

18 MAY 2025

Roll No.

Total No. of Case Study Questions – 5

Total No. of Printed Pages – 32

Time Allowed – 4 Hours

Maximum Marks – 100

LRP

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

The Question Paper comprises five case study questions.

The candidates are required to answer any four case study questions out of five.

The candidates are required to choose the correct and most appropriate option in case of MCQs. Answer in respect of Multiple-Choice Questions (MCQs) are to be marked on the OMR Answer Sheet as given on the Cover Page of the Answer Book.

Answer to MCQs, if written inside the descriptive type of answer book, will not be evaluated.

Candidates should answer the Case Study Questions as selected by him/her in totality i.e., MCQs as well as descriptive Questions of the same Case Study Question.

Candidates are not permitted to answer MCQs of one Case Study Question and the descriptive questions of another Case Study Question and vice-versa.

In case the Case Study Question pertains to Direct Taxes, assume the Assessment year 2025-26 unless otherwise stated in the question. Similarly, in case the Case Study Question pertains to Indirect Taxes, the Central Goods and Services Tax Act, 2017 and Integrated Goods and Services Tax Act, 2017 as amended by the Finance (No. 2) Act, 2024 shall be relevant.

Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having/using mobile phone or smart watch will be expelled from the examination and will also be liable for further punitive action.

Candidate may use calculator.

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P.T.O.

CASE STUDY – 1

Life Education Ltd., a Mumbai based entity, is an eligible start-up incorporated in May 2019 and has been successfully managing its online education services for various exams all over India. Business model of the Company is such that Division 1 takes care of educational services and Division 2 is engaged in the manufacturing of tabs which are given to the students taking classes, whether offline or online. Life Education Ltd. launched a free online service to all the students as regards how to derive maximum benefits in usage of its products. Also, it provided online expert guidance service for competitive exams on payment basis to its students. The pricing strategy decided was that the charge to student will be based on level of services availed. Initially for basic services, users were just required to provide their basic information without involvement of money and later on depending upon the level of service, a separate upgradation fee would be charged.

Company has presented the following summary of the financial results for the year ended 31.03.2025 :

Profit and Loss Account	₹ in lakhs	Balance Sheet	₹ in lakhs
Revenue	2500.00	Fixed assets (PPE)	2000.00
Direct cost	800.00	Current assets	500.00
Admin. expenses	875.71		2500.00
EBIT	724.29	Equity	1500.00
Interest	100.00	Reserves	300.00
EBT	600.00	Non-current borrowings	300.00
		Current liabilities & provisions	400.00
			2500.00
Note: Current liabilities include the income tax liability.			

A bad debt provision of ₹ 50 lakhs is included in administration expenses and the corresponding amount is reduced from current assets. The pre-tax cost of debt is 15%. The company has opted for section 115BAB of the Income Tax Act, 1961. Effective Tax is to be calculated using Surcharge and Higher Education Cess. Cost of equity may be taken as 9% (i.e. shareholders expected rate of return).

The company wanted to expand its expertise and had solicited the services of Dr. Bhalla a reputed academician to be on its Board in FY 2020-21 who is still rendering his services to the company. The company issued ESOP 50,000 equity shares of ₹ 10 each to Dr. Bhalla in September, 2024. The value of each equity share was ₹ 50 but it was issued at face value of ₹ 10 to Dr. Bhalla, who exercised the option in the first week of October, 2024. Shares were allotted to him in the next 10 days and he is still holding the shares. The annual salary of Dr. Bhalla for the financial year 2024-25 was ₹ 60 lakhs from Life Education Ltd. without considering the ESOP given to him at a concessional price.

Life Education Ltd. has a cash generating unit "Wing W" acquired on 1st April, 2017 with a carrying amount of ₹ 2,000 lakhs. "Wing W" was acquired under a business combination and goodwill of ₹ 400 lakhs was allocated to it, same is depreciated on straight line basis. "Wing W" has a useful life of 20 years with no residual value. On 31st March, 2025, "Wing W" has a recoverable amount of ₹ 1,100 lakhs.

During the year, company received various GST notices wherein department has alleged that the GST paid by the company is incorrect due to wrong GST rate selection and thereafter the scrutiny proceedings started. During scrutiny, department ordered special audit under the CGST Act, 2017 of the books of accounts of Life Education Ltd.. The GST Commissioner nominated ABC LLP, Chartered Accountants on 10th June, 2024 to conduct special audit for the financial year 2021-22. The remuneration was fixed at ₹ 2 lakhs plus applicable GST.

Radhika is director of Life Education Ltd. and also of PQR Ltd. based at Delhi. PQR Ltd. did not file its financial statements for the year ended 31.03.2021, 31.03.2022 and 31.03.2023. On 25th September, 2023 Radhika was re-appointed as director in the AGM of Life Education Ltd.. The Board of

Directors of Life Education Ltd. became aware of her position as director in PQR Ltd. and its failure to file the financial statements for the earlier 3 years only in March, 2024. Radhika tendered her resignation from the Board of Life Education Ltd. on 10th April, 2024 and the Board of Directors reappointed her again as a director in the AGM held on 15th September, 2024 since PQR Ltd. had filed its financial statements up to the financial year ended 31st March, 2023 on 8th May, 2024.

Life Education Limited entered into a joint venture with Online Platform Limited to form a company by name Online Education Ltd. (OEL) for a project to be completed in 2 years relating to a particular line of online education, share of Life Education Limited being 50%. It was decided that project would be reviewed after a period of five years to assess the future viability. Life Education Limited transferred equipment to OEL for ₹ 8 crores being its Market value while the carrying value in its books of account is ₹ 9 crores.

