

**Mock Test Paper - Series I: March, 2024**

**Date of Paper: 15 March, 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**

#### **Para 1**

Mr. Harsh Chawda, is a practising Chartered Accountant, resident of Pune. The marriage of his daughter, Seema Chawda, has been finalized with Mr. Dharmesh Raval, an NRI settled in Argentina. The marriage is scheduled on 21<sup>st</sup> October in Pune during the Diwali Festival. Mr. Harsh Chawda wanted to send 2,000 marriage invitation cards to all his relatives and friends in India to attend the marriage. He had to send invitations by inland letters.

He also wished to provide a gift pack of food items to his relatives at the Haldi programme of his daughter for which he provided order to M/s Goyal Sweets for 500 packs, made as per its Diwali offer.

#### **Para 2**

M/s Goyal Sweets, a store located and registered under GST in Maharashtra, had come out with big discount offer at the time of Diwali on various gift items.

In order to attract more customers, it had decided to supply a gift pack containing 5 packets of Ladila's Namkeen (200 gram each) taxable @ 12%, 1 packet of Roasted Smoked Almonds (100 gram) taxable @ 18%, 1 packet of Courville Chocolate (50 mg) taxable @ 28% and 1 bottle of Teal Fresh Juice (1 litre) taxable @ 18% in a single basket for a single price of ₹ 600 (GST inclusive).

#### **Para 3**

Mr. Harsh Chawda also provides management consultancy and internal audit services to his clients. Looking at his expertise in financial management, Mr. Jaman, a student of Chartered Accountancy course, is very much impressed with his knowledge.

He approached Mr. Harsh to take guidance on some topics of financial management subject related to his course. Mr. Harsh, on request, decided to spare some time and started providing classes to Mr. Jaman along with some other aspirants for 3 days in a week and for 1 hours in a day. However, he had not taken any specific permission for such private tutorship from the Council.

#### Para 4

Mr. Harsh was appointed as internal auditor of Khwab Pharma Ltd., a company engaged in manufacturing of medicines based at Pune, Maharashtra, as the company was required to appoint internal auditor in accordance with statutory provisions given in the Companies Act, 2013. The company is registered under GST in the state of Maharashtra.

BMK & Co. was appointed to conduct statutory audit of Khwab Pharma Ltd. The engagement partner of the firm, Mr. Rajan asked Mr. Harsh to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements.

He also sought his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests.

#### Para 5

Khwab Pharma Ltd. was considering its projects namely 'Dehradun Plant' and 'Borsad Plant', respectively, for establishing its manufacturing units, for which it took assistance of Mr. Harsh for providing project appraisal, based on following information:

Project	Expected NPV (₹)	Standard deviation (₹)
Dehradun Plant	2,44,00,000	1,80,00,000
Borsad Plant	4,50,00,000	2,40,00,000

Also, Mr. Harsh was asked to provide a brief that how project appraisal is done under inflammatory conditions, as the aforesaid projects faced the similar situation.

#### Para 6

Khwab Pharma Ltd. has 200 employees, who are each entitled to five working days of paid sick leaves for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (LIFO basis).

At 31st March, 2024, the average unused entitlement is two days per employee. The entity, on the basis of experience, expects that 184 employees will take not more than five days of paid sick leaves in 2024-2025 and that the remaining sixteen employees will take on an average six and half days each.

The entity expects that it will pay an additional 24 days of sick pay as a result of the unused entitlement that has accumulated at 31st March, 2024 (one and a half days each, for sixteen employees).

Further, the company has a post-employment medical plan which will reimburse 15% of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 40% of those costs if the employee leaves after twenty or more years of service.

## Para 7

The Assessing Officer having proper jurisdiction surveyed the principal business place of Khwab Pharma Ltd. at 8 p.m. in night for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961. The place of business of the company is kept open for business every day between 10 a.m. and 9 p.m. He impounded and retained in his custody, books of account and other documents inspected by him, after recording his reasons for doing so, for 12 days. Further, he made an inventory of valuable articles in form of gold biscuits found at such place weighing 3 kgs each.

The Commissioner of Income-tax had issued notice to revise the order passed by an Assessing Officer under section 143 in case of Khwab Pharma Ltd. During the pendency of proceedings before the Commissioner, on the basis of material gathered during the aforesaid survey under section 133A after issue of the first notice, the Commissioner of Income-tax issued a second notice, the contents of which were different from the contents of the first notice.

## Para 8

During the November month, the company entered into an agreement to sell a consignment of some medicines to Rajratna Medicines of Rampur, Uttar Pradesh. While the goods were being packed in Pune factory of the company, Rajratna Medicines got an order from Saras Med Pvt. Ltd. of Udupi, Karnataka for the said goods. Rajratna Medicines agreed to supply the said goods to Saras Med Pvt. Ltd. and asked the company to deliver the goods to Saras Med Pvt. Ltd. at Udupi. For determining the place of supply in case of aforesaid situation, Mr. Arvind, the tax manager of the company, made discussion with Mr. Harsh.

Further, during the December month, the company had availed input tax credit of ₹ 84,500 for one of the invoices during December month under IGST head, instead of availing ₹ 42,250 under CGST & SGST heads. Mr. Arvind asked the accountant to use Form GST PMT-09 for making a transfer from IGST head to respective CGST & SGST heads.

### I. Multiple Choice Questions

1. With respect to information given in Para 2, calculate the amount of GST payable in respect of supply of a gift pack in the form of a single basket by M/s Goyal Sweets.
  - (a) ₹ 108
  - (b) ₹ 168
  - (c) ₹ 92
  - (d) ₹ 131
2. With respect to information given in Para 3, Whether Mr. Harsh is guilty of professional misconduct in providing private tutorship to Mr. Jaman along with some other aspirants as described in case study?
  - (a) Mr. Harsh is not guilty of professional misconduct as there are no restrictions on providing private tutorship.

- (b) Mr. Harsh is guilty of professional misconduct as private tutorship cannot be provided by practising chartered accountants.
  - (c) Mr. Harsh is guilty of professional misconduct as he has not obtained specific permission from the Council for the same.
  - (d) Mr. Harsh is not guilty of professional misconduct as he is teaching within prescribed hours permitted by the Council generally.
3. With respect to information given in Para 4, engagement partner sought direct assistance from Mr. Harsh, internal auditor. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.
- (a) The engagement partner cannot ask Mr. Harsh for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, Mr. Harsh may assist engagement partner in assembling information necessary to resolve exceptions in confirmation responses.
  - (b) Mr. Harsh cannot assist engagement partner in assembling information necessary to resolve exceptions in confirmation responses. However, the engagement partner can ask Mr. Harsh for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements.
  - (c) The engagement partner cannot ask Mr. Harsh for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses.
  - (d) The engagement partner can ask Mr. Harsh for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses.
4. With respect to information given in Para 7, which of the following statements is correct in respect of the survey conducted at the business place of Khwab Pharma Ltd.?
- (a) The Assessing Officer's action in entering the business place of Khwab Pharma Ltd. at 8 p.m. and impounding books of account and documents inspected by him is in order.
  - (b) The Assessing Officer's action in entering the business place of Khwab Pharma Ltd. at 8 p.m. is not in order, since he should enter the business place atleast 3 hours before the close of business place and impounding books of account and documents inspected by him is in order.
  - (c) The Assessing Officer's action in entering the business place of Khwab Pharma Ltd. at 8 p.m. and in impounding books of account and documents inspected by him are not in order, since he can enter the business place only after sunrise but before sunset and he does not have the power to impound books of account.

