Mock Test Paper - Series II: April, 2024

Date of Paper: 13 April, 2024

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

FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

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

Each Case Study carries 25 Marks.

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

CASE STUDY 1

Non-governmental organizations (NGOs) are non-profit entities working independent of government. UN Department of Global Communications defines an NGO as “a not-for profit voluntary citizen’s group that is organized on a local, national or international level to address issues in support of the public good. Task-oriented and made up of people with a common interest, NGOs perform a variety of services and humanitarian functions, bring citizen’s concerns to governments, monitor policy and program implementation, and encourage participation of civil society stakeholders at the community level.” A paper released by World Bank states that NGOs are typically value-based organizations which depend, in whole or in part, on charitable donations and voluntary service.

NGOs have become very influential and prominent in world affairs and a substantial chunk of overseas development aid is routed through NGOs. Our country also has a long history of civil society movements with organizations working in diverse fields such as health, education, community services, environment protection, sanitation, drinking water and poverty eradication. With passage of time, foreign funds began flowing to domestic NGOs in India. Although work being done by NGOs has been commendable in diverse areas, it is not without criticism. One of such criticisms relates to issue of foreign donations. It has been argued that foreign funding makes NGOs accountable to fund-providing donors and can pose risk to sovereignty of a country.

Foreign contributions in India are regulated under the Foreign Contribution (Regulation) Act, 2010 (FCRA). The objective of such a law is to regulate the acceptance and utilization of foreign contribution or foreign hospitality by certain individuals or associations or companies and to prohibit acceptance and utilization of foreign contribution or foreign hospitality for any activities detrimental to national interest and for matters connected therewith or incidental thereto.

DSB Trust is one such organization working in field of preserving ecology and environment. It has been working on environmental issues since last few years and is very vocal and prominent in raising issues. However, the trust is over-zealous in its approach and has sometimes been accused of stalling crucial development projects in guise of protecting environment. It also receives substantial foreign donations from overseas agencies, trusts and its well-wishers and such donations are main source of funding for carrying out activities of trust.

The office-bearers of trust met on 25th March, 2023 to take stock of situation arising from amendments to FCRA law and rules in recent past. One of the office bearers Mr. X lamented about increased compliance burden and changes in manner about receiving foreign contributions. He was also worried that FCRA registration of their trust is going to expire in this year and modalities for renewing FCRA registration may have undergone change due to change in laws and rules. On closer perusal, he finds that FCRA registration of trust is going to expire on 31st December, 2023.

Another office bearer, Mrs. C who is herself an activist, pointed out that legislation has tightened noose around NGOs receiving foreign contributions making it difficult for them to undertake certain types of works and incur certain expenses due to restrictions being made more stringent in respect of utilization of foreign contributions. She is of the view that expenditure relating to writing and filing reports is directly related to trust's activity of preserving ecology and environment and may be out of purview of regulatory restrictions. However, she is unsure about her stand and its legal implications.

Mr. Y also agreed with both of them and opined that field programmes cannot be run without systems and procedures in place for supervision, management, policy design and strategy. He had heard about changes in rules relating to transfer of foreign contributions to other NGOs. About 5 years ago, the trust had transferred foreign contributions to smaller NGOs having better reach to the intended beneficiaries of program run by the trust. The office-bearers were in a fix whether foreign contributions received can be transferred to another NGO for running programmes of trust now.

During meeting, Mr. Z also chipped in. He also reminisces that there had been changes in rules pertaining to registration of charitable trusts under income tax law in recent past and new procedure of registration was complied with by trust in 2021 by filing application in Form 10A. However, he wants to be clear about modalities of renewal of registration under income tax law whenever it falls due for renewal next time. Besides, the trust is planning to sell during financial year 2023-24 an immovable property held under trust wholly for charitable purposes since last 5 years and whole of proposed net consideration is to be invested in acquiring another capital asset to be held wholly for charitable purposes.

The trust has recently appointed their new auditor and tax consultant CA Madhusudan. Mr. Z is of the view that they should consult their tax consultant in respect of these matters for necessary guidance.

CA Madhusudan has also to audit account of foreign contribution for year 2023-24 and has to certify various figures pertaining to brought forward contribution at beginning of financial year, foreign contribution received during the year, interest accrued on foreign contribution, balance of unutilized foreign contribution at end of financial year. Further, utilisation of foreign contribution received for the purpose for which trust was registered is also required to be certified.

Besides, he is also required to express an opinion on the financial statements of trust for financial year 2023-24.

Based on above case study, answer the following questions: -

I. Multiple Choice Questions

1. Mr. X is worried that FCRA registration of trust is going to expire in year 2023 itself. Which of the following statements is most appropriate regarding renewal of registration of trust and receipt of foreign contributions under FCRA?

   (a) An application for renewal of certificate of registration may be made by trust in month of September 2023 electronically to online portal of FCRA services under Ministry of Home Affairs. Foreign contribution can only be received in an account designated as “FCRA account” to be opened in designated branch of State Bank of India at New Delhi.

   (b) An application for renewal of certificate of registration may be made by trust in month of June 2023 electronically to online portal of FCRA services under Ministry of Home Affairs. Foreign contribution can only be received in an account designated as “FCRA account” to be opened in designated branch of State Bank of India at New Delhi.

   (c) An application for renewal of certificate of registration may be made by trust in month of June,2023 electronically to online portal of FCRA services under Ministry of Finance. Foreign contribution can only be received in an account designated as “FCRA account” to be opened in any designated branch of any scheduled Bank.

   (d) An application for renewal of certificate of registration may be made by trust in month of September 2023 electronically to online portal of FCRA services under Ministry of Finance. Foreign contribution can only be received in an account designated as “FCRA account” to be opened in any designated branch of any scheduled Bank.

2. Mrs. C has put forth her view on certain expenditures. However, she is unsure about legal footing of her view and related matters described in case study. Which of following statements is correct in this regard?