TSP & Co. are the auditors of the company for the financial year ended 31.03.2025. The Audit Report for that year was signed by TSP & Co. on 04.05.2025. The Annual General Meeting was decided to be held during the month of August 2025. On 06.05.2025, the Company had received a communication from the Central Government that an amount of ₹ 58 Crores kept pending on account of incentives pertaining to financial year 2024-25 has been approved and the amount was received by the Company on 28.05.2025. To a query to Chief Financial officer of the Company by the Board, it was informed that this amount had not been recognized in the Audited Financial Statements as same was not released before the close of the Financial Year and due to uncertainty of receipt. Now, having received the amount, the Board of Directors wished to include this amount in the Financial Statements of the Company for the Financial Year ended on 31.03.2025. On 01.06.2025, the Board amended the accounts, approved the same and requested the Auditor to consider this event and issue a fresh audit report on the Financial Statements for the year ended on 31.03.2025.

(5)

LRP

Marks

Multiple Choice Questions :

[Please provide the correct option to the following questions]

**5×2
=10**

1.1 Which of the business model was provided by Life Education Ltd. by way of online support service to its students ?

- (A) Promotion
- (B) Premium
- (C) Freemium
- (D) Subscription

1.2 Whether auditor could accede to the request of the Board of Directors and whether any separate disclosure of the same is required to be given ?

- (A) Yes, auditor can issue new audit report subject to date of audit report which should not be earlier than 01.06.2025 and disclosure of the same is required to be given in other reporting responsibilities paragraph of the audit report.
- (B) No, auditor cannot issue new audit report because the audit report has been already issued and also the amount is received only in the next financial year. However only the amendment of original audit report is allowed.
- (C) Yes, auditor can issue new audit report subject to date of audit report which should be on the date of original audit report and include a statement in emphasis of matter/ other matter paragraph.
- (D) Yes, auditor can issue new audit report subject to date of audit report which should not be earlier than 01.06.2025 and include a statement in emphasis of matter/ other matter paragraph.

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P.T.O.

1.3 Whether special audit can be carried out by GST department in the given case and if Yes, what is the maximum time within which ABC LLP must complete special audit under GST law ?

- (A) Special audit can be carried out and the Maximum time limit for completing the special audit under GST law is 180 days from the date of commencement of audit.
- (B) Special audit can be carried out and the Maximum time limit for completing the special audit in the given case is on or before 31st March, 2025.
- (C) Special audit can be carried out and Maximum time limit is 90 days for completing the special audit under GST law subject to a further extension of another 90 days.
- (D) Special audit cannot be carried out under the given circumstances.

1.4 Which of the following statement is most appropriate as regards deduction of tax at source in respect of ESOP shares allotted to Dr. Bhalla by Life Education Ltd. during A.Y. 2025-26 ?

- (A) Tax would be deducted @30% on ₹ 20,00,000 being the benefit obtained by means of ESOP shares received by Dr. Bhalla in addition to deduction of tax at source on the salary income ₹ 60 lakhs at the regular rates as applicable u/s 192.
- (B) Tax would be deducted on ₹ 80,00,000 consisting of the benefit obtained by means of ESOP shares along with salary income of Dr. Bhalla at the regular rates as applicable under section 192.
- (C) Life Education Ltd. is allowed to defer withholding tax (TDS) to a date when option is exercised and shares are allotted to Dr. Bhalla. It is to be deducted in the required manner after the expiry of certain timelines and happening of certain events.
- (D) Life Education Ltd. is not required to withhold (TDS) any tax when option is exercised and shares are allotted to Dr. Bhalla as the transaction is exempted from withholding tax in respect of eligible start-ups.

1.5 How will Life Education Ltd. account the loss incurred in its books of account for the transfer of equipment to its joint venture company Online Education Ltd. ?

- (A) Recognize loss of ₹ 1 crore in two installments of ₹ 50 Lakhs each in two financial years.
- (B) Recognize impairment loss of ₹ 1 crore immediately in the books of account.
- (C) Recognize loss of ₹ 1 crore in five installments of ₹ 20 Lakhs in five financial years as project would be reviewed after a period of 5 years.
- (D) There is no loss since the transfer of equipment by it is in the nature of investment in the joint venture.

Descriptive Questions :

1.6 When is Radhika disqualified from holding the office of director in Life Education Ltd. ? Is her appointment as director of Life Education Ltd. in September, 2024 valid in law ? Discuss applicable legal provisions with proper conclusion. Also state whether her DIN will be deactivated or not.

5

1.7 In shareholders meeting, question has been raised on various strategic decisions made by the management. Representations by management indicated the impact of decisions on the path to progress of the company. If you are a part of the management, how will you indicate the efficiency of the management on the basis of summary of financial statements given ?

5

1.8 Life Education Ltd. is carrying the same asset "Wing W" at ₹ 1,200 Lakhs in its books of accounts as on 31.03.2025. Do you agree with the same ?

5

CASE STUDY – 2

Emm Vee Motors Limited (EVML) is one of the largest manufacturers of commercial vehicles in India. The company has grown over a period of time under the dynamic leadership of its Managing Director, Mr. Ramesh Chander. Vehicles manufactured by the company are appreciated for their resilience, reliability and exceptional value. In F.Y 2022-2023, EVML recorded a Profit after Tax (PAT) of ₹ 180 crores on sales of ₹ 4,860 crores, as compared to previous financial year PAT of ₹ 325 crores on sales of ₹ 5,670 crores. With the manufacturing industry reeling under recession, the freight generating sector saw a steep decline. EVML's supply chain had gone haywire under the recession which eroded 14.29% of its revenue from operations in one year, forcing the company to helplessly allow inventories to build up.

