

# **INTERMEDIATE COURSE**

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## **PAPER – 1**

### **ADVANCED ACCOUNTING**

**[RELEVANT FOR MAY, 2025 EXAMINATION AND ONWARDS]**

## **BOOKLET ON CASE SCENARIOS**



**BOARD OF STUDIES**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

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# PREFACE

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Under the New Scheme of Education and Training which was introduced on 1<sup>st</sup> July, 2023, 30% of the examination assessment is by the way of Objective Type Questions at Intermediate and Final level. Therefore, to provide hands-on practice for such type of questions, BOS launched MCQ Paper Practice Portal on 1<sup>st</sup> July, 2023. This online portal contains independent MCQs as well as case scenario based MCQs both for conceptual clarity and practice of the students.

In continuation to this handholding initiative and to provide quality academic inputs to the students to help them grasp the intricate aspects of the subject, the Board of studies has brought forth subject-wise booklets on Case Scenarios at Intermediate and Final level. These booklets are meticulously designed to assist Chartered Accountancy (CA) students in their preparation of the CA course.

At the Intermediate level, the **'Booklet on Case Scenarios for Paper 1: Advanced Accounting'** carries integrated case scenarios involving more than one Accounting Standard. It covers a wide range of scenarios covering various provisions of Accounting Standards, ensuring that students gain a thorough and diverse understanding of the subject. These case scenarios-based MCQs are all application-oriented and arise from the facts of the case. One needs to apply the provisions of AS to the facts of the case to choose the correct option. At the end of each Case Scenario followed by MCQs, we have also provided detailed solutions and explanations for each MCQ which will enable students to evaluate their performance and identify areas requiring further attention.

However, you are advised that before working out the case scenarios based MCQs in this booklet, be thorough with the concepts and provisions of Accounting Standards as discussed in the study material. After attaining conceptual clarity, you will be able to apply the concepts learnt in answering the case scenario-based MCQs. The process of learning concepts and

provisions of Accounting Standards will help you attain conceptual clarity and hone your application and analytical skills so that you approach the examination with confidence and a positive attitude.

We are confident that this booklet will serve as a valuable companion in your preparation journey. We encourage students to make the most of this resource by engaging deeply with the scenarios, reflecting on the MCQs, and embracing the learning process.

**Best wishes for your studies and success in the CA Intermediate  
Examination!**

## CASE SCENARIO 1

RTS Ltd, ("RTS" or the "Company"), is engaged in the business of manufacturing of urea, has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment of manufacturing of equipments/components. The Company has a contract with the Indian Railways for a brake component which is structured such that:

- The Company's obligation is to deliver the component to the Railways' stockyard, while the delivery terms are ex-works, the Company is responsible for engaging a transporter for delivery.
- Railways sends an order for a defined quantity.
- The Company manufactures the required quantity and informs Railways for carrying out the inspection.
- Railways representatives visit the Company's factory and inspect the components, and mark each component with a quality check sticker.
- Goods once inspected by Railways, are marked with a hologram sticker to earmark for delivery identification by the customer when they are delivered to the customer's location.
- The Company raises an invoice once it dispatches the goods.

The management of RTS is under discussion with the auditors of the Company in respect of accounting of a critical matter as regards its accounting with respect subsequent events i.e. events after the reporting period. They have been checking as to which one of the following events after the reporting period provide evidence of conditions that existed at the end of the reporting period?

- i. Nationalisation or privatization by government
- ii. Out of court settlement of a legal claim
- iii. Rights issue of equity shares
- iv. Strike by workforce
- v. Announcing a plan to discontinue an operation

The Company has received a grant of ₹ 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the Company distributed ₹ 2 crores as dividend. The Company also received land, free of cost, from the State Government but it has not recorded this at all in the books as no money has been spent.

RTS has a subsidiary, LPP Media & Creations Ltd (LPP), an advertising agency which prepares and publishes advertisement in newspapers on behalf of its clients. LPP invoices its clients for the commission they are entitled to as well as the media space payable to the newspaper.

### **MULTIPLE CHOICE QUESTIONS**

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Based on the above information, answer the following questions.

1. When should RTS Ltd recognize revenue as per the Accounting Standards notified under the Companies (Accounting Standards) Rules. Would your answer be different if inspection is normally known to lead to no quality rejections?
  - (a) Revenue should be recognized on dispatch of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.
  - (b) Revenue should be recognized on completion of inspection of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.
  - (c) Revenue should be recognized on dispatch of components. The assessment would change where inspection is normally known to lead to no quality rejections.
  - (d) Revenue should be recognized on delivery of the component to the Railways' stockyard. The assessment would change where inspection is normally known to lead to no quality rejections.
2. In respect of LPP, how should the revenue be recognized as per Accounting Standards?
  - (a) LPP should record net amount of commission earned by it.
  - (b) LPP should record net amount of commission earned by it and disclose the information about gross income from advertisement

through media and preparation of advertisement material as well as payments to media and expenditure incurred for creation of an advertisement in the notes to accounts.

- (c) LPP should record gross income from advertisement through media and preparation of advertisement material and gross amount of payments to media and expenditure incurred for creation of an advertisement.
  - (d) LPP may record this on net or gross basis depending on its accounting policy.
3. Please guide the management of RTS Ltd as to which one of the events mentioned above (i to v) after the reporting period provide evidence of conditions that existed at the end of the reporting period?
- (a) ii and v.
  - (b) ii.
  - (c) v.
  - (d) i, iii and iv.
4. Please guide regarding the accounting treatment of both the grants mentioned above in line with the requirements of Accounting Standard 12.
- (a) Distribution of dividend out of grant is correct. In the second case also not recording land in the books of accounts is correct.
  - (b) Distribution of dividend out of grant is incorrect. In the second case, not recording land in the books of accounts is correct.
  - (c) Distribution of dividend out of grant is correct. In the second case, land should be recorded in the books of accounts at a nominal value.
  - (d) Distribution of dividend out of grant is incorrect. In the second case, land should be recorded in the books of accounts at a nominal value.

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (b)** Revenue should be recognized on completion of inspection of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.

**Reason:**

As per AS 9, revenue should be recognized once the significant risks & rewards are transferred which would take place after inspection.

2. **Option (c)** LPP should record gross income from advertisement through media and preparation of advertisement material and gross amount of payments to media and expenditure incurred for creation of an advertisement.

**Reason:**

As per AS 9, LPP is acting as the principal and hence gross basis of accounting would be followed.

3. **Option (b) ii.**

**Reason:**

As per AS 4, Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity. All the events other than (ii) occurred only after the balance sheet date and those events did not provide any further evidence of conditions that existed at the balance sheet date.



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4. **Option (d)** Distribution of dividend out of grant is incorrect. In the second case, land should be recorded in the books of accounts at a nominal value.

**Reason:**

As per AS 12, grants should be utilized only for the purposes for which they have been received by the entity and hence any distribution of dividend in the above mentioned case is inappropriate. Further, land is non-monetary government grant. Government grants may take the form of non-monetary assets, such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary assets given free of cost are recorded at a nominal value.

**CASE SCENARIO 2**

Suman Ltd. is in the business of manufacturing electronics equipment and selling these at its various outlets. It provides installation services for the equipment sold and also provide free 1 year warranty on all the sold products.

Beach Resorts are leading resorts in the city. It purchased 5 air conditioners (AC) from Suman Ltd. for its resort. Suman Ltd. sold 5 AC to Beach resort for ₹ 45,000 each which includes installation fees of ₹ 1,000 for each AC. The Company also offers 1 year warranty for any repair etc. The Company also offered ₹ 500 per AC as trade discount. Beach resort placed order on March 15, 2024 and made payment on March 20, 2024. The ACs were delivered on March 27, 2024 and the installation was completed on April 5, 2024.

**MULTIPLE CHOICE QUESTIONS**

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1. How much revenue should be recognised by the Company as on March 31, 2024:
  - (a) ₹ 2,25,000
  - (b) ₹ 2,17,500
  - (c) ₹ 2,00,000
  - (d) ₹ 2,30,000
2. How much revenue should be recognised by the Company in the financial year 2024-25:
  - (a) ₹ 5000
  - (b) ₹ 2,20,000
  - (c) ₹ 10,000
  - (d) ₹ 2,40,000
3. What will be the accounting for trade discount:
  - (a) The same will be recognised separately in the profit and loss.
  - (b) The trade discounts are deducted in determining the revenue.

- (c) Trade discount will be recognised after one year, when the warranty will be over.
  - (d) Trade discount will be recognised after installation is complete.
4. Is the Company required to do any accounting for 1 year warranty provided by it:
- (a) No accounting treatment is required till some warranty claim is actually received by the Company.
  - (b) As there exist a present obligation to provide warranty to customers for 1 year, the Company should estimate the amount that it may have to incur considering various factors including past trends and create a provision as per AS 29.
  - (c) Accounting for claims will be done on cash basis i.e. expense will be recognised when expense is made.
  - (d) As the Company is not charging separately for the warranty provided, there is no need to create any provision.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** ₹ 2,17,500

**Reason:**

As per AS 9, in cases where installation fees are other than incidental to the sale of a product, they should be recognised as revenue only when the equipment is installed and accepted by the customer. Thus, revenue will be recognised excluding installation charges. Further, as per AS 9, trade discount are not encompassed with revenue. The revenue for F.Y. 23-24 will be:  $5 * (\text{₹ } 45000 - 500 - 1000) = \text{₹ } 2,17,500$

2. **Option (a)** ₹ 5,000

**Reason:**

As per AS 9, in cases where installation fees are other than incidental to the sale of a product, they should be recognised as revenue only when the equipment is installed and accepted by the customer. Thus, revenue pertaining to installation should be recognised when ACs are installed.)

3. **Option (b)** The trade discounts are deducted in determining the revenue.

**Reason:**

As per AS 9, trade discount should be deducted in determining revenue.)

4. **Option (b)** As there exist a present obligation to provide warranty to customers for 1 year, the Company should estimate the amount that it may have to incur considering various factors including past trends and create a provision as per AS 29.

**Reason:**

As per paragraph 14 of AS 29, a provision should be recognised when there exists present obligation to act or perform in a certain way and other conditions for its recognition under AS 29 are satisfied. Here, the Company can estimate the amount that it may have to incur considering past trends and make a provision.

**CASE SCENARIO 3**

Mars Ltd. is a manufacturing enterprise which is starting a new manufacturing plant at X Village. It has commenced construction of the plant on April 1, 2023 and has incurred following expenses:

- ◆ It has acquired land for installing Plant for ₹ 50,00,000
- ◆ It incurred ₹ 35,00,000 for material and direct labour cost for developing the Plant.
- ◆ The Company incurred ₹ 10,00,000 for head office expenses at New Delhi which included rent, employee cost and maintenance expenditure.
- ◆ The Company borrowed ₹ 25,00,000 for construction work of Plant @12% per annum on April 1, 2023. Director finance of the Company incurred travel and meeting expenses amounting to ₹ 5,00,000 during the year for arranging this loan.
- ◆ On November 1, 2023, the construction activities of the plant were interrupted as the local people alongwith the activists have raised issues relating to environmental impact of plant being constructed. Due to agitation the construction activities came to standstill for 3 months.
- ◆ With the help of Government and NGOs, the agitation was over by February 28, 2024 and the work resumed. However, to balance the impact on environment, government ordered the company to install certain devices for which the Company had to incur ₹ 6,00,000 in March 2024.
- ◆ The rate of depreciation on Plant is 10%.

Based on the above information, answer the following questions.

**MULTIPLE CHOICE QUESTIONS**

1. Which of the following expenses cannot be included in the cost of plant:
  - (a) Cost of Land
  - (b) Construction material and labour cost

- (c) Head office expenses
  - (d) Borrowing cost
2. How much amount of borrowing cost can be capitalised with the plant:
- (a) ₹ 300,000
  - (b) ₹ 2,00,000
  - (c) ₹ 7,00,000
  - (d) ₹ 6,00,000
3. The total cost of plant as on march 31, 2024 will be:
- (a) ₹ 85,00,000
  - (b) ₹ 98,00,000
  - (c) ₹ 93,00,000
  - (d) ₹ 95,00,000
4. The amount of depreciation to be charged for the year end March 31, 2024
- (a) ₹ 4,30,000
  - (b) ₹ 9,30,000
  - (c) ₹ 9,80,000
  - (d) Nil

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Head office expenses

**Reason:**

As per paragraph 17(b) of AS 10 states that the cost of an item of Property, Plant and Equipment comprises any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Head office is generally used for the overall supervision, planning etc. which are not directly related to construction.

**2. Option (b) ₹ 2,00,000****Reason:**

As per Paragraph 17 of AS 16 states that capitalisation of borrowing cost should be suspended during extended periods to which active development is interrupted. Thus, interest cost from November 1, 2023 to February 28, 2024 will not be capitalised. Interest for only 8 months will be capitalised ( $\text{₹ } 25,00,000 \times 12\% \times 8/12$ )

**3. Option (c) ₹ 93,00,000****Reason:**

As per paragraph 17(b) of AS 10 states that the cost of an item of Property, Plant and Equipment comprises any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Thus, directly attributable costs in this case are cost of land ₹ 50,00,000, cost of material and direct labour ₹ 35,00,000, devices installed due to government order ₹ 6,00,000 and borrowing cost ₹ 2,00,000 as per paragraph 6 of AS 16.

**4. Option (d) Nil****Reason:**

As per paragraph 57 of AS 10, Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. As the construction is not yet complete and the asset is not available for use, the depreciation will not start.

**CASE SCENARIO 4**

Beloved Finance Ltd. is a financial enterprise which is in the business of lending loan to small businesses and earn interest on loans.

- ◆ During the year the Company has lend 50 crores and earned ₹ 1.5 crore as interest on loans.
- ◆ The Company had surplus funds during the year and invested then in Fixed Deposits with bank and earned interest on fixed deposits of ₹ 20 lacs.
- ◆ The Company also acquired a gold loan unit for ₹ 10 crore during the year and the Company provided interest free loan of ₹ 15 crore to its wholly-owned subsidiary.
- ◆ The Company paid a total income tax of ₹ 75 lacs for the year.

**MULTIPLE CHOICE QUESTIONS**

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Based on the above information, answer the following questions.

1. In the Cash Flow Statement as per AS 3, the interest income of ₹ 1.5 crore earned on loans given by the Company will be disclosed as:
  - (a) Cash Flow from Operating Activities
  - (b) Cash Flow from Investing Activities
  - (c) Cash Flow from Financing Activities
  - (d) Non-cash Items
2. In the Cash Flow Statement as per AS 3, the interest income of ₹ 20 Lacs earned fixed deposits with bank will be disclosed as:
  - (a) Cash Flow from Operating Activities
  - (b) Cash Flow from Investing Activities
  - (c) Cash Flow from Financing Activities
  - (d) Non-cash Items



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3. In the Cash Flow Statement as per AS 3, amount paid for acquiring gold loan unit will be disclosed as:
- (a) Cash Flow from Operating Activities
  - (b) Cash Flow from Investing Activities
  - (c) Cash Flow from Financing Activities
  - (d) Non-cash Items
4. In the Cash Flow Statement as per AS 3, total income tax of ₹ 75 lacs paid for the year will be disclosed as:
- (a) Cash Flow from Operating Activities
  - (b) Cash Flow from Investing Activities
  - (c) Cash Flow from Financing Activities
  - (d) Non-cash Items
5. Is any specific disclosures required to made in relation to the interest free loan of ₹ 15 crore provided by the Company to its wholly-owned subsidiary, if yes, as per which Accounting Standard:
- (a) Yes, disclosure is required to be made as per AS 3, Cash Flow Statements.
  - (b) Yes, disclosure is required to be made as per AS 18, Related Party Disclosures
  - (c) Yes, disclosure is required to be made as per AS 13, Accounting for Investments
  - (d) No specific disclosures are required.

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** Cash Flow from Operating Activities

**Reason:**

As per Paragraph 30 of AS 3 states that Cash flows from interest and dividends received and paid should each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities.

**2. Option (a) Cash Flow from Operating Activities****Reason:**

As per Paragraph 30 of AS 3 states that Cash flows from interest and dividends received and paid should each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities. So, it will also be disclosed as cash flow from operating activities

**3. Option (b) Cash Flow from Investing Activities****Reason:**

As per paragraph 37 of AS 3, the aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities. This is acquisition of business, so the same should be disclosed as Cash Flow from investing activities.

**4. Option (a) Cash Flow from Operating Activities****Reason:**

As per Paragraph 34 of AS 3 states cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. Here, no information is provided as to which activity the tax belongs so it will be disclosed as cash flow from operating activities

**5. Option (b) Yes, disclosure is required to be made as per AS 18, Related Party Disclosures****Reason:**

As per paragraph 10.1 of AS 18, Related party is defined as parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

**CASE SCENARIO 5**

Venus Limited received a parcel of land at no cost from the government for the purpose of developing a factory in an outlying area. The land is valued at ₹ 75 lakhs, while the nominal value is ₹ 10 lakhs. Additionally, the company received a government grant of ₹ 30 lakhs, which represents 25% of the total investment needed for the factory development. Furthermore, the company received ₹ 15 lakhs with the stipulation that it be used to purchase machinery. There is no expectation from the government for the repayment of these grants.

Answer the following questions based on the above information:

**MULTIPLE CHOICE QUESTIONS**

1. The land received from Government, free of cost should be presented at:
  - (a) ₹ 75 Lakhs
  - (b) ₹ 30 Lakhs
  - (c) ₹ 10 Lakhs
  - (d) ₹ 45 Lakhs
2. As per AS 12, how the Government Grant of ₹ 30 Lakhs should be presented:
  - (a) It should be recognised in the profit and loss statement as per the related cost.
  - (b) It will be treated as capital reserve.
  - (c) It will be treated as deferred income.
  - (d) It will not be recognised in the financial statements.
3. As per AS 12, how the Government Grant of ₹ 15 Lakhs with a condition to purchase machinery may be presented as:
  - (a) Capital Reserve
  - (b) Shareholders Fund

- (c) Deferred Income
  - (d) Income in statement of profit and loss as received.
4. Which of the above grants are required to be recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset:
- (a) Land received as Grant
  - (b) Government Grant of ₹ 30 Lakhs
  - (c) Government Grant of ₹ 15 Lakhs with a condition to purchase machinery
  - (d) None of the above

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (c)** ₹ 10 Lakhs

**Reason:**

As per Paragraph 7 of AS 12 states that Non-monetary assets given free of cost are recorded at a nominal value.)

2. **Option (b)** It will be treated as capital reserve

**Reason:**

As per Paragraph 10.1 of AS 12, where the government grants are of the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.)

3. **Option (c)** Deferred Income

**Reason:**

As per Paragraph 8.4 of AS 12 states that under the other method, grants related to depreciable assets are treated as **deferred income** which is

recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset.

As there are two methods of presentation allowed, we have used 'may' in the question

- 4. Option (c)** Government Grant of ₹ 15 Lakhs with a condition to purchase machinery

**Reason:**

As per Paragraph 8.4 of AS 12 states that grants related to depreciable assets are treated as deferred income which is recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset.

**CASE SCENARIO 6**

Axis limited is a manufacturing company. It purchased a machinery costing ₹ 10 Lakhs in April 2023. It paid ₹ 4 lakhs upfront and paid the remaining ₹ 6,00,000 as deferred payment by paying instalment of ₹ 1,05,000 for the next 6 months. During the year, the Company sold a land which was classified as its 'property, plant and equipment' for ₹ 25,00,000 and paid ₹ 1,00,000 as income tax as long term capital gain on such sale. During the year, the Company also received income tax refund along with interest.

**MULTIPLE CHOICE QUESTIONS**

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1. As per the requirements of AS 3, 'Cash Flow Statements', how the amount for purchase of machinery should be presented:
  - (a) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 will simply be booked in profit and loss with no presentation if Cash Flow Statement.
  - (b) ₹ 10.30 lakhs as 'Cash flows from Investing Activities' as entire amount is spend on purchase of machinery.
  - (c) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 as 'Cash flows from Financing Activities'.
  - (d) ₹ 10.30 lakhs as 'Cash flows from Financing Activities' as the machinery has been purchased on finance.
2. At what amount, the machinery should be recognised in the financial statements:
  - (a) ₹ 400,000
  - (b) ₹ 10,30,000
  - (c) ₹ 600,000
  - (d) ₹ 10,00,000

3. How should the income tax paid on sale of land should be disclosed in the Cash Flows Statement:
  - (a) Cash flows from Operating Activities
  - (b) Cash flows from Investing Activities
  - (c) Cash flows from Financing Activities
  - (d) No disclosure in Cash Flow Statement
4. How should the interest on income tax refunds should be disclosed in the Cash Flows Statement:
  - (a) Cash flows from Operating Activities
  - (b) Cash flows from Investing Activities
  - (c) Cash flows from Financing Activities
  - (d) No disclosure in Cash Flow Statement

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (c)** ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 as 'Cash flows from Financing Activities'

**Reason:**

As per AS 3, Interest paid to vendor for acquiring fixed asset under deferred payment basis should be presented as financing activities and Principal sum payment under deferred payment basis for acquisition of fixed assets should be presented as investing activities.

2. **Option (d)** ₹ 10,00,000

**Reason:**

As per paragraph 6 of AS 16, Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred. In this case, the machinery has

been purchased and it is readily usable, thus, it is not a qualifying asset and thus, interest cost should not be capitalised.

**3. Option (b) Cash flows from Investing Activities**

**Reason:**

As per Paragraph 34 of AS 3, Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. The sale of PPE is cash flow from investing activities and accordingly, taxes paid on same should be disclosed as investing activities.

**4. Option (b) Cash flows from Investing Activities**

**Reason:**

These interest pertain to income taxes and are not arising from the principle revenue-producing activities, therefore, should be disclosed as per paragraph 30 of AS 3.



**CASE SCENARIO 7**

SEAS Ltd., the "Company", is in the business of tours and travels. It sells holiday packages to the customers. The Company negotiates upfront with the Airlines for specified number of seats in flight. The Company agrees to buy a specific number of tickets and pay for those tickets regardless of whether it is able to resell all of those in package.

The rate paid by the Company for each ticket purchased is negotiated and agreed in advance. The Company also assists the customers in resolving complaints with the service provided by airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

The Company bought a forward contract for three months of US\$ 1,00,000 on 1 March 2024 at 1 US\$ = INR 83.10 when exchange rate was US\$ 1 = INR 83.02. On 31 March 2024, when the Company closed its books, exchange rate was US\$ 1 = INR 83.15. On 1 April 2024, the Company decided for premature settlement of the contract due to some exceptional circumstances.

The Company is evaluating below mentioned schemes:

- i. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.
- ii. Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

SEAS Ltd. has a subsidiary, ADI Ltd., which is in the business of construction having turnover of ₹ 200 crores. SEAS Ltd. and ADI Ltd. hold 9% and 23% respectively in an associate company, ASOC Ltd. Both SEAS Ltd. and ADI Ltd. prepare consolidated financial statements as per Accounting Standards notified under the Companies (Accounting Standards) Rules, 2021.

**MULTIPLE CHOICE QUESTIONS**

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1. What would be the basis of revenue recognition for SEAS Ltd. as per the requirements of Accounting Standards?
  - (a) Gross basis.
  - (b) Net basis.
  - (c) Depends on the accounting policy of the Company.
  - (d) Indian GAAP allows a choice to the Company to recognize revenue on gross basis or net basis.
2. Please suggest accounting treatment of forward contract for the year ended 31 March 2024 as per Accounting Standard 11.
  - (a) MTM (marked to market value) of contract will be recorded on 31 March 2024.
  - (b) MTM (marked to market value) of contract will be computed as at 31 March 2024 and only if there is loss, it will be recorded during the year ended 31 March 2024.
  - (c) No accounting will be done during the year ended 31 March 2024.
  - (d) Premium on contract will be amortized over the life of the contract.
3. You are requested to advise the Company in respect of the accounting requirements of above schemes related to employee benefits as to which one of those schemes should be considered as a change in accounting policy during the year.
  - (a) 1 – Change in accounting policy. 2 – Change in accounting policy.
  - (b) 1– Not a change in accounting policy. 2 – Change in accounting policy.
  - (c) 1 – Not a change in accounting policy. 2 – Not a change in accounting policy.
  - (d) 1– Change in accounting policy. 2 – Not a change in accounting policy.

4. Please comment regarding consolidation requirements for SEAS Ltd. and ADI Ltd. using the below mentioned options as to which one should be correct.
- (a) ADI Ltd. would use equity method of accounting for 23% in ASOC Ltd. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically equity account 23% and separately account for the balance 9% as per AS 13.
  - (b) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically account 23% and separately account for the balance 9%.
  - (c) ADI Ltd. would account for 23% share in ASOC Ltd using equity method of accounting. SEAS Ltd. would consolidate ADI Ltd. and consequently, automatically account for ASOC Ltd 23% share and separately account for 9% share in ASOC Ltd. using equity method of accounting in consolidated financial statements.
  - (d) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and using equity method of accounting 23% in ASOC Ltd. and separately account for the balance 9% as per AS 13.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (a)** Gross basis.

**Reason:**

As per the requirements of AS 9, SEAS Ltd is acting as a principal and not an agent. Therefore, it would recognize revenue on gross basis.

2. **Option (d)** Premium on contract will be amortized over the life of the contract.

**Reason:**

As per the requirements of AS 11, any premium or discount arising at the inception of a forward exchange contract (which is not intended for trading or speculation purposes) should be amortised as expense or income over the life of the contract.

3. **Option (c)** 1 – Not a change in accounting policy. 2 – Not a change in accounting policy

**Reason:**

Reasoning: As per the requirements of AS 5, the following are not considered as changes in accounting policies:

- (a) the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, e.g., the introduction of a formal retirement gratuity scheme by an employer in place of adhoc ex-gratia payments to employees on retirement; and
- (b) the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial.

Schemes (i) and (ii) are the events or transactions which did not occur and are different from previously occurred transactions.

4. **Option (c)** ADI Ltd. would account for 23% share in ASOC Ltd using equity method of accounting. SEAS Ltd. would consolidate ADI Ltd. and consequently, automatically account for ASOC Ltd 23% share and separately account for 9% share in ASOC Ltd. using equity method of accounting in consolidated financial statements.

**Reason:**

Since ADI Ltd hold 23% ASOC Ltd, it would do equity accounting in respect of ASOC Ltd as per AS 23.

Since, ADI Ltd is a subsidiary of SEAS Ltd, SEAS Ltd would consolidate ADI Ltd on a line by line basis wherein 23% of ASOC Ltd held by ADI Ltd in ASOC Ltd would automatically get covered. Further, the balance 9% held by SEAS Ltd in ASOC Ltd would also be required to be consolidated using equity method of accounting as per AS 23.

## CASE SCENARIO 8

On 1<sup>st</sup> April, 2022, Shubham Limited purchased some land for ₹ 30 lakhs for the purpose of constructing a new factory. This cost of 30 lakhs included legal cost of ₹ 2 lakhs incurred for the purpose of acquisition of this land. Construction work could start on 1<sup>st</sup> May, 2022 and Shubham Limited provides you the details of the following costs incurred in relation to its construction:

	₹
Preparation and levelling of the land	80,000
Employment costs of the construction workers (per month)	29,000
Purchase of materials for the construction	21,24,000
Cost of relocating employees to new factory for work	60,000
Costs of inauguration ceremony on 1 <sup>st</sup> January, 2023	80,000
Overhead costs incurred directly on the construction of the factory (per month)	25,000
General overhead costs allocated to construction project by the Manager is ₹ 30,000. However, as per company's normal overhead allocation policy, it should be ₹ 24,000. The auditor of the company has support documentation for the cost of ₹ 15,000 only and raised objection for the balance amount.	

The construction of the factory was completed on 31<sup>st</sup> December, 2022 and production could begin on 1<sup>st</sup> February, 2023. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it was estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

The construction of the factory was partly financed by a loan of ₹ 28 lakhs borrowed on 1<sup>st</sup> April, 2022. The loan was taken at an annual rate of interest of 9%. During the period when the loan proceeds had been fully utilized to finance the construction, Shubham Limited received investment income of ₹ 25,000 on the temporary investment of the proceeds.

You are required to assume that all of the net finance costs to be allocated to the cost of factory (not land) and interest cost to be capitalized based on nine months' period.

Based on the information given in the above scenario, answer the following multiple choice questions:

### **MULTIPLE CHOICE QUESTIONS**

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1. Which of the following cost (incurred directly on construction) will be capitalized to the cost of factory building?
  - (a) ₹ 2,00,000 incurred as legal cost
  - (b) ₹ 60,000 – costs of relocating employees
  - (c) ₹ 80,000 costs of inauguration ceremony
  - (d) ₹ 24,000 – allocated general overhead cost
2. What amount of employment cost of construction workers will be capitalized to the cost of factory building?
  - (a) ₹ 2,90,000
  - (b) ₹ 3,48,000
  - (c) ₹ 2,32,000
  - (d) ₹ 29,000
3. What is the amount of net borrowing cost capitalized to the cost of the factory?
  - (a) ₹ 1,89,000
  - (b) ₹ 1,68,000
  - (c) ₹ 1,44,000
  - (d) ₹ 1,64,000

4. What will be the carrying amount (i.e. value after charging depreciation) of the factory in the Balance Sheet of Shubham Limited as at 31<sup>st</sup> March, 2023?
- (a) ₹ 30,00,000
- (b) ₹ 57,78,125
- (c) ₹ 27,78,125
- (d) ₹ 58,00,000

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** ₹ 2,00,000 incurred as legal cost

**Reason:**

Legal costs of 2,00,000 are directly attributable to the acquisition of land and are already included in the cost of the land, not the factory building.

2. **Option (c)** ₹ 2,32,000

**Reason:**

Employment costs of ₹ 29,000 per month incurred from May 2022 to December 2022 (8 months) would be capitalized, as these are directly attributable to construction. Employment cost capitalized =  $29,000 \times 8 = 2,32,000$

3. **Option (d)** ₹ 1,64,000

4. **Option (b)** ₹ 57,78,125

**Reason for Answer 3 & 4**

Cost:	
Land	30,00,000
Preparation, levelling	80,000
Materials	21,24,000
Costs of Construction workers (29,000 x 8 months)	2,32,000
Direct overhead (25,000 x 8 months)	2,00,000

Allocated overheads	nil
Relocation costs, costs of inauguration	Nil
Net borrowing costs (1,89,000 less 25,000)	1,64,000
Total	<b>58,00,000</b>

**Carrying amount:**

	Land	Factory
	30,00,000	28,00,000
Depreciation:		
Land	Nil	8,750
Roof (28,00,000 x .25x1/20 x 3/12)		<u>13,125</u>
Remaining factory (28,00,000 x .75x1/40 x 3/12)	-	<u>(21,875)</u>
		<b>27,78,125</b>



**CASE SCENARIO 9**

Kesar Ltd., a company engaged in various business activities, has decided to initiate a share buy-back on 1st April, 2023. The company plans to repurchase 25,000 equity shares of ₹ 10 each at a price of ₹ 20 per share. This buy-back initiative is in compliance with the company's articles of association, and the necessary resolution has been duly passed by the company. As part of the financial arrangement for the share buy-back, Kesar Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.

Here is a snapshot of Kesar Ltd.'s Balance Sheet as of 31<sup>st</sup> March, 2023:

- A. Share Capital: Equity share capital (fully paid up shares of ₹ 10 each) - ₹ 12,50,000
- B. Reserves and Surplus: Securities premium ₹ 2,50,000; Profit and loss account ₹ 1,25,000; Revenue reserve ₹ 15,00,000;
- C. Long term borrowings: 14% Debentures- ₹ 28,75,000, Unsecured Loans - ₹ 16,50,000
- D. Land and Building ₹ 19,30,000; Plant and machinery ₹ 18,00,000; Furniture and fitting ₹ 9,20,000 and Other Current Assets - ₹ 30,00,000

Authorized, issued and subscribed capital: Equity share capital (fully paid up shares of 10 each) - 12,50,000.

**MULTIPLE CHOICE QUESTIONS**

1. By using the Shares Outstanding Test the number of shares that can be bought back
  - (a) 1,25,000
  - (b) 31,250
  - (c) 25,000
  - (d) 30,000

2. By using the Resources Test determine the number of shares that can be bought back:
- (a) 25,000
  - (b) 31,250
  - (c) 28,750
  - (d) 39,062
3. By using the Debt Equity Ratio Test determine the number of shares that can be bought back:
- (a) 25,000
  - (b) 31,250
  - (c) 28,750
  - (d) 39,062
4. On the basis of all three tests determine Maximum number of shares that can be bought back:
- (a) 25,000
  - (b) 31,250
  - (c) 28,750
  - (d) 39,062

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** 31,250

**Reason:**

Determination of Buy-back of maximum no. of shares as per the Companies Act, 2013

Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	1,25,000
25% of the shares outstanding	31,250

**2. Option (d) 39,062****Reason:**

Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	
Paid up capital (₹)	12,50,000
Free reserves (₹) (15,00,000 + 2,50,000 + 1,25,000)	<u>18,75,000</u>
Shareholders' funds (₹)	<u>31,25,000</u>
25% of Shareholders fund (₹)	7,81,250
Buy-back price per share	₹ 20
Number of shares that can be bought back (shares)	39,062
Actual Number of shares for buy-back	25,000

**3. Option (c) 28,750****Reason:**

Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

	Particulars	₹
(a)	Loan funds (₹) (18,75,000 + 10,00,000 + 16,50,000)	45,25,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	22,62,500
(c)	Present equity/shareholders fund (₹)	31,25,000
(d)	Future equity/shareholders fund (₹) (see W.N.) (31,25,000 – 2,87,500)	28,37,500 <sup>2F*</sup>
(e)	Maximum permitted buy-back of Equity (₹) [(d) – (b)]	5,75,000

\*As per Section 68 (2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69 (1), on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.

(f)	Maximum number of shares that can be bought back @ ₹ 20 per share	28,750 shares
(g)	Actual Buy-Back Proposed	25,000 Shares

**4. Option (c) 28,750**

**Reason:**

Summary statement determining the maximum number of shares to be bought back

Particulars	Number of shares
Shares Outstanding Test	31,250
Resources Test	39,062
Debt Equity Ratio Test	28,750
Maximum number of shares that can be bought back [least of the above]	28,750

**CASE SCENARIO 10**

Kumar Ltd., a privately-held company, operates in the manufacturing industry. Founded in 2008, the company has steadily grown its operations and established a strong presence in the market. As of 31st March, 2023, the company's capital structure reflects a blend of equity and debt financing.

Capital Structure Overview:

- **Equity Share Capital:** The company has a total of ₹ 30,00,000 invested in equity shares, each valued at ₹ 10 and fully paid.
- **Reserves & Surplus:** Kumar Ltd. has accumulated reserves and surplus totaling ₹ 49,00,000, comprising contributions from various sources including General Reserve (₹ 32,50,000), Security Premium Account (₹ 6,00,000), Profit & Loss Account (₹ 4,30,000), and Revaluation Reserve (₹ 6,20,000).
- **Loan Funds:** The company has acquired loan funds amounting to ₹ 42,00,000 to support its operational and growth initiatives.

Buy-Back Decision:

Considering its financial position and market conditions, Kumar Ltd. has decided to initiate a share buy-back program. The company intends to repurchase its shares at a price of ₹ 30 per share.

In accordance with financial regulations and internal policies, Kumar Ltd. aims to assess the maximum number of shares it can repurchase while maintaining a prudent debt-equity ratio. By utilizing the Debt Equity Ratio Test, the company seeks to strike a balance between its equity base and debt obligations.

Based on the above information, answer the following questions.

**MULTIPLE CHOICE QUESTIONS**

1. What is the minimum equity Kumar Ltd. needs to maintain after buy-back, according to the Debt Equity Ratio Test?
  - (a) ₹ 12,95,000
  - (b) ₹ 21,00,000

- (c) ₹ 32,50,000  
(d) ₹ 6,00,000
2. What is the maximum permitted buy-back of equity for Kumar Ltd.?  
(a) ₹ 38,85,000  
(b) ₹ 42,00,000  
(c) ₹ 12,95,000  
(d) ₹ 59,85,000
3. How many shares of Kumar Ltd. can be bought back at ₹ 30 per share according to the Debt Equity Ratio Test?  
(a) 43,000  
(b) 1,29,500  
(c) 2,00,000  
(d) 78,000

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ₹ 21,00,000  
2. **Option (a)** ₹ 38,85,000  
3. **Option (b)** 1,29,500

**Reason: 1,2 & 3:**

#### Debt Equity Ratio Test

	<i>Particulars</i>	₹
(a)	Loan funds	42,00,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹ in crores)	21,00,000
(c)	Present equity shareholders fund (₹ in crores)	72,80,000

(d)	Future equity shareholder fund (₹ in crores) (See Note 2)	59,85,000 (72,80,000-12,95,000)
(e)	Maximum permitted buy-back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	38,85,000 (by simultaneous equation)
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	1,29,500 (by simultaneous equation)

**Working Note:**

1. Shareholders' funds

<i>Particulars</i>	<i>₹</i>
Paid up capital	30,00,000
Free reserves (32,50,000 + 6,00,000 + 4,30,000)	<u>42,80,000</u>
	<u>72,80,000</u>

2. Equation 1 : (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity.

$$(72,80,000 - x) - 21,00,000 = y \quad (1)$$

$$\text{Since } 51,80,000 - x = y$$

$$\text{Equation 2: } \left( \frac{\text{Maximum buy-back}}{\text{Offer price for buy-back}} \times \text{Nominal Value} \right)$$

= Nominal value of the shares bought –back to be transferred to CRR

$$= \left( \frac{y}{30} \times 10 \right) = x$$

$$3x = y \quad (2)$$

$$x = ₹ 12,95,000 \text{ crores and } y$$

$$= ₹ 38,85,000 \text{ crores}$$

**CASE SCENARIO 11**

Super Ltd., a manufacturing company, has the following summarized Balance Sheet as of March 31, 2024:

Equity Shares of ₹ 10 each fully paid up: ₹ 17,00,000

Reserves & Surplus:

Revenue Reserve: ₹ 23,50,000

Securities Premium: ₹ 2,50,000

Profit & Loss Account: ₹ 2,00,000

Infrastructure Development Reserve: ₹ 1,50,000

Secured Loan:

9% Debentures: ₹ 38,00,000

Unsecured Loan: ₹ 8,50,000

Property, Plant & Equipment: ₹ 58,50,000

Current Assets: ₹ 34,50,000

Super Ltd. plans to buy back 35,000 equity shares of ₹ 10 each fully paid up on April 1, 2024, at ₹ 30 per share. The buyback is authorized by its articles, and necessary resolutions have been passed. The payment for the buyback will be made using the company's bank balance, which is part of its current assets.

Answer the following questions based on the above information:

**MULTIPLE CHOICE QUESTIONS**

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1. As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed -
  - (a) 20% of its total paid-up capital and free reserves
  - (b) 25% of its total paid-up capital and free reserves
  - (c) 25% of its total paid-up capital
  - (d) 20% of its total paid-up capital



- 
2. How many shares can Super Ltd. buy back according to the Shares Outstanding Test?
    - (a) 35,000 shares
    - (b) 42,500 shares
    - (c) 37,500 shares
    - (d) 54,375 shares
  3. What is the maximum number of shares that can be bought back according to the Resources Test?
    - (a) 35,000 shares
    - (b) 42,500 shares
    - (c) 37,500 shares
    - (d) 54,375 shares
  4. According to the Debt Equity Ratio Test, what is the maximum number of shares that can be bought back?
    - (a) 35,000 shares
    - (b) 42,500 shares
    - (c) 37,500 shares
    - (d) 54,375 shares

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** 25% of its total paid-up capital and free reserves

**Reason:**

As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed 25% of its total paid-up capital and free reserves.

**2. Option (b)** 42,500 shares**Reason:**

According to the Shares Outstanding Test, the maximum number of shares that can be bought back is 25% of the shares outstanding. With 1,70,000 shares outstanding, 25% equals 42,500 shares.

**3. Option (c)** 37,500 shares**Reason:**

According to the Resources Test, the maximum permitted limit is 25% of the equity paid-up capital plus free reserves. Calculating this gives 25% of ₹ 45,00,000 (₹ 17,00,000 + ₹ 28,00,000), which is ₹ 11,25,000. At ₹ 30 per share, this equals 37,500 shares.

**4. Option (d)** 54,375 shares**Reason:**

According to the Debt Equity Ratio Test, the maximum number of shares that can be bought back is determined by ensuring that the company's post-buyback loans do not exceed twice the equity shareholders' funds. This calculation shows a maximum buyback of 54,375 shares.

**CASE SCENARIO 12**

Anshul manufacturers purchased 20,000 Kg. of raw material at ₹ 170 per Kg. Direct transit cost incurred ₹ 5,00,000 and normal transit loss is 3%. Anshul manufacturers actually received 19,000 kg of raw material. During the year it consumed 17,600 kg of raw material.

Further information:

- (i) The purchase price includes ₹ 15 per kg as GST in respect of which full credit is allowed and will be availed by Anshul manufacturers.
- (ii) Assume that there is no opening stock.

Answer the following questions based on above:

**MULTIPLE CHOICE QUESTIONS**

1. What will be the cost of material:
  - (a) ₹ 36,00,000
  - (b) ₹ 34,00,000
  - (c) ₹ 39,00,000
  - (d) ₹ 31,00,000
2. what will be the value of the closing stock:
  - (a) ₹ 1,70,000
  - (b) ₹ 1,85,500
  - (c) ₹ 2,38,000
  - (d) ₹ 2,59,700
3. What will be the cost per Kg of raw material:
  - (a) ₹ 180
  - (b) ₹ 183.6
  - (c) ₹ 185.5
  - (d) ₹ 189.4

4. How much amount as abnormal loss will be debited in P&L:
- (a) ₹ 72,000 approx
  - (b) ₹ 73,440 approx
  - (c) ₹ 74,200 approx
  - (d) ₹ 75,760 approx

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** ₹ 36,00,000
2. **Option (d)** ₹ 2,59,700
3. **Option (c)** ₹ 185.5
4. **Option (c)** ₹ 74,200

#### Reason for 1,2,3 & 4:

##### Cost of Material

20,000 kg @ ₹ (170-15) = ₹ 31,00,000

Direct cost = ₹ 5,00,000

Total cost = ₹ 36,00,000

##### Units

Units purchased = 20,000 Kg

Normal loss @3% = 600 Kg

Units received = 19,000 Kg

Abnormal loss = 400 Kg

(20,000-600-19000)

##### Cost per unit

₹ 36,00,000/19,400 units = ₹ 185.5 per unit

##### Abnormal loss to be charged to profit and loss

= 400Kg \* ₹ 185.5 = ₹ 74,200

##### Value of closing stock

Closing units = 19,000-17,600 = 1400 units

Value = 1400\*₹ 185.5 = 2,59,700

**CASE SCENARIO 13**

Aazad Ltd. has the following particulars:

Particulars	₹ (lakh)
10% Preference Share Capital (₹ 10 each)	2,500
Equity Share Capital of ₹ 10 each	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit & Loss A/c	300
Cash	1,650
Investments (Market Value ₹ 1,500 lacs)	3,000

The company decides to redeem all its preference shares at a premium of 10% and buys back 25% of equity shares @ ₹ 15 per share. Investments amounting to Market Value of ₹ 1,000 lakhs sold at ₹ 3,000 lakhs and raises a bank loan of ₹ 2,000 lakhs.