   (a) Expenditure of type referred to by Mrs. C is in nature of administrative expenses. The trust cannot defray an amount in excess of 50% of such foreign contribution received in a financial year to meet administrative expenses. However, expenses above stipulated limit may be defrayed with prior approval of Central Government.

   (b) Expenditure of type referred to by Mrs. C is not in nature of administrative expenses. The trust cannot defray an amount in excess of 50% of such foreign contribution received in a financial year to meet such expenses. However, expenses above stipulated limit may be defrayed with prior approval of Central Government.

   (c) Expenditure of type referred to by Mrs. C is in nature of administrative expenses. The trust cannot defray an amount in excess of 20% of such foreign contribution received in a financial year to meet administrative expenses. However, expenses above stipulated limit may be defrayed with prior approval of Central Government.

(d) Expenditure of type referred to by Mrs. C is not in nature of administrative expenses. The trust cannot defray an amount in excess of 20% of such foreign contribution received in a financial year to meet such expenses. However, expenses above stipulated limit may be defrayed with prior approval of Central Government.

3. Which of the following statements is likely to be correct regarding discussion among trust members for proposed transfer of contribution for carrying out its programme described in case study?

   (a) Foreign contribution received can be transferred to another FCRA registered trust for carrying out programme of DBS Trust.

   (b) Foreign contribution received can be transferred to another FCRA registered trust for carrying out programme of DBS Trust with permission of Central Government.

   (c) Foreign contribution received cannot be transferred to any other person. It is immaterial whether such person is FCRA registered or not.

   (d) Whole of foreign contribution received cannot be transferred to any other person. A certain percentage can be transferred to any other person. It is immaterial whether such person is FCRA registered or not.

4. Mr. Z, office bearer of trust, has approached CA Madhusudan to seek his advice regarding modalities of renewal of registration of trust under income tax law. Which of following advice rendered by CA Madhusudan is in accordance with provisions of law?

   (a) The registration application is to be made in Form no.10B at least six months prior to expiry date of registration of trust. Further, copy of registration under the FCRA, 2010 is mandatory with application as DBS Trust is registered under the FCRA.

   (b) The registration application is to be made in Form no.10AB at least six months prior to expiry date of registration of trust. Further, copy of registration under the FCRA, 2010 is mandatory with application as DBS Trust is registered under the FCRA.

   (c) The registration application is to be made in Form no.10AB at least six months prior to expiry date of registration of trust. However, copy of registration under the FCRA, 2010 is not mandatory while filing application for registration under income tax law as it is a separate independent registration under a different law.

   (d) The registration application is to be made in Form no.10B at least six months prior to expiry date of registration of trust. However, copy of registration under the FCRA, 2010 is not mandatory while filing application for registration under income tax law as it is a separate independent registration under a different law.

5. Certification from Chartered Accountant is required by DBS Trust in respect of certain matters under the FCRA described in case study. Which of following statements is true in this context?

(a) Such certification forms part of FC-4, which is prescribed annual return. It has to be uploaded duly accompanied by a balance sheet and statement of receipt and payment certified by a Chartered Accountant. If there is no receipt/utilization of foreign contribution during the year, certificate of Chartered Accountant and audited statements of account are not required to uploaded. However, submission of a NIL return even in such a case, is mandatory.

(b) Such certification is required in FC-4, which is not an annual return. It has to be uploaded duly accompanied by a balance sheet and statement of receipt and payment certified by a Chartered Accountant. If there is no receipt/utilization of foreign contribution during the year, certificate of Chartered Accountant and audited statements of account and FC-4 are not required to uploaded.

(c) Such certification is required in FC-2, which is not an annual return. It has to be uploaded duly accompanied by a balance sheet and statement of receipt and payment certified by a Chartered Accountant. If there is no receipt/utilization of foreign contribution during the year, certificate of Chartered Accountant and audited statements of account and FC-2 are not required to uploaded.

(d) Such certification forms part of FC-2, which is prescribed annual return. It has to be uploaded duly accompanied by a balance sheet and statement of receipt and payment certified by a Chartered Accountant. If there is no receipt/utilization of foreign contribution during the year, certificate of Chartered Accountant and audited statements of account are not required to uploaded. However, submission of a NIL return even in such a case, is mandatory. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

6. Certain matters have been highlighted in case study which may have ramifications for renewal of registration of trust under the FCRA. At the time of applying for renewal of registration of a person under the FCRA, 2010, Central Government is empowered to make inquiry in respect of wide range of matters. Discuss those matters. Do matters highlighted in case study fall among such matters? **(4 Marks)**

7. (a) On the basis of overall description of case study, what factors should be considered by CA Madhusudan while assessing audit risk of DBS Trust during course of audit for financial year 2023-24? **(4 Marks)**

   (b) Assume that during course of audit, CA Madhusudan suspects that there may be non-compliance by NGO in relation to some aspects of FCRA, 2010. How he should proceed in such a situation? **(3 Marks)**

8. What should be proper advice of CA Madhusudan to Mr. Z regarding implications of proposed sale of a capital asset and acquisition of another capital asset as described in case study? **(4 Marks)**

CASE STUDY 2

Fresh Foods is a popular fast food joint in Bangalore. It was formed by the partnership of 3 friends Ajay, Biren and Chand. Ajay and Biren are working partners, while Chand is a non-working partner. For the previous year 2023-24, Fresh Foods reported a net profit of ₹ 30,00,000 before the following deductions:

(1) Salary of ₹ 50,000 each per month payable to Ajay and Biren. Salary of ₹ 10,000 per month payable to Chand. These payments have been authorized by the partnership deed.

(2) Depreciation on plant and machinery under Section 32 (computed) ₹ 5,00,000.

(3) Interest on capital at 15% per annum on the capital of Ajay, Biren and Chand. The capital on which interest is to be calculated is Ajay: ₹10,00,000; Biren: ₹ 10,00,000 and Chand: ₹ 50,00,000.