In 2023-24, EVML decided to meet the challenge by re-gearing its systems, be it material order, handling, procurement or inventory control. EVML conducted brainstorming sessions inviting ideas on cost cutting. It became clear that cost-cutting would only be effective if the supply chain operated smoothly. It was decided to revamp its inbound and outbound supply chain. It identified two methods to reduce costs in supply chain: firstly reduce material costs and secondly reduce inventory carrying costs by implementing Just in Time technique. The Procurement and Quality Engineering team jointly formed the single window vendor management system. Within the centrally negotiated price, unit material functions interacted with the approved panels of vendors to "pull" materials in line with the production plans. The single window system created ease for the vendors for sharing drawings, negotiating prices and for any assistance on quality related issues. EVML purchasing policy was to maximize the bought-out parts both indigenous and imported. It believed in global sourcing. It started creating database for the 18,000 plus parts which were matched with the supplier's part numbers. A classification of 1500 odd suppliers based on business volumes revealed that 25 % accounted for 80% of the business while 60% handled just 5%. EVML aimed at reducing the supplier's base from 1500 to 800. It considered new suppliers for the required components based on their ability to meet quality, specification, price and delivery schedule. EVML cutback its panel of direct suppliers through Tiering and system buying. Tiering formed the basis

of the vendor consolidation drive. It dealt directly with the tier-1 suppliers who in turn were supported by the tier-2 and tier-3 suppliers. Lean manufacturing practices focused on reducing waste, improving process efficiency, and increasing production flexibility. Value engineering analyzed the composition of parts to reduce costs through substitution or elimination of materials and methods with less expensive alternatives without sacrificing functionality. The resultant cost benefits were shared with the suppliers.

It moved to JIT ordering system for high value/low volume items and low logistic cost for low value/high volume items. It moved from 'Push' system to 'Pull' system, which resulted in substantial reduction of inventory holding period of components. Each stage produced only as much as the next stage needed. The local suppliers were advised to have their warehouses at a distance of 35-40 minutes from the EVML's production plants. Suppliers' being partners in progress were given necessary technical assistance to maintain quality standards and deliver the required components on time. Main components used in production were classified into 'ABC' category with their suppliers also being classified accordingly. It developed different delivery norms for each category. The plant sent JIT card through email to the suppliers who dispatched the required components directly to the assembly line. EVML introduced RFID, GPS tracking, EDI, bar coding system to enhance inbound logistics. JIT system reduced the annual average inventory of materials by 75% from the current level of ₹ 240 crores. Annual insurance and warehousing costs for inventory reduced by 60 % of previous year figure of ₹ 5 crores. Annual Payroll expenses for current inventory management staff reduced to 60 % of the previous year figure of ₹ 12 crores. Additional annual costs for JIT system implementation and management, including personnel costs were ₹ 7.5 crores. EVML's required rate of return on inventory investment is 10%. JIT system also enabled the company to reduce the delivery time of products to end customers.

With all the above activities at shop floor, EVML did not lose sight of the customer. Customer satisfaction was the prime objective of EVML. EVML revamped distribution network for its finished products. EVML set different delivery schedules for its various products. EVML launched new 3S (Sales, Services and Spares) dealerships in various cities to enhance customer service

and reach. The 24 × 7 operational service outlet incorporated advanced tools and equipment and pneumatic systems-integrated mobile service vans to attend to breakdowns. It set up regional distribution centres at strategic locations to ensure that products were delivered quickly to dealers and customers. It organized dealers training program twice a year to keep them well equipped with latest changes in automobile industry and technology. Customer Relationship Management (CRM) was used to monitoring trends and forecast demand on the basis of inputs received from customers. Company automated the post- delivery feedback report. A customer feedback report revealed three major parameters for service level targets: order to delivery time, reliability of deliveries and availability of order status information. As a result of the steps taken by the company to revamp its supply chain, there was a significant increase in profits during the year 2023-24 compared to year 2022-23.

EVML provides assurance type warranty for one year which is included in the selling price of vehicles. To increase customer satisfaction and trust in the company's products, EVML offers flexibility to customers by allowing them to purchase the extended warranty plan either at the time of the original sale or just before the standard warranty expires. An extended warranty plan offers to repair or replace mechanical parts. Company determined that the two years of extended warranty represent a separate performance obligation. Standalone selling price of extended warranty is fixed at ₹15,000. On the basis of past experience, it is estimated that ₹ 7,500 will be incurred to repair defects that would arise within one year coverage period for the assurance type warranty. In a board meeting held on 01.11.2024, Board of Directors of EVML, made a resolution in the Board meeting that the technical errors in the vehicles will be rectified even if warranty expired. But this matter was neither announced to the public nor intimated to affected parties.

In a Board meeting held on 01.01.2025, Board of Directors of EVML had taken strategic decision to set up a new manufacturing plant at Hisar. The initial capital expenditure was estimated to be around ₹ 120 crores, for which EVML decided to borrow ₹ 90 crores from the company's bankers by following due procedure as per the Companies Act, 2013. Loan was sanctioned on 28.02.2025 and directors of the company provided personal guarantee to bank for sanctioning the loan. EVML also provided corporate guarantee of ₹ 12 crores for four years in

case of loan given by bank to its associate Indian company DEF Ltd. and charged a fee of ₹ 10,00,000 from DEF Ltd.

The Board of the Directors of EVML has appointed Mr. Nilesh, a qualified management professional, having 25 years of rich industrial experience, as Additional Director, on 01.10.2024 by passing a board resolution by circulation. Mr. Nilesh is also a managing Director of PQR Limited, which is engaged in the manufacturing of industrial spare parts. On 15.11.2024, Mr. Ramesh Chander suffered a severe heart attack and being hospitalized, decided to retire from his position as Managing Director. Management of the company proposed to appoint Mr. Nilesh as a Managing Director of the company. Notice of meeting was sent to all the ten directors present in India. On 08.12.2024, he was appointed as managing director by Board of Directors by passing resolution in the board meeting with the consent of eight directors present in the meeting. Mr. Vinod, a Director of the company, who had not attended the meeting, raised concern regarding validity of his appointment, as he was of the view that proper procedure as per the provisions of The Companies Act, 2013 was not followed.