- (d) The Assessing Officer's action in entering the business place of Khwab Pharma Ltd. at 8 p.m. is in order but impounding books of account and documents inspected by him is not in order.
5. With respect to information given in Para 7, which of the following statements is correct as to making presumptions in relation to the survey conducted at the business place of Khwab Pharma Ltd.?
- (i) The books of account, other documents and gold biscuits belong to Khwab Pharma Ltd.
- (ii) The contents of such books of account and other documents are not true.
- (iii) The contents of such books of account and other documents are true.
- (iv) For documents stamped, executed or attested, that it was not duly stamped and executed or attested by the company.
- (a) (i), (iii) & (iv)
- (b) (ii) & (iii)
- (c) (i) & (iii)
- (d) (ii) & (iv) **(5 x 2 = 10 Marks)**

## II. Descriptive Questions

6. With respect to information given in Para 5,
- (i) Which project would have been recommended by Mr. Harsh? Explain whether his opinion will change, if coefficient of variation is used as a measure of risk. **(3 Marks)**
- (ii) Suppose if Mr. Harsh has been asked to suggest approaches that may be used while appraising the project under inflationary conditions. Explain these approaches. **(2 Marks)**
7. With respect to information given in Para 6,
- (i) Comment whether the entity would require to recognize any liability in respect of leaves.
- (ii) State how the benefit to be attributed for the employee service for the last 20 years, 10 and 20 years and within 10 years, be measured. **(3 Marks)**
8. With respect to information given in Para 7, examine whether the action of the Commissioner in case of Khwab Pharma Ltd. is justified as to the second notice. **(3 Marks)**
9. With respect to information given in Para 8,
- (i) Determine the place of supply(ies) between Khwab Pharma Ltd., Rajratna Medicines and Saras Med Pvt. Ltd.
- (ii) Mr. Arvind, asked the accountant to use Form GST PMT-09 for making a transfer from IGST head to respective CGST & SGST heads. Examine the said scenario. **(4 Marks)**

## **CASE STUDY 2**

### **Para 1**

YK & Associates is a reputable firm of Chartered Accountants, with its headquarters situated in the vibrant city of Jaipur, Rajasthan. Founded by CA. Yashdeep and CA. Karan, the firm has established itself as a trusted entity in the field of accounting and financial consultancy within the region.

Led by the expertise and vision of its partners, YK & Associates offers a comprehensive range of professional services tailored to meet the diverse needs of its clients. From auditing and taxation to financial advisory and compliance, the firm prides itself on delivering reliable solutions that drive business success.

With a deep understanding of both local regulations and global market dynamics, YK & Associates serves a diverse clientele spanning across industries such as manufacturing, hospitality, retail, and more. Whether assisting startups in navigating regulatory frameworks or providing strategic insights to established enterprises, the firm's commitment to excellence remains unwavering.

Beyond its professional endeavour, YK & Associates actively engages in initiatives aimed at contributing to the local community and promoting financial literacy. Through seminars, workshops, and pro bono services, the firm strives to empower individuals and businesses with the knowledge needed to make informed financial decisions.

### **Para 2**

YK & Associates get their website developed as [www.YKassociates.com](http://www.YKassociates.com) from Adarsh Tech Ltd.

The colour of their website was very bright and attractive to run on a “push” technology. Names of the partners of the firm and the major clients were also displayed on the web-site without any disclosure obligation from any regulator.

### **Para 3**

In exchange of consideration of developing website by Adarsh Tech Ltd., CA. Yashdeep, accepted appointment as its tax auditor for A.Y. 2024-25 and commenced the tax audit within four days of appointment since the client was in hurry to file Return of Income before the due date.

However, before signing the tax audit report, he sent a registered post letter to the previous auditor and obtained the postal acknowledgement.

### **Para 4**

Adarsh Tech Ltd. duly filed its income tax return for the Assessment Year (AY) 2024-25 duly on September 30th, 2024. The Income Tax Department processed the return and sent an intimation to Adarsh Tech Ltd., indicating that no immediate issues were found. Despite the intimation, the return was selected for regular assessment.

### **Para 5**

Jaipur Municipal Corporation (JMC) had invited online bids for development of online cloud system, for maintaining some vital statistics including registration of

births and deaths, within the pre-defined period as per the contract. The work involved composite supply of goods and services wherein the supply of services was the principal supply.

The value of goods (in form of computer hardwares) constituted 25% of the total value of composite supply. Mr. Arsh, Managing Director of Adarsh Tech Ltd., located and registered under GST in Jaipur, wanted to bid for the same.

#### **Para 6**

Mr. Arsh wanted investment advisory services from YK& Associates for investing the surplus funds of Adarsh Tech Ltd. for which purpose he had invited Mr. Yashdeep for a meeting. In the meeting, Mr. Yashdeep explained the benefits of investing in mutual fund schemes along with its drawbacks and also recommended investing in Scheme Purnarth floated by HMKD Plus Mutual Fund managed by his own friend. The details of such scheme are as follows:

HMKD Plus Mutual Fund had the following assets in Scheme Purnarth at the close of business on 31<sup>st</sup>March,2024.

Company	No. of Shares	Market Price Per Share
Nepathya Ltd.	25000	20
D-Con Ltd.	35000	300
Sarpan Ltd.	29000	380
Care Health Ltd.	40000	500

The total number of units of Scheme Purnarth are 12 lakhs. The Scheme Purnarth has accrued expenses of ₹ 1,50,000 and other liabilities of ₹ 3,00,000.

#### **Para 7**

Further, Mr. Yashdeep, in his busy schedule, took some time to attend one another meeting, this time arranged by manager of RFIN Bank, Mr. Ravi, who wanted Mr. Yash's firm to perform an audit of the blockchain-based system, the details of which are provided by Mr. Ravi to Mr. Yashdeep, in the said meeting, as follows:

Bouyanc Bank, headquartered in Chicago, offers a broad range of financial services including asset management, commercial banking, investment banking, and treasury and securities services.

RFIN Bank in partnership with Bouyanc Bank, provides a comprehensive range of banking services and products encompassing retail banking, corporate banking, international banking, and other financial services. RFIN Bank has been significant contributors to the digitalization of banking services in India.