Answer the following questions based on above:

**MULTIPLE CHOICE QUESTIONS**

- The amount of Profit/Loss on Sale of Investment is:
  - ₹ 1,500 lakhs Profit
  - ₹ 1,000 lakhs Profit
  - ₹ 2,000 lakhs Loss
  - ₹ 1,000 lakhs Loss
- Securities Premium available for Buyback after redemption of Preference Shares
  - ₹ 550 lakhs
  - ₹ 800 lakhs

- (c) Can't utilize securities premium for buyback  
 (d) ₹ 350 lakhs
3. Cash balance after buyback
- (a) ₹ 1,150 lakhs  
 (b) ₹ 2,200 lakhs  
 (c) ₹ 3,250 lakhs  
 (d) ₹ 900 lakhs

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ₹ 1,000 lakhs Profit

**Reason:**

**The market value of investment**

	₹ (lakh)
Sale value of investment	3,000
Less: The cost value of investment $(3,000/1,500 \times 1,000)$	<u>2,000</u>
Profit	<u>1,000</u>

2. **Option (a)** ₹ 550 lakhs

**Reason:**

	₹ (lacs)
Securities premium	800
Less: premium on redemption of preference shares	<u>250</u>
Balance available	<u>550</u>

3. **Option (d)** ₹ 900 lakhs

**Reason:**

Opening Balance + Investment sold + Loan raised - Preference Shares redeemed - Equity Share buy back Lakhs [ ₹ 1,650 + ₹ 3,000 + ₹ 2,000 - ₹ 2,750 - ₹ 3,000 ] = ₹ 900 lakhs

**CASE SCENARIO 14**

On April 1, 2022, Hello Limited approached a software company for implementation of SAP ERP at its organisation. The cost of implementation of SAP ERP is ₹ 25,00,000 and the time required is 15 months. The company was also required to pay ₹ 100,000 annually after implementation for maintenance and normal updation of ERP. The implementation work started in June, 2022 and could not be finished in 15 months. The ERP was implemented on May 2024. Due to delay in implementation the vendor refunded ₹ 2,00,000. The Company recognised the intangible asset 'SAP ERP' on September 2023 (15 months from June 2022). After two years, the Company has got the SAP ERP more upgraded with latest version and additional features and functions which also increased its speed and usage to Hello Limited for ₹ 7,00,000.

**MULTIPLE CHOICE QUESTIONS**

1. On which date the Intangible asset should be recognised:
  - (a) April 2022 (When it was decided that SAP ERP is to be implemented)
  - (b) June 2022 (When the implementation work started)
  - (c) September 2023 (When the implementation work should have completed as per agreed terms)
  - (d) May 2024 (When the SAP actually got implemented)
2. At what amount the SAP ERP should be initially recognised as 'intangible asset':
  - (a) ₹ 25,00,000
  - (b) ₹ 26,00,000
  - (c) ₹ 23,00,000
  - (d) ₹ 32,00,000
3. How should the annual maintenance and updation expenses should be accounted for:
  - (a) Should be capitalised with 'Intangible Asset'

- (b) Should be recognised as a separate 'Intangible Asset'
  - (c) Should be recognised as expense in Profit and Loss annually.
  - (d) No accounting is required
4. During the implementation period, how the expenditure incurred will be accounted for:
- (a) It will be expensed in profit and loss as and when incurred
  - (b) It will be recognised as an asset 'Intangible asset under development'
  - (c) It will only be disclosed in notes to accounts and will be recognised when complete
  - (d) It will be recognised as an item of Property, Plant and Equipment

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (d)** May 2024 (When the SAP actually got implemented)  
**Reason:**  
As per the provision of AS 26.
2. **Option (c)** ₹ 23,00,000  
**Reason:**  
₹ 25,00,000 less the amount refunded i.e. ₹ 200,000 = ₹ 23,00,000
3. **Option (c)** Should be recognised as expense in Profit and Loss annually.  
**Reason:**  
As per paragraph 59 of AS 26, subsequent expenditure on an intangible asset after its completion should be recognised as expense as it is only normal maintenance expense
4. **Option (b)** It will be recognised as an asset 'Intangible asset under development'.  
**Reason:**  
Till the asset is complete it will be recognised as 'intangible asset under development' till the same is available for use.



**CASE SCENARIO 15**

Fly Ltd. made a sale of INR 7,00,000 to Wings International in May 2023 and recognised Trade Receivables which was initially recorded at the prevailing exchange rate on the date of sales, transaction recorded at US\$ 1 = ₹ 79.4. The Company also took a loan from U.S Company for ₹ 10,00,000 in December 2023 which was initially recorded at the prevailing exchange rate on the date of transaction, transaction recorded at US\$ 1 = ₹ 81.1.

On 31<sup>st</sup> March 2024, exchange rate was US\$ 1 = ₹ 83.3

**MULTIPLE CHOICE QUESTIONS**

1. What will be the closing balance of Trade Receivables on 31<sup>st</sup> March 2024:
  - (a) ₹ 700,000
  - (b) ₹ 7,14,978 approx
  - (c) ₹ 7,34,383 approx
  - (d) ₹ 7,50,000 approx
2. How much is the reporting difference (gain or loss) in case of Trade Receivable:
  - (a) Gain of ₹ 34,383 approx
  - (b) Loss of ₹ 34,383 approx
  - (c) Gain of ₹ 19,395 approx
  - (d) Loss of ₹ 19,395 approx
3. What will be the closing balance of Loan as on 31<sup>st</sup> March 2024:
  - (a) ₹ 10,00,000
  - (b) ₹ 10,27,127 approx
  - (c) ₹ 9,79,002 approx
  - (d) ₹ 10,79,002 approx

4. How much is the reporting difference (gain or loss) in case of Loan:
- (a) Gain of ₹ 48,087 approx
  - (b) Loss of ₹ 48,087 approx
  - (c) Gain of ₹ 27,127 approx
  - (d) Loss of ₹ 27,127 approx

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

- 1. **Option (c)** ₹ 7,34,383 approx
- 2. **Option (a)** Gain of ₹ 34,383 approx
- 3. **Option (b)** ₹ 10,27,127 approx
- 4. **Option (c)** Gain of ₹ 27,127 approx

**Reason for 1, 2, 3, & 4:**

#### Trade Receivable

	Foreign Currency Rate	In INR
<b>Initial recognition of Trade Receivables</b> <b>= US\$ 8816</b> (7,00,000/79.4)	<b>US \$ 1 = 79.4</b>	<b>700,000</b>
Rate on 31 <sup>st</sup> March	<b>US \$ 1 = 83.3</b>	<b>7,34,383</b>
Exchange Difference Gain US \$8816* (83.3-79.4)		<b>34,383</b>

#### Loan

	Foreign Currency Rate	In INR
<b>Initial recognition of Loan</b> <b>= US\$ 12330</b> (10,00,000/81.1)	<b>US \$ 1 = 81.1</b>	<b>10,00,000</b>
Rate on 31 <sup>st</sup> March	<b>US \$ 1 = 83.3</b>	<b>10,27,127</b>
Exchange Difference Gain US \$12330* (83.3-81.1)		<b>27,127</b>

**CASE SCENARIO 16**

X Ltd. purchased 3,000 shares of Amazing Ltd. in December 2023 @ ₹ 100 each and paid brokerage @ 1%. In May 2024, Amazing Ltd. issued bonus shares at one for every three shares held by shareholders.

X Ltd. sold 1000 shares in September 2024 at ₹ 110 each. After issue of bonus, shares were quoted at ₹ 95. In December 2024, the shares were quoted at ₹ 70.

**MULTIPLE CHOICE QUESTIONS**

1. What would be the carrying cost of investments in Amazing Ltd. after sale of shares as per AS 13:
  - (a) ₹ 3,03,000
  - (b) ₹ 2,27,250
  - (c) ₹ 3,00,000
  - (d) ₹ 3,30,000
2. What is the cost of bonus shares:
  - (a) ₹ 1,00,000
  - (b) ₹ 1,10,000
  - (c) Nil
  - (d) ₹ 1,01,000
3. What is the profit on sale of Bonus Shares:
  - (a) ₹ 100,000
  - (b) ₹ 75,750
  - (c) ₹ 34,250
  - (d) ₹ 1,01,000

4. What would be the carrying cost of investments in Amazing Ltd. in quarter ending in December 2024 as per AS 13:
- (a) ₹ 2,10,000
  - (b) ₹ 2,27,250
  - (c) ₹ 2,20,000
  - (d) ₹ 3,00,000

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

- 1. **Option (b)** ₹ 2,27,250
- 2. **Option (c)** Nil
- 3. **Option (c)** ₹ 34,250
- 4. **Option (a)** ₹ 2,10,000

**Reason for 1, 2, 3, & 4:**

Cost of 3,000 shares =  $(3,000 \times 100) + 1\% (3,000 \times 100) = ₹ 3,03,000$

Bonus shares = 1,000 at no cost

Profit on sale of 1,000 shares:

$(110 \times 1,000) - (1,000/4,000 \times 3,03,000) = 1,10,000 - 75,750 = ₹ 34,250$

Carrying value of 3000 shares =  $3,000/4,000 \times 3,03,000$

= ₹ 2,27,250

Market value of shares =  $3,000 \times 95 = ₹ 2,85,000$

Cost being lower than the market price, therefore shares are carried forward at cost.

**CASE SCENARIO 17**

Sun Limited has acquired 40% share in Moon Ltd. for ₹ 5,00,000 on 01.07.2023. Moon Ltd. is holding 40% stake in Star Limited. Now, Sun limited can exercise significant influence on Moon Limited. Moon limited declared dividend of ₹ 80,000 for the Financial Year 2022-23 on 15.09.2023. For the year 2023-24, Moon Ltd. earned profit of ₹ 4,00,000 and declared dividend for ₹ 90,000 on 15.09.2024.

**MULTIPLE CHOICE QUESTIONS**

1. With respect to relationship between Companies, it can be said that:
  - (a) Star Ltd. is associate of Sun Ltd.
  - (b) Moon Ltd. and Star Ltd. both are associates of Sun Ltd.
  - (c) Moon Ltd. is an associate of Sun Ltd.
  - (d) Sun Ltd. is Parent of both Moon Ltd. and Star Ltd.
2. What will be the carrying amount of investment in Separate Financial Statements of Sun Limited as on 31.03.2024?
  - (a) ₹ 5,00,000
  - (b) ₹ 5,80,000
  - (c) ₹ 4,68,000
  - (d) ₹ 5,32,000
3. What will be the carrying amount of investment in Consolidated Financial Statements of Sun Limited as on 31.03.2024?
  - (a) ₹ 9,00,000
  - (b) ₹ 5,88,000
  - (c) ₹ 4,52,000
  - (d) ₹ 6,20,000

4. As per AS 23, the existence of significant influence by an investor is usually evidenced in one or more of the following ways:
- (i) Participation in policy making processes
  - (ii) Interchange of managerial personnel
  - (iii) Right to receive dividend
  - (iv) Provision of essential technical information
  - (a) All the statements are correct
  - (b) Statements (a), (b) and (c) are correct
  - (c) Statements (b), (c) and (d) are correct
  - (d) Statements (a), (b) and (d) are correct

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Moon Ltd. is an associate of Sun Ltd

**Reason:**

(Sun Ltd. has indirect holding in Star Ltd. of (40% of 40%) 16%), thus, star limited is not associate of Sun Limited.)

2. **Option (c)** ₹ 4,68,000

**Reason:**

Amount paid for investment in Associate (on 01.07.23)	5,00,000
Deduct: Pre acquisition dividend (40% x 80,000)	(32,000)
Carrying amount of Investment as on 31.03.2024	4,68,000

3. **Option (b)** ₹ 5,88,000

**Reason:**

(Carrying amount as per Separate Financial Statements (₹ 4,68,000) plus 9 months share in profit for the year (₹ 4,00,000 x 40% x 9/12) ₹ 1,20,000 = ₹ 5, 88,000)

4. **Option (d)** Statements (a), (b) and (d) are correct

**Reason:**

(Paragraph 5 of AS 23 does not include right to receive dividend)

**CASE SCENARIOS 18**

Surya Ltd. Has a two fixed asset, FA1 is being carried in the balance sheet for ₹ 600 lakhs and FA 2 is being carried at ₹ 300 lakhs.

As at 31<sup>st</sup> March 2024, the value in use for FA 1 is ₹ 500 lakhs and the net selling price is ₹ 550 lakhs. The Company did upward revaluation last year for ₹ 20 lakhs for FA 1.

As at 31<sup>st</sup> March 2024, the value in use for FA 2 is ₹ 350 lakhs and the net selling price is ₹ 320 lakhs.

**MULTIPLE CHOICE QUESTIONS**

1. How much is the total Impairment loss for current year for FA 1:
  - (a) ₹ 100 Lakhs
  - (b) ₹ 50 Lakhs
  - (c) ₹ 30 lakhs
  - (d) Nil
2. How much impairment loss will be charged to profit and loss for current year for FA1:
  - (a) ₹ 100 Lakhs
  - (b) ₹ 50 Lakhs
  - (c) ₹ 30 lakhs
  - (d) Nil
3. How much is the total Impairment loss for current year for FA 2:
  - (a) ₹ 50 Lakhs
  - (b) ₹ 30 Lakhs
  - (c) ₹ 20 lakhs
  - (d) Nil

4. What will be the carrying value on 1<sup>st</sup> April 2024 for FA 1:
- (a) ₹ 550 Lakhs
  - (b) ₹ 530 Lakhs
  - (c) ₹ 520 lakhs
  - (d) ₹ 500 lakhs

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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- 1. **Option (b)** ₹ 50 Lakhs
- 2. **Option (c)** ₹ 30 lakhs
- 3. **Option (d)** Nil
- 4. **Option (a)** ₹ 550 Lakhs

**Reason for 1, 2, 3, & 4:**

**For FA 1**

Recoverable amount

= ₹ 550 lakh (higher of value in use and net selling price)

Impairment Loss : Carried amount – recoverable amount

= ₹ 600 lakhs – ₹ 550 Lakhs = ₹ 50 Lakhs

Impairment Loss charged to Profit and loss

= ₹ 50 lakh – ₹ 20 lakh = ₹ 30 lakh

**Carrying Value FA 1**

Recoverable Amount = ₹ 550 Lakh

**For FA 2**

Recoverable amount = ₹ 350 lakh (higher of value in use and net selling price)

Carrying amount = ₹ 300 lakh

When recoverable amount is more than carrying amount, there is no need to provide impairment loss.



**CASE SCENARIOS 19**

ADI Ltd (the Company), engaged in the business of manufacturing of urea, has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment.

Having fulfilled all the conditions under the scheme, the Company on its investment of ₹ 50 crores in capital assets received ₹ 10 crores from the Government in January 2024 (financial year being 2023-24). The Company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31 March 2024.

ADI Ltd holds 51% in SHA Ltd. SHA Ltd is a joint venture of ADI Ltd due to a contractual agreement. ADI Ltd is engaged in the manufacturing business and it entered into a joint venture to get synergies in the same business. ADI Ltd and SHA Ltd hold 10% and 30% respectively in SHB Ltd.

As per the requirements of SEBI, ADI Ltd prepared results/accounts for the quarter ended 30 June 2024 and took following positions in respect of following accounting matters:

- i. Training expenses incurred during the quarter ended 30 June 2024 were allocated equally over the four quarters because the benefit was spread over the entire year and similarly some training expenses expected to be incurred in the last quarter have been estimated and equally allocated over the four quarters.
- ii. Provision made for donation of ₹ 5 million expected to be made in the second quarter.
- iii. Since historically there has been an immaterial variance between budgets and actuals, depreciation charge for the quarter was determined by the budgeted figure.
- iv. Incentives were provided to the customers if they purchase 1 million kgs of urea on an annual basis. It was expected that at least 50 customers would be able to achieve this target before the end of third quarter. No provision was made for this incentive during the quarter ended 30 June 2024 since ADI Ltd believed that the provision was not yet fructified.

ADI Ltd owns 60% holding in ANI Ltd, an unquoted entity. The government has recently announced an increase in interest rates. The increase will cause a fall in value of equity holdings. This is due to the fact that risk free investments offer a higher return making them relatively more attractive. The market value of equity will adjust downwards to improve the return available on this sort of investment.

SHB Ltd took a loan of USD 10,000 on 1 April 2023 for a specific project at an interest rate of 5% p.a. payable annually. On 1 April 2023, the exchange rate between the currency was ₹ 81 per USD. The exchange rate as at 31 March 2024 was ₹ 82 per USD. The corresponding amount could have been borrowed by SHB Ltd in local currency at an interest rate of 11% per annum as on 1 April 2023.

ADI Ltd follows April to March as the financial year

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### MULTIPLE CHOICE QUESTIONS

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1. In respect of abovementioned receipt of ₹ 10 crores, which of the following options would be correct under Indian GAAP?
  - (a) Accounting treatment desired by the company is correct.
  - (b) The subsidy should be credited to capital reserve.
  - (c) The subsidy should be treated as a capital grant.
  - (d) The accounting treatment should be as per the accounting policy of the company in relation to any grant. The company can choose any accounting policy in this respect.
2. Please suggest which one of the following options would be correct in respect of consolidated accounts of ADI Ltd as per Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006.
  - (a) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per AS 13 and 30% investment of SHA Ltd in SHB Ltd would be accounted for using equity method.
  - (b) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per equity method and 30% investment of SHA Ltd in SHB Ltd would be accounted using proportionate consolidation method.

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- (c) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per AS 13 and 30% investment of SHA Ltd in SHB Ltd would be accounted using proportionate consolidation method.
  - (d) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per equity method and 30% investment of SHA Ltd in SHB Ltd would also be accounted for using equity method.
3. Please share your views in respect of the accounting positions taken by ADI Ltd (Points i to iv) as per Accounting Standards notified under the Companies (Accounting Standards) Rules.
- (a) Position taken in point ii was incorrect.
  - (b) Positions taken in points ii and iv were incorrect.
  - (c) Positions taken in points i and ii were incorrect.
  - (d) Positions taken in points i, ii, iii and iv were incorrect.
4. Will there be any adjustment required in the financial statements of ADI Ltd because of abovementioned event (increase in interest rates by the Government) as per Accounting Standards notified under the Companies (Accounting Standards) Rules.
- (a) The increase is an indication that ADI Ltd's holding in ANI Ltd might have increased. Hence ADI Ltd would require to increase the value of its interest in ANI Ltd.
  - (b) No adjustment is required.
  - (c) The increase is an indication that ADI Ltd's holding in ANI Ltd might be impaired. ADI Ltd should make a formal estimate of the recoverable amount of its interest in ANI Ltd.
  - (d) Whether to make any adjustment or not will depend on the accounting policy of ADI Ltd.

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (b)** The subsidy should be credited to capital reserve

**Reason:**

As per AS 12, the grant is in the nature of promoter's contribution. Where the government grants are of the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve.

2. **Option (a)** In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per AS 13 and 30% investment of SHA Ltd in SHB Ltd would be accounted for using equity method

**Reason:** ADI Ltd's investment in SHB Ltd would be treated as any other investment as per the requirements of AS 13. Further, SHB Ltd would be treated as an associate of SHA Ltd as per the requirements of AS 23 and therefore, for such investment equity method of accounting would be required to be followed.

3. **Option (d)** Positions taken in points i, ii, iii and iv were incorrect

**Reason:**

- i. Training expenses incurred during the quarter ended 30 June 2024 should be expensed in the same quarter and should not be deferred as per the accrual basis of accounting. Further, any future costs should not be recognized.
- ii. Provision made for donation of ₹ 5 million expected to be made in the second quarter is a future cost which should not be recognized.
- iii. Depreciation should be computed based on useful life and not budgets.
- iv. Provision for expense around incentives should have been recognized.

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4. **Option (c)** The increase is an indication that ADI Ltd's holding in ANI Ltd might be impaired. ADI Ltd should make a formal estimate of the recoverable amount of its interest in ANI Ltd.

**Reason:** Due to increase in the interest rates, there will be a fall in the value of equity holdings. This is due to the fact that risk free investments offer a higher return making them relatively more attractive. The market value of equity will adjust downwards to improve the return available on this sort of investment. This is an indicator for impairment as per AS 28 due to which ADI should do an impairment testing in respect of its investment in ANI Ltd

**CASE SCENARIOS 20**

Ketan Private Limited has entered into a finance lease agreement with Mehra Ltd. for acquiring machinery. The lease term is four years, and the machinery's fair value at the inception of the lease is ₹ 20,00,000. The annual lease rent is ₹ 6,25,000, payable at the end of each year. The lease includes a guaranteed residual value of ₹ 1,25,000 and an expected residual value of ₹ 3,75,000. The implicit interest rate for the lease is 15%. The discounted rates for the first to fourth years are 0.8696, 0.7561, 0.6575, and 0.5718, respectively.

**MULTIPLE CHOICE QUESTIONS**

1. What is the total amount of the minimum lease payments over the lease term?
  - (i) ₹ 20,00,000
  - (ii) ₹ 25,00,000
  - (iii) ₹ 26,25,000
  - (iv) ₹ 27,50,000
2. What is the present value of the minimum lease payments using the implicit interest rate?
  - (a) ₹ 20,00,000
  - (b) ₹ 18,55,850
  - (c) ₹ 19,50,000
  - (d) ₹ 17,80,000
3. At what value should the lease asset and corresponding lease liability be recognized in the books of Ketan Private Limited at the inception of the lease?
  - (a) ₹ 20,00,000
  - (b) ₹ 18,55,850

- (c) ₹ 19,50,000  
 (d) ₹ 17,80,000
4. What is the present value of the lease payments for the 1st year?
- (a) ₹ 6,25,000  
 (b) ₹ 5,43,500  
 (c) ₹ 4,72,563  
 (d) ₹ 4,10,937

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** ₹ 26,25,000  
 2. **Option (b)** ₹ 18,55,850  
 3. **Option (b)** ₹ 18,55,850  
 4. **Option (b)** ₹ 5,43,500

**Reason for 1, 2, 3, & 4:**

Year	Minimum Lease Payment in (₹)	Implicit interest rate (Discount rate @15%)	Present value (₹)
1	6,25,000	0.8696	5,43,500
2	6,25,000	0.7561	4,72,563
3	6,25,000	0.6575	4,10,937
4	<u>7,50,000*</u>	0.5718	<u>4,28,850</u>
Total	<u>26,25,000</u>		<u>18,55,850</u>

Present value of minimum lease payments ₹18,55,850 is less than fair value at the inception of lease i.e. ₹ 20,00,000, therefore, the asset and corresponding lease liability should be recognised at ₹18,55,850 as per AS 19.

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\* Minimum Lease Payment of 4<sup>th</sup> year includes guaranteed residual value amounting ₹1,25,000.

**CASE SCENARIOS 21**

Mr. Vikram took a loan of ₹ 6,00,000 carrying interest @ 10% p.a. on 1<sup>st</sup> August, 2023 to purchase raw material. He purchased 4,000 units of raw material @ 125 per unit. Replacement cost of raw material as on 31 March, 2024 is 100 per unit. Labour charges and variable overheads incurred are ₹ 1,00,000 to produce 1000 units of finished goods.

1,000 units of Finished goods are produced with raw material (for every unit of finished goods produced, 2 units of raw material are required). Net realizable value of finished good is ₹ 300 per unit. All the finished goods produced are lying in stock as on 31 March, 2024.

There is no opening stock of raw material and finished goods.

Mr. Vikram used 1,500 units of raw material to construct an Asset (Qualifying Asset). Labour and other overhead charges incurred on construction of asset are ₹ 90,000. Mr. Vikram also paid ₹ 15,000 to install the asset at Factory premises. Mr. Vikram used Balance of loan proceeds of ₹ 1,00,000 to invest in Equity Shares of P. Ltd. He purchased 9,000 Equity shares (Face Value ₹ 10 each) for ₹ 1,00,000 on 25th March, 2024.

The P. Ltd declared and paid dividend @ 20% on 30th March for the year 2023-24.

Based on the information given in above Case Scenario, answer the following Questions :

**MULTIPLE CHOICE QUESTIONS**

1. What would be the value of closing stock of Raw Material X and Finished Goods as on 31st March 2024?
  - (a) Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,50,000
  - (b) Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,00,000
  - (c) Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,50,000



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- (d) Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,00,000
2. Cost of Self Constructed Asset as per AS 10 will be ?
- (a) ₹ 2,92,500
  - (b) ₹ 2,77,500
  - (c) ₹ 3,05,000
  - (d) ₹ 2,90,000
3. As per AS 16 what will be the amount of interest to be capitalized and amount of interest to be charged to Profit & Loss A/c ?
- (a) ₹ 12,500 interest to be capitalised and Profit & Loss A/c. ₹ 27,500 interest to be charged to Profit & Loss A/c
  - (b) ₹ 12,500 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c.
  - (c) ₹ 19,167 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c.
  - (d) Whole of ₹ 40,000 interest to be charged to Profit & Loss A/c.
4. What is the carrying amount of investment as on 31<sup>st</sup> March, 2024 as per AS 13 and suggest the treatment of dividend received from P. Ltd.?
- (a) Carrying amount of Investment as on 31<sup>st</sup> March, 2024 is ₹ 72,000 and the dividend is deducted from the nominal value of investment.
  - (b) Carrying amount of Investment as on 31<sup>st</sup> March, 2024 is ₹ 90,000 and the dividend is credited to Profit & Loss A/c.
  - (c) Carrying amount of Investment as on 31<sup>st</sup> March, 2024 is ₹ 1,00,000 and the dividend is credited to Profit & Loss A/c.
  - (d) Carrying amount of Investment as on 31<sup>st</sup> March, 2024 is 82,000 and the dividend is deducted from the cost of investment.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Closing Stock of Raw Material ₹ 50,000 and closing stock of Finished Goods ₹ 3,00,000

**Reason:**

If the finished good cost is more than the expected selling price then Raw material is valued at Replacement cost. So Value of Raw Material will be 500 units @ ₹ 100 per unit and value of finished Goods will be ₹ 1,000 units @ 300 per unit

Cost of finished Goods

2,000 units of Raw Material @ 125 pe unit = ₹ 2,50,000

Labour Charges = ₹ 1,00,000

For 1,000 units = ₹ 3,50,000

Per unit Cost is ₹ 350 per unit so NRV is considered

2. **Option (c)** ₹ 3,05,000

**Reason:**

Cost of Self Constructed Asset:

Cost of raw material consumed

1500 units @ 125 per unit = ₹ 1,87,500

Add: Labour Charges = ₹ 90,000

Add: Installation cost = ₹ 15,000

Add: Borrowing cost

1,87,500 x 10% for 8 months = ₹ 12,500

₹ 3,05,000

3. **Option (a)** ₹ 12,500 interest to be capitalised and Profit & Loss A/c. ₹ 27,500 interest to be charged to Profit & Loss A/c

**Reason:**

₹ 12,500 interest to be capitalised and ₹ 27,500 interest to be charged to profit & Loss A/c

Loan Proceeds ₹ 6,00,000 out of this ₹ 1,87,500 used for qualifying Assets and balance for Non qualifying Asset.

So Interest on ₹ 1,87,500 i.e. ₹ 12,500 capitalised to cost of Asset and interest on ₹ 4,12,500 i.e. ₹ 27,500 charged to profit and loss account.

4. **Option (d)** Carrying amount of Investment as on 31<sup>st</sup> March, 2024 is 82,000 and the dividend is deducted from the cost of investment

**Reason:**

Carrying amount of Investment as on 31<sup>st</sup> March 2024 is ₹ 82,000 and the dividend is deducted from the cost of investment.

**CASE SCENARIOS 22**

Kay Ltd. sold goods of ₹ 22,00,000 to Mr. Ravi Kumar on 1<sup>st</sup> February 2024 but at the request of the buyer, these goods were delivered on 10<sup>th</sup> April 2024.

Kay Ltd. also sold ₹ 2,00,000 goods on approval basis on 1<sup>st</sup> January, 2024 to Sheetal Enterprises. The period of approvals 3 months after which they were considered sold. Buyer sent disapproval for 25% of goods and approval for 50% of goods till 31 March, 2024.

Mr. Ravi Kumar has commenced legal action against Kay Ltd. for supply of faulty goods to claim damages. The lawyers of Kay Ltd. have advised that it is not remote yet that resources may be required to settle the claim. Legal cost to be incurred irrespective of the outcome of the case is ₹ 45,000. Settlement amount if the claim is required to be paid ₹ 5,00,000,

Sheetal Enterprises, a trade receivable of Kay Ltd. suffered a heavy loss due to an earthquake that occurred on 30<sup>th</sup> March, 2024. The loss was not covered by any insurance policy. In April, 2024, Sheetal Enterprises became bankrupt. The Balance due from Sheetal Enterprises as on 31<sup>st</sup> March, 2024 is ₹ 75,000.

Kay Ltd. makes provision for doubtful debts @ 5%.

Based on the information given in above Case Scenario, answer the following Questions

**MULTIPLE CHOICE QUESTIONS**

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1. What is the amount to be recognized as Revenue as per AS 9 in the books of Kay Ltd. as on 31 March, 2024?
  - (a) ₹ 23,50,000
  - (b) ₹ 1,50,000
  - (c) ₹ 23,00,000
  - (d) ₹ 1,00,000

- 
2. What will be the treatment of legal cost and claim for legal action commenced by Mr. Ravi Kumar in the Books of Kay Ltd. as on 31 March, 2024 as per AS 29?
- (a) Create a Provision for ₹ 5,45,000
  - (b) Create a Provision for ₹ 5,00,000
  - (c) Create a Provision for ₹ 45,000 and make a disclosure of contingent liability of ₹ 5,00,000
  - (d) Make a disclosure of contingent liability of 5,45,000
3. What is the treatment of insolvency of Sheetal Enterprises in the Books of Kay Ltd. as on 31<sup>st</sup> March, 2024 as per AS 4?
- (a) An Adjusting Event, full provision of ₹ 75,000 should be made in the Final Accounts for the year ended 31 March, 2024.
  - (b) An Adjusting Event, provision of ₹ 3,750 should be made in the Final Accounts for the year ended 31 March, 2024.
  - (c) A Non-adjusting event, no provision is required to be made as Sheetal Enterprises became bankrupt in April, 2024.
  - (d) A Non- adjusting event, only disclosure is required in the Final Accounts for the year ended 31st March, 2024.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (a)** ₹ 23,50,000

**Reason:**

Goods sold and delivery pending at the request of buyer is recognized as revenue and out of goods sold on approval basis ₹ 2,00,000, only 25% were not accepted by the buyer. Rest are treated as revenue.

So total revenue recognized is ₹ 22,00,000+ ₹ 1,50,000 = ₹ 23,50,000

2. **Option (c)** Create a provision for ₹ 45,000 and make a disclosure of contingent liability of ₹ 5,00,000

**Reason:**

There are remote chances of payment of damages to the buyer so claim of ₹ 5,00,000 treated as contingent liability and provision is made for legal charges as these charges will be incurred.

3. **Option (a)** An Adjusting Event, full provision of ₹ 75,000 should be made in the Final accounts for the year ended 31 March 24.

**Reason:**

The earthquake occurred before 31<sup>st</sup> March and at the time of the bankruptcy of Sheetal enterprises, there was sufficient evidence that the amount due from the buyer was not recoverable.

## CASE SCENARIOS 23

Jay Ltd. submits the following data extracted from the Final Accounts as on 31<sup>st</sup> March, 2023:

	₹
Equity Share Capital 50,000 Equity shares of ₹ 10 each	5,00,000
Profit & Loss (Dr. balance)	(50,000)
9% Debentures	2,00,000
Loan from Bank	3,00,000
Advance given to suppliers of goods	45,000
Provision for tax	14,000
Plant & Machinery	4,50,000
Furniture & Fixtures	85,000
Investment in Star Ltd. 10,000 equity shares of ₹ 10 each	1,25,000
Sundry Debtors	70,000
Cash & Bank Balance	65,500

Additional information given by Jay Ltd.:

On 31<sup>st</sup> March, 2023 Jay Ltd. decided to reconstruct the company for which necessary resolution was passed. Accordingly, it was decided that:

- 9% Debentures to be settled in full by issuing them 15,000 Equity shares of ₹ 10 each.
- Equity shareholders will give up 40% of their capital in exchange for allotment of new 11% Debentures of ₹ 1,00,000.
- Balance of Profit & Loss to be written off.
- Equity shares issued for ₹ 1,00,000.

In addition to above, following information was also presented by Jay Ltd. on 1<sup>st</sup> April, 2023:

- Interest is received on advances given to suppliers of goods ₹ 3,000.

- (b) Taxation liability is settled at ₹ 14,000.
- (c) A debtor of ₹ 40,000 is insolvent, only 40% of his dues are recovered from his estate.
- (d) Dividend is received on Investment in Star Ltd. ₹ 1 per equity share invested.
- (e) Part of Plant and Machinery is sold at a loss of ₹ 3,000 (book value ₹ 15,000)

Based on the information given in above Case Scenario, answer the following Questions :

### **MULTIPLE CHOICE QUESTIONS**

---

1. The amount of Cash Flow from operating activity is:
  - (a) ₹ 2,000
  - (b) ₹ 5,000
  - (c) ₹ 12,000
  - (d) ₹ 15,000
2. The amount of Cash Flow from investing Activity is
  - (a) ₹ 28,000
  - (b) ₹ 25,000
  - (c) ₹ 15,000
  - (d) ₹ 22,000
3. What is the amount of closing Cash and Cash equivalents as on 1 April, 2023?
  - (a) ₹ 1,92,500
  - (b) ₹ 92,500
  - (c) ₹ 1,27,000
  - (d) ₹ 1,98,500



4. The Balance of Equity Share Capital after internal reconstruction is :
- (a) ₹ 6,50,000
  - (b) ₹ 4,50,000
  - (c) ₹ 5,50,000
  - (d) ₹ 7,50,000

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ₹ 5,000

**Reason:**

$$₹ 3,000 + ₹ 16,000 - ₹ 14,000 = ₹ 5,000$$

2. **Option (d)** ₹ 22,000

**Reason:**

₹ 10,000 (Dividend) + ₹ 12,000 (Proceeds from Sale of Plant and Machinery)

3. **Option (a)** ₹ 1,92,500

**Reason:**

	₹
Opening Cash	65,500
Operating cost flows (₹ 3,000+ ₹ 16,000- ₹14,000)	5,000
Investing Cash flows (₹10,000+ ₹ 12,000)	22,000
Financing Cash flows Closing cash + Cash Equivalent	<u>1,00,000</u>
	1,92,500

4. **Option (c)** ₹ 5,50,000

	₹
Opening Capital	5,00,000
New capital issued	1,00,000
Issued to Debenture holder	1,50,000
Capital Surrendered	<u>(2,00,000)</u>
	<u>5,50,000</u>

**CASE SCENARIO 24**

On 31st March, 20X1, seven companies finalized their financial statements, which were approved on 15th June, 20X1. During the financial year 20X1-20X2, several material events occurred, as detailed below. You are required to analyze each situation and decide how they should be treated in the financial statements for the year ended 31st March, 20X1, based on AS 4: Contingencies and Events Occurring After the Balance Sheet Date.

1. A Ltd. entered into a contract to sell a property valued at ₹ 1,00,000 in its balance sheet on 15<sup>th</sup> March, 20X1. The sale was finalized on 15<sup>th</sup> May, 20X1, for ₹ 2,50,000.
2. B Ltd.'s 100% subsidiary declared a dividend of ₹ 3,00,000 on 30<sup>th</sup> April, 20X1, for the year ended 31<sup>st</sup> March, 20X1.
3. C Ltd. decided to close its mail order activities on 31<sup>st</sup> May, 20X1, incurring closure costs of ₹ 2.5 million.
4. D Ltd. discovered, on 1<sup>st</sup> July, 20X1, that sand at a major civil engineering project site increased project costs by 25%, with no recovery from the customer.
5. On 2nd April, 20X1, a fire destroyed E Ltd.'s manufacturing plant. The estimated loss of ₹ 10 million is expected to be fully covered by insurance.
6. F Ltd. received a ₹ 8 million damage claim for breach of patent before 31<sup>st</sup> March, 20X1. Legal advice suggests the claim is baseless, though legal fees are expected.
7. G Ltd. experienced an 8% foreign exchange rate change between 1<sup>st</sup> April, 20X1, and 1st June, 20X1, reducing the value of its foreign assets by ₹ 1.3 million.

**MULTIPLE CHOICE QUESTIONS**

1. For A Ltd., how should the sale of property be treated in the financial statements?
  - (a) Recognize ₹1,50,000 profit in the 20X0-20X1 financial statements.
  - (b) Disclose the sale as a non-adjusting event.

- 
- (c) Exclude the sale from the financial statements entirely.
  - (d) Treat it as an extraordinary item in the 20X1-20X2 financial statements.
2. For B Ltd., how should the dividend declaration be treated?
- (a) Recognize the dividend in the 20X0-20X1 financial statements.
  - (b) Treat it as an adjusting event.
  - (c) Disclose it as a non-adjusting event in the notes to accounts.
  - (d) Ignore the event entirely.
3. For C Ltd., how should the closure of mail order activities be treated?
- (a) Recognize the closure costs in the 20X0-20X1 financial statements.
  - (b) Treat it as an adjusting event.
  - (c) Disclose it as a non-adjusting event in the financial statements.
  - (d) Ignore the closure since it occurred after the approval date.
4. For E Ltd., what should be the treatment of the fire incident?
- (a) Recognize the ₹ 10 million loss in the 20X0-20X1 financial statements.
  - (b) Disclose it as a non-adjusting event with a note about insurance coverage.
  - (c) Ignore the incident since it occurred after the year-end.
  - (d) Treat it as an extraordinary item in the 20X1-20X2 financial statements.
5. For F Ltd., how should the damage claim for breach of patent be treated?
- (a) Provide ₹ 8 million for the claim in the 20X0-20X1 financial statements.
  - (b) Disclose it as a contingent liability and provide for estimated legal fees.
  - (c) Recognize the full amount as an expense in the financial statements.
  - (d) Ignore the claim since it is deemed baseless.

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (a)** Recognize ₹1,50,000 profit in the 20X0-20X1 financial statements.

**Reason:**

The contract exchange occurred before 31st March, 20X1, making it an adjusting event. The sale's impact must be reflected in the financial statements for 20X0-20X1.

2. **Option (c)** Disclose it as a non-adjusting event in the notes to accounts.

**Reason:**

The dividend was declared after 31st March, 20X1. As per AS 4, it is a non-adjusting event and must be disclosed in the notes.

3. **Option (c)** Disclose it as a non-adjusting event in the financial statements.

**Reason:**

The closure decision was made after 31st March, 20X1, and is a non-adjusting event requiring disclosure to ensure user understanding.

4. **Option (b)** Disclose it as a non-adjusting event with a note about insurance coverage.

**Reason:**

The fire occurred after 31st March, 20X1, making it a non-adjusting event. Disclosure is required, especially given the insurance coverage.

5. **Option (b)** Disclose it as a contingent liability and provide for estimated legal fees.

**Reason:**

The claim is considered baseless but must be disclosed as a contingent liability per AS 4. Legal fees should be provided if not recoverable.

**CASE SCENARIO 25**

Energy Ltd. acquired a generator on 1st April, 20X1, for ₹100 lakh. The company applied for a subsidy from the Indian Renewable Energy Development Authority (IREDA) on 2nd April, 20X1. The subsidy was granted in June, 20X2, after the accounts for the financial year 20X1-20X2 were finalized. The company did not account for the subsidy in the financial statements for the year ended 31st March, 20X2.

Additionally, consider the following scenarios:

1. The sanction letter for the subsidy was received in June, 20X2, before the Board of Directors approved the accounts for the year 20X1-20X2.
2. Energy Ltd. had previously made similar applications for subsidies and received them every time without exception.

**MULTIPLE CHOICE QUESTIONS**

1. In the original scenario, how should the subsidy granted in June, 20X2, be treated in the financial statements?
  - (a) Recognize it as income for the financial year 20X1-20X2.
  - (b) Treat it as a prior period item in the financial year 20X2-20X3.
  - (c) Deduct it from the cost of the generator in the financial year 20X2-20X3.
  - (d) Ignore it as it relates to a past financial year.
2. If the subsidy sanction letter was received before the accounts for 20X1-20X2 were approved by the Board of Directors, how should the subsidy be treated?
  - (a) Recognize it in the financial statements for 20X1-20X2 by deducting it from the cost of the generator.
  - (b) Disclose it as a contingent asset in the notes for 20X1-20X2.

- (c) Recognize it as deferred income in the financial year 20X2-20X3.
  - (d) Ignore it as the event occurred after 31<sup>st</sup> March, 20X2.
3. If Energy Ltd. had a history of receiving subsidies on all similar applications in the past, how should the subsidy for 20X1-20X2 be treated?
- (a) Recognize it in the financial statements for 20X1-20X2 by deducting it from the cost of the generator.
  - (b) Recognize it as deferred income for the financial year 20X2-20X3.
  - (c) Treat it as a prior period item in the financial year 20X2-20X3.
  - (d) Disclose it as a contingent asset in the notes for 20X1-20X2.

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (c)** Deduct it from the cost of the generator in the financial year 20X2-20X3.

**Reason:**

As per AS 12, a grant can only be recognized when there is reasonable assurance of compliance with conditions and receipt of the subsidy. Since the subsidy was sanctioned after 31<sup>st</sup> March, 20X2, and after accounts for 20X1-20X2 were approved, it cannot be treated as an adjusting event for 20X1-20X2. It must be accounted for in 20X2-20X3 by deducting it from the cost of the generator.

2. **Option (a)** Recognize it in the financial statements for 20X1-20X2 by deducting it from the cost of the generator.

**Reason:**

As per AS 4, events occurring after the balance sheet date but before approval of accounts by the Board of Directors are adjusting events if they confirm conditions existing at the balance sheet date. Receipt of the sanction letter confirms the condition that the subsidy application was valid, and hence, the subsidy should be adjusted in the financial statements for 20X1-20X2.

3. **Option (a)** Recognize it in the financial statements for 20X1-20X2 by deducting it from the cost of the generator.

**Reason:**

If the company has consistently received subsidies for similar applications in the past, there is reasonable assurance as required by AS 12. In such cases, the subsidy should have been recognized in the financial statements for 20X1-20X2, as the past pattern provides assurance of receipt.

**CASE SCENARIO 26**

A company is engaged in refining, transportation, and marketing of petroleum products. During the financial year ended 31st March, 20X1, it acquired a controlling interest in another public sector undertaking from the Government of India at ₹ 1,551 per share. The book value and market value of the shares as of 18th February, 20X1, were ₹ 192.58 and ₹ 876 per share, respectively. The company paid a strategic premium of ₹ 675 per share due to various tangible and intangible factors.

The company classified the acquired shares as long-term strategic investments and accounted for them at cost, i.e., ₹ 1,551 per share, in its financial statements. No provision for diminution in value was made. However, Schedule III of the Companies Act, 2013, requires the aggregate market value of quoted shares to be disclosed, and this has been reflected.

