
|---|---|---|---|---|---|---|
| 'Sub-agency office' division | 2 | 25 | 38 | 164 | 51 | 280 |
| 'E-platform' division | 8 | 28 | 8 | 2 | 0 | 46 |
| Total Business of SWAL | | | | | | 326 |

Since the profitability of 'sub-agency office' division is declining, hence the strategic review committee of board of directors are concerned about the company's declining profitability due to poor performance of 'sub-agency office' division and suggest that the 'sub-agency office' division should be sold off and that SWAL shall re-position its assurance business as an online solution.

Extract from financial statement for agency office division only (figures in '000 Crores) –

| Particulars/Year | 2024-25 | 2023-24 | 2022-23 |
|---|---|---|---|
| Revenue | 280 | 272 | 250 |
| Profit before interest and tax | 18 | 16 | 31 |
| Shareholder's' Equity | 156 | 150 | 150 |
| 8% Long term debt | 78 | 64 | 50 |
| Current Liabilities | 455 | 437 | 395 |
| Current Assets | 605 | 565 | 540 |

Applicable tax rate is 22%. The nature of cost incurred by 'sub-agency office' division is more or less balanced between the variable and fixed. Fixed costs are largely committed in nature.

But the CEO does not agree to the suggestion made by strategic planning committee, because CEO is of belief that SWAL's USP or original business model is 'sub-agency offices' through which they ensure 'independence and impartial advice' to their clients.

On 20/04/2025 – a board meeting of directors was held to discuss on continuance or sale of the 'Sub-Agency Office' division and few other matters, the minutes of which are given in Annexure 3.

**Annexure 1**

## AGREEMENT FOR BROADBAND SERVICES AND MODEM PROCUREMENT

This Agreement is made and entered into on this 15th day of June, 2024, by and between:

First party i.e. **Safe and Wise Advisory Limited (SWAL),** a company duly incorporated and having its registered office at New Delhi, hereinafter referred to as "SWAL"; and Second party i.e. **Giganet Ltd.,** a company duly incorporated and having its registered office at Chandigarh, hereinafter referred to as "Giganet."

**Terms of Agreement** shall be as follows:

**1) Scope of Services**

Giganet shall provide broadband and voice call services to SWAL in accordance with the selected service plan for a period agreed as per terms. Additionally, SWAL also reserves the right to opt for any single plan individually, i.e. voice call or broadband services at any time. Giganet offers various plans, including broadband services, voice call services, and a combination of both to its customers.

**2) Modem Procurement**

Giganet shall provide the Modem device to SWAL. But also, SWAL reserves the right to procure the modem independently from any vendor, and this Agreement shall not impose any restriction in this regard.

**3) Term and Termination**

The term of this Agreement shall be for a period of three (3) years from the effective date. Upon expiration, the Agreement may be renewed by mutual consent of both parties under terms and conditions agreed upon at the time of renewal.

**4) Pricing**

The modem shall be sold at a one-time cost of ₹ 10,000. The combined broadband and voice call service plan shall be provided at an annual pricing of ₹ 50,000.

**5) Miscellaneous**

- Any amendments or modifications to this Agreement shall be made in writing and duly signed by both parties.
- Any dispute arising out of or in connection with this Agreement shall be resolved amicably between the parties. If not resolved, it shall be subject to arbitration under the applicable laws.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

Signed for and on behalf of Safe and Wise Advisory Limited (SWAL)
*Ravi Verma*
(CEO, Safe and Wise Advisory Limited)

Signed for and on behalf of Giganet Ltd.
*Mahesh Makhija*
(Managing Director, Giganet Ltd.)

## Annexure 2

**SOFTWARE LICENSE AGREEMENT**

This Software License Agreement ("Agreement") is made and entered into on this 20th day of June, 2024, by and between:

First party i.e. **Safe and Wise Advisory Limited (SWAL),** a company duly incorporated and having its registered office at New Delhi, hereinafter referred to as "SWAL"; and Second party i.e. **DBMS Ltd.,** a company duly incorporated and having its registered office at Bangalore, hereinafter referred to as "DBMS."

**WHEREAS:**

DBMS Ltd. is the owner and developer of a data management software ("Software"). DBMS Ltd. agrees to grant SWAL a license to use the Software under the terms and conditions set forth herein.

SWAL intends to utilize the Software for its business operations while maintaining operational stability.

**NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the Parties agree as follows:**

a) **Grant of License**

DBMS Ltd. hereby grants SWAL a non-exclusive, non-transferable license to use its Data Management Software for their internal business operations.

b) **Updates and Upgrades**

DBMS Ltd. shall provide updates and upgrades to the Software on a when-and-if-available basis. SWAL shall have sole discretion in determining whether to install such updates or upgrades.

c) **Software Integrity**

DBMS Ltd. shall not engage in any activity that alters the functionality of the Software without SWAL's prior written consent.

d) **Term of contract**

The term of this Agreement shall be for a period of two (2) years from the effective date.

e) **Consideration**

SWAL shall pay DBMS Ltd. an annual fee of ₹ 4,00,000 (inclusive of all taxes, surcharges and cess) for the licensed use of the Software.