Under the pilot programme, the Indian bank will open on-chain Nostro accounts with Bouyanc Bank branch in Gift City. The blockchain-based system is expected to facilitate instant, 24x7 settlement between the accounts held at the US bank. Essentially, it will create a private intra-correspondent banking network, redefining the traditional banking hours and enabling seamless money transfer.

## Para 8

Mr. Ravi, the manager of RFIN Bank, gave an order on 1st January, 2024 for 1,000 custom-made corporate gifts to be provided to their prestigious corporate clients along with the information about the aforesaid blockchain-based system to GM Stores Pvt. Ltd. (GMSPL), the financial statements of which are audited by YK & Associates.

On 3rd January, 2024, GMSPL purchased raw materials to be consumed in the production process for ₹ 6,50,000, including ₹ 50,000 refundable purchase taxes. The purchase price was funded by raising a loan of ₹ 6,55,000 (including ₹ 5,000 loan-raising fees). The loan is secured by the inventories.

During January, 2024, GMSPL designed the corporate gifts for the customer bank. Design costs included:

- cost of external designer = ₹ 6,000; and
- labour = ₹ 4,000.

During February, 2024, GMSPL's production team developed the manufacturing technique and made further modifications necessary to bring the inventories to the conditions specified in the agreement. The following costs were incurred in the testing phase:

- materials, net of ₹ 3,000 recovered from the sale of the scrapped output = ₹ 21,000
- labour = ₹ 11,000
- depreciation of plant used to perform the modifications = ₹ 5,000

During February, 2024, GMSPL incurred the following additional costs in manufacturing the customised corporate gifts:

- consumable stores = ₹ 55,000
- labour = ₹ 65,000
- depreciation of plant used to manufacture the customised corporate gifts = ₹ 15,000

The customised corporate gifts were ready for supply on 1<sup>st</sup> March, 2024. No abnormal wastage occurred in the development and manufacture of the corporate gifts. The accountant head of GMSPL took assistance of CA Karan for computing the inventory cost involved in the aforesaid supply at the time of routine audit conducted by CA Karan.

### I. Multiple Choice Questions

1. With reference to the information given in Para 2, whether, website designed for YK & Associates is in compliance with guidelines issued by the Council in this regard:
  - (a) Yes, website can have names of partners and major clients along with its fees.
  - (b) Yes, as the websites can be designed on a "push" technology.



- (c) No, as there is restriction on the colours used in the website.
  - (d) No, as names of the major clients were displayed without any disclosure obligation from a Regulator.
2. With reference to the information given in Para 3, before signing the tax audit report, CA. Yashdeep sent a registered post letter to the previous auditor and obtained the postal acknowledgement. Will CA. Yashdeep be held guilty of professional misconduct under the Chartered Accountants Act, 1949?
- (a) CA. Yashdeep will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.
  - (b) CA. Yashdeep will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor would apply to statutory audit only and not to tax audit of company.
  - (c) CA. Yashdeep will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.
  - (d) CA. Yashdeep will not be held guilty of professional misconduct since he has already obtained postal acknowledgement regarding communication with previous auditor.
3. With reference to the information given in Para 4, the time limit for service of notice for regular assessment under Income-Tax Law in this case is –
- (a) 30.06.2025
  - (b) 30.9.2025
  - (c) 31.12.2025
  - (d) 31.03.2026
4. With reference to the information given in Para 4, which of the following cannot be adjusted in computation of total income of Adarsh Tech Ltd. while processing the return of income for A.Y. 2024-25?
- (a) any arithmetical error in the return
  - (b) an incorrect claim apparent from any information in the return
  - (c) disallowance of expenditure indicated in the audit report but not taken into account in computing total income in the return.
  - (d) addition of income appearing in Form 26AS which has not been included in computing total income in the return.
5. With reference to the information given in Para 5, Adarsh Tech Ltd. approaches you to ascertain the taxability of supply of services of development of online cloud system to JMC under GST law, in the given case, for quoting the best price. You are required to determine the taxability of the given supply.
- (a) GST is exempt on said supply since the value of supply of goods constitutes not more than 25% of the value of the said composite supply.

- (b) GST is payable on said supply. It will be exempt if value of supply of goods constitutes less than 25% of the value of the said composite supply.
- (c) GST is payable on said supply. It will be exempt if value of supply of goods constitutes more than 25% of the value of the said composite supply.
- (d) Said supply is neither supply of goods nor supply of services in terms of Schedule III of the CGST Act, 2017. **(5 x 2 = 10 Marks)**

## II. Descriptive Questions

- 6. With reference to the information given in Para 6,
  - (i) Calculate the NAV per unit of the Scheme Purnarth **(4 Marks)**
  - (ii) Explain any three advantages as well as drawbacks of investing in Mutual Funds as would have been narrated by Mr. Yashdeep. **(3 Marks)**
- 7. With reference to the information given in Para 7, provide some illustrative steps for performing audit of the blockchain-based system. **(4 Marks)**
- 8. With reference to the information given in Para 8, compute the cost of the inventory? Substantiate your answer with appropriate reasons and calculations, wherever required. **(4 Marks)**

### CASE STUDY 3

Anupama Hotels Ltd. operating an all category resort – “THE VILLAS” which is a famous Vacation Property located in the Hills of Shivalik and the Room occupancy is almost full throughout the year. This property was a hot favorite for not only the people of India but also for International tourists. But, unfortunately, due to sudden local crisis in the hills of Shivalik, this property also suffered huge economical losses with very less business and thus, the Board of Directors wanted to either go for putting it on sale or work out a process of restructuring as a measure to improve the economical feasibility of the property. Restructuring is the corporate management term for the act of reorganizing the legal, ownership, operational, or other structures of a company for the purpose of making it more profitable, or better organized for its present needs. Alternate reasons for restructuring include a change of ownership or ownership structure, demerger, or a response to a crisis or major change in the business such as bankruptcy, repositioning, or buyout. Restructuring may also be described as corporate restructuring, debt restructuring and financial restructuring. The underlying object of corporate restructuring is efficient and competitive business operations by increasing the market share, brand power and synergies. In the emerging scenario, joint ventures, alliances, mergers, amalgamations and takeovers are becoming the easiest and quickest way to expand capacities and acquire dominance over the market. They didn't want to sell it as the price quotes they were getting were quite low as they would have got if the conditions were normal. Out of all the offers they have been getting, they have come down to 3 Options and want to discuss them with you to finalise the most feasible option as follows :-

### Option :-1

Naman Hotels Ltd. has shown interest in acquiring this Resort Property as they are of the view that they can help each other in the Business with Naman Group's experienced staff and innovative team in collaboration with the beautiful structure and landscape of "THE VILLAS". This business combination can be carried out by setting up a new entity called "the Namupama Villas Ltd." that will issue 50 shares to Anupama Hotels Ltd. shareholders and 100 shares to Naman Hotels Ltd. shareholders in exchange for the transfer of the shares in those entities. The number of shares reflects the relative fair values of the entities before the combination. Also, respective company's shareholders get the voting rights in the Namupama Villas Ltd. based on their respective shareholdings. The timeline, if the deal is finalised, will stand as:-