On 28th March, 20X1, the market price of the acquired shares was ₹ 880 per share. By 18<sup>th</sup> July, the price had dropped to ₹ 300. Management believes that the decline in value is not permanent, given the strategic and synergy benefits expected, and hence, no provision for diminution has been made.

**MULTIPLE CHOICE QUESTIONS**

1. Is the accounting treatment of recording the investment 'at cost' without providing for diminution correct as per AS 13?
  - (a) Yes, as the investment is classified as long-term.
  - (b) Yes, provided the decline in value is not other than temporary.
  - (c) No, the market value must always be considered for long-term investments.
  - (d) No, a provision for diminution must be made regardless of the cause of decline.
2. How should the company assess whether the decline in market value is other than temporary?
  - (a) Based solely on the market price on the balance sheet date.



- (b) Based on a comparison of the market price with the book value of the shares.
  - (c) By considering all relevant factors, such as the financial health of the investee and expected benefits.
  - (d) By applying a uniform threshold for decline across all investments.
3. If a provision for diminution in value is required, how should it be treated in the financial statements?
- (a) As a charge to the profit and loss account.
  - (b) As deferred expenditure amortized over five years.
  - (c) Directly adjusted against the investment account.
  - (d) As a disclosure note without impacting the financial statements.
4. Can the premium paid for strategic benefits be accounted for separately from the cost of investment?
- (a) Yes, it should be recorded as a separate intangible asset. ₹
  - (b) Yes, it can be disclosed as goodwill in the balance sheet.
  - (c) No, it must be included in the cost of investment as per AS 13.
  - (d) No, it must be expensed immediately in the profit and loss account.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** Yes, provided the decline in value is not other than temporary.

**Reason:**

As per **AS 13**, long-term investments are recorded at cost unless there is a **decline other than temporary** in their value. If the management can substantiate that the decline in market value is temporary, there is no need to create a provision for diminution.

2. **Option (c)** By considering all relevant factors, such as the financial health of the investee and expected benefits.

**Reason:**

Per **paragraph 17 of AS 13**, the company must consider all relevant factors, such as the financial and operational performance of the investee,

the expected benefits from the investment, and external economic conditions, to assess whether the decline is other than temporary.

3. **Option (a)** As a charge to the profit and loss account.

**Reason:**

AS 13 requires that any provision for diminution in the value of investments be charged to the **profit and loss account**. It cannot be treated as deferred expenditure or amortized over future periods.

4. **Option (c)** No, it must be included in the cost of investment as per AS 13.

**Reason:**

As per AS 13, long-term investments are recorded at **cost**, which includes any premium paid. There is no provision in AS 13 to account for the premium separately, even if it is paid for strategic benefits.

**CASE SCENARIO 27**

Sigma Builders Pvt. Ltd. enters into a contract with Alpha Developers Ltd. on 1st January 20X1 to construct a 5-storied residential complex. The construction is to be completed within three years, by 31<sup>st</sup> December 20X3. The contract terms include the following provisions:

- ◆ Fixed Price: ₹ 5 crore
- ◆ Material Cost Escalation: 20% of the increase in material costs during the contract period.
- ◆ Labour Cost Escalation: 30% of the increase in minimum wages during the contract period.
- ◆ Early Completion Incentive: ₹ 50 lakh if the project is completed in less than 2 years and 10 months.
- ◆ Delay Penalty: ₹ 20 lakh if the project is delayed beyond 3 years and 2 months.

At the start of the project, Sigma believes it can complete the construction in 2 years and 8 months. The project was ultimately completed in 2 years and 9 months.

The following additional details are relevant:

- ◆ Labour Cost: Initially estimated at ₹ 1.20 crore based on minimum wages but increased by 25% during the project period.
- ◆ Material Cost: Increased by 40% during the project due to market conditions, resulting in a total increase of ₹ 80 lakh.

In 20X2, Alpha Developers requested Sigma Builders to increase the scope of the project by constructing an additional floor, leading to an increase in the fixed contract fee by ₹ 1 crore. Sigma incurred ₹ 20 lakh in obtaining local authority approvals for this variation, which it will recover from Alpha Developers in addition to the fixed fee increase.

**MULTIPLE CHOICE QUESTIONS**

1. What is the total contract revenue excluding variations, claims, and incentives?  
(a) ₹ 5 crore

- (b) ₹ 5.40 crore
  - (c) ₹ 5.70 crore
  - (d) ₹ 6.20 crore
2. How should Sigma Builders account for the early completion incentive of ₹ 50 lakh?
- (a) Recognize only after the project is completed.
  - (b) Recognize as revenue progressively since the completion date is predictable.
  - (c) Recognize at the end of the project if Sigma Builders is eligible for it.
  - (d) Do not recognize, as it depends on external factors.
3. What is the revised total contract revenue after considering variations and claims?
- (a) ₹ 6.40 crore
  - (b) ₹ 7.20 crore
  - (c) ₹ 7.40 crore
  - (d) ₹ 7.60 crore
4. How should Sigma Builders account for the ₹20 lakh spent on obtaining approvals for the additional floor?
- (a) Capitalize the cost as part of the project expense.
  - (b) Charge it to the profit and loss account.
  - (c) Include it as a claim recoverable from Alpha Developers.
  - (d) Record it separately as deferred expenditure.

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (d)** ₹6.20 crore

**Reason:**

The total revenue includes the fixed price (₹ 5 crore) plus adjustments for material and labour cost escalations and the early completion incentive:

- ◆ Fixed Price: ₹ 5 crore
- ◆ Material Cost Recovery: (to the extent of) 20% = ₹ 0.40 crore
- ◆ Labour costs recovery (Actual increase is less than 30%) (1.20 crore x 25%) = ₹ 0.30 crore
- ◆ Early Completion Incentive: ₹ 0.50 crore
- ◆ Total: ₹ 6.20 crore

2. **Option (b)** Recognize as revenue progressively since the completion date is predictable.

**Reason:**

As per AS 7 Construction Contracts, incentives for early completion can be recognized as revenue when the company has sufficient evidence of achieving the performance condition (completion in less than 2 years and 10 months). Since Sigma reasonably estimated early completion, progressive recognition is appropriate.

3. **Option (c)** ₹ 7.40 crore

**Reason:**

The total revenue includes the base contract revenue and adjustments for additional scope and recoverable claims:

- Base Revenue: ₹ 6.20 crore
- Variation for Additional Floor: ₹ 1 crore
- Claims for Local Authority Approvals: ₹ 20 lakh
- Total: ₹ 7.40 crore

4. **Option (c)** Include it as a claim recoverable from Alpha Developers.

**Reason:**

The ₹ 20 lakh spent for approvals is recoverable as per the contract terms, so it should be accounted as a claim receivable and added to the total contract revenue.

### CASE SCENARIO 28

**AB Ltd.** is engaged in manufacturing a variety of products, including modules, dyes, infrastructure goods, etc. The company caters to a broad customer base across sectors like automobiles, infrastructure, construction, and others, both in India and internationally. Its financial statements are prepared annually as of 31st March.

Additional details for the financial year ending 31st March 2024 are provided below:

#### Segment Information

AB Ltd. has identified five segments. The details are as follows:

Segment	Sale		Total sale	Profit	Asset
	Export	Domestic			
K	54,00,000	-	54,00,000	4,50,000	9,00,00,000
L	1,12,50,000	36,00,000	1,48,50,000	13,50,000	2,25,00,000
M	2,02,50,000	-	2,02,50,000	22,50,000	3,15,00,000
M	1,21,50,000	27,00,000	148,50,000	13,50,000	4,50,00,000
O	18,00,000	22,50,000	<u>40,50,000</u>	<u>9,00,000</u>	<u>6,75,00,000</u>
			<u>5,94,00,000</u>	<u>63,00,000</u>	<u>25,65,00,000</u>

#### Additional Information

##### 1. Machinery Purchase

On 1st April 2023, AB Ltd. purchased machinery worth ₹15,00,000 for producing specific items for a particular customer. The cost is deductible over two years for tax purposes: ₹10,00,000 in year 1 and the balance in year 2. The applicable tax rate is 30%.

##### 2. Trademark and Process Development:

AB Ltd. introduced a new manufacturing process and incurred the following costs:

- ◆ Trademark acquisition: ₹70,00,000

- ◆ Product promotion: ₹2,00,000
- ◆ Employee benefits for testing: ₹3,00,000

**3. Government Grant:**

AB Ltd. was engaged in the process of development of a manufacturing unit in one of the specified industrial areas. The development of the manufacturing unit shall be completed within 2 years. To encourage industrial promotion in specified areas, the government provides government grants in the form of subsidies. The cost of the project for the company is ₹ 700 lakhs against which the government provided a grant of ₹ 500 lakhs & this grant was in nature of the promoter's contribution

**MULTIPLE CHOICE QUESTIONS**

1. Based on the quantitative threshold which of the above segment K to O would be considered as reportable segment?
  - (a) Segment M
  - (b) Segment M, N & L
  - (c) Segment L, M, N & O
  - (d) All Segment
2. What will be the tax effect on the financial statement for the year 2023-24 in respect of machinery purchased on 1<sup>st</sup> April 2023?
  - (a) Create DTA ₹ 75,000
  - (b) Reverse DTA ₹ 75,000
  - (c) Create DTL ₹ 75,000
  - (d) Reverse DTL ₹ 75,000
3. What is the total cost that should be capitalized for a trademark related to the new process?
  - (a) ₹ 75,00,000
  - (b) ₹ 73,00,000

- (c) ₹ 72,00,000  
(d) ₹ 70,00,000
4. How should subsidy received be accounted in the books of the company?
- (a) Credit into capital reserve  
(b) Credit it as "Other income" in the statement of profit & Loss A/c in the year of commencement of commercial operation.  
(c) Both A & B are permitted  
(d) Credit it to General Reserve.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** All Segment

**Reason:**

Based on the 10% quantitative threshold: Revenue (L, M, N are reportable), Profit (L, M, N, O are reportable), Assets (K, M, N, O are reportable). Hence, all segments qualify as reportable.

2. **Option (c)** Create DTL ₹ 75,000

Book value of machinery at the end of year 1: ₹15,00,000 – depreciation ₹ 7,50,000 = ₹ 7,50,000. Tax base: ₹ 15,00,000 – ₹ 10,00,000 = ₹ 5,00,000. Temporary difference: ₹ 2,50,000. DTL is created @ 30% on ₹ 2,50,000 = ₹ 75,000.

3. **Option (b)** ₹ 73,00,000

Cost to be capitalized for trademark:

Cost	70,00,000
Testing expenses	<u>3,00,000</u>
	<u>73,00,000</u>

Expenses on promoting the new product are not capitalized

4. **Option (a)** Credit into capital reserve

As the grant is a promoter's contribution, it is credited to the capital reserve.



### CASE SCENARIO 29

G Ltd. is an automotive supplier and is in the business of manufacturing components & parts to be used by various automotive companies. The company has its registered office in North Delhi and is listed in a stock exchange. Following are some outstanding issues not yet solved towards the finalization of the financial statement for the year ending on 31.3.2024.

G Ltd. installed new machinery in its plant during 2023-2024.

G Ltd. incurred the following costs:

The basic price of machinery	₹ 50,00,000
Initial delivery & handling cost	₹ 10,00,000
Cost of site preparation	₹ 5,00,000
The interest charge for deferred credit paid to the supplier	₹ 1,00,000
The present value of estimated dismantling costs to be incurred after 15 years is	₹ 5,00,000.

Operating losses after commercial production ₹ 4,00,000. The plant was ready for its intended use on 1<sup>st</sup> July 2023 but commercial production started on 1<sup>st</sup> August 2023. The estimated life of the machine is 10 years with no residual value.

To acquire the above machinery G Ltd. is to borrow US \$ 62,500 on 1.4.2023 which will be repaid on 1.7.2024. Rate of exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under::

On 1.4.2023	1 US \$ = ₹ 80
31.03.2024	1 US\$ = ₹82.50

G Ltd. acquired a machine on 1<sup>st</sup> April, 2018 for ₹ 25 lakhs that had an estimated useful life of 8 years. The machine is depreciated on straight line basis and does not carry any residual value. On 31.3.2022 assets was revalued 18 lakhs with revised useful life of 5 years. The surplus arising on revaluation was credited to Revaluation Reserve A/c.

G Ltd. had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

As on 31.3.2024 the condition indicating impairment of the asset existed & its recoverable value came down to ₹ 6 lakhs. The company sold the asset as on 1 May 2024 for ₹ 2.8 lakh. G Ltd. acquired 35% shares of Build Ltd. as on 1.7.2023 for ₹ 14,00,000. By such acquisition, it can exercise significant influence over Build Ltd. the following balance of Build Ltd. as on the date of acquisition:

Particular

Share capital 15,00,000

Reserve & Surplus (includes current year profit for 3 months) 8,50,000

Build Ltd. paid a dividend of ₹ 1,50,000 on 15.7.2023 for the year ending 31.3.2023. The profit earned by Build Ltd. during the year ending 31.3.2024 amounts to ₹ 4,80,000 (assume profit to be accure evenly)

### **MULTIPLE CHOICE QUESTIONS**

---

1. What is the carrying value of machinery on 31.3.2024 installed in the plant?
  - (a) ₹ 65,33,333
  - (b) ₹ 64,75,000
  - (c) ₹ 69,06,667
  - (d) ₹ 68,45,000
2. What is the amount of exchange loss/gain to be recognized and what will be the amount of foreign loan to be shown in the financial statement on 31.3.2024?
  - (a) ₹ 1,56,250 exchange loss and ₹ 50,00,000 of foreign loan.
  - (b) ₹ 1,56,250 exchange gain and ₹ 51,56,250 of foreign loan.
  - (c) ₹ 1,56,250 exchange gain and ₹ 50,00,000 of foreign loan.
  - (d) ₹ 1,56,250 exchange loss and ₹ 51,56,250 of foreign loan.

3. What is the amount of impairment loss on 31.3.2024?
- (a) ₹ 5.5 lakh  
(b) ₹ 7.2 lakh  
(c) ₹ 4.8 lakh  
(d) ₹ 3 lakh
4. What will be the carrying amount of investment in the separate financial statement of G Ltd. as on 31.3.2024?
- (a) ₹ 14,00,000  
(b) ₹ 8,22,500  
(c) ₹ 13,47,500  
(d) ₹ 14,52,500

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option b** ₹ 64,75,000

**Reason:**

	₹
Cost of machinery to be capitalized	70,00,000
(except interest as the asset is not qualified & operating loss) (50,00,000+10,00,000+5,00,000+5,00,000). Machinery ready for intended use on 1.7.2023 and life is 10 year therefore depreciation for 9 months will be $70,00,000 \times \frac{1}{10} \times \frac{9}{12} = 5,25,000$	
Carrying value of machine as on 31.3.2024	64,75,000

2. **Option (d)** ₹ 1,56,250 exchange loss and ₹ 51,56,250 of foreign loan.

**Reason:**

$$\text{Exchange loss} = 62,500 \times 2.50 = 1,56,250$$

This loss will be added to the value of the foreign loan amount. So, the foreign loan amount will be increase by ₹ 1,56,250.

**3. Option (c) ₹ 4.8 lakh****Reason:**

	Rs in lakh
Cost of the asset on 1.4.2017	25
Less: Depreciation for 4 years (2017-18 to 2020-21)	( 12.5)
Carrying amount as on 31.3.2021	<u>12.5</u>
Add: upward revaluation	<u>5.5</u>
(credited to revaluation reserve)	18
Less: depreciation of 2 years	<u>(7.2)</u>
i.e 2021-22, 22-23	
Carrying amount as on 31.3.2023	<u>10.8</u>
Less: recoverable amount	<u>(6)</u>
Impairment loss	<u>4.8</u>

**4. Option (c) ₹ 13,47,500****Reason:**

Carrying amount of investment in the separate financial statement, of G Ltd. as on 31.3.2024

Amount paid for investment in Build Ltd.	₹ 14,00,000
Less: pre acquisition dividend	<u>₹ (52,500)</u>
Carrying amount as on 31.3.2024	₹ 13,47,500

### CASE SCENARIO 30

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.20X1:

	Particulars	(₹)	
(1)	Equity Share Capital (Shares of ₹ 10 each fully paid)	-	24,00,000
(2)	Reserves and Surplus		
	General Reserve	20,50,000	-
	Securities Premium Account	7,50,000	-
	Profit & Loss Account	2,00,000	-
	Infrastructure Development Reserve	20,00,000	
	Revaluation reserve	<u>1,70,000</u>	51,70,000
(3)	Loan Funds		52,00,000

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.20X1 a proposal to buy-back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of buy back price per share is ₹ 25 .

You are also informed that the Infrastructure Development Reserve is created to satisfy Income-tax Act requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,200 crores or ₹ 1,500 crores.

Assuming that the entire buy-back is completed by 09.12.20X1,

**MULTIPLE CHOICE QUESTIONS**

---

1. What is the maximum number of shares to be bought back as per debt-equity ratio?
  - (a) 1,12,000 shares
  - (b) 80,000 shares
  - (c) 54,000 shares
  - (d) 60,000 shares
2. What is the maximum permitted equity as per debt- equity ratio test.
  - (a) 20,00,000 shares
  - (b) 28,00,000 shares
  - (c) 15,00,000 shares
  - (d) 13,50,000 shares
3. What will be the future equity shareholding fund if a company buys back shares as per the result of the debt-equity ratio test?
  - (a) 48,000
  - (b) 48,60,000
  - (c) 42,80,000
  - (d) 46,00,000
4. What is the maximum number of shares that can be buy back as per resource test?
  - (a) 54,000
  - (b) 75,700
  - (c) 55,700
  - (d) 74,000

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** 80,000 shares
2. **Option (a)** 20,00,000 shares
3. **Option (d)** 46,00,000
4. **Option (a)** 54,000

**Reason: Common for 1, 2, 3, 4**

#### Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	2,40,000
25% of the shares outstanding	60,000

#### Resources Test

Particulars	
Paid up capital (₹)	24,00,000
Free reserves (₹)	<u>30,00,000</u>
Shareholders' funds (₹)	<b><u>54,00,000</u></b>
25% of Shareholders fund (₹)	₹ 13,50,000
Buy-back price per share	₹ 25
Number of shares that can be bought back (shares in crores)	54,000 shares

#### Debt Equity Ratio Test

	Particulars	When loan fund is
(a)	Loan funds (₹)	52,00,000
(b)	Minimum equity to be maintained <b>after</b> buy-back in the ratio of 2:1 (₹)	26,00,000
(c)	Present equity shareholders fund (₹ in crores)	54,00,000

(d)	Future equity shareholder fund (₹ in crores)	(54,00,000-8,00,000) 46,00,000
(e)	Maximum permitted buy-back of Equity (₹ in crores) [(d) – (b)]	20,00,000 (by simultaneous equation)
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores)	80,000 (by simultaneous equation)

$$(54,00,000 - x) - 26,00,000 = y \quad 0020$$

$$= \left( \frac{y}{25} \times 10 \right) = x$$

$$x = ₹ 8,00,000$$

$$y = ₹ 20,00,000$$



**CASE SCENARIO 31**

P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a Listed Company and regularly supplies goods to P Ltd. The Management of R Ltd. has not disclosed its relationship with P Ltd. While preparing Financial Statements of P Ltd., which entities would you disclose as related parties with reference to AS-18?

**MULTIPLE CHOICE QUESTION**

1. While preparing Financial Statements of P Ltd., which entities would you disclose as related parties with reference to AS-18?
  - (a) Q Ltd.
  - (b) R Ltd.
  - (c) Q Ltd. and R Ltd.
  - (d) Neither of Q Ltd. or R Ltd.

**ANSWER TO MULTIPLE CHOICE QUESTION**

1. **Option (c)** Q Ltd. and R Ltd.

**Reason:**

P Ltd. has 60% voting right in Q Ltd. Thus, P Ltd control over Q Ltd

Q Ltd. has 20% voting rights in R Ltd. Q Ltd has significant influence over R. Ltd. P Ltd. directly enjoys voting right of 14% in R Ltd. P Ltd and Q Ltd, together hold 34% of the shares in R Ltd. So, P Ltd has significant influence over R Ltd.

**CASE SCENARIO 32**

A Machinery was given on 3 years lease by a dealer of the machinery for equal annual lease rentals to yield 20% profit margin on cost of the machinery, which is ₹ 3,00,000. Economic life of the machinery is 5 years, and estimated output from the machinery in 5 years is as follows:

Year I	50,000 units
Year II	60,000 units
Year III	40,000 units
Year IV	65,000 units
Year V	85,000 units.

**MULTIPLE CHOICE QUESTION**

1. Compute Annual Lease Rent.
  - (a) ₹ 30,000
  - (b) ₹ 60,000
  - (c) ₹ 50,000
  - (d) ₹ 36,000

**ANSWER TO MULTIPLE CHOICE QUESTION**

1. **Option (b)** ₹ 60,000

**Reason:**

$$\begin{aligned}\text{Total lease rent} &= 120\% \text{ of ₹ } 3,00,000 \times \frac{\text{Output during lease period}}{\text{Total output}} \\ &= ₹ 3,60,000 \times \frac{1,50,000 \text{ units}}{3,00,000 \text{ units}} = ₹ 1,80,000\end{aligned}$$

$$\text{Annual lease rent} = ₹ 1,80,000 / 3 = ₹ 60,000$$

**CASE SCENARIO 33**

A Ltd. had 1,50,000 shares of common stock outstanding on 1 April, 2023. Additional 50,000 shares were issued on 1 November, 2023 and 32,000 shares were bought back on 1 February, 2024.

**MULTIPLE CHOICE QUESTION**

1. Calculate the weighted average number of shares outstanding at the year ended on 31 March, 2024 is:
  - (a) 1,34,500 shares
  - (b) 1,65,500 shares
  - (c) 1,76,167 shares
  - (d) 1,23,833 shares

**ANSWER TO MULTIPLE CHOICE QUESTION**

1. **Option (b)** ₹ 1,65,500 shares

**Reason:**

$$(1,50,000 \times 7/12) + (2,00,000 \times 3/12) + (1,68,000 \times 2/12) = 1,65,500 \text{ shares}$$

**CASE SCENARIO 34**

A Ltd. has a balance of ₹ 17,15,000 in the loan account with State Finance Corporation which is inclusive of ₹ 1,15,000 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.

**MULTIPLE CHOICE QUESTION**

---

1. As per Schedule III to the Companies Act, 2013 loan is to be disclosed in the balance sheet as follows:
  - (a) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings.
  - (b) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under short-term borrowings.
  - (c) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under other current liabilities.
  - (d) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and no disclosure for ₹ 1,15,000.

**ANSWER TO MULTIPLE CHOICE QUESTION**

---

1. **Option (c)** Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under other current liabilities.

**Reason:**

As per Schedule III ₹ 16,00,000 as a secured loan under long-term borrowings and interest accrued but not due will be shown under other current liabilities.

**CASE SCENARIO 35**

In the books of G Ltd., closing inventory as at 31.03.2024 amounts to ₹ 10,40,000 (on the basis of FIFO method).

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory for 31.3.2024. On the basis of weighted average method, closing inventory as on 31.03.2024 amounts to ₹ 8,80,000. Realisable value of the inventory as on 31.03.2024 amounts to ₹ 12,00,000.

**MULTIPLE CHOICE QUESTION**

1. What will be the value of inventory in the books and what disclosure should be given in the financial statement on 31.3.2024?
  - (a) The value of inventory will be ₹ 8,80,000 and the fact that the valuation method has changed to be disclosed in the financial statement.
  - (b) The value of inventory will be ₹ 12,00,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.
  - (c) The value of inventory will be ₹ 12,00,000, and the fact that valuation method has changed to be disclosed in the financial statement.
  - (d) The value of inventory will be ₹ 8,80,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

**ANSWER TO MULTIPLE CHOICE QUESTION**

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1. **Option (d)** The value of inventory will be ₹ 8,80,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement

**Reason:**

'The company values its inventory at lower of cost and net realizable value. Since net realizable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost i.e. ₹ 8,80,000

As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus A Ltd. should disclose the change in valuation method of inventory and its effect on financial statements.

# **INTERMEDIATE COURSE**

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## **PAPER – 2**

### **CORPORATE AND OTHER LAWS**

**[RELEVANT FOR MAY, 2025 EXAMINATION AND ONWARDS]**

## **BOOKLET ON CASE SCENARIOS**



**BOARD OF STUDIES**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

This booklet has been prepared by the faculty of the Board of Studies. The objective of the booklet is to provide teaching material to the students to enable them to obtain knowledge in the subject. In case students need any clarifications or have any suggestions to make for further improvement of the material contained herein, they may write to the Joint Director, Board of Studies.

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# PREFACE

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Under the New Scheme of Education and Training which was introduced on 1<sup>st</sup> July, 2023, 30% of the examination assessment is by the way of Objective Type Questions at Intermediate and Final level. Therefore, to provide hands-on practice for such type of questions, BOS launched MCQ Paper Practice Portal on 1<sup>st</sup> July, 2023. This online portal contains independent MCQs as well as case scenario based MCQs both for conceptual clarity and practice of the students.

In continuation to this handholding initiative and to provide quality academic inputs to the students to help them grasp the intricate aspects of the subject, the Board of studies has brought forth subject-wise booklets on Case Scenarios at Intermediate and Final level. These booklets are meticulously designed to assist Chartered Accountancy (CA) students in their preparation of the CA course.

At Intermediate level, the '**Booklet on Case Scenarios for Paper 2: Corporate and Other Laws**' contains the case scenarios which have been answered on the basis of the provisions of the Companies Act, 2013, the Limited Liability Partnership Act, 2008, the General Clauses Act, 1897 and the Foreign Exchange Management Act, 1999, including significant circulars and notifications issued and other legislative amendments made, which have become effective up to 31.10.2024. The case scenario-based MCQs are all application oriented MCQs and arise from the facts of the case. At the end of each case scenario followed by MCQs, we have also provided explanations/hints for each MCQ which will enable the students to evaluate their performance and identify areas requiring further attention.

Please note that before working out the MCQs of this booklet, students have to be thorough with the Study Material. You are expected to apply the concepts learnt in answering the MCQs given in this booklet. You have to read the case scenarios and the MCQs, identify the provisions of law involved, apply the provisions correctly in addressing the issue raised/making the computation required in the MCQ, and finally, choose the correct answer. This process of learning concepts and provisions of laws and solving MCQs based thereon will help you attain conceptual clarity and hone

your application and analytical skills so that you are able to approach the examination with confidence and a positive attitude.

We are confident that this booklet will serve as a valuable companion in your preparation journey. We encourage students to make the most of this resource by engaging deeply with the scenarios, reflecting on the MCQs, and embracing the learning process.

**Best wishes for your studies and success in the CA Intermediate  
Examination!**

## CASE SCENARIO 1

### The Companies Act, 2013

GlobalTech Pvt. Limited, a technology giant with operations in software development, hardware manufacturing, and IT consulting, has recorded significant financial growth over the past few years. For the financial year 2023-2024, the company reported the following financial metrics:

- Net worth: ₹ 520 crore
- Turnover: ₹ 1,050 crore
- Net profit: ₹ 4.5 crore

In the financial year 2022-2023, GlobalTech Pvt. Limited had a net worth of ₹ 480 crore, a turnover of ₹ 1,020 crore, and a net profit of ₹ 4 crore. The company has a subsidiary, TechSubs Limited, and a foreign subsidiary, GlobalTech International, which has a branch office in India.

GlobalTech Pvt. Limited spent ₹ 1.2 crore on various CSR activities during the financial year 2023-2024. However, ₹ 30 lakh remained unspent and was transferred to the Unspent Corporate Social Responsibility Account as per section 135(6) of the Companies Act, 2013.

The company's board comprises members from different parts of the country and they ensure that the administrative overheads do not exceed the prescribed limit of total CSR expenditure.

The company held its annual general meeting on 20<sup>th</sup> August, 2024 and filed the annual return in compliance with the provisions of the Companies Act, 2013.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5) given herein under: -

**MULTIPLE CHOICE QUESTIONS**

---

1. Based on the financial metrics of GlobalTech Pvt. Limited, is the company required to constitute a Corporate Social Responsibility (CSR) Committee for the for the financial year 2023-2024?
  - (a) Yes, because its net worth exceeds ₹ 500 crore.
  - (b) No, because it has not met the required net profit criteria.
  - (c) Yes, because its turnover exceeds ₹ 1,000 crore.
  - (d) No, because its net profit is less than ₹ 5 crore.
2. Given that GlobalTech Pvt. Limited has ₹ 30 lakh in its Unspent Corporate Social Responsibility Account, which of the following statements is true?
  - (a) The company is not required to constitute a CSR Committee if it has unspent CSR funds.
  - (b) The company must constitute a CSR Committee in Financial year 2024-2025, as it has balance in Unspent CSR account.
  - (c) The company can use the unspent funds for any other business activity.
  - (d) The company must transfer the unspent amount to the Prime Minister's National Relief Fund.
3. If GlobalTech Pvt. Limited had an average net profit of ₹ 5 crore over the past three immediately preceding financial years, what is the minimum amount it must spend on CSR activities in the financial year 2024-2025?
  - (a) ₹ 5 lakh
  - (b) ₹ 10 lakh
  - (c) ₹ 20 lakh
  - (d) ₹ 30 lakh
4. GlobalTech Pvt. Limited must ensure that the administrative overheads do not exceed a certain percentage of the total CSR expenditure. What is this percentage?
  - (a) 2%

- (b) 5%
  - (c) 10%
  - (d) 15%
5. What is the latest date by which GlobalTech Pvt. Limited must file its annual return with the Registrar of Companies (RoC)?
- (a) 10<sup>th</sup> September 2024
  - (b) 15<sup>th</sup> September 2024
  - (c) 10<sup>th</sup> October 2024
  - (d) 19<sup>th</sup> October 2024

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

---

1. **Option (c)** Yes, because its turnover exceeds ₹ 1,000 crore.

**Reason:**

As per Section 135(1) of the Companies Act, 2013, a company shall constitute a Corporate Social Responsibility Committee of the Board if during the immediately preceding financial year such company having:

- Net worth of ₹ 500 crore or more, or
- Turnover of ₹ 1,000 crore or more, or
- Net profit of ₹ 5 crore or more.

In this case, for the financial year 2022-2023, GlobalTech Pvt. Limited's turnover exceeded ₹ 1,000 crore (₹ 1,020 crore).

2. **Option (b)** The company must constitute a CSR Committee in Financial year 2024-2025, as it has balance in Unspent CSR account.

**Reason:**

As per second proviso to Rule 3(1) of the Companies (Corporate Social Responsibility Policy) Rules, 2014, a company having any amount in its Unspent Corporate Social Responsibility Account as per section 135(6) shall constitute a CSR Committee and comply with the provisions contained in sub-sections (2) to (6) of the said section.

**3. Option (b)** ₹ 10 lakh**Reason:**

According to section 135(5) of the Companies Act, 2013, the Board of every company referred to in section 135(1), shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

Hence, the minimum amount GlobalTech Pvt. Limited must spend on CSR activities= 2% of ₹ 5 crore

= ₹ 10 lakh

**4. Option (b)** 5%**Reason:**

As per Rule 7(1) of the Companies (Corporate Social Responsibility Policy) Rules, 2014, the board shall ensure that the administrative overheads shall not exceed five percent of total CSR expenditure of the company for the financial year.

**5. Option (d)** 19<sup>th</sup> October 2024**Reason:**

As per Section 92(4) of the Companies Act, 2013, a copy of annual return shall be filed with the RoC within 60 days from the date on which the Annual General Meeting ('AGM') is held. Where no annual general meeting is held in any year, it shall be filed within 60 days from the date on which the annual general meeting should have been held, along with the reasons for not holding the AGM.

GlobalTech Pvt. Limited held its AGM on **20th August 2024**, so the deadline for filing the annual return is:

20 August 2024 + 60 days = 19 October 2024.

**CASE SCENARIO 2**

ACC Private Limited was incorporated in July 2001. It is registered with an authorised share capital of ₹ 20 crore divided into 2 crore equity shares of ₹ 10/- each. The paid-up share capital of the company is ₹ 10 crore divided into 1 crore equity shares of ₹ 10/- each.

The Board of Directors of the company in their meeting held on 11<sup>th</sup> August, 2023 declared interim dividend. The Annual General Meeting of the company was held on 1<sup>st</sup> September, 2023. The company had incurred losses in the previous financial year as well as in the current financial year upto the period ended 30<sup>th</sup> June, 2023. In the previous five financial years, the company had declared the dividend as under:

Financial Year Ended	Dividend declared per share (₹)	Dividend declared rate (%)
31 <sup>st</sup> March, 2023	Nil	Nil
31 <sup>st</sup> March, 2022	1.00	10%
31 <sup>st</sup> March, 2021	1.10	11%
31 <sup>st</sup> March, 2020	1.30	13%
31 <sup>st</sup> March, 2019	1.20	12%

The company has deposited the amount of dividend declared in a separate account with ABC Bank on 14<sup>th</sup> August, 2023. Out of the total dividend declared, ₹ 60,000 payable to few equity shareholders remains unclaimed even after the expiry of statutory period within which dividend was required to be paid and had been transferred to a separate bank account Unpaid Dividend Account on 20<sup>th</sup> September 2023. The company prepares a statement containing the names of shareholders, their last known address and the unpaid dividend amount to such each shareholder and place on its website.

Meanwhile, the company obtained a term loan of ₹ 15 crore from Laxmi Bank Limited on 20<sup>th</sup> August, 2023, securing it with a charge on the company's assets, including its own buildings (in India and Germany) and intangible assets (trademark right over the company's logo). According to the Companies Act, 2013, the company was required to register this charge with the Registrar within

a specified timeframe. However, the company failed to complete the registration process within the prescribed timeline.

The Board of Directors has requested their Company Secretary to confirm them whether they are required to incur expenditure towards Corporate Social Responsibility during the financial year 2023-2024 and is required to constitute CSR committee.

The financial particulars in respect of immediately preceding financial year are as under:

S. No.	Particulars	Amount (₹ in crore)
1	Net worth	100
2	Turnover	1010
3	Net Profit	4.9
4	Borrowings	60

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-4) given herein under: -

### **MULTIPLE CHOICE QUESTIONS**

---

1. The company can create charge in favour of the lender on the assets which are:
  - (a) Tangible Assets and situated in India only
  - (b) Intangible Assets and situated in India only
  - (c) Assets that are tangible or otherwise and situated in India or Germany
  - (d) Assets that are tangible or otherwise and situated in India only
2. The maximum rate at which interim dividend can be declared by the Board during the current financial year is as under: -



- 
- (a) The board cannot declare the interim dividend at a rate higher than the average dividend declared by the company immediately during preceding two financial years, i.e. 5%.
  - (b) The board cannot declare the interim dividend at a rate higher than the average dividend declared by the company immediately during preceding three financial years, i.e. 7%.
  - (c) The board cannot declare the interim dividend at a rate higher than the average dividend declared by the company immediately during preceding four financial years, i.e. 8.5%.
  - (d) The board cannot declare the interim dividend at a rate higher than the average dividend declared by the company immediately during preceding five financial years, i.e. 9.2%.
3. In respect of dividend declared which of the Statement is not correct?
- (a) The company has transferred the dividend amount to separate bank account within 5 days from the date of declaration of dividend.
  - (b) The company is required to pay dividend within 30 days from the date of declaration of dividend.
  - (c) The company is required to transfer the Unpaid dividend to a separate bank account within 10 days from the date of expiry of statutory period from the date of declaration of dividend.
  - (d) The company is required to prepare a statement containing the names of shareholders, their last known address and the unpaid dividend amount to such each shareholder and place on its website within 90 days from the date of transferring the amount to Unpaid Dividend Account.
4. Choose the correct option in terms that whether the provisions of Corporate Social Responsibility are applicable to ACC Private Limited.
- (a) The provisions of Corporate Social Responsibility are not applicable to ACC Private Limited as it is a private limited company.
  - (b) Yes, as ACC Private Limited is having turnover of more than ₹ 1000 crore.

- (c) Yes, as ACC Private Limited is having net profit of more than ₹ 2.5 crore in the immediately preceding financial year.
- (d) Yes, as ACC Private Limited is having net worth of more than ₹ 50 crore in the immediately preceding financial year.

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (c)** Assets that are tangible or otherwise and situated in India or Germany.

**Reason:**

Under **Section 77 of the Companies Act, 2013**, companies are permitted to create a charge on their assets to secure borrowings or other financial liabilities. There is no restriction on the type or location of the assets over which a charge can be created, provided the assets belong to the company. These assets can be tangible (like buildings or land) or intangible (like intellectual property, such as trademarks or copyrights).

In the given scenario, ACC Private Limited has created a charge on both tangible assets (buildings in India and Germany) and intangible assets (trademark rights).

2. **Option (b)** The board cannot declare the interim dividend at a rate higher than the average dividend declared by the company immediately during preceding three financial years, i.e. 7%.

**Reason:**

As per Proviso to Section 129(3), the board cannot declare the interim dividend at a rate higher than the average dividend declared by the Company immediately during preceding three financial years, i.e. 7%;

3. **Option (c)** The company is required to transfer the Unpaid dividend to a separate bank account within 10 days from the date of expiry of statutory period from the date of declaration of dividend.

**Reason:**

As per section 124(1), where a dividend has been declared by a company but has not been paid or claimed within thirty days from the date of the

declaration to any shareholder entitled to the payment of the dividend, the company shall, within seven days from the date of expiry of the said period of thirty days, transfer the total amount of dividend which remains unpaid or unclaimed to a special account to be opened by the company in that behalf in any scheduled bank to be called the Unpaid Dividend Account.

4. **Option (b)** Yes, as ACC Private Limited is having turnover of more than ₹ 1000 crore.

**Reason:**

As per Section 135(1) of the Companies Act, 2013, a company shall constitute a Corporate Social Responsibility Committee of the Board if during the immediately preceding financial year such company having:

- Net worth of ₹ 500 crore or more, or
- Turnover of ₹ 1,000 crore or more, or
- Net profit of ₹ 5 crore or more.

In this case, ACC Private Limited's turnover exceeded ₹ 1,000 crore (₹ 1010 crore).

**CASE SCENARIO 3**

XYZ Limited was incorporated on 1<sup>st</sup> April, 2023. The Board of Directors, within the required timeframe, appointed Mr. A as the first auditor of the company on 20<sup>th</sup> April, 2023. Mr. A was tasked with auditing the company's financial statements for the financial year 2022-23, and he held office until the conclusion of the first Annual General Meeting (AGM), which was held on 30<sup>th</sup> September, 2023.

During the AGM, the shareholders decided to appoint Mr. B, a partner in the audit firm MNO LLP, as the new auditor. MNO LLP is a limited liability partnership incorporated under the LLP Act, 2008. Mr. B and his firm were appointed to hold office from the conclusion of the 1st AGM until the conclusion of the 6th AGM in 2028.

Five years later, in 2028, the company is considering whether to reappoint Mr. B and MNO LLP for another term. The shareholders are discussing the provisions of the Companies Act, 2013, and the implications of reappointing the same auditor or audit firm for multiple terms.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5) given herein under: -

**MULTIPLE CHOICE QUESTIONS**

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1. Who was responsible for appointing the first auditor of XYZ Limited, and within what timeframe should the appointment have been made?
  - (a) Shareholders, within 60 days of registration of company
  - (b) Board of Directors, within 30 days of registration of company
  - (c) Board of Directors, within 60 days of registration of company
  - (d) Shareholders, within 30 days of registration of company

- 
2. How long can MNO LLP, as an audit firm, hold office as the auditor of XYZ Limited according to the Companies Act, 2013?
    - (a) One term of five consecutive years
    - (b) Two terms of five consecutive years
    - (c) One term of six consecutive years
    - (d) Three terms of five consecutive years
  3. If XYZ Limited wants to reappoint MNO LLP for another term after 2028, what does the Companies Act, 2013, mandate?
    - (a) MNO LLP can be reappointed for another term of five years.
    - (b) MNO LLP cannot be reappointed, as they have already served one term.
    - (c) MNO LLP cannot be reappointed, as they have already served two terms.
    - (d) MNO LLP can be reappointed, but the tenure must be reduced to three years.
  4. What is the maximum tenure for which Mr. A as the first auditor of XYZ Pvt. Limited, can hold office?
    - (a) From the date of appointment until the conclusion of the first AGM i.e. 30<sup>th</sup> September 2023
    - (b) From the date of appointment until the conclusion of the second AGM (in 2024)
    - (c) From the date of appointment until the conclusion of the third AGM (in 2025)
    - (d) From the date of registration of company until the conclusion of the first AGM i.e. 30<sup>th</sup> September 2023
  5. By what date the copy of the annual return is to be filed with the Registrar of companies in case of first AGM of XYZ Limited?
    - (a) 29<sup>th</sup> November 2023
    - (b) 30<sup>th</sup> December 2023

- (c) 31<sup>st</sup> January 2024
- (d) 29<sup>th</sup> February 2024

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** Board of Directors, within 30 days of registration of company.

**Reason:**

As per section 139(6) of the Companies Act, 2013, the Board of Directors must appoint the first auditor of the company within 30 days of its incorporation.

2. **Option (b)** Two terms of five consecutive years.

**Reason:**

According to Section 139(2) of the Companies Act, 2013, an audit firm can be appointed for two terms of five consecutive years in the case of listed companies and certain prescribed classes of companies. After completing the second term, the audit firm is ineligible for reappointment for a cooling-off period of five years. MNO LLP can thus serve for a maximum of 10 consecutive years (2 terms of 5 years each).

3. **Option (a)** MNO LLP can be reappointed for another term of five years.

**Reason:**

In 2028, MNO LLP will have completed its first term of five years. As per Section 139(2) of the Companies Act, 2013, MNO LLP is eligible for reappointment for a second term of five years, provided there is shareholder approval. After completing the second term, it would no longer be eligible for reappointment for the next five years.

4. **Option (a)** From the date of appointment until the conclusion of the first AGM i.e., 30th September 2023.

**Reason:**

As per Section 139(6) of the Companies Act, 2013, the first auditor appointed by the Board of Directors holds office from the date of their appointment until the conclusion of the company's first AGM. Mr. A was

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appointed on 20th April 2023 and held office until the conclusion of the first AGM on 30th September 2023.

**5. Option (a)** 29th November 2023

**Reason:**

As per section 92(4) of the Companies Act, 2013, a company must file its annual return with the Registrar within 60 days of holding its Annual General Meeting (AGM). XYZ Limited's first AGM was held on 30th September 2023. Thus, the due date for filing the annual return is 29th November 2023.

**CASE SCENARIO 4**

Prakash Limited and Vasudha Private Limited (VPL) were incorporated in January 1999 by Mr. Vicky Tripathi and his family members. Both the companies are engaged in the business of manufacturing machineries used in agricultural sector. Mr. Vicky Tripathi and his younger brother Vinay Tripathi actively participate in the daily operations of both the companies. Vasudha Private Limited is wholly owned by Tripathi family, while Tripathi family has a majority stake of 51% in Prakash Limited.