EVML imported some components from a German Company in the month of February 2025. The finance manager of company needs to borrow 5,00,000 euros for 90 days to settle the payments. Policy of the company is not to take any currency risk. The following rates are quoted: ₹/€ spot: 90/90.35 and 90 days swap: 20/25. € Interest rates: 4.00/4.25;

Banker suggests another alternative of US dollar loan. Enquiries reveal that interest rate is 5% and \$/€ rate is 1.0220/1.0240 and 90 days swap points of 15/10.

The income tax return filed by EVML on 30th October, 2023 for the Assessment Year (A.Y.) 2023-2024 was selected under CASS (Computer Aided Scrutiny Selection) by the Income Tax Department. During the assessment proceedings, the assessing officer identified transactions related to foreign borrowings amounting to US \$ 45,00,000 at an interest rate of 8% from its overseas associate company, and referred the matter to the Transfer Pricing Officer (TPO). Upon examination, the TPO determined that the interest rate was excessive by 3%, a finding that was subsequently accepted by EVML. As a result, the assessing officer made an addition of ₹ 1.20 crores on account of the excessive interest rate. Additionally, other additions amounting to ₹ 1.5 crores were made to EVML's income for the A.Y. 2023-2024. The assessment order was received by EVML on 30th January, 2025.

Multiple Choice Questions :**5×2
=10**

[Please provide the correct option to the following questions]

2.1 Which of the following statement/(s) describes the explanation for the success of EVML's supply chain transformation?

- (i) The implementation of a pull system and JIT approach minimised excess inventory costs resulted into net saving of ₹ 25.80 crores.
- (ii) The implementation of a pull system and JIT approach minimised excess inventory costs and streamlined logistics and resulted into net saving of ₹18.30 crores.
- (iii) EVML shifted to a more flexible and responsive supply chain. EVML used tiered levels to enhance supplier relationships and improve the overall quality of components.
- (iv) The tier system was established to centralize all supplier functions and eliminate local supplier networks.

Options :

- | | |
|--------------------|-------------------------|
| (A) (i) and (iv) | (B) (i) and (iii) |
| (C) (ii) and (iii) | (D) (i), (iii) and (iv) |

2.2 Which of the following statements are correct with respect to the accounting and recognition of the warranties and provisions under relevant Ind AS ?

- (i) The resolution made by the Board on 01.11.2024 creates a constructive obligation for EVML, requiring it to recognize an additional liability for warranty repairs beyond the standard warranty period.
- (ii) Since the resolution made by Board on 01.11.2024 was not publicly announced, it cannot be considered as constructive obligation, EVML need not create any provision related to the technical repairs outside the standard warranty period.
- (iii) The contract liability of ₹ 15,000 is recognized as revenue over the extended warranty period of two years and the costs of providing extended warranty are recognized as incurred.
- (iv) The company should disclose the resolution regarding technical errors even though it is not publicly announced, because it could impact the financial statements of future periods.

Options :

- | | |
|----------------------|--------------------------|
| (A) (i), (iii) | (B) (ii), (iii) |
| (C) (i), (iii), (iv) | (D) (ii), (iii) and (iv) |

2.3 Which of the following statements are incorrect as per the relevant provisions of the Companies Act, 2013 ?

- (i) Mr. Nilesh can be appointed as Additional Director only by members at the Annual General Meeting, hence his appointment as Additional Director is not valid.
- (ii) Appointment of Mr. Nilesh can be made only by passing resolution in the Meeting of the Board and not by passing a resolution by circulation.
- (iii) Appointment of Mr. Nilesh as Additional Director of EVML on 01.10.2024 by Board of Directors is valid and he can be appointed as Managing Director of the company.
- (iv) The appointment of Mr. Nilesh as Managing Director can only be made through a unanimous resolution passed at a Board Meeting, with the consent of all ten directors present in India and specific notice of the Meeting and the resolution to be moved has been given to all directors.

Options :

- (A) (i), (ii) (B) (ii), (iii), (iv)
- (C) (i), (ii), (iv) (D) (i), (iii), (iv)

2.4 Which of the following statements is correct according to the relevant provisions of the CGST Act, 2017 ?

- (A) The value of the corporate guarantee provided by EVML in case of loan given by bank to DEF Ltd.. will be ₹ 10,00,000, as this is the fee explicitly charged for the corporate guarantee service, and GST of ₹ 1,80,000 will be payable. Value of the personal guarantee given by directors to bank in case of loan given to EVML will be zero and therefore no GST will be payable on such supply of service.
- (B) The value of the corporate guarantee provided by EVML in case of loan given by bank to DEF Ltd.. will be ₹ 12,00,000 and GST of ₹ 2,16,000 will be payable. Value of the personal guarantee given by directors to bank in case of loan given to EVML will be zero and therefore no GST will be payable on such supply of service.

- (C) The value of the corporate guarantee provided by EVML in case of loan given by bank to DEF Ltd.. will be ₹ 48,00,000 and GST of ₹ 8,64,000 will be payable. Value of the personal guarantee given by directors to bank in case of loan given to EVML will be zero and therefore no GST will be payable on such supply of service.
- (D) The value of the corporate guarantee provided by EVML in case of loan given by bank to DEF Ltd.. will be ₹ 48,00,000 and GST of ₹ 8,64,000 will be payable. Value of the personal guarantee given by directors to bank in case of loan given to EVML shall be based on open market value and GST will be payable on such supply of service.

2.5 Which of the following statements are incorrect with respect to GST liability and the liability to reverse Input Tax Credit (ITC) for supplies related to the replacement of parts during the warranty period ?