- |   |                        |
|---|------------------------|
| (a) Date of shareholder agreement                           | 1 <sup>st</sup> June   |
| (b) Appointed date as per shareholder agreement             | 1 <sup>st</sup> April  |
| (c) Date of obtaining control over the Board representation | 1 <sup>st</sup> July   |
| (d) Date of transfer of shares                              | 1 <sup>st</sup> August |

### Option:- 2

Another Company – Kavya Hotels Ltd. from a different state wants to acquire Anupama Hotels Ltd. to take charge of the Resort Property with its Managing Director, Miss Kavya Narula, having confidence of pulling the property out of economic losses using her vast experience in the field of Hospitality industry. To substantiate this, they are asked by the Management of Anupama Hotels Ltd. to put forward the financial details of their performance during the F.Y./P.Y. 2023-24 for Anupama Hotel Ltd.'s consideration regarding striking a deal with them w.r.t. "THE VILLAS". The Head Accountant of Kavya Hotels Ltd. wants to discuss some peculiar transactions w.r.t. the Profit/Loss made by the Group with Miss Kavya and other members of the management as follows, before they finalise their books and submit a report of their Financial Performance to Anupama Hotels Ltd. The Head accountant tells them that their group's Statement of Profit and Loss for the previous year ended 31st March, 2024 shows a profit of ` 150 lakhs after debiting or crediting the following items:-

- (a) Payment of ` 0.35 lakh in cash on 20<sup>th</sup> December 2023 to a local farmer for purchase of daily use vegetables and ₹ 0.30 lakh to a Confectionary Wholesaler on 26<sup>th</sup> December 2023 for different products.
- (b) Contribution towards employees' pension scheme notified by the Central Government under section 80CCD for a sum of ₹ 3 lakhs calculated at 12% of aggregate of basic salary and dearness allowance (forming part of retirement benefits) payable to the employees in terms of employment.
- (c) Payment of ₹ 5.50 lakhs towards transportation of various materials procured by the resort to M/s. PQR Transport, a partnership firm, without deduction of tax at source. The firm declares profit under presumptive taxation scheme under section 44AE and has furnished a declaration to this effect. It also furnished its Permanent Account Number in the tender document.
- (d) Profit of ₹ 12 lakhs on sale of a plot of land to Divya Limited, a domestic

company, the entire shares of which are held by the assessee company. The plot was acquired by Kavya Hotels Limited on 1st June, 2022.

- (e) Contribution of ₹ 0.50 lakhs to Indian Institute of Technology with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.
- (f) Expense of ₹ 5 lakhs on foreign travel of two directors for a collaboration agreement with a foreign company for a brewery project to be set up. The negotiation did not succeed, and the project was abandoned.
- (g) Fees of ₹ 1 lakh paid to independent directors for attending Board meeting without deduction of tax at source under section 194J.
- (h) Depreciation charged ₹ 10 lakhs.

After submitting a report on their financial performance, Kavya Group works out on the Acquisition plan of "THE VILLAS" as this - On 1 April 2024, it will acquire 80 percent of the equity interest of Anupama Hotels Ltd. in exchange for cash of ₹ 300 Lakhs. Due to legal compulsion, Anupama Hotels Ltd. will have to dispose off their investments by a specified date such that they will not have sufficient time to market their property to multiple potential buyers. The management of Kavya Hotels Ltd. initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirement of Ind AS. The identifiable assets are measured at ₹ 600 lakhs and the liabilities assumed are measured at ₹ 200 lakhs. Kavya Ltd. engages an independent consultant who determined that the fair value of 20 per cent non-controlling interest in Anupama Hotels Ltd. is ₹ 84 lakhs. Kavya Hotels Ltd. reviewed the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in Anupama Hotels Ltd. and the consideration transferred. After the review, it decided that the procedures and resulting measures are appropriate and it waited for approval from the end of Anupama Hotels Ltd. to move ahead with this plan if they accept their offer.

### **Option :- 3**

The management of Anupama Hotels Ltd. wants you to carry out a special audit of the controls implemented in their Property and suggest them solutions to improve any deficiency in controls or any management incompetencies which might need improvement or replacement to bring back the good old days and the Company could ask its Financers for a Corporate Restructuring based on your Audit report. You suggest them about Risk Based audit and deliberate them about the process of this audit on their request. You tell them that your Audit would be risk-based or focused on areas of greatest risk to the achievement of the audited entity's objectives. Risk-based audit (RBA) is an approach to audit that analyzes audit risks, sets materiality thresholds based on audit risk analysis and develops audit programmes that allocate a larger portion of audit resources to high-risk areas. Risk Based Audit is an essential element of financial audit- both in the attest audit of the financial statements and in the audit of financial systems and transactions including evaluation of internal controls. It focuses primarily on the identification and assessment of the financial statement misstatement risks and provides a framework to reduce the impact to the financial statement of these identified risks

to an acceptable level before rendering an opinion on the financial statements. It also provides indicators of risks as a basis of opportunity for improvement of auditee risk management and control processes. This affords an opportunity to the auditee to improve its operations from recommendations on risks that do not have a current impact on the financial statements but impact the audited entity's operational strategies and performance over the longer term. The auditor's objective in a risk-based audit is to obtain reasonable assurance that no material misstatements whether caused by fraud or errors exist in the financial statements. This involves the following three key steps: - Assessing the risks of material misstatement in the financial statements; Designing and performing further audit procedures that respond to assessed risks and reduce the risks of material misstatements in the financial statements to an acceptably low level; and Issuing an appropriate audit report based on the audit findings and this work is done in three distinct phases. You have three articles in your team and you delegate them the work as – Komal to check and evaluate the controls in the Restaurant & Bar and work on the risks associated while another two articles Sagar & Ritu to help you with the allotted works as follows:-

KOMAL :- During the process of extracting the exception reports in the Restaurant, she observes numerous purchase entries without valid purchase orders. In terms of percentage, about 30% of purchases were made without valid purchase orders and also few purchase orders were validated after the actual purchase. Also there was no reconciliation between the goods received and the goods ordered. She proceeds ahead to check the validity of purchases at account Balance level and follows some specific audit procedures to achieve her objective. Also, she is told that the Resort has a tie up with Hard Coupons Ltd. which sells coupons to general public that are redeemable against specified luxury food products at selected properties and "THE VILLAS" being one of them. Each coupon is sold for value of ₹ 900 but is redeemable for supplies worth ₹ 1,000. She also notices a Working Capital Block relating to GST ITC utilisation by the Hotel. During the current year, they have been awarded a contract for catering in a marriage to be held at Dehradun. They have further subcontracted it for supply of snacks, to be served in the marriage, to Vanraj & Sons, a local caterer of Dehradun. The Head accountant is of the view that they can't avail ITC on such sub-contract.