Due to the poor economic conditions in the agriculture sector and shifting of the farmers' focus to more advanced farming techniques, the sales of Prakash Limited is dipping and its bottom line has been in the red for the last couple of years. The unabsorbed loss of Prakash Limited for the current financial year is ₹ 9.8 crore. Prakash Limited didn't pay any dividends during the last four years. Prakash Limited has accumulated profit in the form of free reserves of ₹ 180 crore whereas paid-up share capital is ₹ 918 crore as per its latest audited financial statement and loss of ₹ 9.8 crore has not been deducted from such amount of free reserves. Since pressure from shareholders of the free float is mounting, management at Prakash Limited decided to pay dividend this year out of accumulated profit. Finally, the dividend was declared on 31<sup>st</sup> August 2024. Some of the dividend remained unpaid as on 30<sup>th</sup> September 2024, on account of operation of law; this was transferred to unpaid Dividend Account and a statement containing only the names of such beneficiaries was hosted on the website of the company on 9<sup>th</sup> November 2024.

Vasudha Private Limited is a mid-sized unlisted entity, with few branches abroad and is not required to appoint an independent director under section 149(4). During the immediately preceding F.Y., its net worth was ₹ 280 crore, turnover was ₹ 590 crore and net profit was ₹ 45.8 crore. The profits and other information for the immediately preceding three years are given below:



Particulars	Year ended 31.3.2024 (₹ in crore)	Year ended 31.3.2023 (₹ in crore)	Year ended 31.3.2022 (₹ in crore)
Net Profit for the year as per section 198 (in accordance with applicable provisions)	41.6	42.9	28

The Board of Directors of Vasudha Private Limited is not clear whether they have to compulsorily form a CSR committee. In order to avoid adverse legal consequences, Vasudha Private Limited constituted a CSR committee comprising of two (2) non-executive directors and one (1) executive director who was appointed as chairperson of the committee.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5) given herein under:

### MULTIPLE CHOICE QUESTIONS

- In case of Prakash Limited, regarding the unpaid dividend, which of the following statements is correct?
  - Prakash Limited is guilty, of non-payment of dividend, because some of the dividends remain unpaid even after 30 days of declaration.
  - Prakash Limited is guilty, because the list of beneficiaries of unpaid dividend is hosted on the website after 30 days from the date it falls in the category of unpaid dividend.
  - Prakash Limited is guilty, because the list of beneficiaries does not contain the latest known address of beneficiaries and the amount unpaid.
  - Prakash Limited is not guilty, because it has full-filled all the provisions of law pertaining to unpaid dividend.
- During the current year, is Vasudha Private Limited required to constitute CSR committee under the provisions of the Companies Act, 2013?

- (a) No, because it is a private company
  - (b) No, because it is an unlisted company and it has net-worth less than ₹ 500 crore
  - (c) Yes, because despite being unlisted company its turnover is above ₹ 500 crore
  - (d) Yes, because the company meets the threshold criteria having net profits exceeding ₹ 5 crore in the immediately preceding financial year
3. What is the implication of the fact that Prakash Limited has not paid dividends for the last four years while having free reserves?
- (a) The company is in violation of the Companies Act, 2013, for not declaring dividends.
  - (b) The shareholders can legally challenge the management for not utilizing free reserves for dividends.
  - (c) There is no legal obligation to declare dividends even if the company has free reserves.
  - (d) The company must now use all of its free reserves to pay dividends to satisfy shareholder demands.
4. Considering the legal provisions regarding the constitution of CSR committee and the one constituted by Vasudha Private Limited, state which of following the statements hold truth?
- (a) Constitution of the committee is invalid because it doesn't consist of an independent director.
  - (b) Constitution of the committee is invalid because its chairperson is an executive director.
  - (c) Constitution of the committee is valid because it depends purely upon the discretion of management.
  - (d) Constitution of the committee is valid because company is not required to appoint an independent director.

5. What is the minimum amount to be spent by Vasudha Private Limited on CSR activities for F.Y. 2024-25?
- (a) ₹ 89.06 Lakh
  - (b) ₹ 78.20 Lakh
  - (c) ₹ 75.00 Lakh
  - (d) ₹ 73.80 Lakh

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (c)** Prakash Limited is guilty, because the list of beneficiaries does not contain the latest known address of beneficiaries and the amount unpaid.

**Reason:**

As per section 124 of the Companies Act, 2013, where a dividend has been declared by a company but has not been paid or claimed within thirty (30) days from the date of declaration, the company shall, within seven (7) days from the expiry of the said period of 30 days, transfer the total amount of unpaid or unclaimed dividend to a special account called the Unpaid Dividend Account (UDA). The UDA shall be opened by the company in any scheduled bank.

Within 90 days of transferring any amount to the Unpaid Dividend Account, the company shall prepare a statement containing the names, last known addresses and the amount of unpaid dividend to be paid to each person and place such statement on its web-site, if any, and also on any other web-site approved by the Central Government for this purpose.

2. **Option (d)** Yes, because its net profit is above ₹ 5 crore

**Reason:**

A company shall constitute a Corporate Social Responsibility Committee of the Board if during the immediately preceding financial year such company having;

- a. Net worth of rupees five hundred crore or more or

- b. Turnover of rupees one thousand crore or more or
- c. Net profit of rupees five crore or more.

3. **Option (c)** There is no legal obligation to declare dividends even if the company has free reserves.

**Reason:**

A company is not legally required to declare dividends even if it has free reserves unless the Articles of Association or a specific agreement mandates otherwise.

4. **Option (d)** Constitution of the committee is valid because company is not required to appoint an independent director.

**Reason:**

Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

Proviso to section 135(1) of the Act read with Rule 5 (1) of the CSR Rule further states, where a company covered under section 135(1) but is not required to appoint an independent director under section 149(4), it shall have in its Corporate Social Responsibility Committee two or more directors, without such independent director.

5. **Option (c)** ₹ 75.00 Lakh

**Reason:**

According to section 135(5) of the Companies Act, 2013, the Board of every company referred to in section 135(1), shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

2% of  $[(41.6+42.9+28)/3]$

**CASE SCENARIO 5**

Golden Limited is a listed company which is incorporated in 2013 having its registered office at Delhi and corporate office in Noida. It is registered with an authorised share capital of ₹ 20 crore divided into 2 crore equity shares of ₹ 10 each. The paid-up share capital of the company is ₹ 10 crore divided into 1 crore equity shares of ₹ 10 each. The company is in construction activities like construction of buildings, roads, etc.

On 8<sup>th</sup> January, 2022, the company incorporated a wholly owned subsidiary, D Limited which is involved in supplying of construction materials like steel, iron, cement, bricks, etc. D Limited elects to choose to prepare its first financial statements for the period from 8<sup>th</sup> January, 2022 to 31<sup>st</sup> March, 2022.

On 2<sup>nd</sup> January, 2022, Golden Limited incorporated a new wholly owned subsidiary, E Limited for providing project management consultancy service to its customers or to parent company. On 5<sup>th</sup> January, 2022, Golden Limited through its subsidiary, E Limited acquired 100% partnership interest in XYZ & Co., partnership firm. E Limited elects to choose to prepare its first financial statements for the period from 2<sup>nd</sup> January, 2022 to 31<sup>st</sup> March, 2023 and conducted its Annual General Meeting on 16<sup>th</sup> August, 2023.

On 1<sup>st</sup> July, 2022, the subsidiary company, D Limited incorporated a new wholly owned subsidiary, F Limited.

Golden Limited prepared its standalone financial statements for the year 2021-22 and presented before the Board of Directors of the company on 25<sup>th</sup> August, 2022 for their approval and the same were adopted by the shareholders in the Annual General Meeting held on 2<sup>nd</sup> September, 2022.

Golden Limited prepared its standalone and consolidated financial statements for the year 2022-23 and presented before the Board of Directors of the company on 20<sup>th</sup> August, 2023 for their approval and the same were adopted by the shareholders in the Annual General Meeting held on 26<sup>th</sup> September, 2023.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct

answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5) given herein under:

### **MULTIPLE CHOICE QUESTIONS**

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1. What is the last date for conducting AGM for E Limited?
  - (a) 30<sup>th</sup> September, 2022
  - (b) 31<sup>st</sup> December, 2022
  - (c) 30<sup>th</sup> September, 2023
  - (d) 31<sup>st</sup> December, 2023
2. What is the due date for conducting AGM for Golden Limited for the year ended March 31, 2023?
  - (a) 30<sup>th</sup> September, 2023
  - (b) 31<sup>st</sup> October, 2023
  - (c) 30<sup>th</sup> November, 2023
  - (d) 31<sup>st</sup> December, 2023
3. The Companies Act, 2013 provides that in addition to standalone financial statement, the company shall also prepare consolidated financial statements which shall also be presented at AGM. Accordingly, the consolidated financial statements of Golden Limited for the financial year ended 31<sup>st</sup> March, 2022 includes, financial statements:
  - (a) Golden Limited and D Limited
  - (b) Golden Limited, D Limited and E Limited
  - (c) Golden Limited, D Limited, E Limited and XYZ & Co., partnership firm
  - (d) Golden Limited, D Limited, E Limited, F Limited and XYZ & Co., partnership firm
4. The Companies Act, 2013 provides that in addition to standalone financial statement, the company shall also prepare consolidated financial statements which shall also be presented before AGM. Accordingly, the consolidated financial statements of Golden Limited for the financial year ended 31<sup>st</sup> March, 2023 includes:
  - (a) Golden Limited and D Limited

- (b) Golden Limited, D Limited and E Limited
  - (c) Golden Limited, D Limited, E Limited and XYZ & Co., partnership firm
  - (d) Golden Limited, D Limited, E Limited, F Limited and XYZ & Co., partnership firm
5. Please select which is the correct option/ which is the most correct statement:
- (a) Golden Limited had given the notice for holding AGM in Mumbai on Monday, 26<sup>th</sup> September, 2023 at 11.00 A.M.
  - (b) Golden Limited had given the notice for holding AGM in Delhi on Monday, 26<sup>th</sup> September, 2023 at 11.00 A.M.
  - (c) Golden Limited had given the notice for holding AGM in Noida on Tuesday, 27<sup>th</sup> September, 2023 at 11.00 A.M.
  - (d) Golden Limited had given the notice for holding AGM in Delhi on Monday, 26<sup>th</sup> September, 2023 at 8.30 A.M.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (d)** 31<sup>st</sup> December, 2023

**Reason:**

Proviso to Section 96(1) provides that in case of the first annual general meeting, it shall be held within a period of nine months from the date of closing of the first financial year. In the given case, the closing of the first financial year of the Company is March 31, 2023. Hence, the last date to conduct first AGM will be 31<sup>st</sup> December, 2023.

2. **Option (a)** September 30, 2023

**Reason:**

Proviso to Section 96(1) provides that annual general meeting of a company shall be held within a period of six months from the date of closing of the financial year.

3. **Option (c)** Golden Limited; D Limited, E Limited and XYZ & Co., partnership firm

**Reason:**

Section 129(3) of the Act provides that if a company has one or more subsidiaries, it shall, in addition to standalone financial statements, prepare a consolidated financial statement of the company. In the given case for the year ended March 31, 2022, the consolidated financial statements of Golden Limited would include D Limited, E Limited and XYZ & Co., partnership firm as these entities were in existence during the year ended March 31, 2022. In the case of E Limited, the subsidiary company has an option to prepare its first financial statements for statutory filings from January 8, 2022 to March 31, 2023. However, E Limited is required to prepare its separate financial statements for the period from January 08, 2022 to March 31, 2022 only for the purpose of consolidation purpose, which can be unaudited.

4. **Option (d)** Golden Limited; D Limited, E Limited, F Limited and XYZ & Co., partnership firm

**Reason:**

Section 129(3) of the Act provides that if a company has one or more subsidiaries, it shall, in addition to standalone financial statements, prepare a consolidated financial statement of the company. In the given case for the year ended March 31, 2023, Golden Limited has four subsidiaries (including partnership firm), namely D Limited, E Limited, F Limited and XYZ & Co., partnership firm.

5. **Option (b)** Golden Limited had given the notice for holding AGM in Delhi on Monday, September 26, 2023 at 11.00 A.M.

**Reason:**

As per Section 96(2), every annual general meeting shall be called during business hours, that is, between 9 a.m. and 6 p.m. on any day that is not a National Holiday and shall be held either at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situate.



**CASE SCENARIO 6**

ABC Limited, was incorporated on 1<sup>st</sup> January, 2023. It operates in the manufacturing sector and aims to expand its business model to include e-commerce operations. ABC Limited's first financial year ended on 31<sup>st</sup> March, 2024, and the board is preparing for its first Annual General Meeting (AGM) to present the financial statements and discuss the new business model. ABC Limited's current board consists of five directors, including two independent directors appointed in line with best corporate governance practices.

The company has a wholly owned subsidiary, XYZ Limited, which is primarily involved in research and development for new products. XYZ Limited's financial year also ended on 31<sup>st</sup> March, 2024. Additionally, ABC Limited has a 30% stake in an associate company, MNO Limited, which provides logistics and distribution services. The board is assessing if it is required to prepare consolidated financial statements (CFS) that combine the financials of ABC Limited, XYZ Limited, and MNO Limited, considering the exemptions available under the Companies Act, 2013.

The AGM agenda includes:

1. Approval of the financial statements for the financial year 2023-24.
2. Discussion of a special resolution to adopt a new e-commerce business model, which requires a threefold majority approval.
3. Approval of consolidated financial statements, if required.
4. Appointment of auditors and other general meeting proceedings.

The board has provided notice to all members about the AGM agenda, including the proposal for the special item requiring special resolution. This notice was sent by email and registered post to ensure compliance with statutory notice requirements. All shareholders, including minority stakeholders, received this notice with proof of delivery available with the company.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct

answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5) given herein under:

### **MULTIPLE CHOICE QUESTIONS**

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1. Given that ABC Limited's first financial year ended on 31<sup>st</sup> March, 2024, and it was incorporated on 1<sup>st</sup> January, 2023, what is the latest date by which ABC Limited must hold its first AGM?
  - (a) 30<sup>th</sup> September, 2024.
  - (b) 31<sup>st</sup> December, 2024.
  - (c) 31<sup>st</sup> March, 2025.
  - (d) 30<sup>th</sup> June, 2025.
2. Suppose ABC Limited holds its first AGM on 15<sup>th</sup> December, 2024. By when must it hold its subsequent AGM to remain compliant?
  - (a) 15<sup>th</sup> December, 2025.
  - (b) 30<sup>th</sup> September, 2025.
  - (c) 30<sup>th</sup> June, 2025.
  - (d) 31<sup>st</sup> March, 2025.
3. Under the Companies Act, 2013, does ABC Limited need to prepare consolidated financial statements (CFS) to present at the AGM?
  - (a) Yes, because it has one wholly owned subsidiary and an associate company.
  - (b) No, because it qualifies for exemption as a wholly owned subsidiary.
  - (c) Yes, only if XYZ Limited and MNO Limited are listed companies.
  - (d) No, if shareholders provide written consent exempting it from CFS preparation.
4. What must ABC Limited ensure to pass the special resolution approving the adoption of a new e-commerce business model at the AGM?
  - (a) The resolution must have more than 50% of votes in favor.

- (b) The resolution must be stated as special in the notice, and votes in favor must be three times the votes against.
  - (c) The resolution can be passed if votes in favor exceed votes against without being stated as special.
  - (d) The resolution must have unanimous support from the board of directors.
5. Under which conditions would ABC Limited be exempt from preparing consolidated financial statements?
- (a) If ABC Limited is a wholly owned subsidiary, all members agree in writing to the exemption, and proof of delivery of this intimation is available.
  - (b) If XYZ Limited's shareholders unanimously agree to waive CFS requirements.
  - (c) If MNO Limited's financials are not significant to ABC Limited's overall financial position.
  - (d) If ABC Limited's board decides to skip CFS preparation with a simple majority vote.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** 31<sup>st</sup> December 31, 2024.

**Reason:**

Section 2(41) defines Financial year, in relation to any company or body corporate, means the period ending on the 31st day of March every year, and where it has been incorporated on or after the 1st day of January of a year, the period ending on the 31st day of March of the following year, in respect whereof financial statement of the company or body corporate is made up.

As per the Companies Act, 2013, the first AGM must be held within nine months from the end of the first financial year. Since ABC Limited's financial year ended on 31<sup>st</sup> March, 2024, the latest date for holding the first AGM is 31<sup>st</sup> December, 2024.

2. **Option (b)** 30th September, 2025.

**Reason:**

The Companies Act mandates that subsequent AGMs must be held within six months from the end of the financial year and within a maximum gap of 15 months between AGMs.

3. **Option (a)** Yes, because it has one wholly owned subsidiary and an associate company.

**Reason:**

The Companies Act requires companies with subsidiaries or associates to prepare consolidated financial statements unless they meet specific exemption criteria. ABC Limited does not meet the exemption criteria, so it must prepare and present CFS at the AGM.

4. **Option (b)** The resolution must be stated as special in the notice, and votes in favor must be three times the votes against.

**Reason:**

Section 114(2) requires that for a resolution to be considered special, it must be specified as such in the notice, and the votes in favor must be at least three times the votes against.

5. **Option (a)** If ABC Limited is a wholly owned subsidiary, all members agree in writing to the exemption, and proof of delivery of this intimation is available.

**Reason:**

A company is exempt from CFS preparation if it is a wholly or partially owned subsidiary and all members provide written consent, with proof of this intimation available with the company.

**CASE SCENARIO 7**

Tejas Infra Limited was incorporated by Tejasvi Singh and his wife Meenakshi along with seven other family members in the year 2001 with an aim to undertake infrastructure projects relating to transportation in the country. The company had successfully completed construction of roads and canals in Delhi, UP and Chandigarh and rose to become one of the prominent construction companies in India.

The Registered Office of the company is situated in Connaught Place, New Delhi with a capital base of ₹ 100 crore divided into ten crore equity shares of ₹10 each. The company has eight directors of which three are independent directors. In the year 2019, the company got new projects from the State Government of Punjab to build four flyovers and underpasses in different cities of Punjab.

In order to increase its capital base, Tejas Infra Limited decided to issue 1,00,000 preference shares of ₹ 100 each to the existing shareholders. For this, purpose it was decided to increase the Authorised Capital by ₹ 500,00,000 divided into 5,00,000 shares of ₹ 100 each.

The projects went off well and the turnover rose to the tune of ₹ 3600 crore in the immediately preceding financial year 2022-23. The net worth of the company stood at ₹ 550 crore.

As they crossed the threshold limit in the immediately preceding financial year 2022-23, a Board level Committee headed by one of the independent directors, namely, Paritosh was constituted to allocate budget, review the progress and provide guidance on various Corporate Social Responsibility (CSR) and sustainability initiatives. It was decided to spend the requisite amount towards skill development, vocational training, provision of safe drinking water facility, etc. Lokesh, one of the directors, is also a member of this Corporate Social Responsibility Committee. He is in favour of Janta Andolan Manch, a political party. This party is quite prominent in undertaking social work. As per his advice, the Board by a unanimous resolution resolved to contribute ₹ 5,00,000 to the said political party i.e. Janta Andolan Manch and to treat such contribution as part of CSR activity.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-4) given herein under:

### **MULTIPLE CHOICE QUESTIONS**

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1. From the case scenario, it is evident that Tejas Infra Limited decided to issue 1,00,000 preference shares of ₹ 100 each to the existing shareholders. From the options given below choose the one which indicates the maximum period which is permitted to the company for redemption of preference shares.
  - (a) Tejas Infra Limited being involved in infrastructural activities is permitted to specify maximum period of thirty-five years for redemption of preference shares subject to the condition that it shall redeem minimum 20% of preference shares per year commencing from 31<sup>st</sup> year onwards or earlier, on proportionate basis at the option of preference shareholders.
  - (b) Tejas Infra Limited being involved in infrastructural activities is permitted to specify maximum period of thirty-five years for redemption of preference shares subject to the condition that it shall redeem minimum 10% of preference shares per year commencing from 26<sup>th</sup> year onwards or earlier, on proportionate basis at the option of preference shareholders.
  - (c) Tejas Infra Limited being involved in infrastructural activities is permitted to specify maximum period of thirty years for redemption of preference shares subject to the condition that it shall redeem minimum 10% of preference shares per year commencing from 21<sup>st</sup> year onwards or earlier, on proportionate basis, at the option of preference shareholders.
  - (d) Tejas Infra Limited being involved in infrastructural activities is permitted to specify maximum period of thirty years for redemption of preference shares subject to the condition that it shall redeem minimum 20% of preference shares per year commencing from 26<sup>th</sup>

year onwards or earlier, on proportionate basis, at the option of preference shareholders.

2. The case scenario states that the turnover of Tejas Infra Limited rose to the tune of ₹ 3600 crore and net worth of the company stood at ₹ 550 crore in the immediately preceding financial year 2022-23 which required formation of CSR Committee. What is the third criterion which if crossed shall also require that a CSR Committee be formed. Choose the correct option from those stated below:
  - (a) The third criterion which also requires formation of CSR Committee is that the company has net profit of ₹ two crore or more in the immediately preceding financial year.
  - (b) The third criterion which also requires formation of CSR Committee is that the company has net profit of ₹ three crore or more in the immediately preceding financial year.
  - (c) The third criterion which also requires formation of CSR Committee is that the company has net profit of ₹ five crore or more in the immediately preceding financial year.
  - (d) The third criterion which also requires formation of CSR Committee is that the company has net profit of ₹ six crore or more in the immediately preceding financial year.
3. According to the legal provisions, it is mandatory to redeem preference shares at the stipulated time. Keeping in view the above case scenario, which source is required to be used by Tejas Infra Limited for the redemption of outstanding preference shares:
  - (a) Tejas Infra Limited is required to redeem preference shares out of the profits which would otherwise be available for dividend.
  - (b) Tejas Infra Limited is required to redeem preference shares out of the proceeds of a fresh issue of shares made for the purposes of such redemption.
  - (c) Both (a) and (b).
  - (d) Tejas Infra Limited is required to redeem preference shares out of its Capital Redemption Reserve.

4. While constituting a CSR Committee, how many minimum directors are required to be appointed by Tejas Infra Limited:
- (a) CSR Committee formed by Tejas Infra Limited shall have minimum two directors.
  - (b) CSR Committee formed by Tejas Infra Limited shall have minimum three directors of which at least one director shall be an independent director.
  - (c) CSR Committee formed by Tejas Infra Limited shall have minimum four directors of which at least one director shall be an independent director.
  - (d) CSR Committee formed by Tejas Infra Limited shall have minimum four directors of which at least two directors shall be independent director.

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#### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Tejas Infra Limited being involved in infrastructural activities is permitted to specify maximum period of thirty years for redemption of preference shares subject to the condition that it shall redeem minimum 10% of preference shares per year commencing from 21st year onwards or earlier, on proportionate basis, at the option of preference shareholders.

**Reason:**

First Proviso to Section 55 (2) and Rule 10 of the Companies (Share Capital and Debentures) Rules, 2014. A combined reading indicates that a company engaged in infrastructural projects (specified in Schedule VI) is permitted to issue preference shares for a maximum period not exceeding thirty years subject to the redemption of minimum 10% of preference shares per year commencing from 21<sup>st</sup> year onwards or earlier, on proportionate basis, at the option of preference shareholders.



2. **Option (c)** The third criterion which also requires formation of CSR Committee is that the company has net profit of ₹ five crore or more in the immediately preceding financial year.

**Reason:**

As per Section 135(1) of the Companies Act, 2013, a company shall constitute a Corporate Social Responsibility Committee of the Board if during the immediately preceding financial year such company having:

- Net worth of ₹ 500 crore or more, or
- Turnover of ₹ 1,000 crore or more, or
- Net profit of ₹ 5 crore or more.

3. **Option (c)** Both (a) and (b)

**Reason:**

Refer Clause (a) of Second Proviso to Section 55 (2) according to which preference shares shall be redeemed out of the profits which would otherwise be available for dividend or out of the proceeds of a fresh issue of shares made for the purposes of such redemption.

4. **Option (b)** CSR Committee formed by Tejas Infra Limited shall have minimum three directors of which at least one director shall be an independent director.

**Reason:**

Section 135 (1) of the Companies Act, 2013, requires CSR Committee to consist of minimum three directors of which at least one director shall be an independent director.

**CASE SCENARIO 8**

Showcasing his designing and oratorical skills by winning laurels in creativity and debate competitions, both at inter-house and inter-school level, Shauryansh driven by the same zeal and passion to create visually appealing designs and getting inspiration from his two role models, namely, Paula Scher and David Carson, the world-famous graphic designers, underwent a six months' graphic designing course from Passion Academics, New Delhi and thereby learnt essential tools like Adobe-photoshop, Adobe-illustrator, Adobe-dimension, etc. He also successfully completed the Digital Marketing Course.

With a view to translating his passion into profession to create visually appealing and attractive designs which would be impactful and memorable, he thought of incorporating his very own One Person Company with ₹ 20 lakh as Authorised Capital and Registered Office to be situated at Karol Bagh, New Delhi.

As to the choosing of nominee for his One Person Company, Shauryansh discussed the matter with his sister Shivangi, who was about two years younger than him, to seek her consent for becoming nominee and she, without any hesitation, agreed to the proposal.

Shauryansh was lucky enough to get sanctioned the name of his company as Graphixz Creations Private Limited (One Person Company) from the jurisdictional Registrar of Companies; the one he preferred the most. He got it incorporated after submitting requisite documents and obtained the Certificate of Incorporation.

It is worth mentioning that he thought of undertaking his current business in the form of One Person Company for two reasons. Firstly, it would help him gain full control over his business, give him entitlement to all of its profits and, on top of it, his liability would also be restricted only to the amount of subscribed capital. Secondly, he understood this form of ownership very well since he was the nominee for the past five years in his maternal uncle Sarvesh's One Person Company known by the name Shruti TalkingWaves Private Limited (One Person Company).

Earlier, Sarvesh served as Chief Engineer in a Government Company dealing with various IT matters and after he had proceeded for his superannuation some six years back, he ventured upon to commence his own One Person Company, handling business of his immense interest as a transcriptionist where he converted audio/video files to written documents from the comfort of his house.

Time passed on. Shauryansh's company, which satisfactorily provided a wide spectrum of services such as web development, website designing, graphic designing, 3D product videos, etc., is now six years old. By this time, the company had more than five hundred clients with around fifty websites delivered immaculately. He had a team of passionate individuals who were on a mission to make the digital world a beautiful place to see, use, feel and experience. Accordingly, his company also had a mark in developing impactful digital solutions with best-in-class industry standards. The company built and transformed businesses by customizing market leading digital products platforms like applications and websites and provided digital marketing services for them that fuelled their growth. In order to keep pace with the changing technology and growing business opportunities, he is contemplating to rope in his life partner Sharmeela and to convert Graphixz Creations Private Limited (One Person Company) into a private limited company.

On the other hand, his sister Shivangi, nominee in Graphixz Creations Private Limited (One Person Company), was not far behind. After participating in cookery-based TV shows and attaining top position or second-best position almost every time among those who participated, she started her own venture along with her class-mate Mitali by incorporating a private limited company, namely, Vanilla Point Private Limited to make various types of cookies, cakes, biscuits and puddings. The Authorised Capital of her company was ₹ 10.00 crore and paid-up capital was ₹ 6.00 crore; its Registered Office was situated at Rajendra Place, New Delhi. As of now the number of shareholders is fifty-five of which three shareholders are in employment of the company whereas other two shareholders who purchased the shares of the company while in employment of Vanilla Point Private Limited, left the company some six months before and joined another company.

Admiring the success of Shauryansh's art form which combined creativity, technology and patience to meet the taste of the target users, Shivangi requested his brother to be a Director (Marketing) in her company to which he agreed. Everything was going fine when his Maternal Uncle Sarvesh could not recover from his brief illness leaving the entire family shattered and grief-stricken.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-6) given herein under:

### **MULTIPLE CHOICE QUESTIONS**

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1. The Case Scenario states that Shauryansh discussed the matter of nomination with his younger sister Shivangi to seek her consent for becoming nominee in his Graphixz Creations Private Limited (One Person Company) and she, without any hesitation, agreed to the proposal. You are required to choose the correct option from those mentioned below as to the formalities Shauryansh must have completed while making Shivangi nominee:
  - (a) In order to make Shivangi nominee in Graphixz Creations Private Limited (One Person Company), Shauryansh must have obtained a written consent letter from her and stated her name (as nominee) in the Memorandum of Association under Nomination Clause.
  - (b) In order to make Shivangi nominee in Graphixz Creations Private Limited (One Person Company), Shauryansh must have obtained a written consent letter from her and stated her name (as nominee) in the Articles of Association under Nomination Clause.
  - (c) In order to make Shivangi nominee in Graphixz Creations Private Limited (One Person Company), Shauryansh must have filed her written consent letter along with other documents at the time of incorporation without stating her name (as nominee) either in the Memorandum of Association or Articles of Association since there is no such requirement.

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- (d) In order to make Shivangi nominee in Graphixz Creations Private Limited (One Person Company), Shauryansh must have obtained a written consent letter from her within fifteen days after incorporation of the company and kept the same in the records maintained at the Registered Office.
2. The Case Scenario mentions that the younger sister of Shauryansh started her own venture along with her class-mate Mitali by incorporating a private limited company, namely, Vanilla Point Private Limited, in which there are fifty-five shareholders of which two are ex-employees and the other three are still in employment of the company. You are required to choose the correct option from those stated below as to maximum how many more persons can be allotted shares in the company:
- (a) As regards the addition of more persons as shareholders, Vanilla Point Private Limited can issue shares to maximum one hundred and forty-five persons.
- (b) As regards the addition of more persons as shareholders, Vanilla Point Private Limited can issue shares to maximum one hundred and fifty persons.
- (c) As regards the addition of more persons as shareholders, Vanilla Point Private Limited can issue shares to maximum one hundred and twenty persons.
- (d) As regards the addition of more persons as shareholders, Vanilla Point Private Limited can issue shares to maximum two hundred and fifty persons.
3. Choose the correct option from those stated below as to the circumstances under which Shauryansh shall be mandatorily required to convert its Graphixz Creations Private Limited (One Person Company) into either private limited company or public limited company:
- (a) Shauryansh shall be mandatorily required to convert its Graphixz Creations Private Limited (One Person Company) either into a private limited company or public limited company when the paid-up capital of the company exceeds ₹ fifty lakh or the average turnover during the relevant period exceeds ₹ two crore.

- (b) Shauryansh shall be mandatorily required to convert its Graphixz Creations Private Limited (One Person Company) either into a private limited company or public limited company when the paid-up capital of the company exceeds ₹ seventy-five lakh or the average turnover during the relevant period exceeds ₹ three crore.
  - (c) Shauryansh shall be mandatorily required to convert its Graphixz Creations Private Limited (One Person Company) either into a private limited company or public limited company when the paid-up capital of the company exceeds Re. one crore or the average turnover during the relevant period exceeds ₹ four crore.
  - (d) Under no circumstances shall Shauryansh be mandatorily required to convert its Graphixz Creations Private Limited (One Person Company) either into a private limited company or public limited company though he can opt for conversion as and when he likes.
- 4. The Case Scenario mentions that the younger sister of Shauryansh started her own venture along with her class-mate Mitali by incorporating a private limited company, namely, Vanilla Point Private Limited, to make various types of cookies, cakes, biscuits and puddings. According to you, in case the company contemplates converting itself into a One Person Company with Shivangi becoming the sole owner of OPC (at present she holds sixty one percent shares), then which type of resolution needs to be passed:
  - (a) Vanilla Point Private Limited, in order to convert itself into One Person Company, shall be required to pass a Board Resolution with all the directors attending the Board Meeting consenting to the proposal in addition to obtaining 'No Objection' in writing from the members and creditors.
  - (b) Vanilla Point Private Limited, in order to convert itself into One Person Company, shall be required to pass an Ordinary Resolution at the General Meeting authorizing the proposal in addition to obtaining 'No Objection' in writing from the members and creditors.
  - (c) Vanilla Point Private Limited, in order to convert itself into One Person Company, shall be required to pass an Ordinary Resolution at the General Meeting authorizing the proposal and thereafter

seeking the approval of jurisdictional Registrar of Companies in addition to obtaining 'No Objection' in writing from the members and creditors.

- (d) Vanilla Point Private Limited, in order to convert itself into One Person Company, shall be required to pass a Special Resolution at the General Meeting authorizing the proposal in addition to obtaining 'No Objection' in writing from the members and creditors.
5. According to Case Scenario, Shauryansh's maternal uncle Sarvesh, who had incorporated Shruti TalkingWaves Private Limited (One Person Company) and in which Shauryansh was a nominee, could not recover from his brief illness; and because of this sad happening Shauryansh had automatically attained the position of member from that of a nominee. You are required to choose the correct option from those stated below as to maximum within how many days Shauryansh has to ensure that either he continues to remain member in Graphixz Creations Private Limited (One Person Company) or resign from it and start afresh as member of Shruti TalkingWaves Private Limited (One Person Company):
- (a) Keeping in view the above circumstances, Shauryansh has to ensure maximum within sixty days that either he continues to remain member in Graphixz Creations Private Limited (One Person Company) or leave it and start afresh as member of Shruti TalkingWaves Private Limited (One Person Company).
  - (b) Keeping in view the above circumstances, Shauryansh has to ensure maximum within one hundred and eighty days that either he continues to remain member in Graphixz Creations Private Limited (One Person Company) or leave it and start afresh as member of Shruti TalkingWaves Private Limited (One Person Company).
  - (c) Keeping in view the above circumstances, Shauryansh has to ensure maximum within ninety days that either he continues to remain member in Graphixz Creations Private Limited (One Person Company) or leave it and start afresh as member of Shruti TalkingWaves Private Limited (One Person Company).

- (d) Keeping in view the above circumstances, Shauryansh has to ensure maximum within two hundred and seventy days that either he continues to remain member in Graphixz Creations Private Limited (One Person Company) or leave it and start afresh as member of Shruti TalkingWaves Private Limited (One Person Company).
6. Regarding carrying out Non-banking financial investment activities including investment in securities of any body corporates, Shauryansh would like to know as to when Graphixz Creations Private Limited (One Person Company) can undertake such activity. Choose the apt answer from those given below:
- (a) Graphixz Creations Private Limited (One Person Company) can undertake carrying out Non-banking financial investment activities including investment in securities of any body corporates only when its paid-up capital is raised to minimum Re. one crore.
- (b) Graphixz Creations Private Limited (One Person Company) can undertake carrying out Non-banking financial investment activities including investment in securities of any body corporates only when its paid-up capital is raised to minimum ₹ one crore and fifty lakh.
- (c) Graphixz Creations Private Limited (One Person Company) can undertake carrying out Non-banking financial investment activities including investment in securities of any body corporates only when its paid-up capital is raised to minimum ₹ five crore.
- (d) Graphixz Creations Private Limited (One Person Company) cannot undertake carrying out Non-banking financial investment activities including investment in securities of any body corporates irrespective the quantum of its paid-up capital.

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (a)** In order to make Shivangi nominee in Graphixz Creations Private Limited (One Person Company), Shauryansh must have obtained a written consent letter from her and stated her name (as nominee) in the Memorandum of Association under Nomination Clause.



**Reason:**

According to Section 3(1)(c) of the Companies Act, 2013, the Memorandum of Association (MoA) of a One Person Company (OPC) must state the name of the nominee under the Nomination Clause. Additionally, Rule 4(2) of the Companies (Incorporation) Rules, 2014 specifies that a nominee must provide a written consent in Form INC-3, which is submitted along with the incorporation documents. Hence, stating the nominee's name in the MoA and obtaining a written consent letter from Shivangi would have been mandatory.

2. **Option (b)** As regards the addition of more persons as shareholders, Vanilla Point Private Limited can issue shares to maximum one hundred and fifty persons.

**Reason:**

Under Section 2(68) of the Companies Act, 2013, the number of shareholders in a private limited company is restricted to 200, excluding present employees or ex-employees who became shareholders while in employment.

In the given case:

- Total shareholders = 55.
- Three shareholders are current employees.
- Two ex-employees who purchased shares while in employment are excluded from the count.

Thus, Vanilla Point Private Limited can issue shares to  $200 - [55 - 3 - 2] = 150$  persons more.

3. **Option (d)** Under no circumstances shall Shauryansh be mandatorily required to convert its Graphixz Creations Private Limited (One Person Company) either into a private limited company or public limited company though he can opt for conversion as and when he likes.

**Reason:**

Refer Section 18 and Rule 6 of the Companies (Incorporation) Rules, 2014 as amended by the Companies (Incorporation) Second Amendment Rules,

2021, w.e.f. 01-04-2021. Prior to the amendment Rule 6 prescribed threshold limits for conversion of One Person Company.

4. **Option (d)** Vanilla Point Private Limited, in order to convert itself into One Person Company, shall be required to pass a Special Resolution at the General Meeting authorizing the proposal in addition to obtaining 'No Objection' in writing from the members and creditors.

**Reason:**

Refer Section 18 and Rule 7 of the Companies (Incorporation) Rules, 2014  
According to Rule 7(4) of the Companies (Incorporation) Rules, 2014, for a private company to convert into an OPC, it must:

1. Pass a Special Resolution at the General Meeting, and
2. Obtain a No Objection Certificate (NOC) in writing from members and creditors.

Thus, option (d) is the correct answer.

5. **Option (b)** Keeping in view the above circumstances, Shauryansh has to ensure maximum within one hundred and eighty days that either he continues to remain member in Graphixz Creations Private Limited (One Person Company) or leave it and start afresh as member of Shruti TalkingWaves Private Limited (One Person Company).

**Reason:**

Refer Section 3 and Sub-rules (2) and (3) of Rule 3 of the Companies (Incorporation) Rules 2014.

6. **Option (d)** Graphixz Creations Private Limited (One Person Company) cannot undertake carrying out Non-banking financial investment activities including investment in securities of any body corporates irrespective the quantum of its paid-up capital.

**Reason:**

As per Rule 3(7) of the Companies (Incorporation) Rules, 2014, an OPC cannot carry out Non-Banking Financial Investment (NBFI) activities, including investment in securities of any body corporates, regardless of its paid-up share capital. This restriction applies to all OPCs without exceptions. Hence, option (d) is correct.

**CASE SCENARIO 9**

After winning several awards for acting in dramas and various functions both at school and college levels, Ananda joined the famous 'Film and TV Institute of India' of Mumbai to undergo a course in 'direction'. In the first week itself, after joining the course, he struck a distinct friendship chord with Krishna who had taken admission to pursue course relating to 'sound-recording and television engineering'. Once their courses were successfully finished, they toyed with the idea of forming a public limited company and accordingly, incorporated Kreative Film Production Limited with Authorised Capital of ₹ twenty-five crore (two crore fifty lakh equity shares of the face value of ₹ 10 each). As at the end of the Financial Year 2023-24, the paid-up capital stood at ₹ twenty-one crore owned by five hundred and fifty shareholders. In addition to themselves, Ananda being Managing Director (MD) and Krishna being Whole-time Director (WTD), they roped in the following distinguished persons as directors:

1. Sanjeet (Director and Script writer);
2. Eish (Director - Production segment);
3. Kunal (Director and Camera in-charge);
4. Mehak (Director and Set designer); and
5. Riya (Director - Graphic engineering, audio/video editor and lighting-in-charge).

All the above-mentioned persons were very talented, artistic and could think out of the box. Besides handling their own portfolios, they were also members of the creative team duly assisted by other brilliant persons employed by the company. The company produced the reality game shows and poetry series for which Ananda and Krishna were honoured with Indian Tele-award.

Feeling confident, the promoters Ananda and Krishna thought of producing a sitcom 'Bhagambhag'. For this comedy show, they asked their directors to think of humorous stories based on Indian ethics and values which would talk about a multitude of social issues and create awareness about them in its own light-hearted manner.

The filming for the series took place in Film City in Mumbai. Ananda and Krishna approached Prabhat TV Entertainment, an Indian Classic and General Entertainment TV Channel to host the series of their sitcom which was accepted with requisite conditions.

In order to save the title 'Bhagambhag', its characters and other intellectual property from getting infringed or copied by Social Media Accounts, websites, YouTube Channels, illegally using its characters, producing animations, AI-generated images, Deepfakes featuring the characters of the show, the company got the rights in the nature of Intellectual Property Rights (IPR).

The show was a hit with the national audiences and moreover, it gave strict competition to the other usual family dramas broadcasted on various TV channels. In the course of time, the director-writer Sanjeet received the best sitcom writer award too.

The company decided to motivate their think-tank team of 'creative directors' including Ananda and Krishna by issuing Sweat Equity shares of the value of ₹ 1,40,00,000. These directors had played a pivotal role in developing the episodes and thereby the situational/comedy show. Accordingly, the Board of Directors in its meeting held on 7<sup>th</sup> June, 2024 approved the issue of Sweat Equity shares. These shares were offered for no monetary consideration, compensating the recipients for their non-cash contribution to the company's growth and success. The sweat equity shares aligned the interest of directors with those of the shareholders. This issue not only rewarded the expertise and innovativeness of all the directors but also helped the company retain valuable talent while managing cash-flow efficiently. The issue did not involve an immediate cash outflow and helped the company conserve cash which would then be re-invested into various activities including operations, marketing and production.

It is worth noting that following the earlier precedents, Kreative Film Production Limited declared dividend of 10% at its Annual General Meeting (AGM) which was held on 6<sup>th</sup> September, 2024, with an obligation to deposit the amount in a separate account maintained with its banker State Bank of India within the specified time period from the date of declaration of such dividend. However, the deposit of the amount of dividend was delayed until 24<sup>th</sup> September, 2024. Due to this, the company faced legal consequences.

In order to expand its horizon, Kreative Film Production, led by Ananda and Krishna, is contemplating acquiring shares of Scenic Reels and Motion Pictures Private Limited to the extent of 60% before the end of the Financial Year 2024-25 which will give fillip to its existing business; and also making Scenic Reels and Motion Pictures Private Limited to become its subsidiary. Presently, Scenic Reels and Motion Pictures Private Limited holds one thousand equity shares of Kreative Film Production Limited.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5) given herein under:

### **MULTIPLE CHOICE QUESTIONS**

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1. The Case Scenario states that Kreative Film Production Limited decided to issue Sweat Equity shares of the value of ₹ 1,40,00,000 to the think-tank team of 'creative directors' including Ananda and Krishna. Keeping in view the applicable provisions, choose the correct option from those stated below as to who must have been given the responsibility to determine the fair price for valuation of such shares:
  - (a) Niranjan, a Chartered Accountant by profession, who headed the Accounts Department of Kreative Film Production Limited must have been given the responsibility to determine the fair price for valuation of the Sweat Equity shares which were to be issued to the think-tank team of 'creative directors' including Ananda and Krishna.
  - (b) Swapnil Divya & Associates, a firm of practicing Chartered Accountants, must have been given the responsibility to determine the fair price for valuation of the Sweat Equity shares which were to be issued to the think-tank team of 'creative directors' including Ananda and Krishna.
  - (c) Shalabh Ranjan, a registered valuer, must have been given the responsibility to determine the fair price for valuation of the Sweat

Equity shares which were to be issued to the think-tank team of 'creative directors' including Ananda and Krishna.