- (i) An extended warranty involving goods and services, sold separately by the manufacturer or dealer, is treated as a mixed supply.
- (ii) Where a customer enters into an extended warranty agreement entered with the manufacturer at the time of purchase of vehicle, the consideration for the warranty is included in the mixed supply value, with the principal supply being the vehicle, and GST is paid accordingly.
- (iii) GST is applicable on the value of warranties if the warranty is provided as a separate supply from the vehicle sold and the customer is charged separately for the warranty.
- (iv) GST is not applicable on the replacement of parts by the original manufacturer during the warranty period. However, the Input Tax Credit (ITC) claimed on the parts replaced free of charge must be reversed.

Options :

- (A) (i), (ii), (iii)
- (B) (i), (iii), (iv)
- (C) (ii), (iii), (iv)
- (D) (i), (ii), (iv)

Descriptive Questions :

- 2.6 Discuss how did EVML strategically improve its in-bound and out-bound supply chain to reduce costs, minimize inventories and enhance customer satisfaction. 6
- 2.7 Advice which of the two currencies should be attractive for EVML to borrow. (Assume 1 year = 360 days) 5
- 2.8 Discuss in brief the repercussion of addition of ₹ 1.2 crores to the income of EVML. 4

CASE STUDY – 3

ABC Electronics Limited manufactures and sells various electronic items including ceiling fans. It manufactures and sells 15,00,000 ceiling fans annually. A ceiling fan is composed of an electric motor, blades, metal arms, a flywheel, a rotor, and other components. Annually it is purchasing 12,00,000 sets of blades from an outside supplier at ₹ 615 per set. The production manager is of the opinion that if all the components are produced at own plant, it is possible to maintain better quality in the finished product. Further he proposed that in-house production of blades with other items will provide more flexibility to increase the annual production of fans by 1,50,000 units. He estimates the cost of manufacturing one set of blades as under :

	₹ per set
Direct material	380
Direct labour	60
Factory overheads (65% variable)	180

The proposal of production manager was forwarded to marketing manager for his remarks. He pointed out that to market the additional units, the overall unit price of ceiling fan should be reduced by 2% and variable marketing cost will increase by ₹ 4 per unit and additionally ₹ 36 lakh should be incurred for

advertisement. The present average selling price and average variable cost (including cost of blades purchased from outside supplier) per ceiling fan are ₹ 3,500 and ₹ 3,200 respectively. Mr. Kushal, Director (finance) has asked CA Harsh, Chief Management Accountant of the company to prepare a report on the viability of the proposal.

The demand for electronic goods has been increasing in India. Hence the management wants to increase the annual manufacturing capacity. Due to increased production requirements, ABC Electronics Ltd. also bought additional indigenous machinery for the production line and sold some old machinery. All assets were purchased by account payee cheque. Below are the details of plant and machinery

S. NO.	Particulars	₹
1	Opening WDV for plant and machinery on 01.04.2024 (eligible for depreciation @ 15%)	12,60,00,000
2	New plant and machinery purchased on 30.07.2024 and put to use on 30.09.2024 (excluding IGST @ 18%)	1,50,00,000
3	New plant and machinery purchased on 15.09.2024 and put to use on 05.10.2024 (excluding IGST @ 18%)	1,20,00,000
4	Sale of old plant and machinery on 10.10.2024	75,00,000

Company has strength of around 600 employees and is registered under the Factories Act, 1948. A provident fund trust (a private trust) has been created as per the norms of respective law. The company transfers employer and employee contribution to the trust and it is managed by the trustees. The company is responsible for providing principal amount along with a specified rate of return. Accountant of the Company has considered it as defined contribution plan and accordingly accounted for in the books of accounts.

ABC Electronics Limited imported automatic machine from USA for upgrading its production facilities. The events relating to its entry into India and the discharge and onward movement are as follows :

Date	Event	Exchange Rate in ₹ (notified by CBIC)
20 th January, 2025	Vessel enters the Indian territorial waters	₹ 80
22 nd January, 2025	Bill of entry filed for warehousing of goods	₹ 82
23 rd January, 2025	Entry inward granted to the vessel	₹ 84
30 th March, 2025	Bill of entry presented for home consumption	₹ 85

The rate of custom duty was 25% as on the date of presentation of bill of entry for warehousing of goods and it was reduced to 15% w.e.f. 2nd February, 2025. The details of such import transactions are as follows :

S. No.	Particulars	Amount
1	Cost of machine	US\$ 40,000
2	Transportation charges from the factory of exporter to the port for shipment & handling charges for loading of machine in the ship	US\$ 1,000
3	Commission paid (not the buying commission) to the local agent of exporter	₹ 1,50,000
4	License fee relating to imported goods payable by buyer as a condition of sale	10% of the price of machine
5	Actual insurance charges paid are not ascertainable	—
6	Freight charges from USA to India	US\$ 4,000

7	Lighterage charges paid by company at Indian Port	₹ 28,800
8	Unloading and handling charges paid at the Indian Port	₹ 10,000
9	Warehouse charges paid in India	₹ 60,000
10	Integrated Tax is 18% and Social Welfare Cess is 10% and GST Compensation Cess is NIL	

During the year, in a board meeting, proposal was raised to implement a new digital system to streamline both accounting and production processes, aiming to enhance overall efficiency. To lead this initiative, Mr. Amit, an experienced IT professional, had been appointed as the IT Manager. While he acknowledged the significant benefits that new technologies can bring, he was also aware of the potential risks they may pose. After carefully assessing the technological risks associated with the implementation of the new system, Mr. Amit ensured that the necessary controls are put in place to mitigate these risks. As a result, the digital system was successfully implemented.

NGH & Co., Chartered Accountants, is the statutory auditor of the company. CA. N, Partner at NGH & Co., regularly holds meetings with Mr. Kushal and other members of the Accounts Department. In a meeting held at the company's office regarding audit planning, Mr. Kushal informed CA. N about the full digitization of both the Accounting and Production processes.