SAGAR :- Performing client acceptance or continuance procedures; Planning the overall engagement; Performing risk assessment procedures to understand the business and identify inherent and control risks; Identifying relevant internal control procedures and assessing their design and implementation; Assessing the risks of material misstatement in the financial statements , etc.

RITU :- Designing and performing further audit procedures that respond to the assessed risks of material misstatement and will provide the evidence necessary to support the audit opinion.

Finally, you, as the auditor, assess the audit evidence obtained and determine whether it is sufficient and appropriate to reduce the risks of material misstatement in the financial statements to an acceptably low level and hand over your Audit Report to the management of Anupama Hotels Ltd. with all your suggestions and scope for improvements for reviving the economic operations of the their Resort.

THE DECISION:- Considering all the above options and working out on the feasibility of each , the management of Anupama Ltd. chooses to go further with Option No. 3 of going for Corporate Debt Restructuring and request you to frame a scheme to be discussed with their main financiers XYZ Bank Ltd. in due time.

### I. Multiple Choice Questions

1. Which of following is not an indicator of possible potential misstatement with respect to “Existence” assertion which could be identified while performing audit of Anupama Hotels Ltd?
  - (a) Source Documents overstated
  - (b) Fictitious transactions entered on source documents
  - (c) Processing of transactions is inaccurate.
  - (d) Transactions duplicated on source documents
2. The Head Accountant’s view with respect to utilisation of ITC on the contract outsourced to Vanraj & sons is:
  - (a) Correct, as ITC on catering service is not available under GST law.
  - (b) Incorrect, as ITC is available for utilisation as per GST Law.
  - (c) Correct, as ITC is available only when catering service is provided by an employer to its employees under a statutory obligation.
  - (d) Correct, as ITC on sub-contracting of catering service is not available under GST law.
3. Which two Account Balances are most likely to be affected by the wrongdoings found by Komal while auditing the expenses of the Restaurant?
  - (a) Sales invoices and Purchases.
  - (b) Inventory & Account Payables.
  - (c) Opening & Closing Stocks only.
  - (d) Purchases & Account Payables.
4. What is the value of supply of Luxury food coupons as sold by Hard Coupons Ltd. under GST law?
  - (a) ₹ 1000.
  - (b) ₹ 900.
  - (c) ₹ 100.
  - (d) Either (a) or (b) depending upon the time of its redemption.
5. Suppose Anupama Hotels Ltd. strikes a deal with Naman Hotels Ltd. as per the plan of Business combination put forward by the latter :-

**STATEMENT 1** :- In this case , the ACQUIRER will be Anupama Hotels Ltd. and not Naman Hotels Ltd.

**STATEMENT 2** :- 1<sup>st</sup> July will be considered as the ACQUISITION DATE.

- (a) Both the Statements are Incorrect.
- (b) Both the Statements are Correct.
- (c) Statement 1 is Incorrect while Statement 2 is Correct.
- (d) Statement 1 is Correct while Statement 2 is Incorrect.

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

## **II. Descriptive Questions**

6. Calculate the gain or loss, Kavya Hotels Ltd. will make on acquisition of Anupama Hotels Ltd., if their deal is finalised. Also show the Journal entries for accounting of its acquisition. Also calculate the value of the non-controlling interest in Anupama Hotels Ltd. on the basis of proportionate interest method, if alternatively applied and resulting goodwill/gain on bargain purchase?
- (4 Marks)**
7. "Auditors are required to assess the risks of material misstatement at two levels". Briefly explain the same and state the procedures to be followed by Komal regarding validity of account balances relating to the purchases while auditing the controls in the restaurant of Anupama Hotels Ltd. **(4 Marks)**
8. With the help of data provided by the Head Accountant of Kavya Hotels Ltd. and the following additional information, compute profits and gains of business or profession of Kavya Hotels Limited for the Assessment Year 2024-25 indicating the reason for treatment of each item assuming that the company is not eligible for deduction u/s 35AD. Ignore the provisions relating to minimum alternate tax and the provisions of section 115BAA:-
- (a) As a corporate debt restructuring arrangement, their bank has converted unpaid interest of ₹ 10 lakhs upto 31st March 2023 into a new loan account repayable in five equal annual installments. The first installment of ₹ 2 lakhs was paid in March 2024 by debiting new loan account.
  - (b) Depreciation as per Income-tax Act, 1961 is ₹ 15 lakhs.
  - (c) The company received a bill for ₹ 3 lakhs on 31st March 2024 from a supplier of vegetables for supply made in March 2024. The bill was omitted to be recorded in the books in March 2024. The bill was paid in April 2024 and the necessary entry was made in the books then.

**(7 Marks)**

### **CASE STUDY 4**

CA Parminder Kaur who qualified as a Chartered Accountant 3 years back has set up her own Practice in Jalandhar, Punjab. Her major expertise is in the field of consultancy to her clients regarding Global Accounting, Foreign Exchange related Legal matters, International taxation & promoting Financial Literacy. Through reference of an NRI relative, she recently bagged a contract of providing her services to the corporate house "SIMRAJ", a venture of Raj Arora & Simran Arora, husband & wife, based at Frankfurt, Germany. Raj & Simran met each other during

their post-graduation days in London School of Economics and became best friends there. While Simran was simultaneously involved in the construction business of her father in London, Raj was always a kind of creative person who would like to promote innovations in the field of Healthcare and Pharmaceuticals. At present, Simran is successfully running her construction business by the name of Simran Constructions GmbH in Germany, while Raj has set up his venture by the name of Raj Pharma AG, incorporated in Germany and 63% of its shares are held by Simraj (P) Ltd., an Indian company. Raj Pharma AG has its presence in India also.

Simran's one of the biggest construction project was being executed in India at Amritsar through Sim Contractors Pvt. Ltd., another company based in India, shortly known as "SIMCO", which is a foreign operation of Simran Constructions GmbH, primarily set up to execute construction projects in India. The functional currency of Simran Constructions GmbH is Euros. 78% of SIMCO's finances have been raised in USD by way of contribution from Simran Constructions GmbH. SIMCO's bank accounts are maintained in USD as well as in INR. Cash flows generated by it are transferred to the German Company on a monthly basis in USD in respect of repayment of finance received from the German Company. Revenues of SIMCO are in USD. Its competitors are globally based. Tendering for the construction project happened in USD. SIMCO incurs 80% of the cost in INR and remaining 20% costs in USD.