- (d) All the directors of Kreative Film Production Limited, unanimously, must have determined the fair price for valuation of the Sweat Equity shares which were to be issued in the course of time to the think-tank team of 'creative directors' including Ananda and Krishna.
2. Which type of resolution must have been passed by Kreative Film Production Limited for authorizing the issue of Sweat Equity shares to the think-tank team of 'creative directors' including Ananda and Krishna:
- (a) The issue of Sweat Equity shares must have been authorised by passing a Board Resolution with all the directors who were present at the Board Meeting casting their votes in favour of the issue.
  - (b) The issue of Sweat Equity shares must have been authorised by passing a special resolution at the General Meeting of Kreative Film Production Limited.
  - (c) The issue of Sweat Equity shares must have been authorised by passing an ordinary resolution at the General Meeting of Kreative Film Production Limited and thereafter, it must have been approved by the jurisdictional Registrar of Companies.
  - (d) The issue of Sweat Equity shares must have been authorised by the shareholders who held a minimum of ninety percent of equity shares in value.
3. It is assumed that even after becoming its subsidiary, Scenic Reels and Motion Pictures Private Limited continues to hold 1000 equity shares of Kreative Film Production Limited. Choose the appropriate option from those given below as to whether or not Scenic Reels and Motion Pictures Private Limited is required to transfer 1000 equity shares of Kreative Film Production Limited after becoming its subsidiary:
- (a) Scenic Reels and Motion Pictures Private Limited is not required to transfer 1000 equity shares of Kreative Film Production Limited even after becoming its subsidiary and may continue to hold them but it

shall not be able to exercise any voting rights in the general meeting of Kreative Film Production Limited.

- (b) Scenic Reels and Motion Pictures Private Limited is not required to transfer 1000 equity shares of Kreative Film Production Limited even after becoming its subsidiary and may continue to hold them but its right to vote shall be curtailed by 50% when any general meeting of Kreative Film Production Limited is held at a future date.
  - (c) Scenic Reels and Motion Pictures Private Limited shall be required to transfer 1000 equity shares to the nominated person of Kreative Film Production Limited within one month from the date it becomes its subsidiary and cannot continue to hold such shares.
  - (d) Scenic Reels and Motion Pictures Private Limited shall be required to transfer 1000 equity shares to the nominated person of Kreative Film Production Limited within three months from the date it becomes its subsidiary and cannot continue to hold such shares.
4. From the Case scenario, it is evident that Kreative Film Production Limited declared dividend of 10% at its Annual General Meeting (AGM) which was held on September 6, 2024, but the deposit of amount of dividend in the separate account maintained with its banker State Bank of India was delayed until September 24, 2024. You are required to choose the correct option from those mentioned below as to the maximum time period within which the amount of declared dividend was required to be deposited in the separate account:
- (a) Kreative Film Production Limited was required to deposit the amount of declared dividend in the separate account maintained with its banker State Bank of India maximum within two days from the date of declaration of dividend *i.e.* 6<sup>th</sup> September, 2024.
  - (b) Kreative Film Production Limited was required to deposit the amount of declared dividend in the separate account maintained with its banker State Bank of India maximum within five days from the date of declaration of dividend *i.e.* 6<sup>th</sup> September, 2024.
  - (c) Kreative Film Production Limited was required to deposit the amount of declared dividend in the separate account maintained

with its banker State Bank of India maximum within three days from the date of declaration of dividend *i.e.* 6<sup>th</sup> September, 2024.

- (d) Kreative Film Production Limited was required to deposit the amount of declared dividend in the separate account maintained with its banker State Bank of India maximum within seven days from the date of declaration of dividend *i.e.* 6<sup>th</sup> September, 2024.

5. Keeping in view the relevant legal provisions, select the appropriate option from those given hereunder as to the maximum limit up to which Kreative Film Production Limited is permitted to issue Sweat Equity shares in any year:

- (a) In any year Kreative Film Production Limited is permitted to issue Sweat Equity shares maximum up to 15% of its paid-up capital or ₹ five crore whichever is higher.
- (b) In any year Kreative Film Production Limited is permitted to issue Sweat Equity shares maximum up to 15% of its paid-up capital or ₹ two crore whichever is higher.
- (c) In any year Kreative Film Production Limited is permitted to issue Sweat Equity shares maximum up to 15% of its paid-up capital or ₹ three crore whichever is higher.
- (d) In any year Kreative Film Production Limited is permitted to issue Sweat Equity shares maximum up to 20% of its paid-up capital or ₹ four crore whichever is higher.

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** Shalabh Ranjan, a registered valuer, must have been given the responsibility to determine the fair price for valuation of the Sweat Equity shares which were to be issued to the think-tank team of 'creative directors' including Ananda and Krishna.

**Reason:**

Refer Section 54 and Rule 8 (6) of the Companies (Share Capital and Debentures) Rules, 2014.



Under Section 54 of the Companies Act, 2013 and the Companies (Share Capital and Debentures) Rules, 2014, the valuation of sweat equity shares must be conducted by a registered valuer, as per Rule 8(6). A registered valuer is a professional certified to perform valuation tasks for various purposes under the Companies Act.

2. **Option (b)** The issue of Sweat Equity shares must have been authorised by passing a special resolution at the General Meeting of Kreative Film Production Limited.

**Reason:**

As per Section 54(1) of the Companies Act, 2013, the issue of sweat equity shares must be authorized by a special resolution passed at a general meeting of the company. The resolution must specify the number of shares, the current market price, the consideration (if any), and other relevant details.

3. **Option (a)** Scenic Reels and Motion Pictures Private Limited is not required to transfer 1000 equity shares of Kreative Film Production Limited even after becoming its subsidiary and may continue to hold them but it shall not be able to exercise any voting rights in the general meeting of Kreative Film Production Limited.

**Reason:**

Refer Section 19 of the Companies Act, 2013.

4. **Option (b)** Kreative Film Production Limited was required to deposit the amount of declared dividend in the separate account maintained with its banker State Bank of India maximum within five days from the date of declaration of dividend i.e. 6<sup>th</sup> September, 2024.

**Reason:**

Refer Section 123 (4) of the Companies Act, 2013.

5. **Option (a)** In any year Kreative Film Production Limited is permitted to issue Sweat Equity shares maximum up to 15% of its paid-up capital or ₹ five crore whichever is higher.

**Reason:**

Refer Section 54 and Rule 8 (4) of the Companies (Share Capital and Debentures) Rules, 2014.

**CASE SCENARIO 10**

Based at Manipal, Karnataka, Jatindrarangam Iron Works Private Limited is an integrated set up of foundries and machine shops that adds value by machining more than 75% of its castings into fully finished products. While serving its customers globally, Jatindrarangam Iron Works is considered one of the largest jobbing foundries which manufactures grey iron castings required for sectors like automobiles, farm equipment, diesel engines, etc. It is noteworthy that the turnover of the company in the last financial year 2023-24 was to the extent of ₹ 650 crore and it included export turnover of about ₹ 250 crore. The Authorised Capital of the company is 100 crore divided into 10 crore equity shares of ₹ 10 each; while the paid-up capital is ₹ 75 crore. Following persons hold the office of directorship in the company:

1. Jagadayu - Managing Director (MD)
2. Jagatbandhu (younger brother of Jagadayu) – Whole-time Director (WTD)
3. Jatindra (son of Jagadayu) – Director (Operations)
4. Jigyasa (daughter of Jagadayu) – Director (Engineering & Human Resource Department)
5. Jeevika (daughter of Jagatbandhu) – Director (Marketing)

In order to meet constant surging demand of its customers, both from India and overseas, Jatindrarangam Iron Works is planning expansion to enhance its production capacity; and for this purpose, from the onset of the financial year 2024-25, the directors held a number of Board meetings and had fruitful discussions relating to this issue. The end result of the deliberations was to import a fully automatic Plant and Equipment from Germany for the unit at Manipal and also to acquire a 'machining unit' abroad at Nairobi, Kenya for its wholly owned subsidiary (WoS), namely, Jatindrarangam Machining Private Limited (JMPL). Chief Financial Officer (CFO) Krishnan was given free hand to arrange finances for the expansion projects. Accordingly, the means of finance were decided as under:

- (a) Jatindrarangam Iron Works would receive an amount of ₹ 10 crore, without providing any security, from Shwetamalini, wife of Jagadayu (MD),

to be repaid in next three years, in three yearly instalments of ₹ 2 crore in the first year, ₹ 3 crore in the second year and ₹ 5 crore in the third year. In fact, Jagadayu and his younger brother Jagatbandhu, being promoters, had earlier incorporated the present company. Jagadayu instructed Sachin, Company Secretary of the company, to complete the requisite compliances, if any, needed from the perspective of acceptance of such amount from his wife, Shwetamalini.

- (b) As per the instructions of the Board of Directors of Jatindrarangam Iron Works, CFO Krishnan approached the main banker of the company viz., Towering Capital Bank Limited, which after proper credit analysis, sanctioned various amount as under:
1. A term loan of ₹ 30 crore to the company, for importing the fully automatic Plant and Equipment from Germany for the expansion project for the unit at Manipal against the security of the assets imported along with the land and factory building situated at Manipal. The term loan would be repayable in six yearly instalments of ₹ 5.00 crore each. The repayment shall start after a moratorium of one year. The interest shall be paid as and when it becomes due. In addition, the company was also sanctioned interchangeable non-funded limits for foreign Letters of Credit and bank guarantees totalling to ₹ 15 crore against the personal guarantees of all the directors.
  2. Along with the aforesaid term loan, Jatindrarangam Iron Works was also sanctioned an additional amount of ₹ 20 crore for meeting the working capital needs of the expansion project, which included interchangeable limits of cash credit, foreign and inland bills for negotiation. The security cover was floating charge on the book debts, inventory and other current assets involved in the expansion project of Jatindrarangam Iron Works in Manipal.
  3. Further, a term loan of ₹ 25 crore, repayable in five years was also sanctioned for acquisition of the 'machining plant' along with land and building at Nairobi, Kenya for its wholly owned subsidiary (WoS), i.e., - Jatindrarangam Machining Pvt Limited (JMPL). The repayment of yearly instalment of ₹ 5 crore each would start after a

moratorium of two years and the interest shall be paid as and when it becomes due. The said term loan was stated to be disbursed through the overseas branch of Towering Capital Bank Limited at Nairobi. The machining plant was to be commissioned specifically to meet the continuous demand of two major customers of Kenya with an eye to capture the African market too. The term loan was to be secured against the properties of the holding company Jatindrarangam Iron Works Private Limited situated at Nairobi.

The CFO Krishnan and the CS Sachin together were instructed by Jagadayu, MD, to coordinate with the legal department of the Towering Capital Bank in respect of procedures relating to creation of security and registration of charges.

In a new development, though the company maintained its Register of Members at its Registered Office situated in Manipal but out of total one hundred and fifty-five members, some of the members who resided in Mangaluru (earlier known as Mangalore), which is around sixty five kilometres away from Manipal, were constantly requesting the directors of Jatindrarangam Iron Works to maintain the Register of Members at its branch office at Mangaluru instead of keeping it at Manipal.

It is worth mentioning that the Board of Directors of Jatindrarangam Iron Works Private Limited approved the allotment of one thousand equity shares to five new members in its meeting held on 2nd August, 2024. After approval of the allotment, the names of five members were duly entered in the Register of Members within the specified time limit by the Secretarial Department under the guidance of Sachin, Company Secretary.

As regards appointment of statutory auditors, it may be noted that M/s. Suresh Neelambar & Co. were appointed as the statutory auditors of Jatindrarangam Iron Works Private Limited at its Annual General Meeting held on 7th September, 2023, to hold the office from the conclusion of that meeting till the conclusion of the sixth Annual General Meeting. However, in the next Annual General Meeting held on 5th September, 2024, no ratification resolution for the appointment of M/s. Suresh Neelambar & Co. as statutory auditors was passed.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct

answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5) given herein under:

### **MULTIPLE CHOICE QUESTIONS**

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1. In the above case scenario, it is mentioned that Jatindrarangam Iron Works Private Limited would receive an amount of ₹ 10 crore as short-term unsecured loan from Shwetamalini, wife of Jagadayu (MD). Choose the apt option from those stated below regarding the compliances, if any, which, after being instructed by Jagadayu (MD), Sachin, as the Company Secretary of the company, would dutifully ensure:
  - (a) Treating the amount of ₹ 10 crore, to be received from Shwetamalini, wife of Jagadayu (MD), as deposit, Sachin, the Company Secretary of Jatindrarangam Iron Works Private Limited would ensure to issue a circular immediately to the members of the company with a statement of deposits accepted as on date with the names of each depositor, amount received as on date, the due dates and the liabilities on the due dates in respect of each depositor.
  - (b) Not treating the amount of ₹ 10 crore, to be received from Shwetamalini, wife of Jagadayu (MD), as deposit, Sachin, the Company Secretary of Jatindrarangam Iron Works Private Limited would ensure that a declaration in writing is obtained to the effect that the amount is not being given out of funds acquired by her by borrowing or accepting loans or deposits from others and further the details of money so accepted shall be disclosed in the Board's Report.
  - (c) Not treating the amount of ₹ 10 crore, to be received from Shwetamalini, wife of Jagadayu (MD), as deposit, Sachin, the Company Secretary of Jatindrarangam Iron Works Private Limited would ensure that a declaration in writing is obtained to the effect that the amount is not being given out of funds acquired by her by borrowing or accepting loans or deposits from others and further the details of money so accepted shall be disclosed in the Board's Report and also displayed on the official website of the company.

- (d) Not treating the amount of ₹ 10 crore, to be received from Shwetamalini, wife of Jagadayu (MD), as deposit, Sachin, the Company Secretary of Jatindrarangam Iron Works Private Limited would ensure that a declaration in writing is obtained to the effect that the amount is not being given out of funds acquired by her by borrowing or accepting loans or deposits from others and further the details of money so accepted shall be disclosed in the Board's Report and also displayed on the official website of the company as well as official website of Ministry of Corporate Affairs (MCA) since the amount exceeds the limit of ₹ 5.00 crore.
2. The Case Scenario states that Towering Capital Bank sanctioned a term loan of ₹ 25 crore, to be disbursed by its overseas branch, for acquisition of the 'machining plant' along with land and building at Nairobi, Kenya for the wholly owned subsidiary (WoS), i.e., - Jatindrarangam Machining Pvt Limited (JMPL) and the term loan was to be secured against the properties of the holding company Jatindrarangam Iron Works Private Limited situated at Nairobi. As regards creation of charge in India where the instrument of charge relates solely to the properties situated at Nairobi, Kenya, the copy of the said instrument of charge which is required to be filed with the jurisdictional Registrar of Companies, shall be verified in a specified manner. Choose the correct option from those given below as to the verification of copy for creation of charge in India:
- (a) As regards creation of charge in India where the instrument of charge relates solely to the properties situated at Nairobi, Kenya, the copy of the said instrument of charge which is required to be filed with the jurisdictional Registrar of Companies, shall be verified by a certificate issued under the hand of some person other than the company who is interested in the mortgage or charge.
- (b) As regards creation of charge in India where the instrument of charge relates solely to the properties situated at Nairobi, Kenya, the copy of the said instrument of charge which is required to be filed with the jurisdictional Registrar of Companies, shall be verified by a certificate issued under the hand of designated official at High Commission of India in Kenya.

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- (c) As regards creation of charge in India where the instrument of charge relates solely to the properties situated at Nairobi, Kenya, the copy of the said instrument of charge which is required to be filed with the jurisdictional Registrar of Companies, shall be verified by a certificate issued under the hand of Notary Public of Kenya having a valid certificate.
- (d) As regards creation of charge in India where the instrument of charge relates solely to the properties situated at Nairobi, Kenya, the copy of the said instrument of charge which is required to be filed with the jurisdictional Registrar of Companies, shall be verified by a certificate issued under the hand of a member of the Institute of Certified Public Accountants of Kenya holding valid membership.
3. According to the Case Scenario, out of total one hundred and fifty-five members, some of the members who resided in Mangaluru, were constantly requesting the directors of Jatindrarangam Iron Works to maintain the Register of Members at its branch office at Mangaluru instead of keeping it at Manipal. Keeping in view the relevant provisions, you are required to indicate the correct option from those mentioned below as to minimum how many members who resided in Mangaluru must request the company for maintaining the Register of Members at its branch office at Mangaluru instead of keeping it at Manipal:
- (a) As per the relevant provisions, if more than one-fifth of the total members of Jatindrarangam Iron Works who reside at Mangaluru, request the company to maintain the Register of Members at its branch office at Mangaluru instead of keeping it at Manipal, their request can be acceded to after fulfilling specified formalities.
- (b) As per the relevant provisions, if more than one-tenth of the total members of Jatindrarangam Iron Works who reside at Mangaluru, request the company to maintain the Register of Members at its branch office at Mangaluru instead of keeping it at Manipal, their request can be acceded to after fulfilling specified formalities.
- (c) As per the relevant provisions, if more than one-half of the total members of Jatindrarangam Iron Works who reside at Mangaluru, request the company to maintain the Register of Members at its

branch office at Mangaluru instead of keeping it at Manipal, their request can be acceded to after fulfilling specified formalities.

- (d) As per the relevant provisions, if more than one-twentieth of the total members of Jatindrarangam Iron Works who reside at Mangaluru, request the company to maintain the Register of Members at its branch office at Mangaluru instead of keeping it at Manipal, their request can be acceded to after fulfilling specified formalities.
4. The Case Scenario mentions that the names of new five members to whom allotment of one thousand equity shares was approved in the meeting of Board of Directors of Jatindrarangam Iron Works Private Limited which was held on 2<sup>nd</sup> August, 2024, were duly entered in the Register of Members within the specified time limit. You are required to choose the correct option from those stated below as to the maximum time limit within which said names must have been entered in the Register of Members:
- (a) The names of the new members to whom one thousand equity shares were allotted must have been entered in the Register of Members by the Secretarial Department within seven days after the Board of Directors approved the allotment in its meeting held on 2<sup>nd</sup> August, 2024.
  - (b) The names of the new members to whom one thousand equity shares were allotted must have been entered in the Register of Members by the Secretarial Department within five days after the Board of Directors approved the allotment in its meeting held on 2<sup>nd</sup> August, 2024.
  - (c) The names of the new members to whom one thousand equity shares were allotted must have been entered in the Register of Members by the Secretarial Department within fifteen days after the Board of Directors approved the allotment in its meeting held on 2<sup>nd</sup> August, 2024.
  - (d) The names of the new members to whom one thousand equity shares were allotted must have been entered in the Register of



Members by the Secretarial Department within ten days after the Board of Directors approved the allotment in its meeting held on 2<sup>nd</sup> August, 2024.

5. According to the Case Scenario, M/s. Suresh Poojary & Co. were appointed as the statutory auditors of Jatindrarangam Iron Works Private Limited at its Annual General Meeting held on 7<sup>th</sup> September, 2023, to hold the office from the conclusion of that meeting till the conclusion of the sixth Annual General Meeting but in the next Annual General Meeting held on 5<sup>th</sup> September, 2024, no ratification resolution for the appointment of M/s. Suresh Neelambar & Co. as statutory auditors was passed. You are required to choose the correct option from those stated below:
- (a) There was violation of the relevant provisions since no ratification resolution was passed in the Annual General Meeting held on 5<sup>th</sup> September, 2024, and therefore, the continuation of appointment of M/s. Suresh Neelambar & Co. as statutory auditors of Jatindrarangam Iron Works Private Limited shall need to be approved by the jurisdictional Registrar of Companies.
  - (b) There was violation of the relevant provisions since no ratification resolution was passed in the Annual General Meeting held on 5<sup>th</sup> September, 2024, and therefore, the continuation of appointment of M/s. Suresh Neelambar & Co. as statutory auditors of Jatindrarangam Iron Works Private Limited shall need to be approved by the jurisdictional Regional Director.
  - (c) There was violation of the relevant provisions since no ratification resolution was passed in the Annual General Meeting held on 5<sup>th</sup> September, 2024, and therefore, the continuation of appointment of M/s. Suresh Neelambar & Co. as statutory auditors of Jatindrarangam Iron Works Private Limited shall need to be approved by the jurisdictional bench of National Company Law Tribunal (NCLT).
  - (d) There was no violation of any provision if no ratification resolution was passed in the Annual General Meeting held on 5<sup>th</sup> September, 2024, and the appointment of M/s. Suresh Neelambar & Co. as

statutory auditors of Jatindrarangam Iron Works Private Limited shall continue to remain valid.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** Not treating the amount of ₹ 10 crore, to be received from Shwetamalini, wife of Jagadayu (MD), as deposit, Sachin, the Company Secretary of Jatindrarangam Iron Works Private Limited would ensure that a declaration in writing is obtained to the effect that the amount is not being given out of funds acquired by her by borrowing or accepting loans or deposits from others and further the details of money so accepted shall be disclosed in the Board's Report.

**Reason:**

Sachin, the Company Secretary, would ensure that the amount received from Shwetamalini is not treated as a deposit as per the Companies (Acceptance of Deposits) Rules, 2014. The rules exempt loans from relatives of directors from being treated as deposits if:

1. The relative declares in writing that the funds are not borrowed or acquired from others.
  2. The company discloses the details of the loan in the Board's Report.
2. **Option (a)** As regards creation of charge in India where the instrument of charge relates solely to the properties situated at Nairobi, Kenya, the copy of the said instrument of charge which is required to be filed with the jurisdictional Registrar of Companies, shall be verified by a certificate issued under the hand of some person other than the company who is interested in the mortgage or charge.

**Reason:**

Section 77(3) of the Companies Act, 2013 and Rule 3(6) of the Companies (Registration of Charges) Rules, 2014.

3. **Option (b)** As per the relevant provisions, if more than one-tenth of the total members of Jatindrarangam Iron Works who reside at Mangaluru, request the company to maintain the Register of Members at its branch

office at Mangaluru instead of keeping it at Manipal, their request can be acceded to after fulfilling specified formalities.

**Reason:**

Section 94(2) of the Companies Act, 2013 provides that if more than one-tenth (1/10th) of the total members residing in a particular place request the company to keep the Register of Members at a branch office in that location, the company may accede to their request after fulfilling specified formalities.

4. **Option (a)** If it is established that there are requisite number of members residing at Mangaluru requesting Jatindrarangam Iron Works Private Limited to maintain the Register of Members at its branch office at Mangaluru, then the directors shall pass a Board Resolution with full majority and direct Sachin, Company Secretary, to maintain the Register of Members at branch office at Mangaluru.

**Reason:**

Section 88(1) of the Companies Act, 2013 mandates that every company must maintain a Register of Members containing details of shareholders, their shareholdings, and other relevant information.

Rule 5(1) of the Companies (Management and Administration) Rules, 2014 states that every company must enter the name of the allottee in the Register of Members within seven days from the date of allotment of shares.

5. **Option (d)** There was no violation of any provision if no ratification resolution was passed in the Annual General Meeting held on 5<sup>th</sup> September, 2024, and the appointment of M/s. Suresh Neelambar & Co. as statutory auditors of Jatindrarangam Iron Works Private Limited shall continue to remain valid.

**Reason:**

As per Section 139 of the Companies Act, 2013 (amended provisions effective from 2017), the requirement for annual ratification of the appointment of statutory auditors by the members was removed. Therefore, the continuation of M/s. Suresh Neelambar & Co. as auditors does not require any further ratification.

**CASE SCENARIO 11**

It is correctly said that One Person Company (OPC) is a special gift of the newly enacted Companies Act, 2013 to the Indian citizens. Due to this novel introduction, many businessmen decided to start their business using the form of 'one person company' as it combines most of the benefits of a sole proprietorship and a company form of organisation. In this large herd of businessmen - both young and experienced - was Anuvrat who lived in Nagpur, a two-tier city along with his parents Mr. Prabhat and Mrs. Shakuntala, an elder sister Sumati who had recently completed her Ph.D. and a younger brother Anukant who was pursuing graduation in Commerce. The profession of his father, Mr. Prabhat, who held the position of Vice President (Marketing) in a leading pharmaceutical company going by the name A-one Pharma Limited (listed on BSE and NSE), demanded travelling abroad most of the year.

In the last financial year, *i.e.*, 2023-24 too, Mr. Prabhat vastly travelled in the cities of different countries of Europe from 1<sup>st</sup> June, 2023, onwards till the end of March 2024. He is also planning to migrate to Birmingham, U.K. after proceeding on superannuation which is only two years away.

Anuvrat's mother, Mrs. Shakuntala, was a science teacher in a reputed public school of Nagpur and an active social worker. As regards himself, Anuvrat, after completion of post-graduation in science stream, had successfully completed a one-year program in 'film direction and production', his most preferred career, in the year 2019 and was working as a freelancer in video-making and photography sector. However, on the back of his mind, he constantly thought of establishing his very own company and the same he did in July 2023 by incorporating a film production company which went by the name - Anuvrat SilverBand Private Limited (OPC) with Registered Office situated in Mumbai.

Of his company, Anuvrat was the only subscriber to the Memorandum of Association with his mother, Mrs. Shakuntala, as the nominee. The company had three directors - he himself, his brother Anukant and his sister Sumati. The Authorised Capital as stated in the Capital Clause of the Memorandum was ₹ 40,00,000 but the paid-up capital was only ₹ 10,00,000 which was entirely held by Anuvrat.

Due to the adaptive structure of One Person Company where he could take decisions of his choice and benefits accruing from it, Anuvrat, with the help of other two directors i.e. Anukant and Sumati, boldly expanded his business and made an entry into radio, television, fashion films, music videos and other entertainment activities.

Everything was going smoothly and fine, when in July 2024, all of a sudden, his mother Mrs. Shakuntala expressed her opinion to withdraw her consent as the nominee of the Anuvrat SilverBand Private Limited (OPC) since she was suffering from some kind of medical problem, quite serious in nature and was difficult to handle by the family doctor. This adverse development required Anuvrat to think intensely about changing the nomination of his mother and ultimately, though with heavy heart, he put across his desire before his father, Mr. Prabhat, to make him a new nominee in place of his mother, Mrs. Shakuntala. His father, Mr. Prabhat, assured him that he would consider the proposal of his nomination with positive mindset but also cautioned him that there should not arise any legal hurdle if he becomes the nominee.

As luck would have it, one day Surryyadepp, a renowned figure in the realm of numerology for over a decade approached Anuvrat to make short films for his company by the name Surryyadepp Numbers Pvt. Limited (OPC) to which he agreed. During the meetings that followed, the numerologist guided him to have additional alphabets 'n' and 'v' in his name to reach his highest potential and Anuvrat agreed to his suggestion. By fulfilling various legal formalities, Anuvrat got his name changed to Annuvrat.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5) given herein under:

### **MULTIPLE CHOICE QUESTIONS**

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1. Neelesh, a sales executive in A-one Pharma Limited who was working directly under Mr. Prabhat, Vice President (Marketing), as the member of his core marketing team, is desirous of availing loan from the company for purchase of its equity shares. Choose the correct option from those

given below as to whether or not Neelesh can avail loan from the company for the purpose of purchasing its own equity shares:

- (a) Neelesh as an employee of A-one Pharma Limited is not permitted to avail loan from the company for the purpose of purchasing its own equity shares.
  - (b) Neelesh as an employee of A-one Pharma Limited is permitted to avail loan from the company for the purpose of purchasing its own equity shares but the quantum of loan amount shall be limited to maximum up to three months' salary of Neelesh.
  - (c) Neelesh as an employee of A-one Pharma Limited is permitted to avail loan from the company for the purpose of purchasing its own equity shares but the quantum of loan amount shall be limited to maximum up to six months' salary of Neelesh.
  - (d) Neelesh as an employee of A-one Pharma Limited is permitted to avail loan from the company for the purpose of purchasing its own equity shares but the quantum of loan amount shall be limited to maximum up to nine months' salary of Neelesh.
2. From the Case Scenario, it is evident that with a view to start his own film production company, Annuvrat (earlier name Anuvrat) incorporated a one-person company by the name Anuvrat SilverBand Private Limited in July 2023. As regards the manner in which the company's name outside his Registered office in Mumbai shall be displayed, you are required to indicate the correct option from those stated below:
- (a) The manner in which the company's name outside his Registered office in Mumbai is required to be displayed shall be -  
Anuvrat SilverBand Private Limited (One Person Company)
  - (b) The manner in which the company's name outside his Registered office in Mumbai is required to be displayed shall be -  
Anuvrat SilverBand Private Limited (One Person Company)
  - (c) The manner in which the company's name outside his Registered office in Mumbai is required to be displayed shall be -

Anuvrat SilverBand (One Person Company) Private Limited.

- (d) The manner in which the company's name outside his Registered office in Mumbai is required to be displayed shall be -

Anuvrat SilverBand Private Limited - One Person Company

3. It is presumed that Mrs. Shakuntala, mother of Annuvrat, withdrew her consent to continue as nominee and a notice to this effect was given by her on 8<sup>th</sup> July, 2024. You are required to indicate the correct option from those stated hereunder as to the maximum time period within which Annuvrat is required to nominate another person as nominee from the receipt of the notice of withdrawal of consent:
- (a) Annuvrat is required to nominate another person as nominee maximum within five days from the receipt of the notice of withdrawal of consent from his mother Mrs. Shakuntala.
  - (b) Annuvrat is required to nominate another person as nominee maximum within fifteen days from the receipt of the notice of withdrawal of consent from his mother Mrs. Shakuntala.
  - (c) Annuvrat is required to nominate another person as nominee maximum within twenty days from the receipt of the notice of withdrawal of consent from his mother Mrs. Shakuntala.
  - (d) Annuvrat is required to nominate another person as nominee maximum within thirty days from the receipt of the notice of withdrawal of consent from his mother Mrs. Shakuntala.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (c)** Neelesh as an employee of A-one Pharma Limited is permitted to avail loan from the company for the purpose of purchasing its own equity shares but the quantum of loan amount shall be limited to maximum up to six months' salary of Neelesh.

**Reason:**

Section 67(3)(c) of the Companies Act, 2013.

2. **Option (b)** The manner in which the company's name outside his Registered office in Mumbai is required to be displayed shall be -  
Anuvrat SilverBand Private Limited (One Person Company)

**Reason:**

Refer second Proviso to Section 12 (3) of the Companies Act, 2013.

3. **Option (b)** Annuvrat is required to nominate another person as nominee maximum within fifteen days from the receipt of the notice of withdrawal of consent from his mother Mrs. Shakuntala.

**Reason:**

Refer Section 3 and Rule 4 (3) of the Companies (Incorporation) Rules, 2014.



**CASE SCENARIO 12**

Fresh Orchids Private Limited, incorporated by two close friends, named Pratham MBA-Finance) and Adwait (MBA-Marketing) with Authorised Capital of ₹ 30.00 crores consisting of 3,00,00,000 equity shares of ₹ 10 each, had its Registered Office at Pune, Maharashtra. The company, having paid-up share capital of ₹ 20,00,00,000, subscribed by one hundred and two shareholders, has been making its niche in the beverage industry for the last six years.

With quality and taste as its pillars, Fresh Orchids made its presence felt not only in the city of Pune but also in Mumbai and neighbouring areas through its variety of products which included fruit juices of various kinds, jeera drinks and lemonade. In the current financial year, the liability on account of a term loan, which was availed from True Bank Limited and whose repayment, both principal and interest till date, is quite regular, stood at ₹ 10.00 crores.

Anticipating robust future trends, Pratham and Adwait, holding the office of Managing Director and Whole-time Director respectively and two other directors, named Shikha (wife of Pratham) and Shruti (wife of Adwait), were thinking of launching a new line of health-oriented drink after receiving positive market feedback. The same was discussed with the product development team as well as the marketing team of the company. It is heartening to note that the product development team was successful in creating a new line of health-drink including formulation and taste testing. Use of taste testing methods ensured that the new health-drink met the highest standards of quality and taste. The marketing team was also hopeful and confident enough to capture the substantial market throughout the country so far as new line of health-drink was concerned.

As the company needed a fresh dose of additional capital for production and marketing of newly developed health drinks, the directors decided to offer 50,00,000 equity shares of ₹ 10 each through private placement to the existing shareholders. The equity shares were duly allotted to these shareholders after following the requisite provisions.

With the infusion of further capital, production of health drinks came swiftly into action. As expected, the marketing team developed and executed a

successful campaign that significantly boosted the product's market presence and turnover rose much beyond expectations and so was the goodwill of the company.

The directors of Fresh Orchids Private Limited decided to reward and motivate the top ten employees of the product development team and marketing team, who contributed significantly to the success of the company and made available rights in the nature of Intellectual Property Rights (IPR). Consequently, the company issued 5,00,000 Sweat Equity shares of face value of ₹ 10 to them, each getting 50,000 shares for consideration other than cash, after passing the specified resolution. This issue recognised the hard work and achievements of the employees beyond their regular salaries and bonuses. Through this goodwill gesture, the employees developed a sense of ownership in the company. There were great chances that by issuing Sweat Equity shares, the company shall be able to reduce the likelihood of employees leaving for other gainful opportunities in times to come. This way, the company not only enhanced employees' satisfaction but also strengthened its overall organizational performance.

The graph of success went on rising day by day. With soaring demand, the company established five branch offices in Delhi, Bangaluru, Chandigarh, Bhopal and Kolkata. The branch managers of these branches were ably handling almost all the areas of north, east and south falling within the country. The company received a welcoming response from all the corners and had a sort of pan India image. Motivated by this, the company crossed the boundaries of the country and began exporting to the European countries as well. To handle and coordinate the business in a smooth manner, the company established its maiden overseas branch office in Vienna, Austria which was sixth one in the row after opening of five Indian branches.

It is worth mentioning that Fresh Orchids maintains its books of accounts and other books and papers in electronic mode. Accordingly, the back-up of these books of accounts and other books and papers are duly kept in server physically located in India.

The auditors, M/s. Tarun Chandorkar & Associates, duly prepared the audit report stating the authenticity of the accounts, compliance of financial statements with the accounting standards, provision of adequate internal

financial control with reference to the financial statements and the operating effectiveness of such controls. The company duly prepared its Annual Return and filed the same with the jurisdictional Registrar of Companies in addition to filing of other financial statements.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-6) given herein under:

### **MULTIPLE CHOICE QUESTIONS**

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1. The Case Scenario states that the directors of Fresh Orchids Private Limited decided to reward and motivate the top ten employees of the product development team and marketing team, who contributed significantly to the success of the company and made available rights in the nature of IPR, by issuing 5,00,000 equity shares for consideration other than cash. You are required to choose the correct option from those stated below as to whether the said Sweat Equity shares shall be subject to lock-in/non-transferable for any specified period or not:
  - (a) The 5,00,000 Sweat Equity shares, when allotted to the top employees of the product development team and marketing team of Fresh Orchids Private Limited, shall not be subject to lock-in/non-transferable for any period, whatsoever.
  - (b) The 5,00,000 Sweat Equity shares, when allotted to the top employees of the product development team and marketing team of Fresh Orchids Private Limited, shall be subject to lock-in/non-transferable for a period of three years from the date of allotment.
  - (c) The 5,00,000 Sweat Equity shares, when allotted to the top employees of the product development team and marketing team of Fresh Orchids Private Limited, shall be subject to lock-in/non-transferable for a period of four years from the date of allotment.
  - (d) The 5,00,000 Sweat Equity shares, when allotted to the top employees of the product development team and marketing team

of Fresh Orchids Private Limited, shall be subject to lock-in/non-transferable for a period of five years from the date of allotment.

2. The above Case Scenario states that Fresh Orchids Private Limited needed a fresh dose of additional capital for production and marketing of newly developed health drinks and for that purpose it issued 50,00,000 equity shares of ₹ 10 each through private placement to the existing shareholders which were duly allotted. Select the appropriate option from those given below as to what is the maximum permissible time period within which the equity shares must have been allotted to the existing shareholders after receipt of application money for such securities from them:
  - (a) The maximum permissible time period is sixty days, within which the equity shares must have been allotted to the existing shareholders after receipt of application money for such securities from them.
  - (b) The maximum permissible time period is fifteen days, within which the equity shares must have been allotted to the existing shareholders after receipt of application money for such securities from them.
  - (c) The maximum permissible time period is ninety days, within which the equity shares must have been allotted to the existing shareholders after receipt of application money for such securities from them.
  - (d) The maximum permissible time period is thirty days, within which the equity shares must have been allotted to the existing shareholders after receipt of application money for such securities from them.
3. According to the Case Scenario, Fresh Orchids Private Limited issued 5,00,000 Sweat Equity shares to the top ten employees of the product development team and marketing team, for consideration other than cash, after passing the specified resolution. You are required to choose the correct option from those mentioned below as to within a period of how many months, the allotment of Sweat Equity shares must be made

from the date of passing of the specified resolution which authorised the said issue, if the allotment is not made immediately after its passing:

- (a) Within a period of not more than three months, the allotment of Sweat Equity shares must be made from the date of passing of the specified resolution which authorised the said issue, if the allotment is not made immediately after its passing.
  - (b) Within a period of not more than twelve months, the allotment of Sweat Equity shares must be made from the date of passing of the specified resolution which authorised the said issue, if the allotment is not made immediately after its passing.
  - (c) Within a period of not more than six months, the allotment of Sweat Equity shares must be made from the date of passing of the specified resolution which authorised the said issue, if the allotment is not made immediately after its passing.
  - (d) Within a period of not more than nine months, the allotment of Sweat Equity shares must be made from the date of passing of the specified resolution which authorised the said issue, if the allotment is not made immediately after its passing.
4. According to the Case Scenario, Fresh Orchids Private Limited established its sixth branch in Vienna, Austria, after establishing first five Indian branches in a row. As regards auditing the accounts of the present overseas branch, who according to you is authorised to audit the accounts of this foreign branch as per the applicable provisions? Choose the correct option from those stated below:
- (a) As regards auditing of sixth branch established in Vienna, Austria, by Fresh Orchids Private Limited, only the company's auditor M/s. Tarun Chandorkar & Associates is authorised to audit its accounts.
  - (b) As regards auditing of sixth branch established in Vienna, Austria, by Fresh Orchids Private Limited, the company's auditor M/s. Tarun Chandorkar & Associates or an accountant or any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of Austria is authorised to audit its accounts.

- (c) As regards auditing of sixth branch established in Vienna, Austria, by Fresh Orchids Private Limited, the company's auditor M/s. Tarun Chandorkar & Associates or any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of Austria, is authorised to audit its accounts.
  - (d) As regards auditing of sixth branch established in Vienna, Austria, by Fresh Orchids Private Limited, an accountant or any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of Austria is authorised to audit its accounts.
- 5. It is evident that Fresh Orchids Private Limited issued 5,00,000 Sweat Equity shares for consideration other than cash to the top employees of the product development team and marketing team. Keeping in view the applicable provisions, you are required to select the apt answer from the options given below as to when the holders of these sweat equity shares shall rank *pari passu* with other equity shareholders of the company:
  - (a) The top ten employees of the product development team and marketing team, being the holders of 5,00,000 sweat equity shares, shall rank *pari passu* with other equity shareholders of the company only after the expiry of three years from the date of allotment.
  - (b) The top ten employees of the product development team and marketing team, being the holders of 5,00,000 sweat equity shares, shall rank *pari passu* with other equity shareholders of the company only after the expiry of four years from the date of allotment.
  - (c) The top ten employees of the product development team and marketing team, being the holders of 5,00,000 sweat equity shares, shall rank *pari passu* with other equity shareholders of the company immediately from the date of allotment.
  - (d) The top ten employees of the product development team and marketing team, being the holders of 5,00,000 sweat equity shares, shall rank *pari passu* with other equity shareholders of the company only after the expiry of five years from the date of allotment.

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (b)** The 5,00,000 Sweat Equity shares, when allotted to the top employees of the product development team and marketing team of Fresh Orchids Private Limited, shall be subject to lock-in/non-transferable for a period of three years from the date of allotment.

**Reason:**

As per Section 54 of the Companies Act, 2013, and the rules framed thereunder, sweat equity shares issued by a private company are subject to a mandatory lock-in period of three years from the date of allotment. This restriction is put in place to prevent the immediate sale of such shares and ensure long-term employee association with the company.

2. **Option (a)** The maximum permissible time period is sixty days, within which the equity shares must have been allotted to the existing shareholders after receipt of application money for such securities from them.

**Reason:**

As per Section 42 of the Companies Act, 2013, dealing with private placement, a company is required to allot securities within 60 days of receiving the application money. If the company fails to allot within 60 days, it must refund the application money within the next 15 days.

3. **Option (b)** Within a period of not more than twelve months, the allotment of Sweat Equity shares must be made from the date of passing of the specified resolution which authorised the said issue, if the allotment is not made immediately after its passing.

**Reason:**

As per Rule 8 of the Companies (Share Capital and Debentures) Rules, 2014, sweat equity shares must be allotted within 12 months from the date of passing the special resolution authorizing the issue.

4. **Option (b)** As regards auditing of the sixth branch established in Vienna, Austria, by Fresh Orchids Private Limited, the company's auditor M/s. Tarun Chandorkar & Associates or an accountant or any other person duly

qualified to act as an auditor of the accounts of the branch office in accordance with the laws of Austria is authorised to audit its accounts.

**Reason:**

As per Section 143(8) of the Companies Act, 2013, the accounts of a foreign branch of a company can be audited either by the company's auditor or by an auditor duly qualified to act as an auditor in accordance with the laws of the country where the branch is located. This ensures compliance with local regulations.

5. **Option (c)** The top ten employees of the product development team and marketing team, being the holders of 5,00,000 sweat equity shares, shall rank pari passu with other equity shareholders of the company immediately from the date of allotment.

**Reason:**

Read section 54 along with Rule 8.

As per Rule 8 of the Companies (Share Capital and Debentures) Rules, 2014, sweat equity shares rank pari passu with other equity shareholders from the date of allotment. This means they have the same rights as ordinary equity shareholders without any waiting period for ranking.



**CASE SCENARIO 13**

Bharat Sanskar Limited having its registered office at Haridwar, is a listed public company. It is registered with an authorised share capital of ₹ 300 crore divided into 30 crore equity shares of ₹ 10/- each. The paid-up share capital of the company is ₹ 200 crore divided into 20 crore equity shares of ₹ 10/- each. The company is very renowned in manufacturing and supplying devotional items such as high-quality worship materials, fragrances, various types of decorative goods, idols etc.

The Board of Directors of the company constituted of Sagar as the Managing Director and Hari, Rahi, Sansar & Nabh as directors of the company. In the company Raju was holding the post of Company Secretary, Sonu designated as Chief Financial Officer and Moti as Assistant Accountant. The company prepared its Financial Statement for the year 2022-23, the Board of Directors approved the same and it was signed by the concerned authorities and thereafter submitted to the auditors on 10th May, 2023 for their report. The turnover of the company was ₹ 100 crore during the year 2022-23. The auditor's report was duly received and the annual accounts with Board's report and all necessary annexures were ready on 15th July 2023 after complying with all the formalities as per company law.

The Board Meeting was called on 25th July, 2023 and the Annual General Meeting was fixed on 20th August, 2023. At the Annual General Meeting the Financial Statement along with all annexures was duly received and adopted by the members present. However, the company could not file copies of financial statement along with all the documents annexed to the financial statement adopted at the Annual General Meeting, with the Registrar.