A general survey published in a food trade magazine highlighted people's perception about the food served by food joints across the city. Current food platter was found to be predominantly unhealthy. People want healthier choices in the menu when they dine out. At the same time, they do not want to compromise on taste or presentation of the food item.

The partners have decided to use this as an opportunity to entirely revamp Fresh Foods as a speciality restaurant that offers healthier variety of food choices catering to the health-conscious customers. Ajay, Biren and Chand are having a meeting to discuss this venture in further detail.

The partners would restate their mission as: ***"Spread health and happiness through the craft of cooking, catering to the discerning palette that forge long lasting bonds with our loyal customers."***

"A menu focussed on vegan and vegetarian food options emphasizing the natural, organic and high quality of ingredients would give us a niche segment of loyal customers."

- Chand

"How would we be able to assess the market size? The food industry is largely unorganized and within that there is no data available for ventures like ours that catering to health-conscious customers."

- Ajay

"You are correct! There is no easy way to measure the market size. So let us set to conquer this unchartered territory. At this nascent stage, let us first begin serving this menu at our restaurant only for lunch and dinner. Our restaurant has a capacity to seat 50 customers at a time. Our restaurant should be filled at least 90%, if not more during the peak hours when it is open. If we are overbooked regularly, we can even consider expanding our operations."

- Chand

"Catering to the health-conscious customer is not a novel idea. Many have tried it out before and failed. Investment in kitchen infrastructure, redoing ambience and décor to

match the product offering would costs us at least ₹5 crores as initial investment. We would need to raise a term loan from the bank for this. We need to generate sufficient profits to repay the loan. Due to overall uncertain business conditions after the pandemic, the bank may in turn expect us to maintain certain levels of debt service ratio or interest coverage ratio. In addition, our benchmark has been to earn at least 18% ROI. Since our menu offerings are going to be unique and healthy, we have some leverage to charge higher price to our customers. At the same time, industry margins are under pressure due to inflationary conditions as our input costs of material, labour and overheads are continuously rising. How do we achieve financial stability?"

- Biren

"Yes, we are in this business to make money! So let us reengineer our menu. Let us segregate items based on their popularity and profitability. Class A items will be highly popular and profitable. Class B items on the list would be highly popular but not that profitable. Class C items on the menu would be profitable but not very popular. Class D items are the ones over time show that they are neither popular nor profitable! This segregation will give us ample information on which items should be our focus areas while knowing how much margins they would generate! I expect to generate turnover of about ₹60 lakh in the first year of operations, with an increase of at least 3% each year. While this gives us a first mover advantage, we need to constantly re-engineer our menu to beat our competitors who may also start replicating our model and menu. For this, let us take constant feedback from our customers."

- Chand

"This would be possible only if we have expert chefs and a team that can handle speciality dishes, catering to different customer preferences, in a cost-effective manner. Popularity is also driven by the quality of food that we serve. High quality standards drive growth. Periodic weekly quality checks would be required. External certifications from government food inspectors and other recognized agencies would also be required to be met. We need to keep a formal record of quality issues identified by either the customer or team."

- Ajay

"Yes, quality has to be matched with service. Ours is a customer centric business. Hence, personnel interacting with the customers should have good people management skills. Complaints should be handled in a professional yet personable manner, for which our customer facing staff have to be trained. Service also means that orders given by the customer should be delivered correctly as per their expectations. Errors in order taking process, stock outs due to unavailability of material should be avoided at all costs. It should be our aim to deliver the food within 15 minutes after placing the order and the food should be both warm and fresh. Rejected raw material, customer rejections of food delivered also need to be tracked. Again, our formal record also needs to capture these errors, inability to deliver orders, delays in delivery of food."

- Biren

"COVID pandemic taught us an important lesson on maintain a robust supply chain that can deal with disruptions. For critical resources such as raw material, labour etc.

our firm should have multiple partners who can provide for the requirements reliably. This will also be helpful when we scale up operations in future."

- Chand

"Not just that, our internal processes should make efficient use of resources. The order taking system and food delivery system should work in sync and support each other to avoid errors and stock outs. Our core team of chefs should be adept at minimizing waste and preparing unique dishes in an economical way! We need build a kitchen infrastructure that can support this providing them with appropriate space, machines and tools for cooking and storage. As regards our marketing process, we may need to use technological solutions like social media platforms to reach out to potential customers."

- Ajay

"High staff attrition is a perennial problem in our industry. Expert chefs are our key to success. Should we explore the possibility of taking out Keyman Insurance policy on key employees, including us partners. This would not only boost their morale but also help in retaining them. The Speciality chefs may also enjoy working with us if we give them sufficient scope for innovation to satisfy customers, cost permitting of course!"

- Biren

"Wonderful! I am excited at the range of possibilities this venture can offer. Let us get started by putting in place a system for performance measurement of various parameters."

- Chand

It was decided that Ajay would be in charge of restaurant operations (supply chain management activities like material / labour procurement, kitchen operations, supply chai and quality control and any other daily business operations), Biren would be in charge of finance, administration and marketing. He vegetarian will be in charge of activities like negotiating settlement dates with vendors, procuring loans at effective rates, promotional campaigns to build the firm's visibility. Chand would continue to be a non-working partner giving strategic insights and if needed additional capital infusion for any business needs. There will be separate departments created to form a proper organization structure with clearly defined authority and responsibility. The periodic management of the menu which will define the food choices based on their profitability and popularity among customers will be decided jointly by all three partners. The partnership deed is being modified accordingly to reflect the new roles and responsibilities.

Based on above case study, answer the following questions: -

I. Multiple Choice Questions

1. Which of the following is not true regarding Keyman Insurance Policy?

   (i) Any sum received under Keyman Insurance Policy is taxable in the hands of Fresh Foods.