While carrying out this construction project in Amritsar, SIMCO was in need of a heavy excavation machinery "XALTI" which was not available in India. CA Parminder arranges a meeting of SIMCO's Manager in India with one of her clients, Mr. Amit Juneja, at the request of Simran to enter into a contract of importing this machinery from out of India. Mr. Juneja has been in the business of trading in heavy machineries used in construction business since the past 5 years and had been planning since long to start importing highly technical machines from outside India to include in his trade segment. He felt it to be the right time and opportunity to enter into the Global market. He imported "XALTI" from Malta Machineries based in France. CA Parminder guides and helps Mr. Juneja to execute this import transaction following all the general guidelines as laid under the domestic laws of India. Along with this transaction, Mr. Juneja requires to transfer U.S. \$ 15,000 for remittance towards hiring charges of transponders to be paid to Ross and U.S. \$ 20,000 to be paid to Chandler for payment related to call back services of telephones, both being foreign nationals.

Raj Arora is very curious to know about the compliances to be made by Raj Pharma AG. He provides the following details to CA Parminder Kaur relating to Raj Pharma AG for the P.Y. 2023-24:

<b>Particulars</b>	<b>India</b>	<b>Germany</b>
Fixed assets at depreciated values for tax purposes (₹ in crores)	100	60
Intangible assets (₹ in crores)	50	100
Other assets (value as per books of account) (₹ in crores)	40	120



Income from trading operations (₹ in crores)		50	75
The above figure includes:			
(i)	Income from transactions, where purchases are from associated enterprises and sales are to unrelated parties	2	4
(ii)	Income from transactions, where sales are to associated enterprises and purchases are from unrelated parties	3	5
(iii)	Income from transactions, where both purchases and sales are from/to associated enterprises	5	10
Interest and dividend from investments (₹ in crores)		30	20
Number of employees (Residents in respective countries)		60	90
Payroll expenses on employees (₹ in crores)		10	15

During F.Y.2023-24, eight board meetings of Raj Pharma AG were held – 3 in India and 5 in Germany.

Raj Pharma AG's Indian counterpart – Simraj (P) Ltd. required a high tech machinery "Medifix" to be purchased from Cambridge, UK. For importing such machinery, Raj contacted one of his friends in Cambridge, who runs a company by the name of "Medico Inc.", a London based company, having several business units all over the world. It has a unit for manufacturing pharma machineries with its Headquarters in New Delhi. It has a branch in Dubai which is controlled by the Headquarters in New Delhi. However, "Medifix", being not available with 'Medico Inc.', Raj's friend in Cambridge helped him to procure the machinery from another company in Frankfurt, Germany known to him. This foreign currency asset amounting to Euro 100,000 is recorded by Simraj (P) Ltd. as a non-monetary item at the date of purchase when the exchange rate was ₹ 52 at ₹ 52 lakhs. The recoverable amount of the asset on the reporting date is calculated as Euro 90,000. The exchange rate on the date of valuation was ₹ 60 to a Euro and the carrying amount of Medifix recorded accordingly, as per the relevant Ind-AS, in the books of Simraj (P) Ltd. is ₹ 54 lakhs.

Raj and Simran, both made several trips to India during the previous year and they are quite skeptical about the taxation of their income in both the countries – Germany & India. One day, over dinner table, they discussed all these aspects. Raj, having an experience in International tax matters and having discussed the same with CA Parminder tells Simran that in the case of income arising to an assessee in countries with which India does not have any double taxation agreement, relief would be granted under the Indian Income tax law subject to fulfilment of certain conditions. Simran tells him that one of her friends told her in a Kitty party that the double taxation avoidance treaties entered into by the Government of India with other countries can never ever override the domestic law of India.

Further, Simran is curious to tell Raj about her father's business in the same segment and how her father is doing so good with the finances of the business that inspires her as well. She tells Raj that one of her father's business set-ups in India by the name of Entity "P" whose functional currency is '₹', has a foreign operation, Entity "Q" with Euro as its functional currency. Entity Q issued to Entity P, a perpetual debt denominated in Euros with an annual interest rate of 6%. The perpetual debt has no issuer call option or holder put option. Thus, contractually it is just an infinite stream of interest payments in Euros.

Further, being highly impressed with CA Parminder's work and quality of her performance, they both decided to offer her the role of CFO in their German Group "SIMRAJ" and wanted her to get migrated to Germany to which CA Parminder agreed. As per the offer letter, Parminder should join the company at any time between 1st September, 2023 and 31st October, 2023. She has maintained a joint account with her father in UCO Bank, Jalandhar, in India.

### I. Multiple Choice Questions

1. Referring to the provisions of the Foreign Exchange Management Act, 1999, state the kind of approval required for the transactions to be carried out by Mr. Amit Juneja for payment to Ross and Chandler respectively:-
  - (a) Ross :- Central Government ; Chandler :- Reserve Bank of India
  - (b) Ross :- Reserve Bank of India; Chandler :- Central Government
  - (c) Ross :- Prohibited Transaction ; Chandler :- Reserve Bank of India
  - (d) Ross :- Central Government ; Chandler :- Prohibited Transaction
2. What would be the residential status under the FEMA, 1999, of Pharma unit of "Medico Inc." in New Delhi and that of Dubai branch?
  - (a) Both are persons resident outside India.
  - (b) New Delhi Headquarters – Resident person & Dubai Branch – Non-resident person
  - (c) Both are persons resident in India.
  - (d) New Delhi Headquarters – Non-resident person & Dubai Branch – Resident-person
3. Determine the value of Impairment loss in foreign currency with respect to "Medifix" and whether it should be recognised in books by Simraj (P) Ltd.?
  - (a) Euro 10,000 should be recognised as impairment loss
  - (b) ₹ 2 lakh should be recognized as impairment loss
  - (c) ₹ 2 lakh should not be recognised as impairment loss
  - (d) Euro 10,000 should not be recognised as impairment loss
- 4.. In Entity P's consolidated financial statements, can the perpetual debt be considered, in accordance with Indian Accounting Standards, a monetary item "for which settlement is neither planned nor likely to occur in the foreseeable future" (i.e. part of P's net investment in Q), with the exchange gains and

losses on the perpetual debt therefore being recorded in equity? Entity “P’s” functional currency is INR, and Entity “Q’s” functional currency is Euro.