Once the formal audit discussions concluded, Mr. Kushal and CA. N engaged in a general conversation. During this discussion, Mr. Kushal informed that on 31st December, 2024, he had received an i-Phone worth ₹1,20,000 as a gift from his brother Suresh, who is a British national. Additionally, Mr. Kushal mentioned that on 31st January, 2025, he also received a foreign remittance of ₹ 9,00,000 as a gift from Suresh for the purpose of purchasing property in his name. Suresh had gone out of India in the year 2005 and is permanently settled in UK. Kushal raised another query from CA. N that Suresh holds agricultural land inherited from his parents and is considering selling it. He wants to repatriate the entire proceeds out of India. Kushal informed that he has advised Suresh to use the proceeds either to purchase another piece of agricultural land or buy a residential flat in Jaipur.

Multiple Choice Questions :

[Please provide the correct option to the following questions]

3.1 Given the information about ABC Electronics Ltd.'s plant and machinery, what is the amount of depreciation (including additional depreciation) that can be claimed as per the Income Tax Act, 1961 for the A.Y. 2025-26 ? The company has opted for section 115BAA/115BAB.

(A) ₹ 2,09,25,000

(B) ₹ 2,44,95,000

(C) ₹ 2,42,25,000

(D) ₹ 2,51,25,000

3.2 Which of the following statement is accurate with respect to the classification and accounting treatment of the provident fund plan under relevant Ind AS ?

(A) The provident fund scheme is correctly classified as a Defined Contribution Plan and the company is required to recognize only the contribution made during the period as an expense in the statement of profit and loss.

(B) The provident fund scheme should have been classified as a Defined Benefit Plan and the company will account for the guaranteed return as part of the periodic service cost, instead of recognizing it as a component of the defined benefit obligation.

(C) The provident fund scheme should have been classified as a Defined Benefit Plan and the company will need to calculate its net defined benefit liability or asset by considering not just the guaranteed return but also the investment return, which may vary over time.

(D) The provident fund scheme is classified as a Defined Contribution Plan but the company should account for it as a Defined Benefit Plan. The company is required to recognize a net liability, which is the future value of the obligation minus the fair value of the plan assets held by the trust.

3.3 As an auditor evaluating the risks associated with a newly implemented digital system in a company's accounting and production processes, which of the following controls should most likely be tested to assess the potential technology risks before relying on the system?

- (i) Testing the robustness of the system's encryption protocols to ensure data confidentiality and integrity during transmission.
- (ii) Testing physical access to the server or production hardware to ensure overall IT security but not specifically linked to system operation.
- (iii) Reviewing the company's employee training programs to assess if users are properly educated on how to interact with the system and avoid common errors.
- (iv) Verifying that the digital system has adequate backup and recovery procedures to ensure data is not lost in case of system failure.

Options :

- (A) (i), (ii)
- (B) (i), (iii)
- (C) (i), (iv)
- (D) (i), (iii), (iv)

3.4 Which of the following statements is correct regarding the gift received by Mr. Kushal during the year as per the provisions of FCRA, 2010 ?

- (A) Intimation to Central Government is not required because i-Phone is considered a personal gift from a relative and foreign contribution received in cash does not exceed the threshold limit specified under FCRA.
- (B) Intimation to Central Government in form FC-1 electronically is required to be submitted within three months from 31st December, 2024 regarding i-phone because market value exceed the threshold limit specified under FCRA.
- (C) Intimation to Central Government in form FC-1 electronically is required to be submitted within three months from 31st January, 2025 for total foreign contributions received from brother as it exceeds the threshold limit specified under FCRA.
- (D) Intimation to Central Government in form FC-1 electronically is required to be submitted within three months from 31st January, 2025 for foreign contribution received in cash only, not for the i-phone.

3.5 As per FEMA guidelines, which of the following statements are correct regarding Kushal's brother intentions ?

- (i) He can transfer the inherited agricultural land to a person resident in India by way of sale and invest the proceeds in purchasing another agricultural land in India from a person resident in India.
- (ii) He can transfer the inherited agricultural land to person resident in India and invest the proceeds in purchasing a residential flat in Jaipur.
- (iii) He can transfer the inherited agricultural land to a person resident in India by way of sale and remit the proceeds outside India subject to permissible limit.
- (iv) He can transfer the inherited agricultural land to a person resident in India by way of sale but he cannot remit the proceeds outside India.

Options :

- (A) (i), (iii)
- (B) (ii), (iii)
- (C) (i), (iv)
- (D) (ii), (iv)

Descriptive Questions :

- 3.6 Analyze the make or buy decision and recommend the most profitable alternative. Assess the sensitivity of such decision to the external purchase price. 5
- 3.7 Determine the assessable value of the machinery imported and compute the amount of total custom duty and integrated tax payable by ABC Electronics Ltd. 7
- 3.8 What technological risks did Mr. Amit consider while implementing the digitisation of accounting processes ? 3

CASE STUDY – 4

Latest Fashions Limited, Chennai is a listed company which is engaged in manufacturing of yarn, knitted cloth, male garments, female garments and customer specific products. The consolidated financial statements prepared consisted of financial statements of the company and financial information of 6 subsidiaries audited by other auditors. 2 out of 6 subsidiaries are located outside India whose financial statements have been prepared in accordance with accounting principles generally accepted in their respective countries and have been audited by other auditors under generally accepted auditing standards applicable in their respective countries. These financial statements, financial information and auditors reports of subsidiaries were furnished by management of Latest Fashions Limited. As on 31st March, 2025 in respect of 6 subsidiaries the total assets were ₹ 2,500 crores; total revenue for the financial year 2024-25 was ₹ 1,500 crores and net cash outflows were ₹ 15 crores.

It mobilized funds by issue of shares in the financial year 2022-23. As on 31st March, 2025 its book value was ₹ 150 for each equity share of the face value of ₹ 10 each. Its return on equity is 15% and it retained 60% of its earnings. Its opportunity cost of capital is 18%. Company has manufacturing facilities at various locations in India such as Delhi, Agra, Kota, Cochin and Raipur.