   (ii) Insurance paid under Keyman Insurance Policy pertaining to life of partners of Fresh Foods is a deductible expenditure

(iii) Bonus received under Keyman Insurance Policy is taxable in the hands of Fresh Foods

(a) (i) and (iii)

(b) (i) and (ii)

(c) (i), (ii) and (iii)

(d) Only (ii)

2. Fresh Foods has approached Indi Bank Ltd. for a term loan of ₹ 5 crores. For this they need to submit prospective financial statements. Fresh Foods has approached CA Anil for examination of the prospective financial statements that it has prepared. Which of the following statements is not true regarding examination of prospective financial statements by CA Anil?

(i) CA Anil need not be the statutory auditor of Fresh Foods to accept the engagement to examine the prospective financial statements.

(ii) CA Anil can express an opinion on whether the results shown in the prospective financial information can be achieved or not.

(iii) CA Anil can vouch for the accuracy of projections while examining the prospective financial statements.

(iv) CA Anil should consider the sources of information considered by the partners for the purpose of preparing prospective financial statements, their adequacy, reliability of underlying data including data derived from third parties such as industry statistics, to support the assumptions.

(a) (i) and (iii)

(b) (ii) and (iiii)

(c) (iii) and (iv)

(d) (i) and (iv)

3. Which of the following statements would not be true as regards product pricing for the individual food items?

(a) Standard costing techniques may be used to compute the costs of individual food items.

(b) Target costing techniques may be used for managing profitability of food items having popular close substitutes (even if they are not as healthy) that are offered by competitors.

(c) Product pricing to be used to determine expected revenue for yearly budgetary planning which can be determined based on relevant costing techniques.

(d) If the price quality perception or the unique value perception for certain food items is high, customers will be less price sensitive for those items.

4. Which of the following will not be value added activity?

(i) Inspection of food items on a regular weekly basis to ensure quality standards are met

(ii) Using Kaizen costing methodologies to reduce the turnaround time in delivering the order to the customer.

(iii) Redoing the food items as they did not match the customer specifications that were given while placing the order.

(iv) Wait time of batch of food item for baking process as the ovens in the kitchen are occupied in baking other batches of food items.

(a) (i), (iii) and (iv)

(b) (ii), (iii) and (iv)

(c) (i), (ii) and (iii)

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

5. The partners have identified certain critical success factors (CSFs) for Fresh Foods like tracking menu offerings that maximize customer satisfaction, customer service related parameters like complaints, customer response time etc. Which of the following is true about CSFs?

(a) These factors contribute towards reducing costs

(b) These factors are fundamental to strategic success

(c) These factors need to be only financial factors

(d) These factors concentrate on achieving short term goals

(5 x 2 = 10 Marks)

II. Descriptive Questions

6. (i) Calculate the book profit of the partnership for the purpose of calculation of allowable deduction for salary paid to partners as per the Income Tax Act, 1961 **(4 Marks)**

(ii) Allowable deduction for salary paid to partners the assessment year 2024-25. **(4 Marks)**

7. Fresh Foods is in the service industry, where it is essential to link strategy to the management of human resources. The partners would like to have a framework based on the Building Block model to assess performance management. Using performance management system as proposed by the model EVALUATE the following questions:

(I) What dimensions of performance should Fresh Food measure? Dimensions are the goals that the firm wants to achieve based on its overall strategy, those goals that define its success.

(II) How to set the standards (benchmarks) for the dimensions determined for Fresh Foods?

(III) What are the characteristics of rewards system needed to motivate employees to achieve the standards determined for Fresh Foods?

(7 Marks)

CASE STUDY 3

Para 1

Established in 2003, RP Ltd. (RPL), based in Tirupur, Tamil Nadu, India, has established a foothold for itself as a prominent manufacturer, wholesaler and exporter of high-quality T-shirts. Recognised as a prestigious export house, RPL takes pride in its brand, "RK," known for its commitment to style, comfort, and ethical manufacturing practices.

RPL boasts a state-of-the-art manufacturing facility equipped with advanced technology and machinery. Their production process adheres to stringent quality control measures, ensuring every "RK" T-shirt is crafted using premium materials and delivers exceptional durability, comfort, and style. The company's dedication to quality has not only earned them the trust and loyalty of their domestic clientele but has also established them as a reliable and sought-after supplier in the international market.

Understanding the evolving preferences of their customers, RPL offers a diverse range of T-shirts. Their product portfolio encompasses a wide variety of styles, colours, and designs, catering to diverse demographics and fashion trends. They prioritise innovation and constantly update their collections, ensuring their brand stays ahead of the curve and caters to the ever-changing needs of the T-shirt market.

Looking ahead, RPL is committed to sustainable growth and expanding its global footprint. They are actively exploring new markets and forging strategic partnerships to broaden their international reach. Additionally, they are implementing eco-friendly practices throughout their operations, prioritising responsible sourcing and sustainable manufacturing processes. With a focus on continuous improvement, innovation, and ethical practices, RPL strives to solidify its position as a leading player in the global T-shirt industry.

Para 2

On 23rd April, 2023, RPL enters into a contract with JM Ltd. (JML) to sell T-shirts for ₹ 600 per T-shirt. As per the terms of the contract, if JML purchases more than 2,000 T-shirts till March 2024, the price per T-shirt will be retrospectively reduced to ₹ 540 per unit. Till September 2023, RPL sold 190 T-shirts to JML. RPL estimates that JML's purchases by March 2024 will not exceed the required threshold of 2,000 T-shirts.

In October 2023, JML acquires DC Ltd. (DCL) and from October 2023 to December 2023, RPL sells an additional 1,200 T-shirts to JML. Due to these developments, RPL estimates that purchases of JML will exceed the 2,000 T-shirts threshold for the period and therefore, it will be required to retrospectively reduce the price per T-shirt to ₹ 540.

Para 3

RPL is analyzing a strategic move – the potential acquisition of JML through a merger. This decision is driven by the potential for significant synergy benefits that could propel RPL's growth and market position.