It is also informed that in April, 2023, the company had destroyed all the books of account together with relevant vouchers up to financial year ending on 31st March, 2018.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following queries given herein under: -

**MULTIPLE CHOICE QUESTIONS**

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1. The Companies Act, 2013 provides that the financial statement should be approved by the Board of Directors, signed by the prescribed authorities and submitted to the auditors for their report. Accordingly, the financial statements of Bharat Sanskar Limited shall be signed by:
  - (a) Sagar, Raju and Sonu
  - (b) Sansar, Hari, Raju and Sonu
  - (c) Sagar, Sansar, Raju and Moti
  - (d) Sagar, Sansar, Raju and Sonu
2. As per provisions of company law, the Board's report with annexures thereto of the above company is required to be duly signed by -
  - (a) Sagar only
  - (b) Sagar and Hari
  - (c) Sagar and Raju
  - (d) Sagar and Sonu
3. As per provisions of the Companies Act, 2013, the act of the company in destruction of all books of account together with relevant vouchers was not correct because –
  - (a) The books of accounts etc. relating to a period not less than 6 preceding financial years are required to be kept in good order.
  - (b) The books of accounts etc. relating to a period not less than 8 preceding financial years are required to be kept in good order.
  - (c) The books of accounts etc. relating to a period not less than 10 preceding financial years are required to be kept in good order.
  - (d) The books of accounts etc. relating to a period not less than 12 preceding financial years are required to be kept in good order.

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (d)** Sagar, Sansar, Raju and Sonu

**Reason:**

As per, section 134(1) of the Companies Act, 2013, the financial statement shall be approved by the Board of Directors before they are signed on behalf of the Board for the submission to the auditor for his report thereon; at least by:

- a. The chairperson of the company where he is authorised by the Board OR the two directors out of which one shall be managing director, if any, and
- b. The Chief Executive Officer, and
- c. The Chief Financial Officer and
- d. The company secretary of the company, wherever they are appointed.

2. **Option (b)** Sagar and Hari

**Reason:**

As per section 134 (6) of the Companies Act, 2013,

The Board's report and any annexures thereto shall be signed by:

- a. Chairperson of the company if he is authorised by the Board and
- b. Where he is not so authorised, shall be signed by:
  - i. At least two directors, one of whom shall be a managing director, or
  - ii. The director where there is one director.

3. **Option (b)** The books of accounts etc. relating to a period not less than 8 preceding financial years are required to be kept in good order.

**Reason:**

As per section 128(5) of the Companies Act, 2013,

The books of account, together with vouchers relevant to any entry in such books, are required to be preserved in good order by the company for a period of not less than eight years immediately preceding the relevant financial year.

**CASE SCENARIO 14**

Shree Tyres Limited is an unlisted public limited company. The company's accounts for the financial year ending on 31<sup>st</sup> March, 2023 were finalised and audited by the Statutory Auditor. The meeting of the Board of Directors was convened and approved the financial accounts of the company and proposed to convene the Annual General Meeting of the shareholders on Thursday, the 25<sup>th</sup> August, 2023 at 10 am.

The total number of members is 3500. The Article of the company provides that the quorum for the general meeting of the shareholders shall be at least fifty members. On the day of the meeting only 10 members were physically present. Even after waiting of 30 minutes, the quorum was not present. Accordingly, the meeting was adjourned. According to the provisions of the Companies Act, 2013, the meeting shall adjourn to the same day in the next week at the same time and place.

However, on the same day in the next week i.e., on Thursday, the 1<sup>st</sup> September, 2023, the same venue (which is a Hotel's Conference Hall) was available from 3 pm only. The Board agreed to conduct the meeting from 3 pm and the all the members were informed individually via mail and also published it in the newspapers (one in English and another in vernacular language)

The adjourned meeting started at 3 pm on 1<sup>st</sup> September, 2023, the quorum required as per the Articles was 50, however 75 members were present. Out of the 75 members attending the meeting 25 persons were having the residence near the venue of Annual General Meeting and rest of the members were staying far away. Due to heavy rainfall and scarce availability of public transportation, 40 persons left the meeting so that they can reach home on time. By that time only the ordinary business resolutions were approved and two special business agendas were pending for approval by the members.

Based on the above facts, answer the following MCQs:

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**MULTIPLE CHOICE QUESTIONS**

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1. In the light of the given facts, the General Meeting of the shareholders was decided to be scheduled. Determine by which date the notices to the shareholder should have been given to the members:
  - (a) 1<sup>st</sup> August, 2023
  - (b) 2<sup>nd</sup> August, 2023
  - (c) 3<sup>rd</sup> August, 2023
  - (d) 4<sup>th</sup> August, 2023
2. Whether adjournment of the general meeting of shareholders of Shree Tyres Limited for want of quorum, was justified as per the requirement of the Companies Act, 2013:
  - (a) Yes, it was justified, since the quorum was not present within 30 minutes from the time appointed for holding the meeting
  - (b) No, it was not justified since the waiting time for the arrival of the requisite quorum is 30 minutes as per the provisions of the Companies Act, 2013, whereas the decision of the adjournment of the meeting was just taken after 15 minutes.
  - (c) Yes, if the quorum is not present at the given time (sharp) of meeting, the meeting stands to be adjourned, and there is no requirement of waiting time.
  - (d) Yes, it was justified, since the quorum was not present within 45 minutes (as per statutory requirement) from the time appointed for holding the meeting.
3. What shall be the quorum for the General Meeting of the Shareholders, where the number of members is 3500:
  - (a) Five
  - (b) Fifteen
  - (c) Thirty
  - (d) Fifty

4. As some members left the meeting, the quorum was not present all the time during the Annual General Meeting. The agendas for special business transactions remained un-approved. What is your opinion:
- (a) The quorum once present in the beginning of the meeting is enough.
  - (b) The quorum should be present all the time when the meeting is in progress. Any items which could not approved by members for want of quorum, shall be treated as NIL.
  - (c) When the quorum is present in the beginning of the meeting, it may be assumed that all the resolutions have been approved, until and unless objected later on by the members present therein.
  - (d) The Board may seek special written consent from the all the members later on.

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (c)** 3<sup>rd</sup> August, 2023

**Reason:**

Section 101(1) provides that a general meeting of a company may be called by giving not less than clear twenty-one days' notice either in writing or through electronic mode in such manner as may be prescribed.

So, excluding the day of 3<sup>rd</sup> August, 2022 (the date of service of notice) and 25<sup>th</sup> August, 2022 (the date of meeting), there are 21 clear days between these two dates.

2. **Option (a)** Yes, it was justified, since the quorum was not present within 30 minutes from the time appointed for holding the meeting.

**Reason:**

Section 103(2) provides that "if the quorum is not present within half-an-hour from the time appointed for holding a meeting of the company- the meeting shall stand adjourned to the same day in the next week at the same time and place, or to such other date and such other time and place as the Board may determine.

**3. Option (d)** Fifty**Reason:**

Section 103(1) provides that unless the articles of the company provide for a larger number-

In case of public company-

- (i) Five members personally present if the number of members as on the date of meeting is not more than one thousand;
- (ii) Fifteen members personally present if the number of members as on the date of meeting is more than one thousand but up to five thousand;
- (iii) Thirty members personally present if the number of members as on the date of the meeting exceeds five thousand.

In the present case, the minimum of member required for quorum have been fixed in the Articles, which is FIFTY, hence the answer shall be Fifty.

It is to be mentioned here that the Article can provide the higher number required for quorum, but it cannot reduce the number as prescribed under the Companies Act, 2013.

**4. Option (b)** The quorum should be present all the time when the meeting is in progress. Any items which could not approved by members for want of quorum, shall be treated as NIL.**Reason:**

The Para 3 of the Secretarial Standard -2 (SS-2 on General Meetings) issued by the ICSI deals with the Quorum.

Its para 3.1. provides as under:

Quorum shall be present throughout the Meeting. Quorum shall be present not only at the time of commencement of the Meeting but also while transacting business.

**CASE SCENARIO 15**

Perfect Tyres and Rubbers Limited is a listed entity engaged in the business of manufacturing of tyres and tubes for Light and Heavy Commercial Vehicles. During the financial year 2022-23, the company has declared interim dividend of 5% on the equity shares in its Board meeting held on 17<sup>th</sup> October, 2022, out of the profits earned during the first quarter of FY 2022-23. Further, the Board of Directors of the company after reviewing results of the fourth quarter of FY 2022-23 again recommended for second Interim Dividend @ 5% on 25<sup>th</sup> April, 2023.

The Board of Directors of the company approved the financial result for the FY 2022-23 in its meeting held on 5<sup>th</sup> August, 2023, and recommended a final dividend of 15% (including the interim dividends paid earlier) in this board meeting. The general meeting of the shareholders was convened on 31<sup>st</sup> August, 2023. The shareholders of the company demanded that since interim dividend @10% (5% + 5%) was declared by the company, so the final dividend should not be less than 20% (including the interim dividends). When the Company Secretary emphasised that final dividend cannot exceed, what the Board of Directors have recommended in their board meeting, some of the shareholders boycotted the meeting and moved out of the meeting hall, in protest of the company's decision. However, the agenda for declaration of the dividend was passed unanimously by rest of the shareholders present in the meeting hall, fulfilling the criteria of requirement of quorum, as per the provisions of the Companies Act, 2013.

After approval of the shareholders the dividend amount was paid to the shareholders, however dividend to some of the shareholders could not be paid within the prescribed period for variety of reasons. The company transferred the unpaid dividend amount to a separate bank account on 15<sup>th</sup> October, 2023.

The details of the unpaid dividend amount for the previous year's lying in the unpaid dividend account is as under:



S. No.	Dividend pertaining to the FY	Date of declaration of Dividend	Date when the amount was transferred to Unpaid dividend Account	Amount lying in the Unpaid Dividend Account (₹ in lakh)
1	2022-23	31.08.2023	15.10.2023	92.50
2	2021-22	25.08.2022	28.09.2022	85.14
3	2020-21	20.08.2021	22.09.2021	80.00
4	2019-20	05.09.2020	07.10.2020	75.25
5	2018-19	01.09.2019	04.10.2019	45.15
6	2017-18	07.09.2018	09.10.2018	35.26
7	2016-17	05.05.2017	08.06.2017	15.10
8.	2015-16	06.06.2016	08.07.2016	07.25

Sustram, one of the investors who is holding 1000 shares in physical form, by visiting web-site of the company, came to know that company had declared the dividends in some previous years, but have not been paid to him. This happened due to the fact the company was not having his current address and bank account details. Sustram approached the company, along with all the supporting evidence to his claim and demanded the dividend amount.

The company after being satisfied, paid all the dividend amount pertaining to the FY 2016-17 to FY 2022-23. However, for FY 2015-16, the company informed that since the amount of dividend has been transferred to Investor Education and Protection Fund, it cannot be taken back now. Aggrieved from this, Sustram threatened the company officials to take appropriate legal action.

Based on the above facts, answer the following MCQs:

### MULTIPLE CHOICE QUESTIONS

- Which among the following is NOT correct?
  - The Board can declare the Interim Dividend after approval of the financial results for the FY 2022-23.
  - The Board cannot declare the Interim Dividend after approval of the financial results for the FY 2022-23.

- (c) After approval of the financial results for FY 2022-23, the Board can recommend for the final dividend only.
  - (d) The interim dividend can be declared by the board of directors and there is no need of shareholder's approval.
- 2. When the shareholders demanded for increase in the rate of dividend, but since the shareholders cannot increase the rate of dividend what the Board of Directors have recommended, some of them walked out of the meeting hall. What shall be the consequences of it:
  - (a) If, even after boycott, quorum is present, all the time during the course of general meeting and they have approved with majority, the rate recommended by the Board shall be treated as approved.
  - (b) Members present at the beginning of the meeting shall remain present all the time during the general meeting, to approve any agenda, else it will be treated as nullified.
  - (c) The approval of the dividend in an ordinary business resolution of the company, so if some of the members have boycotted the meeting, it will have no effect.
  - (d) The recommendation of the Board of Directors of the company relating to the rate of dividend shall stands withdrawn.
- 3. At which date, the unpaid dividend not claimed by the shareholders, shall be transferred to a separate bank account, in the above case:
  - (a) On 5<sup>th</sup> August, 2023 (the date of Meeting of Board)
  - (b) On 31<sup>st</sup> August, 2023 (the date of Meeting of Shareholders)
  - (c) On 30<sup>th</sup> September, 2023 (the date, after 30 days from the meeting of shareholders)
  - (d) Latest by 7<sup>th</sup> October, 2023 (within seven days from the date of expiry of 30 days)
- 4. The company transferred the amount of unpaid dividend to a separate bank account on 15<sup>th</sup> October, 2023, which is beyond the prescribed period (in this case the 7<sup>th</sup> October, 2023 was the last date to deposit in a separate bank a/c).

What is the interest liability on the part of the company?

- (a) Interest @ 6% p.a. on so much of the amount as has not been transferred to the Unpaid Dividend Account.
  - (b) Interest @ 10% p.a. on so much of the amount as has not been transferred to the Unpaid Dividend Account.
  - (c) Interest @ 12% p.a. on so much of the amount as has not been transferred to the Unpaid Dividend Account.
  - (d) Interest @ 15% p.a. on so much of the amount as has not been transferred to the Unpaid Dividend Account.
5. In the given case, when and how much amount, the company shall transfer the funds to the Investor Education and Protection Fund:
- (a) Four years after 01.09.2019; ₹ 45.15 lakh
  - (b) Five years after 07.09.2018; ₹ 35.26 lakh
  - (c) Six years after 05.05.2017; ₹ 15.10 lakh
  - (d) Seven years after 08.07.2016: ₹ 07.25 lakh
6. The unpaid dividend amount once transferred by the company to Investor Education and Protection Fund (IEPF) cannot be withdrawn. Do you agree:
- (a) Yes, the unpaid dividend amount once transferred to (IEPF) cannot be withdrawn.
  - (b) The unpaid dividend amount cannot be withdrawn in full, but is shall be released after deducting of 25% of the amount due and rest will be utilised for the investor's education
  - (c) The unpaid dividend amount cannot be withdrawn in full, but is shall be released on 50% of the amount due and rest 50% will be utilised for the investor's education.
  - (d) The unpaid dividend amount can be withdrawn by submitting an online application in Form IEPF-5 with all the supporting vouchers in original to the Nodal officer of the concerned company and adhering to the further instructions given by the Nodal Office.

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (b)** The Board cannot declare the Interim Dividend after approval of the financial results for the FY 2022-23.

**Reason:**

Section 123(3) provides that the Board of Directors of a company may declare interim dividend during any financial year or at any time during the period from closure of financial year till holding of the annual general meeting out of the surplus in the profit and loss account or out of profits of the financial year for which such interim dividend is sought to be declared or out of profits generated in the financial year till the quarter preceding the date of declaration of the interim dividend.

However, it is practically not possible to declare any dividend for FY 2022-23, when the Board of Director have already approved the books of accounts since the books of accounts have already been closed for the FY 2022-23. The Board can at this stage recommend the final dividend and the shareholders will approve it.

2. **Option (a)** If, even after boycott, quorum is present, all the time during the course of general meeting and they have approved with majority, the rate recommended by the Board shall be treated as approved.

**Reason:**

The company in general meeting may declare Dividends, but no Dividend shall exceed the amount recommended by the Board. [Regulation 80 of Table F of Schedule I to the Act].

3. **Option (d)** Latest by 7<sup>th</sup> October, 2023 (within seven days from the date of expiry of 30 days)

**Reason:**

Section 124(1) provides that where a dividend has been declared by a company but has not been paid or claimed within thirty days from the date of the declaration to any shareholder entitled to the payment of the dividend, the company shall, **within seven days from the date of expiry of the said period of thirty days**, transfer the total amount

of dividend which remains unpaid or unclaimed to a special account to be opened by the company in that behalf in any scheduled bank to be called the Unpaid Dividend Account.

4. **Option (c)** Interest @ 12% p.a. on so much of the amount as has not been transferred to the Unpaid Dividend Account.

**Reason:**

Section 124(3) provides that if any default is made in transferring the total amount referred to in sub-section (1) or any part thereof to the Unpaid Dividend Account of the company, it shall pay, from the date of such default, interest on so much of the amount as has not been transferred to the said account, at the rate of twelve per cent per annum and the interest accruing on such amount shall ensure to the benefit of the members of the company in proportion to the amount remaining unpaid to them.

Further section 124(7) provides that if a company fails to comply with any of the requirements of this section, such company shall be liable to a penalty of one lakh rupees and in case of continuing failure, with a further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of ten lakh rupees and every officer of the company who is in default shall be liable to a penalty of twenty-five thousand rupees and in case of continuing failure, with a further penalty of one hundred rupees for each day after the first during which such failure continues, subject to a maximum of two lakh rupees.

5. **Option (d)** Seven years after 08.07.2016: ₹ 07.25 lakh

**Reason:**

Section 124(5) provides that any money transferred to the Unpaid Dividend Account of a company in pursuance of this section which remains unpaid or unclaimed for a period of seven years from the date of such transfer shall be transferred by the company along with interest accrued, if any, thereon to the Fund established under sub-section (1) of section 125 and the company shall send a statement in the prescribed form of the details of such transfer to the authority which

administers the said Fund and that authority shall issue a receipt to the company as evidence of such transfer,

- 6. Option (d)** The unpaid dividend amount can be withdrawn by submitting an online application in Form IEPF-5 with all the supporting vouchers in original to the Nodal officer of the concerned company and adhering to the further instructions given by the Nodal Office.

**Reason:**

Section 125(4) provides that any person claiming to be entitled to the amount referred in sub-section (2) may apply to the authority constituted under sub-section (5) for the payment of the money claimed.

Rule 7 of the Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016 provides that any person whose shares, unclaimed dividend, matured deposits, matured debentures, application money due for refund, or interest thereon, sale proceeds of fractional shares, redemption proceeds of preference shares etc., has been transferred to the Fund, may claim the shares under proviso to sub-section (6) of section 124 or apply for refund under clause (a) of sub-section (3) of section 125 or under proviso to sub-section (3) of section 125, as the case may be, to the Authority by submitting an online application in Form IEPF-5 available on the website [www.iepf.gov.in](http://www.iepf.gov.in) along with fee specified by the Authority from time to time in consultation with the Central Government.

Upon submission. Form No. IEPF-5 shall be transmitted online to the Nodal Officer of the company for verification of claim:

Provided that the claimant after making an application in Form No. IEPF-5 under sub rule 1, shall send original physical share certificate, original bond, deposit certificate, debenture certificate, as the case maybe, along with Indemnity Bond, Advance Receipts, any other document as enumerated in Form No. IEPF-5. duly signed by him, to the Nodal Officer of the concerned company at its registered office for verification of the claim.

**CASE SCENARIO 16**

Pristine Limited, a listed entity, passed a resolution in its Board meeting for appointment of Arora & Associates, a Chartered Accountants firm, as Statutory Auditor of the company. The company obtained the consent in writing from Arora & Associates and also placed this recommendation before the general meeting of the shareholder and got it approved.

The company thereafter informed the CA Firm about their appointment and also filed a notice of appointment with the Registrar of Companies within the prescribed time.

Arora & Associates, Chartered Accountants firm is having 3 partners namely, A Arora, B Arora, C Arora. In this firm D Arora and M Arora were associates and were being paid on case-to-case basis and not on fixed salary.

Prior to the appointment of Arora & Associates, the previous auditor was Agrawal Arora & Associates. In this CA firm there were 6 partners namely, Priya Agrawal, Mia Agrawal, Vishal Agrawal, Vyom Agrawal, D Arora and M Arora.

D Arora and M Arora were common persons in both the firms.

While working with Pristine Limited, Arora & Associates started facing a lot of issues with the management of the company. After some time, due to these disputes with the management, Arora & Associates resigned from the company.

**MULTIPLE CHOICE QUESTIONS**

1. The newly appointed CA Firm (Arora & Associates) and retiring CA Firm (Agrawal Arora & Associates) have common persons i.e., D Arora and M Arora. Whether the appointment of Arora & Associates in Pristine Limited. is valid as per the provisions of the Companies Act, 2013:
  - (a) It not valid since both the CA Firms (New and Old) have common persons
  - (b) D Arora and M Arora are the associates in Arora & Associates and not the partners, hence appointment of Arora & Associates, is valid

- (c) Arora & Associates should expel D Arora and M Arora in order to retain its appointment
  - (d) Agrawal Arora & Associates should expel D Arora and M Arora
2. What would have been the position if, D Arora and M Arora are partners in Arora & Associates:
- (a) The position will remain same as MCQ 1 above [There will be no change in position]
  - (b) There shall be no change and the Arora & Associates may continue as audit firm
  - (c) The appointment of Arora & Associates would not have been in terms of the provisions of the Companies Act, 2013
  - (d) The company may obtain permission from the shareholders in the general meeting by way of Special Resolution for continuation of appointment of Arora & Associates
3. In the given case, Arora & Associates due to some dispute with the management on some issues resigned from the company. Choose the correct option in respect to filling of this vacancy:
- (a) Arora & Associates cannot resign and has to hold the office till the conclusion of the next annual general meeting
  - (b) The resignation is tendered by the auditor, the Board of Directors shall appoint new auditor within 30 days and such appointment shall also be approved by the shareholders in the general meeting within 3 months of the recommendation of the Board
  - (c) This vacancy of auditor can be filled by the shareholders in consultation of the Central Government
  - (d) This vacancy of auditor can be filled by the Board of Directors in consultation of the Comptroller and Auditor-General of India

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** D Arora and M Arora are the associates in Arora & Associates and not the partners, hence appointment of Arora & Associates, is valid



**Reason:**

The fifth proviso to section 139(1) provides that as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as auditor of the same company for a period of five years.

In the given case, Mayank Jain and Shashank Jain are Associates of Jain & Jain and not the partners, hence it is valid.

2. **Option (c)** The appointment of Arora & Associates would not have been in terms of the provisions of the Companies Act, 2013

**Reason:**

In terms of the fifth proviso to section 139(1) as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as auditor of the same company for a period of five years.

3. **Option (b)** The resignation is tendered by the auditor, the Board of Directors shall appoint new auditor within 30 days and such appointment shall also be approved by the shareholders in the general meeting within 3 months of the recommendation of the Board

**Reason:**

Section 139(8)(i) provides that any casual vacancy in the office of an auditor shall in the case of a company other than a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Board of Directors within thirty days, but if such casual vacancy is as a result of the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within three months of the recommendation

**CASE SCENARIO 17**

Shiv IT Solutions Limited is a company engaged in the business of providing customised software to its clients. These software's are usually related to the employee's attendance, leave management, salary preparation, tax calculation and other matters incidental to Human Resource (HR).

The company is having its own building and other infrastructure in Bengaluru and also at Brussels, Belgium. The company have patent rights over few of its software's and also have the trade mark right over the company's logo.

The company got sanctioned term loan facility of ₹ 10 crore from Best Bank Limited on 1<sup>st</sup> January, 2022 by creating a charge on the assets of the company which includes the company's own buildings and intangible assets. The charge should have been created by the company within the time prescribed under the Companies Act, 2013 with the Registrar, however, the company could not get registration of charges within the prescribed time line.

During the course of Secretarial Audit of the company, for the year ended March 2023, it came in the knowledge of the Company Secretary in Practice, that charge was not registered with the Registrar. He mentioned it in the report and advised the company to get it registered. However, the Action Taken Report (ATR) on the audit objection made by the Company Secretary was not apprised to the Board and no follow up was made by the company thereafter.

Bank's concurrent auditor and statutory auditor also pointed out this issue and narrated that since charge was not created by the company, hence this advance be treated as clean advance and interest rate of clean / unsecured advance, which is 22% (as against the normal rate of 11%) should be applied from the date of disbursement on the outstanding amount till date. Bank also asked a professional, whether it can get the charge registered, at its own, to satisfy the audit objection.

The Bank applied for registration of charge which was considered by the Registrar and registration of creation of charge was granted. The Bank in order to address the audit objections, applied the interest @ 22% on the outstanding amount in the loan account of the company. The company aggrieved with the decision of the Bank, managed to liquidate the term loans account by raising

funds from other sources and filed the 'Satisfaction of Charge' with the Registrar.

### MULTIPLE CHOICE QUESTIONS

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1. The company can create charge in favour of the lender on the the assets which are:
  - (a) Tangible Assets and situated in India only
  - (b) Intangible Assets and situated in India only
  - (c) Assets that are tangible or otherwise and situated in India or Brussels (Belgium)
  - (d) Assets that are tangible or otherwise and situated in India only
2. Where the company fails to get the registration of charge, whether the Best Bank Limited, in whose favour the charge was to be created, can move the application for creation of charge:
  - (a) No. It is the responsibility of the borrower company only to get the charge registered in favour of the lender.
  - (b) If the company do not get the charge registered in favour of the lender, the lender suo-moto cannot move application for registration of charge in its favour.
  - (c) The borrower company can be held liable to pay the penalty only.
  - (d) Yes. The lender company can move the application for registration of charge in its favour, if the borrower do not get the charge registered with the prescribed time.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (c)** Assets that are tangible or otherwise and situated in India or Brussels (Belgium)

**Reason:**

As per section 77(1), It shall be the duty of every company creating a charge within or outside India, on its property or assets or any of its

undertakings, whether tangible or otherwise, and situated in or outside India, to register the particulars of the charge signed by the company and the charge-holder together with the instruments, if any, creating such charge in such form, on payment of such fees and in such manner as may be prescribed, with the Registrar within thirty days of its creation.

2. **Option (d)** Yes. The lender company can move the application for registration of charge in its favour, if the borrower do not get the charge registered with the prescribed time.

**Reason:**

Section 78 provides that where a company fails to register the charge within the period of 30 days referred to in sub-section (1) of section 77, without prejudice to its liability in respect of any offence under this Chapter, the person in whose favour the charge is created may apply to the Registrar for registration of the charge along with the instrument created for the charge, within such time and in such form and manner as may be prescribed and the Registrar may, on such application, within a period of fourteen days after giving notice to the company, unless the company itself registers the charge or shows sufficient cause why such charge should not be registered, allow such registration on payment of such fees, as may be prescribed.

**CASE SCENARIO 18**

Vaishnav, Nilax and Nandeesh, motivated by strong desire to offer unmatched quality steel products to their customers entered into the world of steel by incorporating VXN Steel Manufacturers & Traders Limited in Nagpur in the year 2010. Owned by seven hundred and fifty-two members, the company was involved in manufacturing and supplying a wide collection of stainless-steel architectural products like frameless railings, tubes, railing fittings, pipes, and other fittings, etc. The paid-up capital of the company was ₹ 100 crores divided into 10 crores equity shares of ₹ 10 each and also the company had issued 1,00,000 secured and non-convertible 9% Debentures of the face value of ₹ 100 each which were to be redeemed on December 31, 2029.

In addition to Vaishnav, occupying the office of Managing Director (MD), Nilax, acting as Whole-time Director (WTD) and Nandeesh, holding the office of Director (Marketing), there were four more directors, as mentioned below:

Nandini – Director (Operations)

Radhika – Director (Finance)

Sambhav – Director (Research and Development)

Sarthak – Director (Human Resource and other allied matters)

Shubhendu was the Company Secretary in whole-time employment of the company looking after all the compliances relating to corporate governance.

The company was supported by talented employees in all the spheres – production, quality control, logistics, marketing, research and development, etc. Collectively, they work amicably to meet the set targets.

Over the years, VXN Steel Manufacturers & Traders Limited attained the faith of customers by offering them 'quality approved' products at budget-friendly prices. As the lease of the factory situated in Nagpur was going to expire by the end of November 2024 and it would not be extended further since the owners were unwilling to renew the lease, the directors planned to shift the business of the company from Nagpur to Mumbai where the company already owned a building which could be used for establishing factory after fulfilling requisite formalities. They also wanted to explore new genre for business growth;

therefore, all of them had a strong opinion that shifting of Registered Office to Mumbai would be a workable idea for exploiting much better market opportunities.

With the above mindset, VXN Steel Manufacturers & Traders Limited started the formalities for the said shifting of Registered Office from Nagpur to Mumbai and it was ultimately shifted in the beginning of August 2024. The company also decided to make a capital expenditure of ₹ 40.00 crores approximately towards purchase of modernised plant and machinery for its factory at Mumbai by raising a term loan of ₹ 30.00 crores from its bankers Swarn Commercial Bank Limited and to fund the remaining expenditure of ₹ 10.00 crores from its own resources. Further, a decision was taken to dismantle and sell the old plant and machinery located at Nagpur.

In continuation, Radhika – Director (Finance), on behalf of VXN Steel Manufacturers & Traders Limited, negotiated with the officials of Swarn Commercial Bank Limited to raise a term loan of ₹ 30.00 crores. In due course of time, Swarn Commercial Bank Limited sanctioned the said term loan to be disbursed in three equal instalments of ₹ 15.00 crores, ₹ 10.00 crores and ₹ 5.00 crores. As per the terms of the sanction, the next instalment of term loan would be released only after satisfactory utilisation of earlier released instalment. The security offered was to mortgage the building at Mumbai and the entire plant and machinery to be purchased in due course. In addition, all the directors were to give personal guarantees. The bank got executed necessary loan documents including an instrument of charge on September 2, 2024. The mortgage was duly registered with the Central Registry.

The company had duly maintained all the registers and documents at the Registered Office while in Nagpur and thereafter, they were shifted to Mumbai after the Registered Office was shifted.

At the end of the financial year, the annual accounts were duly made, and it was overwhelming that there was a rise in the net profit; a fact that the directors were planning to highlight in the Annual General Meeting (AGM) which was planned to be held on September 19, 2024. The Annual General Meeting was duly held at the scheduled date, time and venue.

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**MULTIPLE CHOICE QUESTIONS**

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1. It is evident from the Case Scenario that VXN Steel Manufacturers & Traders Limited shifted its Registered Office from Nagpur to Mumbai in the beginning of August 2024 due to the fact that the current lease of the factory situated in Nagpur could not be extended since the owners were unwilling to renew the lease after its expiry by the end of November 2024 and further the directors wanted to explore new genre for business growth. Considering the applicable provisions, you are required to choose the correct option from those given below as to the alteration of situation clause of its Memorandum of Association in view of the shifting of Registered Office from Nagpur to Mumbai:
  - (a) In order to shift its Registered Office from Nagpur to Mumbai, VXN Steel Manufacturers & Traders Limited must have altered the situation clause of its Memorandum of Association by passing a Board Resolution with all the seven directors consenting to the proposal at a validly convened Board Meeting.
  - (b) In order to shift its Registered Office from Nagpur to Mumbai, VXN Steel Manufacturers & Traders Limited must have altered the situation clause of its Memorandum of Association by passing an ordinary resolution at a at a validly convened General Meeting.
  - (c) In order to shift its Registered Office from Nagpur to Mumbai, VXN Steel Manufacturers & Traders Limited must have altered the situation clause of its Memorandum of Association by passing a special resolution at a validly convened General Meeting.
  - (d) In order to shift its Registered Office from Nagpur to Mumbai, VXN Steel Manufacturers & Traders Limited must have altered the situation clause of its Memorandum of Association by passing an ordinary resolution at a validly convened General Meeting and thereafter, sought approval from the Central Government through the jurisdictional Regional Director.
2. According to the Case Scenario, Radhika – Director (Finance), on behalf of VXN Steel Manufacturers & Traders Limited, negotiated with the officials of Swarn Commercial Bank Limited to raise a term loan of ₹ 30.00 crores

which was sanctioned in due course of time. The bank got executed necessary loan documents including an instrument of charge on September 2, 2024, and the mortgage was duly registered with the Central Registry. You are required to choose the correct option from those stated below as to whether there is any need either for VNX Steel Manufacturers & Traders Limited or Swarn Commercial Bank Limited to register the charge with the jurisdictional Registrar of Companies when the mortgage was duly registered with the Central Registry:

- (a) There is no need either for VNX Steel Manufacturers & Traders Limited or Swarn Commercial Bank Limited to register the charge with the jurisdictional Registrar of Companies when the mortgage was duly registered with the Central Registry.
  - (b) It is necessary for VNX Steel Manufacturers & Traders Limited to register the charge with the jurisdictional Registrar of Companies within the specified time limit from September 2, 2024, even though the mortgage was duly registered with the Central Registry.
  - (c) Irrespective of mortgage being registered with the Central Registry, VNX Steel Manufacturers & Traders Limited would be required to register the charge with the jurisdictional Registrar of Companies only after the release of all the three instalments of term loan of ₹ 30.00 crores and the specified time limit of registration would be computed from the date of release of last instalment of ₹ 5.00 crores.
  - (d) Since the amount of term loan does not exceed ₹ 50.00 crores, it was sufficient that the mortgage was duly registered with the Central Registry and therefore, it was not necessary for VNX Steel Manufacturers & Traders Limited to register the charge with the jurisdictional Registrar of Companies.
3. Due to the non-renewal of lease after its expiry by the end of November 2024 and also to explore new genre for business growth, VNX Steel Manufacturers & Traders Limited decided to shift its Registered Office from Nagpur to Mumbai and for that purpose, in addition to passing a specified resolution, it was required to obtain the approval from the Central Government through the jurisdictional Regional Director by filing



an application in Form INC-23 and such application was to be accompanied with a list of creditors and debenture holders. Choose the correct option from those specified below as to the latest date by which the list of creditors and debenture holders must be drawn preceding the date of filing the application in Form INC-23:

- (a) The list of creditors and debenture holders must be drawn up to the latest practicable date preceding the date of filing the application in Form INC-23 by not more than one month.
  - (b) The list of creditors and debenture holders must be drawn up to the latest practicable date preceding the date of filing the application in Form INC-23 by not more than one and a half month.
  - (c) The list of creditors and debenture holders must be drawn up to the latest practicable date preceding the date of filing the application in Form INC-23 by not more than two months.
  - (d) The list of creditors and debenture holders must be drawn up to the latest practicable date preceding the date of filing the application in Form INC-23 by not more than fifteen days.
4. It is mentioned in the Case Scenario that the Annual General Meeting of VXN Steel Manufacturers & Traders Limited was duly convened and held on September 19, 2024. In case the company had decided to deliver the notice of Annual General Meeting by post to all those who were entitled to receive it, then by which time such service shall be deemed to have been effected? You are required to choose the correct option from those mentioned below considering the relevant provisions:
- (a) In case VXN Steel Manufacturers & Traders Limited had decided to deliver the notice of Annual General Meeting by post to all those who were entitled to receive it, then such service shall be deemed to have been effected at the expiration of twenty-four hours after letter containing the notice of Annual General Meeting was posted.
  - (b) In case VXN Steel Manufacturers & Traders Limited had decided to deliver the notice of Annual General Meeting by post to all those who were entitled to receive it, then such service shall be deemed

to have been effected at the expiration of forty-eight hours after letter containing the notice of Annual General Meeting was posted.

- (c) In case VXN Steel Manufacturers & Traders Limited had decided to deliver the notice of Annual General Meeting by post to all those who were entitled to receive it, then such service shall be deemed to have been effected at the expiration of ninety-six hours after letter containing the notice of Annual General Meeting was posted.
  - (d) In case VXN Steel Manufacturers & Traders Limited had decided to deliver the notice of Annual General Meeting by post to all those who were entitled to receive it, then such service shall be deemed to have been effected at the expiration of seventy-two hours after letter containing the notice of Annual General Meeting was posted.
5. After reading the Case Scenario narrated above, it is noticed that VXN Steel Manufacturers & Traders Limited had issued 1,00,000 secured and non-convertible 9% Debentures of the face value of ₹ 100 each which did not carry voting rights and were to be redeemed on December 31, 2029. Keeping in view the relevant provisions, you are required to choose the correct option from those stated below as to whether the terms of issue on which VXN Steel Manufacturers & Traders Limited had issued the said 9% Debentures could, to be made more attractive to the subscribers besides carrying coupon rate of 9%, include voting rights to be exercised by the debenture holders at the general meetings of the company till redemption of 9% Debentures:
- (a) Yes; the terms of issue on which VXN Steel Manufacturers & Traders Limited had issued the said 9% Debentures could, to be made more attractive to the subscribers besides carrying coupon rate of 9%, include voting rights to be exercised by the debenture holders at the general meetings of the company but such voting rights were not to remain available after the expiry of fifth year from the date of issue.
  - (b) Yes; the terms of issue on which VXN Steel Manufacturers & Traders Limited had issued the said 9% Debentures could, to be made more attractive to the subscribers besides carrying coupon rate of 9%, include voting rights to be exercised by the debenture holders at

the general meetings of the company till redemption of 9% Debentures.

- (c) Yes; the terms of issue on which VXN Steel Manufacturers & Traders Limited had issued the said 9% Debentures could, to be made more attractive to the subscribers besides carrying coupon rate of 9%, include voting rights to be exercised by the debenture holders at the general meetings of the company but such voting rights were not to be made available to the debenture holders till the expiry of fifth year from the date of issue.
- (d) No; the terms of issue on which VXN Steel Manufacturers & Traders Limited had issued the said 9% Debentures could not include voting rights to be exercised by the debenture holders at the general meetings of the company.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (c)** In order to shift its Registered Office from Nagpur to Mumbai, VXN Steel Manufacturers & Traders Limited must have altered the situation clause of its Memorandum of Association by passing a special resolution at a validly convened General Meeting.

**Reason:**

As per the Companies Act, 2013, shifting the registered office from one city to another within the same state but outside the local limits of the city or town requires altering the situation clause of the Memorandum of Association. This alteration must be approved by a special resolution passed at a validly convened General Meeting.

2. **Option (b)** It is necessary for VXN Steel Manufacturers & Traders Limited to register the charge with the jurisdictional Registrar of Companies within the specified time limit from September 2, 2024, even though the mortgage was duly registered with the Central Registry.

**Reason:**

Under Section 77 of the Companies Act, 2013, a company must register a charge with the Registrar of Companies (RoC) within 30 days of its

creation, even if it is already registered with the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI). Thus, it is necessary for VXN Steel Manufacturers & Traders Limited to register the charge with the RoC within the specified time. Therefore, option (b) is correct.

3. **Option (a)** The list of creditors and debenture holders must be drawn up to the latest practicable date preceding the date of filing the application in form inc-23 by not more than one month.

**Reason:**

As per Rule 27(1) of the Companies (Incorporation) Rules, 2014, when a company applies to the Regional Director for approval of the shifting of its registered office, the list of creditors and debenture holders must be drawn up not more than one month before the filing of Form INC-23. Hence, option (a) is correct.

4. **Option (b)** In case VXN Steel Manufacturers & Traders Limited had decided to deliver the notice of Annual General Meeting by post to all those who were entitled to receive it, then such service shall be deemed to have been effected at the expiration of forty-eight hours after letter containing the notice of Annual General Meeting was posted.

**Reason:**

As per Section 20 of the Companies Act, 2013, service of documents by post is deemed to have been effected 48 hours after the letter is posted. Therefore, option (b) is correct.

5. **Option (d)** No; the terms of issue on which VXN Steel Manufacturers & Traders Limited had issued the said 9% Debentures could not include voting rights to be exercised by the debenture holders at the general meetings of the company.

**Reason:**

As per Section 71(2) of the Companies Act, 2013, debentures do not carry voting rights at general meetings of a company. Therefore, the terms of issue cannot include voting rights for debenture holders, making option (d) correct.

**CASE SCENARIO 19**

LESCO Pharma & Labs Private Limited, a pharmaceutical company based at Lucknow, Uttar Pradesh (UP), was incorporated on May 1, 2005. Over the years, the company, under the direction of its promoters and founders Anant and Vivan, who founded it along with some of their close friends and near relatives, became a leading manufacturer, trader and exporter of wide range of pharmaceutical tablets, energy supplements, capsules, energy drinks, etc. It is worth mentioning that LESCO Pharma had been steering its way to success by and by with the support of its members and robust management team consisting of:

1. Anant – Chairman and Managing Director;
2. Vivan – Whole-time Director;
3. Aikta – Director, Research and Development (R&D);
4. Adwait - Director (Finance and Administration);
5. Trilokadhish - Director (Operations);
6. Chaturbhuj – Director (Marketing).

At present, LESCO Pharma has a paid-up capital of ₹ 100 crores. During the financial year 2023-24, its turnover had touched the level of ₹ 500 crores and the working capital limit availed from Super Commercial Bank Limited stood at ₹ 50 crores. The company is duly maintaining and preserving copies of all documents and information filed by it with the Registrar at the time of incorporation. It is not out of place to mention that though the entire financial year 2023-24 went by as per the plans discussed and finalised in the various meetings but despite the best efforts of the company and due to the unforeseen circumstances prevailing globally, there was a drop in the profit and ultimately, to the dismay of the directors, the bottom-line was in red though marginally, showing loss to the extent of ₹ twenty-two lakhs.

As always, the company took Annual General Meetings as an opportunity to build goodwill with its shareholders and tried to convey that the company cared for them and was committed itself to transparency. Each and every stakeholder was fully aware that it was an event where important decisions regarding

corporate governance would be made. It would also provide an opportunity to its shareholders to hold the Directors accountable and ensure that the company operated in the best interests of the stakeholders. It was but natural for the members to look up to the Annual General meeting to know about the declaration of dividend too and more so the percentage of dividend to be declared thereat.

Being a universal fact, the dividend payout has always remained an important and crucial part of a company's cash flow while the shareholders expect to receive dividend regularly despite incurring of loss. So was the case with the one hundred and seventy-six members of the company. It would be pertinent to note that in the earlier five years, LESCO Pharma & Labs Private Limited declared dividend at the following rates (expressed in percentages):

**Percentages of Dividends declared**

<b>Year of Declaration of Dividend</b>	<b>Percentage of Dividend Declared</b>
2018-19	15%
2019-20	16%
2020-21	13%
2021-22	14%
2022-23	10%

One of the directors, Aikta was quite apprehensive regarding declaration of dividend in view of the fact that the company had not made any profits during the financial year 2023-24; rather it incurred loss to extent of ₹ twenty-two lakhs. She strongly contended that paying dividend was a matter of financial choice; and accordingly, the Board of Directors should take an informed decision. The priority for the Board needs to be to ensure that cash flow is maintained in the first instance and only thereafter, the 'happiness' of the members be considered. However, all other directors were of the opinion that to maintain the tradition of declaring dividend every year, ways should be explored to declare the dividend even if there was a loss.

As regards following the good governance standards, LESCO Pharma & Labs Private Limited is quite regular in filing its financial statements and Annual Returns as and when they become due. The audit report for the Financial Year

2023-24, duly prepared by the statutory auditors, M/s. Shikhar & Associates, and submitted to the Board of Directors of the company had specifically mentioned, *inter-alia*, that the company had in place adequate internal financial controls with reference to the financial statements and the operating effectiveness of such controls was up to the required level of satisfaction.

Rhonda, a citizen of Singapore, who holds office of the Whole-time Director (WTD) in a Singapore based SuperHealth Hospital Pte Limited, is a good friend of Trilokadhis, for the past ten years or so. This Singaporean company, which along with hospital chains, pharmacies, primary care and diagnostic centres in its home country, is interested in showing its presence in India. Rhonda, while in a candid talk with Trilokadhis, discussed the matter of opening a branch office in Lucknow so that her company could grab business opportunities in India which included providing healthcare and other related services; thus, helping her company in generating more income in times to come. After due formalities and genuine assistance from Trilokadhis, SuperHealth Hospital Pte Limited established a branch office in Lucknow, a city known for its culture, cuisine and architecture, in August 2024.