- (a) Yes, the Perpetual Debt can be considered as a monetary item and the related exchange gains and losses should not be recognised.
  - (b) No, the Perpetual Debt should not be considered as a monetary item and the related exchange gains and losses should not be recognised accordingly.
  - (c) Yes, the Perpetual Debt can be considered as a monetary item and the related exchange gains and losses should be recorded in equity at the consolidated level.
  - (d) No, the Perpetual Debt should not be considered as a monetary item and the related exchange gains and losses should be recognised in consolidation of accounts.
5. By what date maximum, should CA Parminder leave India and how should she receive her salary to minimize her tax liabilities in India, if her total income during P.Y. 2023-24 was ₹ 14 lakhs?
- (a) She should leave India on or before 28 September, 2023 and get her salary credited to a Bank account in Germany only, to be remitted, later on, to her Joint account in India.
  - (b) She should leave India on or before 27 September, 2023 and get her salary credited directly to her Joint account in India.
  - (c) She should leave India on or before 27 September, 2023 and get her salary credited to a Bank account in Germany only, to be remitted, later on, to her Joint account in India
  - (d) She should leave India on or before 28 September, 2023 and get her salary credited directly to her Joint account in India. **(5 x 2 = 10 Marks)**

## **II. Descriptive Questions**

6. Mr. Amit Juneja wants to know from CA Parminder, the various modes of payment he can use, to make payment to Malta Machinerics for importing “XALTI”. Also, he requests her to guide on the time-limit for making settlement of such payment as laid under the Domestic law. **(5 Marks)**
7. Can INR be presumed as the Functional Currency for SIMCO? **(4 Marks)**
8. Determine the residential status of Raj Pharma AG for A.Y.2024-25, as per the Indian Income tax law. **(6 Marks)**

### **CASE STUDY 5**

#### **Background for establishment of Thunderbolt Airlines Private Limited (TAPL).**

Avian Airlines Inc. is a renowned airline company with a global presence, headquartered in New York, United States of America. In the year 2000, Avian Airlines Inc. (AAI) established a branch office in Mumbai to handle its Indian flight operations. The Indian flight operations are handled only at the Mumbai airport.

Passengers are either transported from Mumbai to destinations abroad or transported to Mumbai from overseas. There are no domestic flight operations within India. The Mumbai office handles routine day-to-day operations undertaken by junior and middle-level management staff. The work handled by the Mumbai office includes flight ticket booking and cancellation, managing Avian's airport lounge facilities, managing the check-in counters at the airport, assisting customers with services like in-flight meals, providing access to airport lounge facilities, providing flight information, travel insurance information, assisting with missing luggage queries, and any other customer-related services. At the same time, the place of effective management is outside India, and it is determined that Avian Airlines Inc. has an active business outside India.

Below are the details of revenue from business operations of operating aircrafts received by the Mumbai Branch office for the year ended 31st March 2024:

- (i) ₹ 5 crores in India on account of carriage of passengers from Mumbai to destinations outside India
- (ii) ₹ 2 crores in India on account of carriage of passengers from outside India to Mumbai
- (iii) ₹ 3 crores in New York, United States of America on account of carriage of passengers from United States of America to Mumbai

The total expenditure incurred by AAI's Mumbai branch for the purpose of carrying out its operations in India is ₹8 crores.

The Indian economy is considered one of the fastest-growing economies, with projections for GDP growth of 7% year-on-year. Private consumption and growing economic activity in both the manufacturing and service sectors have spurred growth since 2022. Post-pandemic, with the easing of restrictions on civil aviation, consumers' appetite for travel has increased manifold. It is expected that domestic aviation will require at least 4,000 fleets within the next two decades to meet the anticipated growth in demand.

Since 2022, passenger traffic in India has increased. With the rise in disposable incomes, rapid urbanization, and an increase in the working-class population, the growth in demand for air travel is expected to remain constant. Tier 2 and Tier 3 cities are also expected to play a pivotal role due to the greater spread of economic activity and increasing population in these cities. The government is focused on building and expanding modern infrastructure facilities across the country to support the domestic civil aviation industry. Almost 100 more new airports will be operational by 2028, giving scope for the development of new regional routes that can provide excellent connectivity within India. A growing economy will need to be supported by a burgeoning demand for international travel to and from India. Hence, India will require better connectivity with international destinations. This opens up the scope for developing newer routes to connect passengers across the globe.

## **TAPL, a Joint Venture between Avian Airlines Inc. and Power Group Limited**

In order to be part of a growing market, Avian Airlines Inc. has decided to enter the Indian aviation industry. On April 1, 2024, AAI plans to enter into a joint venture with Power Group Ltd. (PGL), which is one of India's largest conglomerates with business interests in various sectors ranging from technology, automotive, infrastructure, to consumer and retail. Power Group Ltd. (PGL) is headquartered in Mumbai, India. Thunderbolt Airlines Private Limited (TAPL) is the joint venture between Power Group Ltd. and Avian Airlines Inc. Power Group Ltd. will have a 60% stake in the joint venture, while Avian Airlines Inc. will hold a 40% stake.

Avian Airlines Inc. is renowned for its full-service airline service, catering to the premium flying segment. On the other hand, Power Group Limited (PGL) has access to global markets due to its operations in various business segments. It has been a pioneer in many of the businesses it operates, hence it is considered one of India's most valuable conglomerates. The brand image of PGL has given it deep penetration in the Indian domestic market due to the various businesses it operates.

Most airlines in the Indian market operate as low-cost carriers (LCC). However, intense competition combined with inflationary pressures on input costs like ATF fuel, personnel costs, etc., means that margins are limited and always under pressure. Therefore, it has been decided to position TAPL as a full-service airline in the domestic civil aviation market. The targeted customer segment would be high-end business travelers in a price-sensitive market. Currently, 95% of the seating capacity within the domestic civil aviation sector is economy seats. The remaining 5% capacity consists of highly priced premium seats sold mostly to price-indifferent passengers, who form a very limited and niche market existing only on certain routes within the country. TAPL plans to offer a new segment of seats in its aircraft: "premium economy," which combines the benefits of premium flying at affordable rates. Given that growing economic activity generally spurs the demand for business-related travel, TAPL plans to foray into the "premium economy" segment, positioned midway between economy seats and premium first-class seats.

While the rates may be slightly higher than the regular market price for economy seats offered by other airlines, for a small additional cost, passengers can avail themselves of benefits like customized service, faster check-in, and a better in-flight experience. All the seats in TAPL's aircraft will offer "premium economy" seating.

TAPL will have its main operational hub in Mumbai, which will serve as the nodal point for most of its domestic airline flights. It will also operate international flights to Dubai, where AAI has a major nodal hub for its international operations in Asia and the Middle East. Hence, a business flyer can connect to both domestic flights using TAPL's fleet as well as international destinations through AAI's fleet from Dubai.

TAPL's vision "To be the most loved, most efficient, and most valuable airline".

TAPL's mission "To enhance customer experience by offering seamless connectivity".

Avian Airlines Inc. will provide the technical and managerial support required to run a full-service airline. Power Group Limited (PGL), with its market presence and brand image, will provide access to the Indian aviation sector for AAI, acting as a stable and trustworthy partner in the joint venture. A few executives from AAI and PGL will be part of TAPL's management team for the initial years until the airline can manage its operations independently. These executives will be well-versed with TAPL's overall strategy, helping guide the company in its initial years of establishment. Once the "start-up" phase is over, TAPL will hire eligible executives with appropriate experience from the Indian market to oversee airline operations.