The synergy between the two companies can be multifaceted. Firstly, combining their manufacturing capabilities could lead to economies of scale. Sharing resources and expertise could optimize production processes, potentially reducing costs and increasing overall efficiency. Additionally, a larger production capacity could allow RPL to cater to a broader range of customer demands and potentially enter new markets.

The following data are available:

Company	After-tax earnings	No. of equity shares	Market price per share
RPL	₹ 10 crores	10,00,000	₹ 75
JML	₹ 3 crores	2,50,000	₹ 60

It is proposed that certain changes in the shareholding of JML would be made in case of consolidation with RPL, as per the discussion between the management of the two companies, RPL & JML.

Para 4

During the course of the audit of RPL, CA Devanshi Bisht is verifying export revenues of the company for the F.Y. 2023-24, with her engagement team.

She has verified transactions entered in “Export Sales” account maintained in accounting software from relevant export invoices. The export sales are being made on payment of IGST, for which a refund is automatically credited in the account of the company after the goods are shipped.

On enquiring from internal audit staff regarding the recognition of export revenues, she is told that export sales are recognised for the year on the basis of “Bills of Lading”. However, she is not convinced with such a response and feels that the same does not appear to be proper. She finds that four export invoices bearing dates in the month of March 2024 having a total value of ₹ 125 lakhs have not been recognized in export revenue on the ground that bills of lading for these invoices were issued in the month of April 2024.

Further, during audit of current year, CA Devanshi had identified that there was a misstatement also in last year pertaining to export revenues of the company and the same is still not corrected. She had issued unmodified audit report in last year.

Para 5

In respect of its Japanese exports, on 31st March, 2024, RPL has an export exposure of JPY 10,00,000 receivables. Japanese Yen (JPY) is not directly quoted against Indian Rupee.

The current spot rates are:

INR/US $	₹ 62.22
JPY/US$	JPY 102.34

It is estimated that Japanese Yen will depreciate to 124 level and Indian Rupee to depreciate against US $ to ₹ 65.

Forward rates for March 2024 are:

INR/US $	₹ 66.50
JPY/US$	JPY 110.35

CA Devanshi recommended that taking a forward cover in such a situation would be beneficial.

Para 6

On 31st March, 2024, RPL has an outstanding interest liability of ₹ 1 crore towards loan payable to BFCI Ltd., a public financial institution. On the same date, it issued debentures to BFCI Ltd. in lieu of the outstanding interest and deducted the said interest while computing profits and gains of business of A.Y.2024-25. The Assessing Officer, however, rejected the deduction of interest on loan claimed by RPL.

After the issue of such debentures, the company has a total debt of ₹ 3 crores and surplus funds to the tune of ₹ 5 crores. Further, it has made a gross profit of ₹ 18 crores and incurred indirect expenses of ₹ 4 crores for the financial year.

Based on above case study, answer the following questions: -

I. Multiple Choice Questions

1. With respect to information given in Para 3, if the merger goes through by exchange of equity shares between RPL and JML and the exchange ratio is set according to the current market prices, what is the post merger earnings per share of RPL?

   (a) ₹ 104

   (b) ₹ 108.33

   (c) ₹ 83.33

   (d) ₹ 130

2. With respect to information given in Para 3, certain adjustments would be required to be made to account for the change in the shareholding of JML in case of consolidation. These adjustments are known as:

   (a) Memorandum adjustments.

   (b) Current period consolidation adjustments.

   (c) Permanent consolidation adjustments.

   (d) Temporary period consolidation adjustments.

3. With respect to information given in Para 4, guide CA Devanshi on the audit opinion considering the fact that the last year's misstatement pertaining to export revenues has been identified in the current year and unmodified opinion was issued in the last year.

   (a) CA Devanshi should give unmodified opinion, but include other matters paragraph in the audit report as last year's profit is being reflected in reserve and surplus.

   (b) CA Devanshi should seek legal opinion.

(c) CA Devanshi should express a qualified opinion or adverse opinion in auditor's report of current period financial statements, modified with respect to corresponding figures included therein.

(d) CA Devanshi should give unmodified opinion, but last period's unmodified opinion should be highlighted in Emphasis of matter paragraph.

4. With respect to information given in Para 6, comment upon the validity of the action of the Assessing Officer on rejecting the deduction of interest on loan claimed by RPL.

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

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

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

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

5. With respect to information given in Para 6, calculate the Equity Value of RPL if the applicable EBITDA multiple is 4:

(a) ₹ 53 crores

(b) ₹ 58 crores

(c) ₹ 64 crores

(d) ₹ 74 crores **(5 x 2 = 10 Marks)**

II. Descriptive Questions

6. With respect to information given in Para 2, analyse and state how the revenue should be recognised in respect of sale of T-shirts by RPL to JML. **(5 Marks)**

7. With reference to information given in Para 4, discuss from what sources CA Devanshi can obtain reliable audit evidence in respect of the export revenues particularly for the four export invoices of current year. How can she challenge management's assertion regarding the completeness of export revenues for the F.Y. 2023-24? **(5 Marks)**

8. With respect to information given in Para 5,

   (i) Calculate the expected loss, if the hedging is not done. How the position will change, if the firm takes forward cover?

   (ii) If the spot rates on March 31, 2024 are:

   INR/US $ = ₹ 66.25

   JPY/US $ = JPY 110.85

   Is the decision to take forward cover justified?

   Note: For cross rate of ₹/¥ round off up to 4 decimal points. **(5 Marks)**

CASE STUDY 4

Para A

In the bustling heart of Kolkata, West Bengal, lies Mantrupti Ltd. (MTL), a listed public company established in 1994. They have secured a position for themselves as a distinguished manufacturer and retailer of a diverse selection of coffee and tea powders, catering to a discerning clientele across India.

MTL takes immense pride in its modern processing and packaging facility. They source the finest coffee beans and tea leaves from around the world, meticulously selecting them for quality and freshness. Their rigorous production process adheres to thorough quality management processes, ensuring that every cup of coffee or tea brewed from their powders delivers an exceptional taste experience. This unwavering obsession with has not only earned them the faith of their customers but has also established them as a leading brand in the Indian coffee and tea industry.