The following are the details of segments of products reported by Latest Fashions Limited in different geographical locations :

Segment	External Revenue	Profit	Assets
	₹ in crores		
Yarn Reported as Segment	2500	900	800
Knitted Cloth Reported as Segment	2300	150	600
Male Garments Reported as Segment	900	(100)	200
Others	2300	50	100
	8000	700	1700

Besides this, no other information related to customers has been reported in the financial statements.

The knitted cloth segment has been operating for 12 years and has consistently produced profits whereas the male garments segment which was commenced in April, 2018 has been consistently incurring losses but has a proportionate share of goodwill of ₹ 5 Crores out of the total goodwill of ₹ 20 Crores appearing in the financial statements of the company. It was decided by the Board of Directors of Latest Fashions Limited that by way of demerger, the male garments segment would be demerged with Men's Fashion Ltd., a new company. Necessary legal formalities were carried out in this regard both under the Companies Act, 2013 and under the Income-tax Act, 1961. The demerger was made in April 2025. The male garments segment along with its movable assets and liabilities (with net book value of ₹ 20 Crores) were demerged for a consideration of ₹ 50 crores to Men's Fashion Ltd., a new company, who allotted 25 lakh equity shares of ₹ 100 each at a premium of ₹ 100 per share to the shareholders of Latest Fashions Limited in full settlement of the consideration, in proportion to their shareholdings.

For the month of January, 2025 Latest Fashions Limited gives the following information of GST paid on purchases made / input services availed by it.

S. No.	Particulars	GST paid ₹
(i)	Capital goods (out of 6 items, invoice for 1 item was missing and GST paid on that item was ₹ 10,000)	90,000
(ii)	Inputs consisting of 5 equal lots, of which 3 lots were received during the month.	75,000
(iii)	Travel benefits extended to employees on vacation under statutory obligation as employer.	1,10,000
(iv)	Purchased machinery for manufacturing process worth ₹ 10 lakhs and claimed depreciation under the Income-tax Act, 1961 on ₹ 11,80,000 (including GST).	1,80,000
(v)	Repair services for factory buildings debited to profit and loss account.	70,000

One of the Directors, Mr. Rohit, has approached the legal department of the Company to seek its opinion on the issue of payment of insurance premium to the insurance company. He explains that his elder brother Mohit, a non- resident Indian, has an Insurance Plan with a prominent Indian Insurance Company. Due to some impending financial difficulties, Mohit requested his brother Rohit, a resident Indian, to make payment of few subsequent installments of Insurance premium on his behalf. Though, Rohit said yes but being a director of a company and having some awareness about laws, he was not sure whether the payment is permitted or not. In his view, there is no restriction under any law for transactions with relatives and also no need to take any approval from any authority and also the premium amount per year is less than ₹ 10.00 Lakh.

Rohit also sought guidance about the taxability of some transactions done in his personal capacity. He sold 3 acres of agriculture land within the city limits of Chandigarh which he had purchased on 1st December, 2003 for ₹ 36,60,000. Title of the agriculture land was transferred on 20th August, 2024 for ₹ 1,90,00,000. On 31st August, 2024, he purchased another agriculture land situated in a remote village having population of 9000 people for ₹ 80,00,000. The nearest town was 30 kilometers from the agriculture land. On 28th February, 2025, he sold the agriculture land purchased on 31st August, 2024 for ₹ 90,00,000. He has received ₹ 9,00,000 on 1st December, 2024 on account of buy back of 6,000 shares held by him of X Ltd. These shares were purchased by him on 1st June, 2014 at ₹ 25 per share.

During the course of audit of Latest Fashions Limited, it was noticed that a cyber-attack took place on the data in which files were encrypted through malicious links delivered via email and computers got locked. The hacker then demanded booty for decryption of files which was to be paid in bitcoins. Auditor immediately started looking into cyber security risks of the company. He is making inquiries regarding processes and controls relating to privileged account access, patch management program, vendor risk management program. He has also performed external network penetration testing.

Multiple Choice Questions :**5×2****=10**

[Please provide the correct option to the following questions]

- 4.1 Whether the segment reporting has been correctly done by Latest Fashions Limited as per relevant IND-AS ?
- (A) Yes, however disclosure of revenues from transactions with a single customer amounting to ₹ 1,200 Crores or more has not been made.
- (B) Yes, however disclosure of revenues from transactions with a single customer amounting to ₹ 800 Crores or more has not been made.
- (C) Revenue of ₹ 6,400 Crores or more have not been reported separately, so disclosure is not as per requirement of IND-AS. Also disclosure of revenues from transactions with a single customer amounting to ₹ 800 Crores or more has not been made.
- (D) Revenue of ₹ 6,000 Crores or more have not been reported separately, so disclosure is not as per requirement of IND-AS. Also disclosure of revenues from transactions with a single customer amounting to ₹ 800 Crores or more has not been made.
- 4.2 What would be the price of each equity share of Latest Fashions Limited computed using dividend constant growth model ?
- (A) ₹ 60
- (B) ₹ 120
- (C) ₹ 100
- (D) ₹ 154.50
- 4.3 How much would be the taxable amount of capital gain in the hands of Latest Fashions Limited on demerger of male garments segment to Men's Fashion Ltd. ? Cost inflation index F.Y.2018-19 = 280; F.Y.2024-25 = 363. Figures to be rounded off.
- (A) Short Term Capital Gains ₹ 25 Crores
- (B) Long Term Capital Gains ₹ 19 Crores
- (C) Long Term Capital Gains ₹ 24 Crores
- (D) NIL

- 4.4 If you are a part of legal team of company, what would be your response to the query of director Rohit ?
- (A) Rohit is not permitted to make premium payment on behalf of his brother.
 - (B) Rohit is permitted to make premium payment on behalf of his brother since Mohit is his real brother.
 - (C) Rohit is permitted to make premium payment on behalf of his brother as it is within the permissible limit of USD 250,000 per year.
 - (D) Rohit is not permitted to make premium payment on behalf of his brother unless he obtains permission from Central Government of India.
- 4.5 Which type of cyber-attack has happened and which control procedure should be implemented to identify such risks ?
- (A) Trojan and formal training to make the teams aware of cybersecurity risks.
 - (B) Ransomware and monitoring of firewall logs.
 - (C) Ransomware and prioritize protection of information assets based on sensitivity and business value and periodically review the systems connected to the network in which digital assets reside.
 - (D) Ransomware and aligning cybersecurity and IT transformation with strategic objectives.