TAPL will have a hierarchical structure, with Mr. Tan being appointed as the Chief Operating Officer for India. Since TAPL is being developed as a full-fledged service carrier, it has been decided that decision-making, in the initial years of establishment, will follow a centralized model. Senior management at TAPL will comprise executives from AAI and PGL. Operations will be managed by AAI, given their expertise in the aviation sector, while PGL will oversee Sales & Marketing and Finance, being a recognized brand in India. The Directors of Operations, Finance, Human Resources, and Sales & Marketing will all report to Mr. Tan, who, in turn, reports to the Board Members at AAI and PGL.

As mentioned above, TAPL will have specific departments that will look into Operations, Finance, Human Resources, and Sales & Marketing. TAPL will invest in digitalization and the use of information technology to provide a high level of customized service to its passengers. Similarly, based on guidance from executives at AAI, workflows will be documented, established, and communicated throughout the organization. Digitalization can smooth process flows, make interactions less cumbersome, and speed up process times, all of which contribute towards cost efficiencies and enhanced customer satisfaction. Each department will have specific goals and performance measurement systems in place.

AAI and PGL are reputed companies with work cultures and ethics defined by the core values of their respective companies. The employees and other support partners of TAPL are expected to uphold similar values such as honesty, excellent work ethic, transparency in working, accountability, and trust. Both companies have a global presence. Hence, TAPL is expected to support a culture of diversity at its workplace in terms of gender, background, and age.

The aviation sector is a highly competitive industry. The success of the joint venture depends on the management leadership and teamwork at TAPL. It is expected that each department will create synergy that merges the work cultures of both AAI and PGL. Cross-functional project teams will be deployed to build this synergy and foster team spirit. This will encourage creativity and motivate employees to work towards a successful venture.

Due to its competitive environment, the aviation industry is prone to high attrition due to employee poaching. TAPL aims to create value for its employees by offering attractive pay packages, facilities, and a conducive environment for professional growth. A high attrition rate could have a detrimental impact on a business that wishes to be a full-fledged premium service airline.

Since TAPL is targeting to be a full-fledged service carrier, it is important for the staff to be well-experienced both technically and in soft skills like customer service. TAPL is expected to hire pilots, engineers, and other technical staff who are already working at other airlines. They are also planning to collaborate with institutes that offer aeronautical engineering and aviation technology courses to hire a well-experienced and rounded pool of staff who are highly skilled, as well as to arrange for periodic training of staff. Senior executives of AAI, who are deputed to TAPL, will be in charge of ensuring that the workforce comprises highly skilled and qualified staff in charge of airline operations. The other non-technical staff will be hired by the Human Resources department in consultation with the respective department heads.

However, Mr. Tan was well aware of the key factors required for success in the airline industry. He understood that one essential aspect was routes, and he knew that his main hub in Mumbai would only make sense if he secured a set of routes from Mumbai; otherwise, it would be catastrophic for the airline due to the high parking costs at Mumbai Airport. Being new to the Airlines of India, Mr. Tan was not familiar with all the laws but was determined to achieve his goals. He was aware that the renowned airline, TruJet Airways which had major routes originating from Mumbai, was undergoing insolvency due to running in losses and default in payment to secured creditors including in payment of current dues for the right to use the property in possession at Mumbai Airport.

Consequently, Mr. Tan hired the best lawyers in town to acquire their slots. The lawyers immediately approached the DGCA and requested the reallocation of these rights to them. They argued that TruJet is not entitled and had no right to use. They claimed that this was a breach of TruJet's operating conditions with the DGCA, as no other Airlines were allotted and permitted to use. So requested that the slots should be immediately handed over for consumer welfare. The DGCA agreed and handed over the slots to TAPL.

TruJet was offended by this order and approached the Apex court, claiming it was unjust. It argued that no one, including the regulators, has the right to take possession of any property from an owner or lessor in possession of the Corporate Debtor. DGCA countered that they had not initiated any new proceedings and that it was a matter of breach of contract; hence, the DGCA had the right to refuse the Right of use to TruJet.

## I. Multiple Choice Questions

1. On April 30<sup>th</sup> 2024, Power Group Ltd. (PGL) sells an aircraft that it owns to Thunderbolt Airlines Private Limited (TAPL). This aircraft is of an older model. Therefore, its fair value is ₹ 45 crores while the carrying cost in PGL's latest books is ₹ 50 crores. How will PGL account for the loss in its books?
  - (a) Recognize a loss of ₹ 5 crores in its books
  - (b) Recognize a loss of ₹ 3 crores in its books
  - (c) Recognize a loss of ₹ 2 crores in its books
  - (d) Will not recognize a loss as the books will be consolidated at the year end
  
2. Which type of product would the premium economy seats be considered as?
  - (a) Revolutionary product
  - (b) Evolutionary product
  - (c) Me-too product
  - (d) Perishable product
  
3. Which of the following will not be true regarding the accountability in performance measurement system for the Human Resource department at TAPL?
  - (a) Maintaining staff attrition below the threshold level would be hard accountability for the Human Resource department
  - (b) Ensuring that employee payout and benefits are within budgeted limits would be a hard accountability for the Human Resource department
  - (c) Addressing employee concerns about working environment would be a soft accountability for the Human Resource department
  - (d) Ensuring synergy between the work cultures of executives of PGL and AAI deputed at TAPL by arranging for team building exercises would be hard accountability for the Human Resource department
  
4. TAPL has identified the following critical success factor (CSF) "Enhance customer experience by maintaining the best on-time performance within the industry"

Which one of the following would be the most suitable key performance indicator for this CSF?

  - (a) Reduce the number of customer complaints regarding flight delays by 25%
  - (b) Reduce the average time taken to deal with complaints regarding flight delays by 20%
  - (c) Keep log / record of flight on time performance



- (d) Increase the training for customer facing staff like those at the check-in counters, staff assisting boarding and the aircraft cabin crew
5. Mr. Tan texted the CFO of the company about the recent efforts to acquire those slots and asked for his opinion on what the outcome might be. The CFO then sent you an email asking you to analyze what verdict the Apex Court could deliver.
- (a) As a regulator, the DGCA was well within its powers to transfer the right of use, and did not breach the Insolvency and Bankruptcy Code, 2016 due to default in payment of current dues arising for the use of possession of Mumbai airport.
- (b) As a regulator, the DGCA was well within its powers to transfer the right of use, but it breached the Insolvency and Bankruptcy Code, 2016.
- (c) The DGCA has no right to reallocate the rights because the airline was paying their current dues. However, they did not breach the Insolvency Bankruptcy Code, 2016 during the hearing of TAPL's petition.
- (d) The DGCA had no right to reallocate the rights because the airline was paying their current dues, but it breached the Insolvency and Bankruptcy Code, 2016 during the hearing of TAPL's petition. **(5 x 2 = 10 Marks)**

## **II. Descriptive Questions**

6. AAI plans to enter into a joint venture with PGL from 1<sup>st</sup> April, 2024. TAPL is new vehicle for this purpose. What role internal audit function can play in such a joint venture? **(6 Marks)**
7. Assess each of the hard and soft elements based on the McKinsey 7s Framework. **(9 Marks)**