Keeping in view market desires, MTL offers a comprehensive range of coffee and tea products. Their portfolio encompasses classic instant coffee blends, aromatic loose leaf teas, and a delightful selection of flavored varieties, catering to diverse palates and brewing preferences. They are constantly pioneering and growing their product offerings, keeping pace with current trends and consumer demands.

With a vision to establish a strong national presence, MTL is actively expanding its distribution network. They are forging partnerships with leading retailers and supermarkets, making their products accessible to a wider customer base across the country. Additionally, they are exploring strategic collaborations and international trade opportunities to broaden their market reach and solidify their position as a prominent player in the global coffee and tea market.

Para B

On July 1st, MTL imported a consignment of coffee beans from Brazil, through establishing contact with such coffee bean supplier situated in Brazil and negotiating the purchase agreement, including price, quality specifications, and delivery terms. Both parties prepared necessary documents, such as a commercial invoice, packing list, bill of lading (ocean freight), and certificate of origin.

MTL has a customs broker, Mr. Deval Kali, to handle the clearance process in India, ensuring compliance with import regulations and duties. The bill of entry for warehousing of goods was presented on 5th July and the goods were duly warehoused. The goods were subject to duty @ 50% ad valorem.

In the meanwhile, on 1st August, an exemption notification was issued reducing the effecting customs duty @ 30%, ad valorem. Mr. Deval on behalf of MTL filed bill of entry for home consumption on 1st September claiming duty @ 30% ad valorem. However, Customs Department charged duty @ 50% ad valorem being the rate on the date of clearance into the warehouse. Also the proper officer raised some queries on the accuracy of the declared value.

Further, the cost of insurance was not ascertainable from the documents submitted before the customs authorities by Mr. Deval on behalf of MTL relevant for determining the CIF price of the imported goods which is obtained by making certain additions to the value of imported goods as prescribed.

Para C

The shareholding base of the company is quite wide and therefore, the number of small shareholders having stake in the company is substantial. It so happened that some of them wished to appoint Mr. Tapan Dubey, a seasoned finance professional, as small shareholders' director on the Board of the company. After due process, Mr. Tapan was appointed by the company as Director to represent small shareholders.

MTL is an Ind AS compliant company. It has a paid-up capital of ₹ 50 crores and turnover of ₹ 500 crores. It presents financial results for three years (i.e., one for current year and two comparative years) internally for the purpose of management information every year in addition to the general-purpose financial statements. The aforesaid financial results are presented without furnishing the related notes because these are not required by the management for internal purposes.

During the current year, management thought why not they should present third year statement of profit and loss also in the general-purpose financial statements. It will save time and will be available easily whenever management needs this in future.

MTL is required to file its financial statements through XBRL which enables producers and consumers of financial data to switch resources away from costly manual processes, typically involving time-consuming comparison, assembly and re-entry of data, making the data readable, with the help of two documents: Taxonomy & Instance Document.

The management of MTL on analysis of such additional information, inter-alia, observed that there were variances which arise because of inaccurate or faulty standards, not in control of management, and they should not be held responsible for it.

Para D

DRT & Co., are the Auditors of MTL, for the year ended on 31/03/2024. The Audit Report for that year was signed by the Auditors on 04/05/2024. The Annual General Meeting was decided to be held during the month of August 2024. On 06/05/2024, the Company had received a communication from the Central Government that an amount of ₹ 20 crore kept pending on account of incentives pertaining to Financial Year 2023-24 had been approved and the amount would be paid to the Company before the end of May 2024.

To a query to Chief Financial officer of the Company, Mr. Rajeev Dutt, by the management, it was informed that this amount had not been recognised in the Audited Financial Statements in view of the same not being released before the close of the Financial Year and due to uncertainty of receipt. Now, having received the amount, the management wished to include this amount in the Financial Statements of the Company for the Financial Year ended on 31/03/2024.

On 08/05/2024, the management amended the accounts and approved the same. During the intervening period between 4/5/24 and 8/5/24, the audit financial statements and audit report were not issued to anybody. The management requested the auditor to consider the situation and issue a fresh Audit Report on the Financial Statements for the year ended on 31/03/2024.

Para E

Further, DRT & Co. observed that MTL had issued debentures in the P.Y. 2023-24, which were to be matured at the end of 5 years. The debenture holder was given an option of one time upfront payment of ₹ 50 per debenture on account of interest which was to be immediately paid by the company. As per the option exercised by the debenture holders, company paid interest upfront to them in the first year itself and the same was claimed as deduction in the return of the company.

But in the accounts, the interest expenditure was shown as deferred expenditure to be written off over a period of 5 years. During the course of assessment, the Assessing Officer spread the upfront interest paid over a period of five year term of debentures and allowed only one-fifth of the amount in the previous year 2023-24.

Based on above case study, answer the following questions: -

I. Multiple Choice Questions

1. With reference to information given in Para B, in the case of MTL, amount of cost of insurance would be determined as:

   (i) 20% of free on board value of imported goods

   (ii) 1.125% of free on board value of imported goods

   (iii) Where free on board value is not ascertainable, but sum of free on board value and cost of transport, loading, unloading and handling charges up to place of importation is ascertainable; then 1.125% of such sum

(iv) Where free on board value is not ascertainable, but sum of free on board value and cost of transport, loading, unloading and handling charges up to place of importation is ascertainable; then 20% of such sum.

(a) (i) or (iii)

(b) (i) or (iv)

(c) (ii) or (iii)

(d) (ii) or (iv)

2. With reference to information given in Para C, to hold such position of director, what is the nominal value of shares which Mr. Tapan is required to own?

   (a) He is required to own shares of the nominal value of ₹ 20,000 in the company prior to his appointment as small shareholders' director.

   (b) He is required to own shares of the nominal value of at least ₹ 10,000 in the company prior to his appointment as small shareholders' director.