### MULTIPLE CHOICE QUESTIONS

1. From the Case Scenario, it is observed that the directors of LESCO Pharma & Labs Private Limited are desirous of declaring dividend at the Annual General Meeting (AGM) to be held at some future date in September 2024, though for the Financial Year 2023-24 its bottom-line was marginally in red, showing loss to the extent of ₹ twenty-two lakhs. Out of the following four options, which one do you think is correct:
  - (a) Since LESCO Pharma & Labs Private Limited did not earn profits in the Financial Year 2023-24 but, in fact, incurred loss to the extent of ₹ twenty-two lakhs in that Financial Year, it cannot declare dividend at the ensuing Annual General Meeting to be held at some future date in September 2024.
  - (b) Even though LESCO Pharma & Labs Private Limited did not earn profits in the Financial Year 2023-24 but, in fact, incurred loss to the extent of ₹ twenty-two lakhs in that Financial Year, it can still declare dividend at the ensuing Annual General Meeting to be held at some

future date in September 2024 out of the profits of any previous year or years arrived at after providing for depreciation and remaining undistributed and utilising all types of available reserves.

- (c) Even though LESCO Pharma & Labs Private Limited did not have profits in the Financial Year 2023-24 but, in fact, incurred loss to the extent of ₹ twenty-two lakhs in that Financial Year, it can still declare dividend at the ensuing Annual General Meeting to be held at some future date in September 2024 out of the profits of any previous year or years arrived at after providing for depreciation and remaining undistributed *i.e.* free reserves.
  - (d) Even though LESCO Pharma & Labs Private Limited did not have profits in the Financial Year 2023-24 but, in fact, incurred loss to the extent of ₹ twenty-two lakhs in that Financial Year, it can still declare dividend at the ensuing Annual General Meeting to be held at some future date in September 2024 out of the profits of any previous year or years arrived at without providing for depreciation since it is not mandatory to adjust depreciation from those profits from which dividend is declared and also utilising all types of reserves.
2. It can be gathered from the Case Scenario that LESCO Pharma & Labs Private Limited declared a dividend at the rate of 10% in the year 2022-23. As regards transferring of certain amount to the reserves, how much amount, do you think, must have been transferred to the reserve account before the declaration of said dividend by the company. Choose the correct option from those stated below:
- (a) As regards transferring of certain amount to the reserves before the declaration of dividend at the rate of 10% in the year 2022-23, LESCO Pharma & Labs Private Limited must have transferred one-half of the rate of dividend of 10% *i.e.* five percentage of its profits for that financial year.
  - (b) As regards transferring of certain amount to the reserves before the declaration of dividend at the rate of 10% in the year 2022-23, LESCO Pharma & Labs Private Limited must have transferred one-fourth of the rate of dividend of 10% *i.e.* two and a half percentage of its profits for that financial year.



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- (c) As regards transferring of certain amount to the reserves before the declaration of dividend at the rate of 10% in the year 2022-23, LESCO Pharma & Labs Private Limited must have transferred one-tenth of the rate of dividend of 10% i.e. one percentage of its profits for that financial year.
- (d) As regards transferring of certain amount to the reserves before the declaration of dividend at the rate of 10% in the year 2022-23, LESCO Pharma & Labs Private Limited must have transferred such percentage of its profits for that financial year as it considered appropriate.
3. The above Case Scenario reveals that in spite of incurring loss to the extent of ₹ twenty-two lakhs in the preceding Financial Year 2023-24, LESCO Pharma & Labs Private Limited is still contemplating declaration of dividend at an appropriate rate at the forthcoming Annual General Meeting likely to be held at some future date in September 2024. For the purpose of declaring dividend under such a situation, the company is permitted to draw from the accumulated profits earned by it in the previous years and transferred to the specified reserves. As regards drawal of amount for declaration of dividend, you are required to choose the most suitable option from those mentioned below as to maximum how much amount can be drawn considering the applicable provisions:
- (a) Maximum amount that can be drawn by LESCO Pharma & Labs Private Limited for the purpose of declaring dividend shall not exceed one-fifth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.
- (b) Maximum amount that can be drawn by LESCO Pharma & Labs Private Limited for the purpose of declaring dividend shall not exceed one-tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.
- (c) Maximum amount that can be drawn by LESCO Pharma & Labs Private Limited for the purpose of declaring dividend shall not exceed one-tenth of its paid-up share capital as appearing in the latest audited financial statement.

- (d) Maximum amount that can be drawn by LESCO Pharma & Labs Private Limited for the purpose of declaring dividend shall not exceed one-fourth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.
4. Under normal circumstances, Annual General Meeting is convened by giving notice of at least twenty-one clear days to the members of the company and all other persons who are entitled to receive the said notice. In case LESCO Pharma & Labs Private Limited is required to convene Annual General Meeting by giving a shorter notice of less than twenty-one clear days, whether the same is permissible? Choose the correct option from those given below:
- (a) In case LESCO Pharma & Labs Private Limited is required to convene Annual General Meeting by giving a shorter notice of less than twenty-one clear days, it is permissible only if at least 95% of the members entitled to vote at the meeting consent to it in writing or by electronic mode.
  - (b) In case LESCO Pharma & Labs Private Limited is required to convene Annual General Meeting by giving a shorter notice of less than twenty-one clear days, it is permissible only if at least 90% of the members entitled to vote at the meeting consent to it in writing or by electronic mode.
  - (c) In case LESCO Pharma & Labs Private Limited is required to convene Annual General Meeting by giving a shorter notice of less than twenty-one clear days, it is permissible only if at least 80% of the members entitled to vote at the meeting consent to it in writing or by electronic mode.
  - (d) In case LESCO Pharma & Labs Private Limited is required to convene Annual General Meeting by giving a shorter notice of less than twenty-one clear days, it is permissible only if at least 85% of the members entitled to vote at the meeting consent to it in writing or by electronic mode.

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (c)** Even though LESCO Pharma & Labs Private Limited did not have profits in the Financial Year 2023-24 but, in fact, incurred loss to the extent of ₹ twenty-two lakhs in that Financial Year, it can still declare dividend at the ensuing Annual General Meeting to be held at some future date in September 2024 out of the profits of any previous year or years arrived at after providing for depreciation and remaining undistributed *i.e.* free reserves.

**Reason:**

As per Section 123 of the Companies Act, 2013, a company may declare dividend out of the profits of the current financial year or the profits of any previous financial years after providing for depreciation. Dividend can only be declared out of free reserves (profits not appropriated for specific purposes). Hence, option (c) is correct.

2. **Option (d)** As regards transferring of certain amount to the reserves before the declaration of dividend at the rate of 10% in the year 2022-23, LESCO Pharma & Labs Private Limited must have transferred such percentage of its profits for that financial year as it considered appropriate.

**Reason:**

According to the Companies Act, 2013, there is no mandatory percentage that must be transferred to reserves for companies before declaring dividends unless specified otherwise in their Articles of Association. Thus, the company may transfer an amount it considers appropriate to reserves.

3. **Option (b)** Maximum amount that can be drawn by LESCO Pharma & Labs Private Limited for the purpose of declaring dividend shall not exceed one-tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.

**Reason:**

As per Rule 3 of the Companies (Declaration and Payment of Dividend) Rules, 2014, the amount drawn from the accumulated profits transferred

to reserves for declaring a dividend in case of a loss shall not exceed one-tenth of the sum of the company's paid-up share capital and free reserves.

- 4. Option (a)** In case LESCO Pharma & Labs Private Limited is required to convene Annual General Meeting by giving a shorter notice of less than twenty-one clear days, it is permissible only if at least 95% of the members entitled to vote at the meeting consent to it in writing or by electronic mode.

**Reason:**

Section 101 of the Companies Act, 2013 permits companies to convene a general meeting with a shorter notice if at least **95% of the members entitled to vote** consent in writing or through electronic means.

**CASE SCENARIO 20**

In the busy city of Nagpur, there is a company “Transfiguration Industries Limited”. As the Annual General Meeting (AGM) of the company approached, the Board of Directors of Transfiguration Industries Limited gathered to discuss the appointment and removal of auditors in accordance with the Companies Act, 2013.

Mr. Jack, the Chairman of the board, opened the meeting by addressing the importance of adhering to the provisions outlined in Sections 139, 140, and 141 of the Companies Act, 2013. He emphasized the significance of appointing auditors who would uphold integrity and transparency in the company's financial reporting.

As the discussion ensued, Ms. Sara, a diligent board member, raised a question regarding the tenure of auditors. She asked whether there were any restrictions on the duration for which an auditor could be appointed. The board referred to Section 139(2) of the Companies Act, 2013, and informed about maximum period for which auditors can be appointed.

Dr. Patel, a seasoned member of the board, then inquired about the procedure for appointing the first auditor of the company. Mr. Jack explained that according to Section 139(1) and (6) of the Companies Act, 2013, the first auditor would be appointed by the Board of Directors within thirty days from the date of registration of the company. However, if the board failed to appoint the auditor within this timeframe, the members of the company would appoint the auditor at an extraordinary general meeting within ninety days.

Amidst the discussion, Mr. CS, the Company Secretary, emphasized the importance of obtaining the auditor's written consent and certificate before their appointment.

Finally, Mr. Jack concluded the meeting by reiterating the company's commitment to corporate governance and regulatory compliance. He emphasized the role of the Audit Committee as outlined in the Companies Act, 2013.

Answer the following questions in the light of the given facts and the relevant legal provisions as per the Companies act, 2013:

### **MULTIPLE CHOICE QUESTIONS**

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1. State which is the correct statement as regards the maximum tenure for which an individual auditor and an auditor firm can be appointed under the Companies Act, 2013?
  - (a) Both for five years
  - (b) Individual auditor for more than one term and an auditor firm for two terms
  - (c) Individual auditor for one term of five consecutive years and an auditor firm for two term of five consecutive years
  - (d) Individual auditor for more than one term and an auditor firm for more two terms of five consecutive years
2. State on the correctness of the procedure explained for an appointment of the first auditor of a company by Mr. Jack?
  - (a) Incorrect. Requirement of Act specifies appointment of first auditor is to be made by the shareholders in an EGM within ninety days
  - (b) Correct. Requirement of Act specifies appointment of first auditor by the Board of Directors within 30 days from the date of registration of the company
  - (c) Incorrect. Requirement of Act specifies appointment of first auditor by the Board of Directors within 30 days on the advise of Company Secretary
  - (d) Incorrect. Requirement of Act specifies appointment of first auditor by the Registrar of Companies (ROC) within 15 days
3. During the meeting, Ms. Sara asks whether a relative of a director can be appointed as the company's auditor. What does the Companies Act, 2013, state with regard to disqualification of auditors in this case?
  - (a) Relatives of directors can be appointed as auditors, without any restrictions if they are qualified Chartered Accountants.

- (b) Relatives of directors cannot be appointed as auditors under any circumstances
  - (c) Relatives of directors can be appointed as auditors if their pecuniary relationship with the company is below the prescribed threshold
  - (d) Relatives of directors can only be appointed with Registrar of Company's approval.
4. If the Board of Directors of Transfiguration Industries Limited seeks to remove an auditor before the expiry of their term, what procedure must be followed as per the provisions of the Companies Act, 2013?
- (a) The Board can remove the auditor by passing a resolution in a board meeting.
  - (b) The Board must obtain prior approval from the Audit Committee and inform the Registrar.
  - (c) The company must obtain prior approval from the Central Government and pass a special resolution in a general meeting.
  - (d) The Board must notify the Comptroller and Auditor General of India, even if Transfiguration Industries Limited is not a Government company.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. Option **(c)** Individual auditor for one term of five consecutive years and an auditor firm for two term of five consecutive years

**Reason:**

Section 139 of the Companies Act, 2013

2. **Option (b)** Correct. Requirement of Act specifies appointment of first auditor by the Board of Directors within 30 days from the date of registration of the company.

**Reason:**

Section 139 of the Companies Act, 2013

3. **Option (c)** Relatives of directors can be appointed as auditors if their pecuniary relationship with the company is below the prescribed threshold

**Reason:**

Under Section 141(3)(d) of the Companies Act, 2013, a person is disqualified from being appointed as an auditor if they, or their relative or partner, hold any security or interest in, or have a business relationship with, the company that exceeds the prescribed financial limits.

4. **Option (c)** The company must obtain prior approval from the Central Government and pass a special resolution in a general meeting.

**Reason:**

Under Section 140(1) of the Companies Act, 2013, an auditor appointed under Section 139 can only be removed from office before the expiry of their term by following these steps:

1. Obtain prior approval from the Central Government by applying in Form ADT-2.
2. Pass a special resolution in a general meeting of shareholders after obtaining the Central Government's approval.



**CASE SCENARIO 21****The Limited Liability Partnership Act, 2008**

GreenLeaf LLP is a limited liability partnership engaged in the business of eco-friendly product manufacturing. The LLP was initially established with three partners: Priya, Sameer, and EcoCorp Limited, a corporate entity. Priya and Sameer are the designated partners, with Priya being a resident in India. EcoCorp Limited has appointed Anil, an individual, as its nominee to act on its behalf.

After a few years, Sameer decides to retire, leaving Priya and EcoCorp Limited as the remaining partners. Due to some administrative oversight, GreenLeaf LLP continues its operations without appointing a new partner. This situation persists for seven months, with Priya being aware of the reduced number of partners. During this period, GreenLeaf LLP enters into several contracts and incurs significant financial obligations.

On the basis of above facts and by applying applicable provisions of the Limited Liability Partnership Act, 2008, and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-3) given herein under: -

**MULTIPLE CHOICE QUESTIONS**

1. Given that Sameer retired and GreenLeaf LLP continued with only Priya and EcoCorp Limited, what should GreenLeaf LLP have done within six months to comply with the LLP Act?
  - (a) Dissolved the LLP
  - (b) Continue operating with one designated partner
  - (c) Appoint at least one body corporate which should be a foreign company
  - (d) Appointed at least one more partner who should also be a designated partner, as every LLP should have at least two designated partners

2. According to the Limited Liability Partnership Act, 2008, choose the correct statement in relation to who must be a resident in India among the designated partners?
  - (a) At least one individual designated partner shall be resident in India
  - (b) All designated partners shall only be resident in India
  - (c) It is mandatory for only corporate partners to be resident in India
  - (d) At least four designated partners shall be resident in India
3. In the given case scenario suppose EcoCorp Limited also leaves the LLP and the LLP continues business for more than six months with only one partner, who is personally liable for the obligations incurred during that period?
  - (a) Priya
  - (b) Both Priya and EcoCorp Limited
  - (c) EcoCorp Limited
  - (d) Priya, Sameer and EcoCorp Limited

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (d)** Appointed at least one more partner who should also be a designated partner, as every LLP should have at least two designated partners.

**Reason:**

According to Section 7 of the Limited Liability Partnership Act, 2008, every LLP must have at least two designated partners, and at least one of them must be a resident in India. If the LLP fails to maintain the statutory minimum number of partners for a continuous period of more than six months, it will not comply with the provisions of the Act. In the given case, GreenLeaf LLP continued with only Priya and EcoCorp Limited after Sameer's retirement. To comply with the LLP Act, GreenLeaf LLP should have appointed another partner (designated partner) within six months to maintain the required minimum.

2. **Option (a)** At least one individual designated partner shall be resident in India.

**Reason:**

Section 7(1) of the LLP Act, 2008, mandates that at least one designated partner in an LLP must be an individual who is a resident in India. A resident in India is defined as a person who has stayed in India for at least 182 days during the immediately preceding financial year. In this case, Priya is a resident in India and fulfills this requirement, ensuring compliance.

3. **Option (a)** Priya

**Reason:**

Under Section 5 of the LLP Act, 2008, an LLP is required to have at least two partners at all times. If the number of partners falls below two, and the LLP continues its business for more than six months with only one partner, the remaining partner becomes personally liable for all obligations incurred during that period. In this scenario, if EcoCorp Limited also leaves the LLP, Priya would be the sole remaining partner. Since the LLP continued business with only one partner beyond the allowed period, Priya becomes personally liable for all financial obligations incurred during that time.

**CASE SCENARIO 22**

Sudeep and Ankit are very fast friend since long. They decided to run a service unit which will provide "Financial and Investment Consultancy Services". For this purpose they formed a limited liability partnership under the name M/s Etharkkum Advisors LLP on 17<sup>th</sup> April 2020. For this purpose, they prepared a Limited Liability Partnership Deed of which one of the clauses provides that a new partner may be admitted in the LLP with capital contribution which may be in kind or cash. Further new partner is also required to deposit the agreed amount of capital contribution within six months from the date of his admission.

After some time, office of the firm was destroyed due to an earthquake and the LLP was in urgent need of an office premises and some funds for some renovation work.

It is also informed that M/s Etharkkum Advisors LLP approached Manoj on 1<sup>st</sup> January 2023 to join the firm as third partner. Manoj was out of India for the period from 1<sup>st</sup> September 2021 to 23<sup>rd</sup> December 2022. He agreed to join the LLP and also agreed to contribute his office premises at Sanjay Place, Palwal and funds of ₹ 5,00,000 as Capital Contribution in the firm. Manoj joined the firm on 25<sup>th</sup> January 2023 as limited liability partner. The above said office premises was purchased by Manoj five years ago for ₹ 25,00,000 but the fair market value of this office on 25<sup>th</sup> January 2023 was ₹ 32,25,000 and on 1<sup>st</sup> January 2023 was ₹ 30,00,000. Manoj has provided his office to the firm with effect from his admission and promised to deposit the agreed amount of ₹ 5,00,000 within six months as provided in the partnership deed. Before Manoj could deposit the amount with the firm, it was dissolved. Manoj denied to deposit the amount of ₹ 5,00,000 with the contention that he is liable only upto the amount contributed in the firm on the date of dissolution. A creditor of the firm sued Manoj to deposit the said amount so that the firm may pay off his liability.

On the basis of above facts and by applying applicable provisions of the Limited Liability Partnership Act, 2008 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions given herein under: -

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**MULTIPLE CHOICE QUESTIONS**

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1. Whether Manoj could be considered as resident or not as per the Limited Liability Act, 2008?
  - (a) Manoj could not be considered resident in India as he was not in India for 182 days in preceding one year
  - (b) Manoj could not be considered resident in India as he was not in India for 120 days in preceding one year i.e. only for 33 days from 24<sup>th</sup> December 2022 to 25<sup>th</sup> January 2023
  - (c) Manoj could not be considered as he was not in India for 182 days during the financial year
  - (d) Manoj will be considered as resident in India as he was in India for 120 days during the financial year (2021- 2022)
2. What would be the worth of Capital Contribution by Manoj?
  - (a) ₹ 25,00,000
  - (b) ₹ 32,25,000
  - (c) ₹ 37,25,000
  - (d) ₹ 35,00,000
3. Whether Manoj will be liable to contribute ₹ 5,00,000 after dissolution of the firm?
  - (a) Yes, because a partner is personally liable for the deficiency arising at the time of dissolution of LLP.
  - (b) No, because a partner is never personally liable for the deficiency arose at the time of dissolution of LLP.
  - (c) Yes, the partner is under obligation to contribute money also to LLP as per the agreement.
  - (d) No, because a partner is personally liable only upto the amount contributed to the LLP on the date of dissolution of LLP.

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (d)** Manoj will be considered as resident in India as he was in India for 120 days during the financial year (2021- 2022)

**Reason:**

Resident in India: The term "resident in India" means a person who has stayed in India for a period of not less than one hundred twenty days during the financial year.

Manoj will be considered as he was in India for 120 days during the financial year i.e. for 153 days from 01.04.2023 to 31.08.2022. (In the financial year 2021 -2022)

2. **Option (c)** ₹ 37,25,000

**Reason:**

Section 32 provides that a contribution of a partner may consist of tangible, movable or immovable or intangible property or other benefit to the limited liability partnership, including money, promissory notes, and other agreements to contribute cash or property, and contracts for services performed or to be performed.

The monetary value of contribution of each partner shall be accounted for and disclosed in the accounts of the limited liability partnership in the manner as may be prescribed.

(i.e. Monetary Value of Office Premises on the date of admission ₹ 32,25,000 + Cash of ₹ 5,00,000)

3. **Option (c)** Yes, the partner is under obligation to contribute money also to LLP as per the agreement.

**Reason:**

Yes, a partner is under obligation to contribute money to LLP as per the agreement.

Section 33 provides that the obligation of a partner to contribute money or other property or other benefit or to perform services for a limited

liability partnership shall be as per the limited liability partnership agreement.

Further, a creditor of a limited liability partnership, which extends credit or otherwise acts in reliance on an obligation described in that agreement, without notice of any compromise between partners, may enforce the original obligation against such partner.

**CASE SCENARIO 23**

In 2023, Tech Innovations LLP was established as a Limited Liability Partnership under the Limited Liability Partnership Act, 2008. The LLP was formed with two partners: Alex and Jordan, who contributed equally to the capital. Alex contributed ₹ 5,00,000, while Jordan also contributed ₹ 5,00,000. The firm was registered with the Registrar of Companies on 1<sup>st</sup> April, 2023.

Tech Innovations LLP's operations focused on software development and technology consulting. As per the LLP agreement, both partners shared profits and losses equally. The LLP agreement also stipulated that any changes in the partnership, such as the addition of a new partner or transfer of interest, required the consent of both existing partners.

In June 2024, Tech Innovations LLP decided to admit a new partner, Priya, who brought in ₹ 2,00,000 as her capital contribution. This change was duly recorded and filed with the Registrar of Companies. Furthermore, the LLP decided to hold an annual general meeting within six months from the end of the financial year to approve financial statements and discuss business matters.

On the basis of above facts and by applying applicable provisions of the Limited liability Partnership Act, 2008 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions given herein under:

**MULTIPLE CHOICE QUESTIONS**

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1. As per the LLP Act, 2008, what is required for admitting a new partner into the LLP?
  - (a) The consent of one existing partner- Only Alex
  - (b) A majority vote of existing partners- Either Alex or Jordan
  - (c) The consent of all existing partners- Both Alex and Jordan
  - (d) Approval from the Registrar of Companies



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2. When is Tech Innovations LLP required to hold its annual general meeting?
- (a) By 30<sup>th</sup> April, 2024
  - (b) By 30<sup>th</sup> June, 2024
  - (c) By 31<sup>st</sup> July, 2024
  - (d) By 30<sup>th</sup> September, 2024

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (c)** The consent of all existing partners- Both Alex and Jordan

**Reason:**

The LLP agreement stipulated that any changes in the partnership, such as admitting a new partner, required the consent of all existing partners.

2. **Option (d)** by 30<sup>th</sup> September, 2024

**Reason:**

The LLP Act requires that the annual meeting must be held within six months from the end of the financial year to approve financial statements and discuss business matters.

**CASE SCENARIO 24**

Rahul and Meenakshi, two young entrepreneurs, founded “Educom Innovators LLP” under the Limited Liability Partnership Act, 2008, with a focus on providing digital education solutions. Rahul brought technical expertise, while Meenakshi managed the business operations. According to the LLP Agreement, both contributed equally and shared profits equally. After two years of growth, they decided to admit Anshul, an industry expert, as a partner to expand their reach. Anshul agreed to contribute additional capital and bring industry contacts. However, shortly after joining, Anshul discovered that certain key compliance filings, including Form 11 (Annual Return) and Form 8 (Statement of Accounts and Solvency), were pending. Concerned, Anshul wanted to understand his liability and insisted that the LLP immediately address the compliance issues. Meanwhile, Rahul proposed to amend the LLP Agreement to reflect Anshul’s new profit-sharing ratio and allocate specific decision-making powers to him. As they worked through these matters, they consulted a legal advisor to understand how the Limited Liability Partnership Act, 2008, impacted their responsibilities, liabilities, and compliance obligations.

On the basis of above facts and by applying applicable provisions of the Limited Liability Partnership Act, 2008 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-3) given herein under:

**MULTIPLE CHOICE QUESTIONS**

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1. When Anshul joined Educom Innovators LLP, he discovered that key compliance filings, including the Annual Return and Statement of Accounts and Solvency, were pending. What is Anshul’s liability as a newly admitted partner concerning these past compliance lapses?
  - (a) Anshul has no liability for past compliance lapses since he was not a partner when they occurred.
  - (b) Anshul shares equal liability for past compliance lapses because he is now a partner in the LLP.
  - (c) Anshul is only liable if the LLP Agreement specifically assigns responsibility to him for compliance.

- (d) Anshul's liability for past compliance is limited to his capital contribution in the LLP.
2. In light of Anshul's concern about the pending compliance filings, which of the following best describes the responsibilities of the partners in Educom Innovators LLP regarding compliance with the LLP Act, 2008?
- (a) Only the designated partners are responsible for ensuring compliance with filing obligations under the LLP Act.
  - (b) All partners, including new partners like Anshul, are equally responsible for compliance, regardless of the LLP Agreement.
  - (c) Compliance responsibilities can only be assigned to one partner, who will bear full accountability.
  - (d) The legal advisor is responsible for handling compliance, and the partners have no liability once they hire legal counsel.
3. Suppose in the given scenario, Educom Innovators LLP fails to file the Statement of Account and Solvency or Annual Return for any five consecutive financial years, which of the following could occur?
- (a) Educom Innovators LLP may be wound up the Tribunal
  - (b) Takeover of Educom Innovators LLP by the persons appointed by the Registrar of Companies
  - (c) Revocation of all partner rights until filings are complete
  - (d) The losses for these 5 consecutive years shall be shared equally by all the partners irrespective of the profit sharing ratio as decided in the LLP agreement.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (a)** Anshul has no liability for past compliance lapses since he was not a partner when they occurred.

**Reason:**

Under the LLP Act, 2008, a newly admitted partner is not liable for any obligations or compliance failures that occurred before their admission to the LLP, unless the LLP Agreement specifically states otherwise.

2. **Option (a)** Only the designated partners are responsible for ensuring compliance with filing obligations under the LLP Act.

**Reason:**

Under the LLP Act, 2008, designated partners are primarily responsible for ensuring that the LLP meets its statutory filing obligations. Non-designated partners are not directly liable unless specified otherwise in the LLP Agreement.

Annual Return [Section 35]

- (1) Every LLP shall file an annual return duly authenticated with the Registrar within 60 days of closure of its financial year in such form and manner and accompanied by such fee as may be prescribed.
- (2) Penalty for non-filing of annual return –
  - LLP – ₹ 100 per day subject to maximum ₹ 1,00,000
  - Every Designated Partners - ₹ 100 per day subject to maximum ₹ 50,000

3. **Option (a)** Educom Innovators LLP may be wound up the Tribunal

**Reason:**

Circumstances in which LLP may be wound up by Tribunal [Section 64]: A LLP may be wound up by the Tribunal:

- (a) if the LLP decides that LLP be wound up by the Tribunal;
- (b) if, for a period of more than six months, the number of partners of the LLP is reduced below two;
- (c) if the LLP has acted against the interests of the sovereignty and integrity of India, the security of the State or public order;
- (d) if the LLP has made a default in filing with the Registrar the Statement of Account and Solvency or annual return for any five consecutive financial years; or

**CASE SCENARIO 25**

Greenfield LLP and Bluewave LLP were two thriving businesses operating in the renewable energy sector. Greenfield LLP specialized in solar panel manufacturing, while Bluewave LLP was known for its innovations in wind turbine technology. Both companies saw a strategic opportunity to join forces and create a more comprehensive renewable energy solution provider. They decided to merge into a single entity, to be named EcoFuture LLP.

To facilitate this merger, the management of both companies proposed a scheme of compromise and arrangement under Section 60 of the LLP Act. They approached the Tribunal to sanction this scheme, which involved transferring all assets, liabilities, and ongoing legal proceedings of both Greenfield LLP and Bluewave LLP to EcoFuture LLP.

The Tribunal reviewed the proposal and found that the merger scheme was designed for the reconstruction and amalgamation of Greenfield LLP and Bluewave LLP. The Tribunal issued an order under Section 62, sanctioning the scheme and setting forth several provisions to ensure a smooth transition:

1. All assets and liabilities of Greenfield LLP and Bluewave LLP were to be transferred to EcoFuture LLP.
2. Any ongoing legal proceedings involving either of the original LLPs would continue under the name of EcoFuture LLP.
3. Both Greenfield LLP and Bluewave LLP would be dissolved without the need for winding up.

However, a few partners from Greenfield LLP were not in favor of the merger. They dissented from the compromise and arrangement. The Tribunal provided specific directions to ensure that their interests were adequately addressed.

After the order was made, both LLPs had to file a certified copy of the Tribunal's order with the Registrar within 30 days for registration. Unfortunately, due to some administrative delays, this filing was not completed within the stipulated time, leading to penalties for both EcoFuture LLP and its designated partners.

On the basis of above facts and by applying applicable provisions of the Limited Liability Partnership Act, 2008 and the applicable Rules therein, choose the

correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-3) given herein under:

### **MULTIPLE CHOICE QUESTIONS**

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1. What was the main purpose of the scheme proposed between Greenfield LLP and Bluewave LLP?
  - (a) To dissolve both LLPs.
  - (b) To transfer all assets to a third party.
  - (c) For the reconstruction and amalgamation of the LLPs.
  - (d) To liquidate the companies.
2. What authority does the Tribunal have when it sanctions a compromise or arrangement under Section 60?
  - (a) It can only supervise the arrangement.
  - (b) It has no authority after sanctioning the arrangement.
  - (c) It can supervise, modify, and give directions for the arrangement.
  - (d) It can dissolve the LLPs directly without any conditions.
3. What penalty applies if an LLP fails to comply with the 30-day filing requirement?
  - (a) Immediate dissolution of the LLP.
  - (b) A fine of ₹ 10,000 and additional penalties for continuing contravention.
  - (c) Suspension of all business activities.
  - (d) Revocation of the Tribunal's order.

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (c)** For the reconstruction and amalgamation of the LLPs.

**Reason:**

The scheme was proposed to combine the strengths of both LLPs into a single, more comprehensive entity, EcoFuture LLP, which is a clear case of reconstruction and amalgamation.

2. **Option (c)** It can supervise, modify, and give directions for the arrangement.

**Reason:**

Section 60 provides the Tribunal with the power to supervise the carrying out of the arrangement, give directions, and make necessary modifications.

3. **Option (b)** A fine of ₹10,000 and additional penalties for continuing contravention.

**Reason:**

If there is a default in complying with the 30-day filing requirement, the LLP and its designated partners are liable to a penalty of ₹10,000 and a further penalty of ₹100 per day for continued contravention, subject to specified maximum limits.

**CASE SCENARIO 26****The General Clauses Act, 1897**

In 2024, New Limited, a company specializing in international trade, needed to send an important notice to one of its clients, Mr. A, regarding a contractual amendment. According to the company's internal regulations and the contract terms, the notice had to be served by post.

On April 15, 2024, the company's legal department prepared the notice and addressed it to Mr. A at his registered address. The notice was properly addressed, prepaid, and sent via registered post with acknowledgment due to ensure the highest level of confirmation for delivery.

A few days later, on April 20, 2024, the notice was returned with a stamp indicating that it was "not claimed" by Mr. A. The legal department recorded the return of the notice and noted the endorsement.

The company's legal advisor referred to past case laws for similar scenarios to ensure that the notice was considered legally served under section 27 of the General Clauses Act, 1897. They reviewed the following precedents:

*United Commercial Bank v. Bhim Sain Makhija*: It was noted that merely sending a notice by registered post without the acknowledgment due did not provide sufficient legal protection for proving service.

*Jagdish Singh v. Natthu Singh*: This case demonstrated that if a notice sent by registered post was returned with a refusal endorsement, it was considered served.

*Smt. Vandana Gulati v. Gurmeet Singh alias Mangal Singh*: It was established that if a notice sent by registered post to a proper address was returned with an endorsement like "not claimed", it was deemed served unless proven otherwise.

On the basis of above facts and by applying applicable provisions of the General Clauses Act, 1897 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-3) given herein under:



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**MULTIPLE CHOICE QUESTIONS**

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1. According to section 27 of the General Clauses Act, 1897, what three conditions must be fulfilled for a service by post to be deemed effective?
  - (a) Properly addressed, Pre-paid, and Posting by ordinary post
  - (b) Properly addressed, Pre-paid, and Posting by registered post
  - (c) Properly addressed, Pre-paid, and Sending by courier
  - (d) Properly addressed, Pre-paid, and Hand delivery
2. In the case of *United Commercial Bank v. Bhim Sain Makhija*, why was the presumption of service under registered post found to be insufficient?
  - (a) Because the notice was sent by ordinary post
  - (b) Because the notice was sent by registered post but not with acknowledgment due
  - (c) Because the address was incorrect
  - (d) Because the recipient did not respond
3. What does the case of *Jagdish Singh v. Natthu Singh* demonstrate about the service of notice?
  - (a) Notice sent by registered post without return endorsement is invalid
  - (b) Notice sent by registered post and returned with refusal endorsement is deemed served
  - (c) Notice sent by ordinary post is deemed served if not returned
  - (d) Notice served by hand delivery is always valid

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (b)** Properly addressed, Pre-paid, and Posting by registered post

**Reason:**

**“Meaning of Service by post” [Section 27]:** Where any legislation or regulation requires any document to be served by post, then unless a different intention appears, the service shall be deemed to be effected by:

- (i) Properly addressing
- (ii) Pre-paying, and
- (iii) Posting by registered post.

2. **Option (b)** Because the notice was sent by registered post but not with acknowledgment due

**Reason:**

The case of *United Commercial Bank v. Bhim Sain Makhija* highlighted the importance of obtaining an acknowledgment due when sending notices by registered post. Without an acknowledgment due or return endorsement, the sender may lack conclusive proof of delivery or refusal. In this case, the court emphasized that merely sending a notice by registered post, without acknowledgment due or evidence of delivery, does not provide adequate protection under the presumption of service.

3. **Option (b)** Notice sent by registered post and returned with refusal endorsement is deemed served

**Reason:**

The case of *Jagdish Singh v. Natthu Singh* clarified that if a notice is sent by registered post and the postal authorities return it with an endorsement indicating refusal by the recipient, it is deemed served. Refusal by the addressee is considered equivalent to delivery under Section 27 of the General Clauses Act, 1897, as the sender has fulfilled their obligation to properly address, prepay, and send the notice via registered post.

**CASE SCENARIO 27**

Sunrise Technologies Private Limited ("STPL") was in process of establishing its new software development center in Pune. On 28<sup>th</sup> February, 2024, the Board of Directors passed a resolution to purchase a property consisting of:

- A three-storey building
- 25 acres of agricultural land adjacent to the building
- 100 motor cars
- An orchard with 100 fruit-bearing trees

The company received a government notification dated 15<sup>th</sup> March, 2024, requiring all new technology centers to obtain special clearance within 45 days of establishment. The notification mentioned that existing orders under the previous Technology Parks Act (which was repealed and replaced by new legislation) would continue to remain valid. The notification was to be served to all concerned parties through registered post.

The Managing Director has approached you to understand various legal aspects under the General Clauses Act, 1897.

On the basis of above facts and by applying applicable provisions of the General Clauses Act, 1897 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions given herein under:

**MULTIPLE CHOICE QUESTIONS**

1. With respect to the property being purchased by STPL, which of the following would not qualify as "immovable property" under the General Clauses Act, 1897?
  - (a) The orchard with fruit-bearing trees
  - (b) Motor cars
  - (c) The three-storey building
  - (d) The agricultural land

2. The government notification requires clearance "within 45 days". If the notification was received on 20<sup>th</sup> March, 2024, and the 45th day falls on Sunday, 4<sup>th</sup> May, 2024, what would be the last date for obtaining clearance?
  - (a) 3<sup>rd</sup> May, 2024
  - (b) 4<sup>th</sup> May, 2024
  - (c) 5<sup>th</sup> May, 2024
  - (d) 6<sup>th</sup> May, 2024
3. Regarding the service of notification by registered post, which of the following is correct?
  - (a) Service is complete only when STPL acknowledges receipt
  - (b) Service is deemed complete when properly addressed, prepaid and posted
  - (c) Service is complete on actual delivery to STPL
  - (d) Service requires both registered post and acknowledgment due
4. Concerning the previous orders under the repealed Technology Parks Act, which statement is correct?
  - (a) All previous orders automatically become void
  - (b) Previous orders continue to be valid unless explicitly cancelled
  - (c) Previous orders require fresh validation under new law
  - (d) Previous orders are valid for only 6 months after repeal

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** Motor cars

**Reason:**

As per Section 3(26) of the General Clauses Act, immovable property includes land, benefits arising out of land, and things attached to the earth or permanently fastened to anything attached to the earth. The mobile

unit, though temporarily fixed, is by nature movable and not permanently fastened, unlike the building, trees, or land.

**2. Option (c)** 5th May, 2024

**Reason:**

As per Section 10 of the General Clauses Act, when the last day of a prescribed period falls on a day when the office is closed (Sunday in this case), the act/proceeding shall be considered as done in due time if done on the next working day.

**3. Option (b)** Service is deemed complete when properly addressed, prepaid and posted

**Reason:**

Under Section 27 of the General Clauses Act, service by post is deemed to be effected by properly addressing, prepaying and posting by registered post, unless a different intention appears.

**4. Option (b)** Previous orders continue to be valid unless explicitly cancelled

**Reason:**

As per Section 6 of the General Clauses Act, the repeal shall not affect previous operations of enactment so repealed or anything duly done thereunder, unless a different intention appears.

**CASE SCENARIO 28**

Green World Organics Limited ("GWO") is establishing an integrated organic food processing facility in Karnataka. On 15<sup>th</sup> January, 2024, the Central Food Safety Authority issued a comprehensive notification containing following requirements:

- All new food processing units must employ qualified Quality Assurance Officers ("QAOs") for each processing line
- The Managing Director of the company is authorized to appoint such QAOs, with appointment letters to be issued "within 30 days from selection"
- Each QAO must obtain mandatory certification from Food Safety Regulatory Board within "21 days from appointment"
- The facility must install specified safety equipment by 1<sup>st</sup> March, 2024
- Monthly compliance reports must be submitted from "1st to 7th of every month"

On 10<sup>th</sup> February, 2024, while implementing these requirements, GWO faced following situations:

- (a) A selected QAO candidate was found submitting forged experience certificates
- (b) Another QAO, after appointment, failed to maintain safety protocols leading to minor contamination
- (c) The 21st day for certification of one QAO fell on 29<sup>th</sup> February, 2024 (when the certification office was closed for local holiday), followed by weekend
- (d) The contamination incident violated both Food Safety Act and State Public Health Act

On the basis of above facts and by applying applicable provisions of the General Clauses Act, 1897 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions given herein under:

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**MULTIPLE CHOICE QUESTIONS**

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1. Regarding Managing Director's authority over QAOs, which power is available without explicit mention?
  - (a) Power to accept resignation only
  - (b) Power to suspend but not dismiss
  - (c) Power to transfer between units
  - (d) Power to suspend and dismiss
2. If a QAO is selected on 25<sup>th</sup> January, 2024, what is the last date for issuing appointment letter?
  - (a) 23<sup>rd</sup> February, 2024
  - (b) 24<sup>th</sup> February, 2024
  - (c) 25<sup>th</sup> February, 2024
  - (d) 26<sup>th</sup> February, 2024
3. Regarding the contamination incident violating two Acts, what is the correct legal position?
  - (a) Only major violation should be prosecuted
  - (b) Only Food Safety Act being special law applies
  - (c) Company can be prosecuted under either/both but punished only once
  - (d) Both Acts must be independently enforced

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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**1. Option (d) Power to suspend and dismiss****Reason:**

Under the doctrine of necessary implication and principles of administrative law, powers necessary for the effective execution of a duty are implied if not explicitly mentioned. The authority to appoint inherently includes the power to suspend and dismiss employees for misconduct, as

it is essential for maintaining discipline and efficiency. This is supported by the General Clauses Act, 1897, which states that the power to appoint includes the power to remove.

**2. Option (b) 24<sup>th</sup> February, 2024**

**Reason:**

As per the notification, the appointment letter must be issued "within 30 days from selection." Counting 30 days from 25<sup>th</sup> January, 2024 (excluding 25<sup>th</sup> January, 2024), the last day falls on 24<sup>th</sup> February, 2024.

**3. Option (c) Company can be prosecuted under either/both but punished only once**

**Reason:**

When an act violates provisions of both a general law (State Public Health Act) and a special law (Food Safety Act), the company can be prosecuted under either or both laws. However, as per the doctrine of double jeopardy under Article 20(2) of the Constitution and related legal principles, the company cannot be punished more than once for the same offense. Courts often ensure that penalties are harmonized to prevent excessive punishment.



**CASE SCENARIO 29**

DigiTech Solutions Private Limited ("DSPL"), established in 2015, has emerged as a leading player in digital payment solutions, serving over 2 million merchants across India. In early 2024, following the government's new regulatory framework for digital payment companies, DSPL received several important communications from the Digital Payment Regulatory Authority ("DPRA"):

1. A comprehensive notice dated 1<sup>st</sup> March, 2024, detailing new compliance requirements under the Digital Payment Rules, 2024. The notice outlined:
  - Mandatory upgrading of security protocols
  - Implementation of enhanced KYC norms
  - Integration with the central monitoring system
  - New customer grievance redressal mechanism
  - The notice specified that all requirements must be complied with "within 21 days from service" and was dispatched via registered post on 2<sup>nd</sup> March, 2024.
2. A significant order dated 10<sup>th</sup> March, 2024, from the Ministry of Finance, appointing the Regional Director (Western Region) ex-officio as DSPL's regulatory supervisor. The order granted extensive supervisory powers including:
  - Monthly audit of transaction records
  - Quarterly inspection of security measures
  - Review of customer complaint handling
  - Oversight of compliance procedures
3. A notification from DPRA extending DSPL's existing operational license till "year ending December", subject to adherence to all regulatory requirements.

During this period, DSPL was undergoing significant infrastructural changes. The company's office at Mumbai headquarters remained closed for comprehensive renovation during March 20-22, 2024, with March

23-24 being Saturday-Sunday. The renovation was crucial for upgrading the company's technological infrastructure to meet new regulatory requirements.

A unique aspect of DSPL's operations was its blockchain division, which operated through a specially designed structure. This facility, though assembled as a temporary setup for flexibility in upgrading, housed high-end servers worth ₹ 50 crore that were permanently placed on the floor. The servers were connected through an intricate network of cables and cooling systems integrated into the structure.

The company's compliance team, led by Chief Compliance Officer Ms. X, was particularly concerned about interpreting various timelines and requirements under these communications, especially considering the office closure period and the need for seamless integration of new compliance requirements with existing operations.