f) **Miscellaneous**

- Any modifications or amendments to this Agreement must be made in writing and signed by both parties.
- Any disputes arising out of or related to this Agreement shall be resolved amicably between the parties. If unresolved, the matter shall be subject to arbitration as per applicable laws.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

| | |
|---|---|
| Signed for and on behalf of SWA Ltd. | Signed for and on behalf of DBMS Ltd. |
| Ravi Verma | Jay Soni |
| (CEO, Safe and Wise Advisory Limited) | (Managing Director, DBMS Ltd.) |

**Annexure 3**

**SWAL**

***(Safe and Wise Advisory Limited, Reg Address. New Delhi)***

**Extract of Minutes of the 89th Meeting of the Board held on April 20,2025 at New Delhi**

**Item:** To discuss the sale or continuance of sub agency division, managerial remuneration and several other matters.

**Decision on the 'Sub-Agency Office' Division**

The Board deliberated on the continuance or sale of the 'Sub-Agency Office' division. After discussions, it was decided that further evaluation of strategic options would be conducted before making a final decision.

**Clarification on Maximum Remuneration**

The Company Secretary, Mr. Amit Binoi, was asked about the maximum permissible remuneration for all Directors and the Manager in a financial year. He provided the necessary clarification, confirming that the company follows an annual remuneration structure while ensuring compliance with statutory limits. The Board noted that the company has Mrs. Jalpa Sen as the Whole-time Director (WTD) and recently appointed Mr. Keyur Valia as the Managing Director (MD). It was emphasized that remuneration must adhere to the prescribed statutory limits for the MD, WTD, and Manager collectively. During the scrutiny of accounts for the financial year 2024-25, it was observed that Mrs. Jalpa Sen, heading the Sub-Agency Office division, had inadvertently drawn remuneration exceeding the statutory limit in the previous financial year due to an oversight. The Board directed corrective action to be taken to ensure future compliance.

**Risk Assessment of loan given to – Savya Ltd.**

A resolution was passed approving a 10-year amortizing loan of ₹100 crore to Savya Ltd., from surplus funds. The Board reviewed the financial implications, considering:

Probability of Default (PoD): Estimated at 0.5% over the next 12 months at initial recognition.

Loss Given Default (LGD): Assessed at 25% of the balance outstanding.

Credit Risk Assessment: Changes in the 12-month PoD were considered a reasonable approximation for evaluating the lifetime PoD and determining any significant increase in credit risk.

Economic Outlook: Relevant economic factors and credit risk expectations were taken into account. The Board directed that ongoing monitoring of credit risk and financial exposure should be conducted to ensure effective risk management.

**Conclusion:** There being no further business, the meeting concluded with a vote of thanks to the Chair.

***Signed:***

Ravi Verma

(Chairperson and CEO)

***Signed:***

Amit Binoi

(Company Secretary)

25/04/2025

**Multiple Choice Questions**

1. What would have been told by Mr. Amit with respect to maximum remuneration that is allowed in a F.Y. to all such directors and manager taken together?

   (a) 3% of net profits.

   (b) 5% of net profits.

   (c) 10% of net profits.

   (d) 11% of net profits.

2. Mrs. Jalpa, one of the directors, had drawn remuneration in excess of the limit prescribed by the relevant provisions. As regards recovery of the excess remuneration drawn by him, which of the following options is applicable, if the company has defaulted in paying dues to BDS Bank?

   (a) The company shall not waive recovery of excess remuneration paid unless approved by BDS Bank before obtaining approval by a special resolution.

   (b) The company shall not waive recovery of excess remuneration paid unless approved by BDS Bank after obtaining approval by a special resolution.

   (c) The company shall not waive recovery of excess remuneration paid unless approved by a special resolution. Approval of BDS Bank for such purpose is not required

   (d) The company shall not waive recovery of excess remuneration paid unless approved by BDS Bank and if approved by the bank, then company's approval by ordinary resolution is only required.

3. How many Performance obligations are there under the Contract with Giganet ?

   (a) There are 2 separate Performance obligations.

   (b) There are 3 separate Performance obligations.

   (c) Only 1 Performance obligation is there which encompasses 3 sub contracts.

   (d) It depends on the company's choice as to how they want to treat it.

4. Which of the following statement is correct w.r.t nature of license as obtained from DBMS Ltd.?

   (a) The Software license doesn't provide a right to use the Intellectual Property as the underlying conditions are not satisfied as per the relevant IND-AS.

   (b) The Software license doesn't provide a right to use the Intellectual Property as the upgrades will change the functionality of the software.

   (c) There is no question of Intellectual Property rights over here in this situation.

   (d) The Software license provides a right to use the Intellectual Property that is satisfied at a point in time.

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

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

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

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

   (d) JS & Associates will rely solely on past audit results to determine the scope of their procedures. **(5 x 2 = 10 Marks)**

**Descriptive Questions**

6. (i) ASSESS the competitive environment of life-assurance business of SWAL (including 'sub-agency office' division). **[present only two appropriate points for each phase of assessing the environment]**

   (ii) EVALUATE the case for holding the 'sub-agency office' division, backed by financial viability among other criteria. **[present only two appropriate points for each monetary and the non-monetary issue]** **(6 Marks)**

7. Calculate the value of supply for GST purposes in each of the plans launched by Insurance company on the E platform of SWAL in the case study. **(5 Marks)**

8. Calculate loss allowance for the amortizing loan originated by Savya Ltd. **(4 Marks)**