   (c) He is required to own shares of the nominal value of at least ₹ 5,000 prior to his appointment as small shareholders' director.

   (d) He is not required to own shares of any nominal value in the company prior to his appointment as small shareholders' director.

3. With reference to information given in Para C, can management of MTL present the third statement of profit and loss as an additional comparative in the general-purpose financial statements?

   (a) Yes, an entity may present comparative information in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. However, the entity shall present related note information for those additional statements.

   (b) Yes, but an entity shall present comparative information as at the beginning of the preceding period in addition to the minimum comparative financial statements.

   (c) No, an entity cannot present comparative information in addition to the minimum comparative financial statements required by Ind AS.

   (d) Yes, an entity may present comparative information in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. The entity does not need to present related note information for those additional statements.

4. With reference to information given in Para C, can management of MTL present such third statement of profit and loss only as additional comparative in the general-purpose financial statements without furnishing other components (like balance sheet, statement of cash flows, statement of change in equity) of financial statements?

(a) No, in such case a complete set of financial statements need to be presented with respect to such third statement of profit and loss in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS.

(b) Yes, such comparative information may consist of one or more statements as specified but need not comprise a complete set of financial statements.

(c) No, an entity cannot present only such comparative information at the first place in addition to the minimum comparative financial statements required by Ind AS. So, the question of furnishing other components (like balance sheet, statement of cash flows, statement of change in equity) of financial statements does not arise at all.

(d) No, in such case a complete set of financial statements need to be presented with respect to such third statement of profit and loss in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. However, the entity may present related note information only for such third statement of profit and loss.

5. With reference to information given in Para C, MTL is required to file financial statements through XBRL as________ and XBRL stands for ________

(a) Its paid-up capital and turnover exceeds the prescribed limit, is listed and also is an Ind-AS compliant company and XBRL stands for eXtensible Business Reporting Language.

(b) Its paid-up capital and turnover exceeds the prescribed limit and also is an Ind-AS compliant company and XBRL stands for eXtension Business Reporting Language.

(c) Its paid-up capital exceeds the prescribed limit, is listed and also is an Ind-AS compliant company and XBRL stands for eXtensible Business Reporting Language.

(d) Its turnover exceeds the prescribed limit and, is listed and also is an Ind-AS compliant company and XBRL stands for eXtension Business Reporting Language. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

6. With reference to information given in Para B,

(i) Explain the rate of duty applicable for clearance for home consumption.

(ii) Whether the rate of exchange on 1st September could be adopted for purpose of conversion of foreign currency into local currency?

(iii) Explain briefly the chief reasons on the basis of which the proper officer can raise doubts on the truth or accuracy of the declared value as happened in the case of MTL. **(5 Marks)**

7. With reference to information given in Para D, analyse the issues involved and give your views as to whether or not the auditor, DRT & Co., could accede to the request of the management. **(5 Marks)**

8. With reference to information given in Para E, examine the correctness of the action of Assessing Officer in respect of the interest expenditure claimed by MTL. **(5 Marks)**

CASE STUDY 5

Subham Ltd., incorporated in 1999, is a public unlisted company headquartered in Surat, Gujarat, India. It has carved a niche for itself in the production of high-quality industrial spare parts catering to a diverse clientele across the manufacturing, construction, and allied industries.

Subham Ltd. boasts a cutting-edge manufacturing facility equipped with advanced machinery and technology. Their production process prioritizes rigorous quality checks, ensuring their spare parts meet the highest standards of durability, functionality, and efficiency. The company's passion for excellence has earned them the devotion of their customers, establishing them as a reliable and dependable supplier in the industry.

Driven by a customer-centric approach, Subham Ltd. maintains a wide inventory of spare parts to cater to the diverse needs of their clients. Their product portfolio encompasses a comprehensive range of parts, including bearings, gears, seals, and various other components critical for the smooth operation of machinery and equipment. Additionally, they offer custom-made solutions to cater to specific client requirements, ensuring their parts seamlessly integrate into existing machinery.

Looking ahead, Subham Ltd. is committed to continuous innovation and expansion. They actively invest in research and development to stay abreast of the latest advancements in materials and manufacturing techniques. The company also plans to broaden its geographic reach by establishing alliances and linkages, strengthening its position as a leading player in the industrial spare parts industry.

Issue 1

The company desires to upgrade its production process since the directors believe that technology-led production is the only way the company can remain competitive. On 1 April 2023, the company entered into a property lease arrangement in order to obtain tax benefits. However, the draft financial statements do not show a lease asset or a lease liability as on date.

A new finance manager, CA Manoj Desai, joined Subham Ltd. before the financial year ending 31st March, 2024 and was engaged in the review of financial statements to prepare for the upcoming audit and to begin making a loan application to finance the new technology.

CA Manoj believes that the lease arrangement should be recognized in the Balance Sheet. However, the Managing Director, Ms. Disha Devan, an MBA, strongly disagrees. She wishes to charge the lease rentals to the Statement of Profit or Loss.

Her opinion is based on the understanding that the lease arrangement is merely a monthly rental payment, without any corresponding asset or obligation, since there is no 'invoice' for transfer of asset to Subham Ltd.

Her disagreement also stems from the fact that showing a lease obligation in the Financial Statements would impact the gearing ratio of the company, which could have an adverse impact on the upcoming loan application. Ms. Disha has made it clear to CA Manoj Desai that at stake is not only the loan application but also his future prospects at Subham Ltd.

Issue 2

Ms. Disha believed that no matter how much authority and autonomy are given to responsibility managers, performance reports are needed to evaluate the performance of the managers at all operating levels of the organization.

At bottom levels, it helps in determining what corrective measures are required in their segments. At top management level, these reports keep them top managers informed on the performance of all segments.

In the said context, to assess the performance of CA Manoj's finance department, she wanted internal performance reporting to be done, at regular intervals, also due to the fact that CA Manoj was newly appointed.