Descriptive Questions :

- 4.6 Determine the amount of input tax credit available under GST law for Latest Fashions Limited for the month of January, 2025 by giving reasons for treatment of each item. 5
- 4.7 Where and how much of information would be included in independent auditor's report on consolidated financial statement of Latest Fashions Limited by Statutory Auditors ? 5

- 4.8. Calculate the capital gain on sale of agriculture lands by Mr. Rohit during the year. What are the tax implications of the amount received by him from the buy-back of shares and capital gain thereon?

5

(Cost inflation index for 2003-04 = 109, 2014-15 = 240, 2024-25 = 363)

CASE STUDY – 5

Surgical Equipments Limited based in Delhi is engaged in manufacturing of medical surgical instruments. Products of the company are for use by particular segment of the society who requires a product with good features and at competitive prices. Company has been in the line of business for more than a decade and has paid-up capital of ₹ 40 crores and turnover exceeding ₹ 400 crores. Company has presented complete set of financial results for 2 financial years (31.03.2025, 31.03.2024) along with a statement of profit or loss for the financial year ended on 31.03.2023.

During the year Surgical Equipments Limited acquired Medicines Limited. The scheme of merger / acquisition is that the shares will be issued on one-to-one basis to the shareholders of Medicines Limited. The exchange ratio is based on the market prices of the shares of two companies. The following financial data is provided to you :

Particulars	Surgical Equipments Limited	Medicines Limited
Earnings before taxes (₹)	25,00,000	18,50,000
No. of equity shares (paid up)	8,00,000	4,00,000
PE ratio	14 times	10 times

Effective Tax rate applicable is 25%.

activity for whom she paid salary and bonus of ₹ 4,50,000 (in aggregate) and paid ₹ 20,000 each to 4 different consultants for guidance in purchase and sale of shares. Payments to staff and consultants were made by cash without violating section 40A (3) of the Income-tax Act, 1961. Assume Kavita does not have any other business or source of income for the financial year 2024-25.

Multiple Choice Questions :

5×2

[Provide the correct option to the following questions]

=10

5.1 Which of the following statement is true as regards ranking of the products manufactured by Surgical Equipments Limited based ?

- (A) Rank 1 – Product Y, Rank 2 – Product Z and Rank 3 – Product X
- (B) Rank 1 – Product Z, Rank 2 – Product X and Rank 3 – Product Y
- (C) Rank 1 – Product X, Rank 2 – Product Y and Rank 3 – Product Z
- (D) Rank 1 – Product X, Rank 2 – Product Z and Rank 3 – Product Y

5.2 What would be the total market capitalization of the shares of Surgical Equipments Limited post-merger with Medicines Limited ? Assume its PE ratio would be the same after merger also.

- (A) ₹ 601.44 lakhs
- (B) ₹ 316.96 lakhs
- (C) ₹ 420.54 lakhs
- (D) ₹ 456.96 lakhs

5.3 Decide which of the following statement is correct and applicable for Kavita for the assessment year 2025-26 ?

- (A) Admit income at 8% under section 44AD.
- (B) Admit loss as per books of account and no audit under section 44AB is required.
- (C) Admit income as per books of account and audit under section 44AB is mandatory.
- (D) Admit income at 6% under section 44AD.

5.4 Which of the following statements is fully correct ?

- (A) Surgical Equipments Limited cannot present information for F.Y. ended 31.03.2023. Classification of Term Loan should be current.
- (B) Surgical Equipments Limited can present information for F.Y. ended 31.03.2023 but only in notes to accounts. Classification of Term Loan is correct.
- (C) Surgical Equipments Limited can present information for F.Y. ended 31.03.2023, as long as that information is prepared in accordance with IND-AS without presenting related note information for those additional statements. Classification of Term Loan should be current.
- (D) Surgical Equipments Limited can present information for F.Y. ended 31.03.2023, as long as the information is prepared in accordance with IND-AS along with related note information for those additional statements. Classification of Term Loan should be current.

5.5 Which of the following statements is/are true in relation to 'Treble' considering the requirements of IND-AS 16 and IFCoFR?

- (i) Gain has been correctly recorded in books of accounts.
 - (ii) Apply cost model or revaluation model for calculating gain.
 - (iii) Gain should have been recorded in profit and loss account.
 - (iv) No requirement to establish IFCoFR is there for assets under disposal.
- (A) (i), (ii) and (iv)
 - (B) (i) and (iv)
 - (C) Only (iii)
 - (D) (ii), (iii) and (iv)

Descriptive Questions :

- 5.6 You are the management and investment consultant to Surgical Equipments Limited. **3+2**
- (i) Briefly explain FEMA regulations for ODI proposed in financial services activity in UK.
 - (ii) What is meant by business model and state the components of the business model opted by Surgical Equipments Limited.
- 5.7 State whether generation of e-way bill is required or not in respect of warranty supplies made by Surgical Equipments Limited. Also, the period up to which the books of account or other records of the financial year 2018-19 is to be maintained by Surgical Equipments Limited. **5**
- 5.8 If you have been appointed as strategic consultant, what measures will you suggest to the management to defend itself against hostile takeover ? **5**
-