Issue 3

CA Manoj kindly requested Ms. Disha to call for a meeting of the Board of the company to consider for the investment of surplus funds amounting to ₹ 10 crores of the company. Out of the total strength of six Directors of the company, five attended the said Board Meeting called by Ms. Disha.

The investment of the said amount was to be made in a project of associate company of Subham Ltd. The risk-free rate of return is 7%. Risk premium expected by CA Manoj is 7%. The life of the project is 5 years.

Following are the cash flows that are estimated over the life of the project:

Year	Cash flows (₹ in lakhs)
1	250
2	600
3	750
4	800
5	650

Issue 4

Looking at the financial and taxation knowledge of CA Manoj, Ms. Disha asked a favour from him to help her to calculate deduction available to her under appropriate provisions of the Income-tax Act, 1961 for A.Y. 2024-25, considering the following particulars for the year ending 31.03.2024:

(a) Life Insurance Premium paid – ₹ 20,000, actual capital sum of the policy assured for ₹ 2,60,000. The insurance policy was taken on 31.03.2012;

(b) Contribution to Public Provident Fund – ₹ 30,000 in the name of father;

(c) Tuition fee payment – ₹ 8,000 each for 2 sons pursuing full time graduation course in Surat; Tuition fee for daughter pursuing PHD in Stanford University, USA – ₹ 2.50 lakhs;

(d) Housing loan principal repayment – ₹ 23,000 to Axis Bank. This property is under construction at Surat as on 31.03.2024;

(e) Principal repayment of housing loan taken from a relative – ₹ 80,000. The property is self-occupied situated at Surat;

(f) Five-year time deposit in an account under Post Office Time Deposit Scheme – ₹ 60,000;

(g) Investment in National Savings Certificate – ₹ 60,000

The company credited the salary due for the month of March 2024 to the account of Ms. Disha in its books of account on 31.3.2024. She has not intimated her intended tax regime to the company. However, she has decided to shift out of the default tax regime under section 115BAC and because of which got her eligible deductions computed from CA Manoj.

Further, in the current F.Y. 2023-24, a chance scrutiny of accounts revealed that during the last financial year, by oversight, Mrs. Disha, had drawn remuneration in excess of the limit provided by the relevant statutory provisions.

Issue 5

Further, Mr. Suarabh Dev, a new joinee, in the finance department of the company as junior accountant, requested CA Manoj to advice whether he would be required to file return of income for A.Y.2024-25 based on the following data:

He has a gross total income of ₹ 2,50,000 for A.Y.2024-25 comprising of his salary income since he joined Subham Ltd. from January, 2024 only. He does not have any deduction under Chapter VI-A.

He pays electricity bills of ₹ 10,000 per month. He made a visit to Melbourne along with his wife for a month in May, 2023 for which he incurred to and fro flight charges of ₹ 1.10 lakhs. The remaining expenditure for his visa, stay and sightseeing amounting to ₹ 90,000 was met by his brother residing in Melbourne.

Based on above case study, answer the following questions: -

I. Multiple Choice Questions

1. With respect to information given in Issue 3, the resolution relating to investment shall be taken as passed by the Board in which of the following cases:

(a) When all the five Directors of Subham Ltd. attending the meeting consent to such investment of funds.

(b) When any four Directors of Subham Ltd. out of five attending the meeting consent to such investment of funds.

(c) When any three Directors of Subham Ltd. out of five attending the meeting consent to such investment of funds.

(d) Investment proposal must be consented to by the total strength of six Directors of Subham Ltd.

2. With respect to information given in Issue 3, approximately the Net Present Value of the project proposed for making investment based on Risk free rate is:

(a) ₹ 2443.50 lakhs

(b) ₹ 1443.50 lakhs

(c) ₹ 997.85 lakhs

(d) ₹ 1997.85 lakhs

3. With respect to information given in Issue 3, approximately the Net Present Value of the project proposed for making investment on the basis of Risks adjusted discount rate is:

(a) ₹ 2443.50 lakhs

(b) ₹ 1443.50 lakhs

(c) ₹ 997.85 lakhs

(d) ₹ 1997.85 lakhs

4. With respect to information given in Issue 4, as regards recovery of the excess remuneration drawn by Mrs. Disha, which of the following options is applicable:

(a) The company shall not waive recovery of excess remuneration paid unless approved by a special resolution within one year from the date the sum becomes refundable.

(b) The company shall not waive recovery of excess remuneration paid unless approved by a special resolution within two years from the date the sum becomes refundable.

(c) The company shall not waive recovery of excess remuneration paid unless approved by the Central Government.

(d) The company shall not waive recovery of excess remuneration paid unless approved by a special resolution within three years from the date the sum becomes refundable.

5. With respect to information given in Issue 5, is Mr. Suarabh required to file his return of income for A.Y.2024-25, and if so, why?

(a) No, Mr. Suarabh is not required to file his return of income

(b) Yes, Mr. Suarabh is required to file his return of income, since his gross total income/total income is not less than the basic exemption limit

(c) Yes, Mr. Suarabh is required to file his return of income since he pays electricity bills of ₹ 10,000 per month, which exceeds the prescribed annual threshold

(d) Yes, Mr. Suarabh is required to file his return of income since he has incurred foreign travel expenditure exceeding ₹ 1 lakh

(5 x 2 = 10 Marks)

II. Descriptive Questions

6. With respect to information given in Issue 1, discuss the potential ethical conflicts which may arise in respect of the lease arrangement and the ethical principles which would guide how the finance manager, CA Manoj, should respond to the situation. **(6 Marks)**

7. With respect to information given in Issue 4, compute the deduction available to Ms. Disha under appropriate provisions of the Income-tax, 1961 for A.Y. 2024-25. **(5 Marks)**

8. With respect to information given in Issue 4, examine the obligation of Subham Ltd. to deduct tax at source while paying/ crediting salary to Ms. Disha.

(4 Marks)