On the basis of above facts and by applying applicable provisions of the General Clauses Act, 1897 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions given herein under:

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### MULTIPLE CHOICE QUESTIONS

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1. If the 21st day falls on 23 March (Saturday), what would be last date for compliance?
  - (a) 22 March, 2024
  - (b) 23 March, 2024
  - (c) 24 March, 2024
  - (d) 25 March, 2024
2. Regarding Regional Director's ex-officio appointment, which is correct?
  - (a) Appointment valid only if Regional Director named personally
  - (b) Appointment valid only during current Regional Director's tenure
  - (c) Appointment continues for any person holding Regional Director post

- (d) Appointment requires separate order for each new Regional Director
- 3. The license extension till "year ending December" means:
  - (a) 1 December, 2024
  - (b) 31 December, 2024
  - (c) First week of December 2024
  - (d) Last week of December 2024

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (d)** 25 March, 2024

**Reason:**

Section 10 of the General Clauses Act, 1897, states that if the last day of a prescribed period for doing an act falls on a holiday (including Sundays or public holidays), the act can be lawfully done on the next working day. Since DSPL's office was closed on March 23 (Saturday) and March 24 (Sunday), the last date for compliance would shift to March 25, 2024 (Monday).

2. **Option (c)** Appointment continues for any person holding Regional Director post

**Reason:**

An "ex-officio" appointment attaches to the office, not the individual. This means the powers and responsibilities granted to the Regional Director will pass to whoever holds the office of the Regional Director (Western Region) at any given time, without requiring a fresh appointment order.

3. **Option (b)** 31 December, 2024

**Reason:**

The phrase "year ending December" generally refers to the end of the calendar year, which is December 31, 2024, unless specified otherwise. This interpretation aligns with standard legal and business practices for defining a year.

**CASE SCENARIO 30**

M/s Aryan & Aryan LLP was registered on 2<sup>nd</sup> July 2019. Sudeep and Ankit were partners in the firm. Both Sudeep and Ankit were also the designated partners in this firm. The LLP deals in manufacturing and trading of electric ceiling fans. One day Sudeep met with Mr. Kishore, a director of Krtiken Electronics Private Limited. After discussion, Mr. Kishore showed interest that Krtiken Electronics Private Limited may work with M/s Aryan & Aryan LLP as partner.

Krtiken Electronics Private Limited was incorporated on 1<sup>st</sup> June 2017 with the object to deal in electronics. The memorandum and articles of association of Krtiken Electronics Private Limited also authorised it to work as partner in a LLP.

The partners of M/s Aryan & Aryan LLP and directors of Krtiken Electronics Private Limited approached a professional consultant Mrs. Archika Jain for providing the procedure for adding Krtiken Electronics Private Limited as a partner in M/s Aryan & Aryan LLP. She advised that Krtiken Electronics Private Limited could not be the partner in M/s Aryan & Aryan LLP because as per Limited Liability Partnership Act 2008, an individual or a body corporate can be a partner in LLP. She informed that the term 'body corporate' was defined in the Limited Liability Partnership Act, 2008 as a company which is defined in section 3 of the Companies Act, 1956. As Krtiken Electronics Private Limited is registered under Companies Act 2013, it cannot be termed as body corporate. On the advice of Mrs. Archika Jain, M/s Aryan & Aryan LLP dropped the idea to add Krtiken Electronics Private Limited.

It is further informed that Ms. Shanaya was admitted as a new partner in the firm on 17<sup>th</sup> January 2024. The firm intimated the registrar about her admission on 31<sup>st</sup> January 2024. On 3<sup>rd</sup> February 2024, while going to office Ms. Shanaya met with an accident and lost her memory. The doctor declared her of unsound mind to work as partner in M/s Aryan & Aryan LLP. It was also confirmed by a competent court.

On the basis of above facts and by applying applicable provisions of the General Clauses Act, 1897 therein, choose the correct answer (one out of four) of the following MCQs (1-3) given herein under:-

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**MULTIPLE CHOICE QUESTIONS**

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1. Whether Krtiken Electronics Private Limited could be partner in M/s Aryan & Aryan LLP?
  - (a) No, as Krtiken Electronics Private Limited is not a body corporate as per the definition of "Body Corporate" given in Limited Liability Partnership Act, 2008.
  - (b) Yes, because section 8 of the General Clauses Act, 1897 provides where any Act or Regulation made after the commencement of this Act, repeals and re-enacts, with or without modification, any provision of a former enactment, then references in any other enactment or in any instrument to the provision so repealed shall, unless a different intention appears, be construed as references to the provision so re-enacted. Therefore, after the enactment of Companies Act, 2013, the definition of "Body Corporate" should be construed as a company which is defined in section 2(20) of the Companies Act, 2013.
  - (c) No, as provisions of section 8 of the General Clauses Act, 1897 will not be applicable because the Limited Liability Partnership (Amendment) Act, 2021, which amended the definition of "Body Corporate" considering the company registered under Companies Act, 2013, come to effect from 01.04.2022.
  - (d) Yes, as the provisions of the General Clauses Act, 1897 are not applicable while interpreting the provisions of the Limited Liability Partnership Act, 2008.
2. Following the provisions of Limited Liability Act, 2008 read with the General Clauses Act, 1897, what should be the last date to inform the registrar about the admission of Ms. Shanaya.
  - (a) 15<sup>th</sup> February 2024
  - (b) 16<sup>th</sup> February 2024
  - (c) 17<sup>th</sup> February 2024
  - (d) 18<sup>th</sup> February 2024

3. What would be the status of Ms. Shanaya in the firm, M/s Aryan & Aryan LLP after the accident?
- (a) She would continue as a partner in M/s Aryan & Aryan LLP even after being declared as of unsound mind.
  - (b) Section 24(2) of the Limited Liability Partnership Act, 2008 provides that a person shall cease to be a partner of a LLP if he is declared to be of unsound mind by a competent court. As this sub – section provides only for male person (“he”), she would continue as a partner in M/s Aryan & Aryan LLP.
  - (c) Following the provisions of the General Clauses Act, 1897 which provides that in all legislations and regulations, unless there is anything repugnant in the subject or context words importing the masculine gender shall be taken to include females. Hence, Ms. Shanaya will cease to be a partner M/s Aryan & Aryan LLP.
  - (d) She can continue as partner if all other partners agree for that.

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** Yes, because section 8 of the General Clauses Act, 1897 provides where any Act or Regulation made after the commencement of this Act, repeals and re-enacts, with or without modification, any provision of a former enactment, then references in any other enactment or in any instrument to the provision so repealed shall, unless a different intention appears, be construed as references to the provision so re-enacted. Therefore, after the enactment of Companies Act, 2013, the definition of “Body Corporate” should be construed as a company which is defined in section 2(20) of the Companies Act, 2013.

**Reason:**

Yes, because section 8 of The General Clauses Act, 1897 provides where any Act or Regulation made after the commencement of this Act, repeals and re-enacts, with or without modification, any provision of a former enactment, then references in any other enactment or in any instrument to the provision so repealed shall, unless a different intention appears, be construed as references to the provision so re-enacted. Therefore, after

the enactment of Companies Act, 2013, the definition of "Body Corporate" should be construed as a company which is defined in section 2(20) of the Companies Act, 2013.

**2. Option (b)** 16<sup>th</sup> February 2024

**Reason:**

Under the provisions of the LLP Act, a firm is required to inform ROC within 30 days of admission of new partner i.e. from 18/01/2022 to 16/02/2022. As per the General Clauses Act 1897, in this series of 30 days, 17/01/2022 will be excluded and last 30th day i.e. 16/02/2022 will be included.

**Section 25 of LLP**

A LLP shall—

- (a) where a person becomes or ceases to be a partner, file a notice with the Registrar within 30 days from the date he becomes or ceases to be a partner;

**3. Option (c)** Following the provisions of the General Clauses Act, 1897 which provides that in all legislations and regulations, unless there is anything repugnant in the subject or context words importing the masculine gender shall be taken to include females. Hence, Ms. Shanaya will cease to be a partner M/s Aryan & Aryan LLP.

**Reason:**

Following the provisions of section 13 of the General Clauses Act 1897 which provides that in all legislations and regulations, unless there is anything repugnant in the subject or context words importing the masculine gender shall be taken to include females, section 24(2) will be applicable to Ms. Shanaya also. Hence, she ceased to be a partner M/s Aryan & Aryan LLP.

**CASE SCENARIO 31****The Foreign Exchange Management Act, 1999**

Omx Software Private Limited is a private company and having its registered office in Bangalore and is a wholly owned subsidiary of Omx Software Inc, situated in USA. Mr. Rajat Kapoor, Mr. Shubham and Mr. Peter are directors of Omx Software Private Limited. Mr. Rajat and Mr. Shubham are Indian residents while Mr. Peter is a non-resident and stays in USA. Mr. Peter is also a director in Omx Software Inc.

Mr. Rajat left India on 2<sup>nd</sup> November, 2021 for the purpose of looking after the business of Omx Software Inc. Mr. Rajat came to back to India on 12<sup>th</sup> February, 2022 to meet his family and left India on 26<sup>th</sup> February, 2022 and went back to USA to look after the business of Omx Software Inc. Mr. Rajat again visited India on 25<sup>th</sup> August, 2022 and stays in India for the whole year.

Omx Software Private Limited had availed a consultancy service from a company situated in USA for development of software for the purpose of rendering service to its customers situated in India.

Mr. Rajat had purchased a residential property in USA on 27<sup>th</sup> April, 2022 which was self-occupied by him for his residential use.

On the basis of above facts and by applying applicable provisions of the Foreign Exchange Management Act, 1999, and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions given herein under:

**MULTIPLE CHOICE QUESTIONS**

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1. Considering the provisions of the Foreign Exchange Management Act, 1999, which of the following options correctly determines the residential status of Mr. Rajat Kapoor:
  - (a) Mr. Rajat Kapoor to be treated as resident in India for Financial Year (FY) 2022-2023 and FY 2023-2024 since he stays in India for more than 182 days



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- (b) Mr. Rajat Kapoor to be treated as non-resident in India for FY 2022-2023 since he left India for the purpose of carrying business of Omx Software Inc and resident for FY 2023-2024
  - (c) Mr. Rajat Kapoor to be treated as non-resident for FY 2022-2023 and FY 2023-2024
  - (d) Mr. Rajat Kapoor to be treated as resident in India for FY 2022-2023 since he stays in India for more than 182 days and non-resident for FY 2023-2024
2. Considering the provisions of the Foreign Exchange Management Act, 1999, how much amount can company remit outside India:
- (a) Permissible amount remitted to US company for obtaining consultancy without obtaining prior approval of RBI is USD 1,000,000 per project
  - (b) Permissible amount remitted to US company for obtaining consultancy without obtaining prior approval of RBI is USD 100,000 per project
  - (c) Permissible amount remitted to US company for obtaining consultancy without obtaining prior approval of RBI is USD 200,000 per project
  - (d) Permissible amount remitted to US company for obtaining consultancy without obtaining prior approval of RBI is USD 2,000,000 per project
3. Considering the provisions of the Foreign Exchange Management Act, 1999, in respect of purchase of residential property by Mr. Rajat in USA which of the following statement is correct?
- (a) Purchase of residential property by Mr. Rajat is a current account transaction
  - (b) Mr. Rajat has to sell his property before returning to India permanently as he becomes resident in subsequent years
  - (c) Purchase of residential property by Mr. Rajat is neither capital account transaction nor current account transaction

- (d) Purchase of residential property by Mr. Rajat is a capital account transaction

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** Mr. Rajat Kapoor to be treated as non-resident in India for FY 2022-2023 since he left India for the purpose of carrying business of Omx Software Inc and resident for FY 2023-2024

**Reason:**

Mr. Rajat would be treated as non-resident for FY 2022-23 as he went to US in FY 21-22 for the purpose of carrying the business in US and he would be treated as resident for FY 23-24 as he returned to India with an intention of permanent stay.

2. **Option (a)** Permissible amount remitted to US company for obtaining consultancy without obtaining prior approval of RBI is USD 1,000,000 per project

**Reason:**

No prior approval of RBI is required for making payment upto USD 1,000,000 per project.

3. **Option (c)** Purchase of residential property by Mr. Rajat is neither capital account transaction nor current account transaction

**Reason:**

Capital Account transaction is a transaction which alters assets or liabilities including contingent liabilities outside India of persons resident in India or assets or liabilities in India of persons resident outside India. At the time of purchase of property, Mr. Rajat was a non-resident and the property was purchased outside India, therefore, it is neither current account nor capital account transaction.

**CASE SCENARIO 32**

Mr. Arun Kumar, a software engineer from Bangalore, has been working with a US-based technology company in Silicon Valley for the past 4 years. In April 2023, he returned to India to establish a technology startup, Global Ventures Pvt. Limited. He maintained his foreign currency accounts in the US, containing earnings from his previous employment. His wife continues to work in the US.

During August 2023, Mr. Kumar undertook several transactions:

- He received USD 200,000 from his US savings account to invest in his Indian startup
- He gifted USD 75,000 to his brother in India for purchasing property
- He imported specialized software equipment worth USD 150,000 from a Singapore-based supplier on 3 months' credit
- He helped his wife (US-based) remit USD 40,000 for her parents' medical treatment in India

Global Ventures also set up a branch office in Singapore in October 2023, fully controlled and managed from its Bangalore headquarters. The company plans to raise foreign currency loans and explore various overseas investment opportunities.

On the basis of above facts and by applying applicable provisions of the Foreign Exchange Management Act, 1999, and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions given herein under:

**MULTIPLE CHOICE QUESTIONS**

1. Under FEMA, what would be Mr. Kumar's residential status for FY 2023-24?
  - (a) Person Resident in India from April 2023
  - (b) Person Resident Outside India throughout the year
  - (c) Person Resident in India only after completing 182 days

- (d) Person Resident Outside India till August 2023
- 2. Which of the following transactions by Mr. Kumar requires prior RBI approval?
  - (a) Receiving USD 200,000 from his own foreign account
  - (b) Gift of USD 75,000 to his brother
  - (c) Import of equipment on credit terms
  - (d) Setting up a branch office in Singapore
- 3. Mr. Kumar's wife's remittance of USD 40,000 for her parents' medical treatment in India:
  - (a) Is a capital account transaction requiring RBI approval
  - (b) Is a current account transaction permitted without any limit
  - (c) Is a prohibited transaction under FEMA
  - (d) Requires approval since it exceeds USD 25,000
- 4. For raising foreign currency loans for Global Ventures, which regulatory framework would apply?
  - (a) Only RBI regulations for debt instruments
  - (b) Only Central Government regulations
  - (c) Both RBI and Central Government regulations based on the type of instrument
  - (d) No regulations since it's a technology company

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (a)** Person Resident in India from April 2023

**Reason:**

Under the Foreign Exchange Management Act (FEMA), a "Person Resident in India" (PR in India) is defined as a person who has been in India for more than 182 days during the preceding financial year, with certain exceptions (such as for students or people on short trips). Since Mr. Kumar

returned to India in April 2023 and established a business here, he would be considered a Person Resident in India starting from April 2023, as he has settled here.

**2. Option (b)** Gift of USD 75,000 to his brother

**Reason:**

Under FEMA, gifts from a resident to a resident are permissible, but gifts from a resident to a non-resident, or even a gift of large amounts to a resident, may require RBI approval. In this case, gifting USD 75,000 to his brother for property purchase is a capital account transaction, and since the amount exceeds the prescribed limits, it would require RBI approval.

**3. Option (b)** Is a current account transaction permitted without any limit

**Reason:**

Under FEMA, remittances for medical treatment in India are considered current account transactions and are permitted without any limit, as long as they are for genuine medical expenses. This remittance from Mr. Kumar's wife to her parents falls under this category and does not require RBI approval, as it is for a valid purpose.

**4. Option (c) Both RBI and Central Government regulations based on the type of instrument**

**Reason:**

For raising foreign currency loans, Global Ventures will need to adhere to both RBI regulations (for debt instruments like foreign currency loans) and Central Government regulations, especially if the loan terms or the foreign exchange exposure fall under certain restrictions. Both frameworks come into play depending on the nature and structure of the loan (e.g., secured, unsecured, type of repayment terms).

**CASE SCENARIO 33**

Neha Sharma, an Indian citizen and successful fashion designer in Paris for the past 8 years, decided to expand her business to India. In January 2024, she incorporated Glamour Designs Private Limited (GDPL) in Mumbai. Her business plan includes:

- Setting up a design studio in Mumbai
- Importing luxury fabrics from France
- Establishing an online retail platform
- Collaborating with European fashion houses

Initial transactions in February 2024 included:

- Received EUR 500,000 from her French business account
- Purchased commercial property in Mumbai for studio
- Hired French designers as consultants
- Opened a foreign currency account in Mumbai branch of an international bank

The company also plans to participate in international fashion shows and accept advance payments from foreign buyers.

On the basis of above facts and by applying applicable provisions of the Foreign Exchange Management Act, 1999, and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions given herein under:

**MULTIPLE CHOICE QUESTIONS**

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1. What would be Neha's residential status under FEMA when she relocates to Mumbai in March 2024?
  - (a) Immediately becomes Person Resident in India
  - (b) Remains Person Resident Outside India for 182 days
  - (c) Has dual residential status

- (d) Retains French residential status until business setup
- 2. GDPL's receipt of advance payments from foreign buyers would be classified as:
  - (a) Capital Account Transaction requiring RBI approval
  - (b) Prohibited Transaction under FEMA
  - (c) Current Account Transaction permitted freely
  - (d) Special Category Transaction requiring government permission
- 3. Regarding the foreign currency account opened in Mumbai:
  - (a) Can hold unlimited foreign currency without restriction
  - (b) Must convert all receipts to INR immediately
  - (c) Can maintain balances as per FEMA regulations
  - (d) Must close account within 180 days

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

---

1. **Option (a)** Immediately becomes Person Resident in India

**Reason:**

According to FEMA, an individual is considered a "Person Resident in India" if they have been in India for more than 182 days during the preceding financial year. Since Neha is relocating to India, she would fulfill this condition and immediately be considered a Person Resident in India.

2. **Option (c)** Current Account Transaction permitted freely

**Reason:**

Under FEMA, transactions related to the import and export of goods and services are considered current account transactions, which are freely permitted. Advance payments from foreign buyers for goods or services fall under this category.

3. **Option (c)** Can maintain balances as per FEMA regulations

**Reason:**

Under FEMA, a foreign currency account opened by an Indian entity can hold foreign currency as per the guidelines set by the RBI. However, the funds in the account must be used for legitimate purposes such as imports and exports, and the account can be maintained as long as it complies with FEMA regulations.



**CASE SCENARIO 34**

TechFront Solutions, a Hyderabad-based startup founded by Mrs. Priya Reddy, specializes in blockchain technology and artificial intelligence solutions. After operating successfully in India for five years and achieving a turnover of ₹ 500 crore in FY 2022-23, the company initiated international expansion in December 2023.

Mrs. Reddy, holding a PhD in Computer Science from MIT and having worked with leading tech companies in Silicon Valley for a decade, returned to India in 2018 to establish TechFront Solutions. The company has grown from a team of 5 to over 500 employees, with expertise in blockchain, AI, and emerging technologies.

In pursuit of global expansion, TechFront Solutions has undertaken several strategic initiatives:

- Established a research center in Estonia focusing on quantum computing and blockchain integration, with an investment of EUR 2 million
- Launched cryptocurrency consulting services for institutional clients, navigating complex regulatory frameworks across jurisdictions
- Acquired 15% stake in Singapore-based Quantum Technologies Pte Limited for USD 5 million
- Created a wholly-owned subsidiary in Dubai (TechFront DMCC) for Middle East operations with an initial investment of USD 10 million

The current company structure includes:

- Indian parent company (TechFront Solutions) headquartered in Hyderabad's HITEC City
- Wholly-owned foreign subsidiary (TechFront DMCC, Dubai) managing Middle East and North Africa operations
- Research collaboration with three prominent Estonian universities, involving annual funding of EUR 1 million

- Strategic investment partnership with Quantum Technologies Pte Limited in Singapore, including technology transfer agreements

The company's expansion plans for 2024 include:

- Setting up a development center in Abu Dhabi through the Dubai subsidiary
- Expanding research partnerships to other European universities
- Launching a global blockchain certification program
- Developing cross-border payment solutions using blockchain technology

On the basis of above facts and by applying applicable provisions of the Foreign Exchange Management Act, 1999, and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions given herein under:

### **MULTIPLE CHOICE QUESTIONS**

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1. For the research collaboration with Estonian universities:
  - (a) Only RBI approval needed
  - (b) Only government approval needed
  - (c) Both RBI and government approval needed
  - (d) No prior approval needed if within LRS limits
2. The Singapore investment would be classified as:
  - (a) Automatic route investment
  - (b) Current account transaction
  - (c) Portfolio investment
  - (d) Restricted sector investment
3. For repatriating profits from Dubai subsidiary:
  - (a) Requires special permission
  - (b) Must wait for 3 years
  - (c) Can freely repatriate through normal banking channels

- (d) Must reinvest in India immediately

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (d)** No prior approval needed if within LRS limits

**Reason:**

Under FEMA, research collaborations are typically classified as current account transactions, and as long as they are within the Liberalized Remittance Scheme (LRS) limits (USD 250,000 per person per financial year), no prior approval from the Reserve Bank of India (RBI) or the government is required.

2. **Option (a)** Automatic route investment

**Reason:**

Investment in foreign companies (like the 15% stake in Quantum Technologies Pte Limited in Singapore) is typically covered under the automatic route for foreign direct investment (FDI), provided the sector is not subject to restrictions. Since there is no mention of any restriction or specific regulatory framework for this investment, it falls under the automatic route.

3. **Option (c)** Can freely repatriate through normal banking channels

**Reason:**

According to FEMA, profits from a foreign subsidiary, such as the Dubai-based TechFront DMCC, can generally be repatriated freely to India through normal banking channels, subject to applicable tax laws and regulatory compliance. There is no restriction on the repatriation of profits unless specified otherwise.

**CASE SCENARIO 35**

Amit, an Indian resident during the Financial Year (FY) 2021-2022, decided to pursue higher studies in Biotechnology in Switzerland. On 15th July 2022, he left India to begin his two-year academic program. The determination of Amit's residential status under the Foreign Exchange Management Act (FEMA), 1999, for the Financial Years 2022-2023 and 2023-2024, is crucial to understand his obligations and entitlements concerning foreign exchange transactions.

In terms of financial requirements, Amit needs USD 25,000 annually to cover his tuition fees. Additionally, he requires USD 30,000 annually for incidental expenses and living costs while studying abroad. Thus, his total annual requirement amounts to USD 55,000, making it imperative to assess the provisions under the Foreign Exchange Management Act, 1999, that govern the remittance of foreign.

On the basis of above facts and by applying applicable provisions of the Foreign Exchange Management Act, 1999, therein, choose the correct answer (one out of four) of the following MCQs (1-3) given herein under:

**MULTIPLE CHOICE QUESTIONS**

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1. What would be Amit's residential status for FY 2022-2023 under FEMA, 1999?
  - (a) Resident in India
  - (b) Non-Resident Indian (NRI)
  - (c) Person of Indian Origin (PIO)
  - (d) Overseas Citizen of India (OCI)
2. What would be Amit's residential status for FY 2023-2024 under FEMA, 1999?
  - (a) Resident in India
  - (b) Non-Resident Indian (NRI)

- (c) Person of Indian Origin (PIO)
  - (d) Overseas Citizen of India (OCI)
3. Suppose now Amit wants more money for his living cost abroad. What is the maximum amount that can still be remitted abroad per financial year under the Liberalized Remittance Scheme (LRS)?
- (a) USD 100,000
  - (b) USD 195,000
  - (c) USD 200,000
  - (d) USD 500,000

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** Non-Resident Indian (NRI)

**Reason:**

Under FEMA, 1999, the residential status of an individual is determined based on their stay in India during a specific financial year. An individual is considered a Non-Resident Indian (NRI) if they stay outside India for more than 182 days during the preceding financial year. In this case, Amit left India on 15<sup>th</sup> July 2022, which means he will be abroad for the majority of FY 2022-2023. Therefore, his residential status for the FY 2022-2023 will be that of an NRI.

2. **Option (b)** Non-Resident Indian (NRI)

**Reason:**

A person is considered a Non-Resident Indian (NRI) if they stay outside India for more than 182 days during the preceding financial year. As Amit is pursuing a two-year program in Switzerland, he will likely remain outside India throughout FY 2023-2024 as well, continuing his studies. Hence, he will maintain his status as an NRI for FY 2023-2024.

**3. Option (b)** USD 195,000**Reason:**

Under the Liberalized Remittance Scheme (LRS) of the Reserve Bank of India (RBI), an individual can remit up to USD 250,000 in a financial year for various purposes, including education and living expenses. However, Amit has already planned to remit USD 55,000 annually for his tuition and living costs. Therefore, if he has already remitted USD 55,000, the maximum additional amount he can remit in FY 2023-2024 is USD 195,000.

# **INTERMEDIATE COURSE**

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## **PAPER – 3**

## **TAXATION**

### **SECTION-B : GOODS AND SERVICES TAX**

[RELEVANT FOR MAY 2025, SEPTEMBER 2025 & JANUARY 2026 EXAMINATION]

## **BOOKLET ON CASE SCENARIOS**



**BOARD OF STUDIES**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

This booklet has been prepared by the faculty of the Board of Studies. The objective of the booklet is to provide teaching material to the students to enable them to obtain knowledge in the subject. In case students need any clarifications or have any suggestions to make for further improvement of the material contained herein, they may write to the Joint Director, Board of Studies.

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the booklet has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

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# PREFACE

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Under the New Scheme of Education and Training which was introduced on 1<sup>st</sup> July, 2023, 30% of the examination assessment is by the way of Objective Type Questions at Intermediate and Final level. Therefore, to provide hands-on practice for such type of questions, BOS launched MCQ Paper Practice Portal on 1<sup>st</sup> July, 2023. This online portal contains independent MCQs as well as case scenario based MCQs both for conceptual clarity and practice of the students.

In continuation to this handholding initiative and to provide quality academic inputs to the students to help them grasp the intricate aspects of the subject, the Board of studies has brought forth subject-wise booklets on Case Scenarios at Intermediate and Final level. These booklets are meticulously designed to assist Chartered Accountancy (CA) students in their preparation of the CA course.

At Intermediate level, the '**Booklet on Case Scenarios for Paper 3: Taxation, Section B – Goods and Services Tax**' contains the case scenarios which have been answered on the basis of the provisions of the Central Goods and Services Tax Act, 2017 and the Integrated Goods and Services Act, 2017 as amended by the Finance (No. 2) Act, 2024, including significant circulars and notifications issued and other legislative amendments made, which have become effective up to 31.10.2024. The case scenario-based MCQs are all application oriented MCQs and arise from the facts of the case. At the end of each case scenario followed by MCQs, we have also provided explanations/hints for each MCQ which will enable the students to evaluate their performance and identify areas requiring further attention.

This booklet is relevant for May 2025, September 2025 and January 2026 examinations. Please note that before working out the MCQs of this booklet, students have to be thorough with the provisions and concepts of the Goods and Services Tax law as discussed in the October, 2024 edition of the Study Material, which is based on the provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2024, including significant circulars and notifications issued and other legislative amendments made, which have become effective up to 31.10.2024.

Students appearing for September 2025 examinations and January 2026 examinations also need to go through the Statutory Update for respective examinations which will be web-hosted at the BoS Knowledge Portal, containing the significant notifications, circulars and other legislative amendments made, up to 28.02.2025 and up to 30.06.2025 respectively in the GST law.

After attaining conceptual clarity by reading the Study Material (and Statutory Update, if applicable), you are expected to apply the concepts learnt in answering the MCQs given in this booklet. You have to read the case scenarios and the MCQs, identify the provisions of tax law involved, apply the provisions correctly in addressing the issue raised/making the computation required in the MCQ, and finally, choose the correct answer. This process of learning concepts and provisions of tax laws and solving MCQs based thereon will help you attain conceptual clarity and hone your application and analytical skills so that you are able to approach the examination with confidence and a positive attitude.

We are confident that this booklet will serve as a valuable companion in your preparation journey. We encourage students to make the most of this resource by engaging deeply with the scenarios, reflecting on the MCQs, and embracing the learning process.

**Best wishes for your studies and success in the CA Intermediate  
Examination!**

## CASE SCENARIO 1

Manavtaa Trust ('trust') is a charitable trust registered under section 12AB of the Income-tax Act, 1961. The trust is well known for its educational, charitable and religious activities. The trust became liable to registration under GST in the current financial year since it exceeded the threshold limit for registration and thus, registered in the State of Gujarat in the month of May.

In the month of June, a multinational company, Dhruvtara Ltd., gifted 500 laptops worth ₹ 50 lakh to the trust free of cost for charitable purposes, without any intention of seeking any benefit by way of business promotion from such activity. The trust distributed these laptops for free of cost in the same month to the deprived students for assisting them in their higher studies.

The trust also runs a higher secondary school in the name of Manavtaa Higher Secondary School in the state of Gujarat. In the month of July, the trust availed security personnel services from 'Perfect Security Solutions', Gujarat, a proprietorship concern, for security of the school premises for a consideration of ₹ 2,00,000. It also received legal consultancy services from 'Maya & Co.', a firm of advocates for the issues relating to the said school for ₹ 1,20,000, in the same month.

The trust furnished following information regarding the expenses incurred by it in the month of August; all transactions being inter-State:

- (i) Services received and used for supplying taxable outward supplies – ₹ 3,50,000.
- (ii) Catering services received for students of Manavtaa Higher Secondary School – ₹ 2,00,000.
- (iii) Bus purchased with seating capacity of 25 persons including driver – ₹ 10,50,000 (Bus was delivered in the first week of September).

The trust provided the following information in respect of the services provided by it during the month of August:

- (i) It runs an old age home for citizens aged 65 years or more. Nominal monthly charges of ₹ 15,000 for boarding, lodging and maintenance are charged from each member. The total number of members is 20.
- (ii) It rents out a community hall situated within the precincts of a temple managed by it on 15<sup>th</sup> August for a religious function in the first half for ₹ 5,000 and for an art exhibition in second half for ₹ 6,000.
- (iii) It rents out the rooms in the precincts of said temple to the devotees for a rent of ₹ 950 per room per day. Total rent collected in August amounts to ₹ 35,000.

All the figures given above are exclusive of taxes wherever applicable. Aggregate turnover of the trust for the preceding financial year was ₹ 15 lakh. All the conditions necessary for availment of ITC are fulfilled subject to the information given. The trust intends to avail exemption from GST wherever applicable.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 5-

### **MULTIPLE CHOICE QUESTIONS**

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- 1. Which of the following activities of the trust does not amount to supply under the GST law?
  - (a) Free laptops distributed to the deprived students
  - (b) Boarding, lodging and maintenance of the senior citizens by the old age home run by the trust
  - (c) Renting of community hall situated within the precincts of the temple managed by the trust
  - (d) Renting of rooms in the precincts of the temple managed by the trust
- 2. Compute the value of inward supplies on which tax is payable by the trust under reverse charge, for the month of July.
  - (a) ₹ 2,00,000
  - (b) ₹ 3,20,000

- 
- (c) ₹ 1,20,000
- (d) Nil
3. Compute the value of exempt supply made by the trust for the month of August.
- (a) ₹ 3,00,000
- (b) Nil
- (c) ₹ 3,35,000
- (d) ₹ 35,000
4. Compute the value of taxable supply made by the trust for the month of August.
- (a) ₹ 3,00,000
- (b) ₹ 11,000
- (c) Nil
- (d) ₹ 35,000
5. Determine the amount of ITC that can be credited to the Electronic Credit Ledger of the trust, in the month of August assuming rate of GST to be 18%.
- (a) ₹ 36,000
- (b) ₹ 63,000
- (c) ₹ 1,89,000
- (d) ₹ 2,88,000

---

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (a)** Free laptops distributed to the deprived students

**Reason**

As per the provisions of Section 7 of the CGST Act, 2017, the activity of distribution of laptops to deprived students is not a supply as the same does not involve any flow of consideration from such students to the trust.

Further, the activity is not covered under Section 7(a)(a) of the CGST Act, 2017 or under Schedule I of the CGST ACT, 2017.

**2. Option (d) Nil**

**Reason**

The services by way of security services provided to a higher secondary school is exempt from GST as per Entry 66 of the Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*.

Further, the legal consultancy services by a firm of advocates to a business entity with an aggregate turnover up to such amount in the preceding financial year as makes it eligible for exemption from registration under the CGST Act, 2017, are exempted from GST as per Entry 45 of the Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*.

Thus, both the security as well as legal consultancy services received by the trust in relation to the school are exempted from GST.

**3. Option (c) ₹ 3,35,000**

**Reason**

As per Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*, following services are exempt:-

- (a) Renting of precincts of a religious place meant for general public, owned or managed by an entity registered as a charitable or religious trust under section 12AB of the Income Tax Act, 1961 except:
  - (i) renting of rooms where charges are ₹ 1,000 or more per day;
  - (ii) renting of community halls where charges are ₹ 10,000 or more per day; [Entry 13 of *Exemption Notification No. 12/2017 CT(R) dated 28.06.2017*]
- (b) Services by an old age home run by Central Government, State Government or an entity registered under section 12AA or 12AB of the Income-tax Act, 1961 to its residents (aged 60 years or more) against consideration upto ₹ 25,000 per month per member, provided that the consideration charged is inclusive of charges for

boarding, lodging and maintenance. [Entry 9D of Exemption Notification No. 12/2017 CT(R) dated 28.06.2017]

In the present case only renting of community hall will be taxable as the charges are more than ₹ 10,000 per day.

**4. Option (b) ₹ 11,000**

**Reason**

As per Exemption Notification No. 12/2017 CT(R) dated 28.06.2017, following services are exempt:-

- (a) Renting of precincts of a religious place meant for general public, owned or managed by an entity registered as a charitable or religious trust under section 12AB of the Income Tax Act, 1961 except:
  - (i) renting of rooms where charges are ₹ 1,000 or more per day;
  - (ii) renting of community halls where charges are ₹ 10,000 or more per day; [Entry 13 of Exemption Notification No. 12/2017 CT(R) dated 28.06.2017]
- (b) Services by an old age home run by Central Government, State Government or an entity registered under section 12AA or 12AB of the Income-tax Act, 1961 to its residents (aged 60 years or more) against consideration upto ₹ 25,000 per month per member, provided that the consideration charged is inclusive of charges for boarding, lodging and maintenance. [Entry 9D of Exemption Notification No. 12/2017 CT(R) dated 28.06.2017]

**5. Option (b) ₹ 63,000**

**Reason**

Input tax credit (ITC) related to services received from providing taxable outward supplies amounting to ₹ 3,50,000 is eligible input tax credit.

Catering service received by high secondary school is exempted from GST and therefore no input tax credit is available.

Further, the bus is received in the month of September and accordingly the condition under section 16 of the CGST Act, 2017 [i.e. "goods should be received"] is not fulfilled to avail input tax credit.

### CASE SCENARIO 2

Bali Bells Ltd. (hereinafter referred as Bali Bells), a private limited company registered in Chennai, Tamil Nadu, provides the following outward supplies in the month of September:

Particulars	Amount (₹)	
	Taxable	Exempt
Intra-State outward supplies	40,00,000	15,00,000
Inter-State outward supplies	30,00,000	10,00,000

Bali Bells Ltd. sold land for ₹ 2,00,00,000 (excluding GST) in the month of September. Bali Bells purchased one heavy steel machinery in the month of September for ₹ 1,00,000 (excluding GST @ 18%). Bali Bells capitalized the value of machinery along with GST paid on the same in its books of accounts and claimed depreciation on such capitalized value as per Income-tax Act, 1961.

Apart from this, on a tax invoice dated 25<sup>th</sup> July of previous financial year with respect to an inward supply of ₹ 50,000 (excluding GST @ 18%), the company has not availed the ITC yet.

Bali Bells made a supply during November, details of which are as follows-

- Basic price of the product before TCS under Income Tax Act, 1961 – ₹ 45,000
- Tax collected at source under Income-tax Act, 1961 – ₹ 2,500
- It received a subsidy of ₹ 3,500 from Bharat Foundation Pvt. Ltd. for usage of green energy and the subsidy was linked to the units of energy saved and not for the aforesaid product.

Bali Bells has not furnished its annual return for the preceding financial year till the end of November and will furnish it in the month of December of the current financial year.

Assume that there is no other outward or inward supply transaction apart from aforesaid transactions, in the months of September, October and November. All the amounts given above are exclusive of taxes, unless otherwise specified.



Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 4 below:-

**MULTIPLE CHOICE QUESTIONS**

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1. Determine the aggregate turnover of Bali Bells for the month of September.
  - (a) ₹ 2,70,00,000
  - (b) ₹ 95,00,000
  - (c) ₹ 2,95,00,000
  - (d) ₹ 70,00,000
2. Bali Bells wants to avail ITC on GST paid on the heavy steel machinery purchased in September. Which of the following statements is true in this regard?
  - (a) ITC on the machinery cannot be availed since depreciation has been claimed on the GST paid on the machinery under Income-tax Act, 1961.
  - (b) ITC on the machinery shall be allowed to the extent of 50% in the current financial year and balance 50% in the subsequent financial year.
  - (c) ITC on the machinery shall be allowed in the current financial year only to the extent of the depreciation claimed on GST paid on machinery.
  - (d) Full ITC of GST paid on the machinery can be availed in the current year.
3. Bali Bells can claim ITC on inputs received in July of preceding financial year upto \_\_\_\_\_ of the current financial year.
  - (a) 30<sup>th</sup> November
  - (b) 25<sup>th</sup> July
  - (c) 31<sup>st</sup> December
  - (d) 30<sup>th</sup> September

4. Compute the value of supply under section 15 of the CGST Act, 2017 made by Bali Bells in the month of November?
- (a) ₹ 45,000
  - (b) ₹ 47,500
  - (c) ₹ 48,500
  - (d) ₹ 51,000

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** ₹ 95,00,000

**Reason**

Sale of land is neither a supply of goods nor a supply of services as per entry 5 of Schedule III of the CGST ACT, 2017 and thus, also not covered under the definition of aggregate turnover. Hence, only inter-State and intra-State turnover (taxable and exempted) is to be considered while computing aggregate turnover.

2. **Option (a)** ITC on the machinery cannot be availed since depreciation has been claimed on the GST paid on the machinery under Income-tax Act, 1961.

**Reason**

As per Section 16 of the CGST Act, 2017, the recipient has an option to claim input tax credit or depreciation under Income-tax Act, 1961. Since the Company has claimed depreciation on the GST amount related to purchase of machinery, input tax credit shall not be available.

3. **Option (a)** 30<sup>th</sup> November

**Reason**

As per section 16(4) of the CGST Act, 2017, a registered person shall be entitled to take input tax credit in respect of any invoice or debit note for supply of goods or services or both on or before the thirtieth day of November following the end of financial year to which such invoice or

debit note pertains or furnishing of the relevant annual return, whichever is earlier.

**4. Option (a) ₹ 45,000**

**Reason**

Tax collected at source is not a tax but an interim levy and accordingly not includible in the value of supply. Further, the subsidy provided by Bharat foundation Pvt. Ltd. is not directly linked to the price and accordingly not includible in the value of supply as per Section 15 of the CGST Act, 2017.

**CASE SCENARIO 3**

ABC Ltd. has its manufacturing unit in the State of Rajasthan. Further, it has ancillary units in the State of Madhya Pradesh and Gujarat and is registered in each of these States. Moreover, ABC Ltd. owns and operates a hotel in Udaipur, Rajasthan.

In addition to the aforesaid, ABC Ltd. owns a commercial space which is rented out to a registered person at the monthly rent of ₹ 50,000. The maintenance of the premises is the responsibility of ABC Ltd. In pursuance of the same, during the month of April, ABC Ltd. incurred certain expenses on the purchase of maintenance related materials. The said expenses are recoverable from the tenant alongwith the invoice issued for rent. The rate of tax applicable on the material used for maintenance was 5%.

During the year, ABC Ltd. agreed to provide the hotel to Mr. X for a business conference to be held at Udaipur. Mr. X is an unregistered person residing in Maharashtra.

In addition to the aforesaid transactions, ABC Ltd. spent an amount of ₹ 5 lakh on the procurement of certain goods which were distributed as part of the corporate social responsibility [CSR] expenditure required under the provisions of the Companies Act, 2013.

All amounts are exclusive of GST, wherever applicable. The rate of GST on all inward and outward supplies is 18%, unless otherwise mentioned.

Assume that there is no other outward or inward transaction apart from aforesaid transactions.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 4 below:-

**MULTIPLE CHOICE QUESTIONS**

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1. For the transaction related to renting of commercial space, what should be the rate of tax charged by ABC Ltd.?

- 
- (a) The rate of GST on rent and maintenance material related recovery shall be 18%.
    - (b) The rate of GST on rent shall be 18% and, on the material, shall be 5%.
    - (c) No GST shall be charged on the recovery related to material used in maintenance. Rate of GST on rent shall be 18%.
    - (d) The rate of GST on rent and maintenance material related recovery shall be 5%.
  2. With respect to the hotel accommodation service provided to Mr. X, GST payable by ABC Ltd. is \_\_\_\_\_.
    - (a) nil, GST on accommodation service is payable by the recipient, Mr. X, under reverse charge
    - (b) nil, GST on accommodation services provided to an unregistered person is exempt from GST
    - (c) in the nature of CGST and SGST
    - (d) in the nature of IGST
  3. Which of the following options is correct with regard to the availability of ITC to ABC Ltd. in respect of GST paid on the procurement of goods meant for the purpose of corporate social responsibility activity?
    - (a) The amount of ITC related to such procurement of goods is not available to ABC Ltd.
    - (b) The amount of ITC related to such procurement of goods is available to ABC Ltd.
    - (c) The amount of ITC only to the extent of 50% of amount of such procurement of goods is available to ABC Ltd.
    - (d) The amount of ITC shall be available to the registered person to whom such goods are distributed under CSR activity.

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (a)** The rate of GST on rent and maintenance material related recovery shall be 18%.

**Reason**

The supply of services related to renting of commercial space along with maintenance services which requires specific material for maintenance and such expenses being recoverable from the recipient is in the nature of composite supply wherein the rental service is the principal supply. Accordingly, the rate of tax i.e. 18% on the rental service shall be charged.

2. **Option (c)** in the nature of CGST and SGST

**Reason**

As per section 12(3)(c) of the IGST Act, 2017, the place of supply of services by way of accommodation in any immovable property for organizing any official function shall be the location at which the immovable property is located. Accordingly, the supply shall be an intra-State supply and therefore CGST and SGST shall be charged.

3. **Option (a)** The amount of ITC related to such procurement of goods is not available to ABC Ltd.

**Reason**

As per section 17(5)(fa) of the CGST Act, 2017, ITC shall not be available in respect of goods and/or services received by a taxable person, which are used or intended to be used for activities relating to his obligations under corporate social responsibility (CSR) referred to in section 135 of the Companies Act, 2013.

**CASE SCENARIO 4**

XYZ Private Limited is a mid-sized company, registered in Delhi, dealing in the manufacturing and distribution of electronic goods in India. The company has been operating for over a decade and has a robust supply chain network across the Country. The company needs to ensure compliance with various GST regulations related to return filing, registration, and payment of tax.

The company is exploring to expand its sales channel in India through distributors in each State. In view of the same, the company has undertaken following activities in the month of June:-

- (a) Organized a distributor conclave in Udaipur, Rajasthan, where the distributors from Rajasthan, Gujarat and Madhya Pradesh participated in the conclave held in Rajasthan. The total cost of hotel accommodation was ₹ 25 lakh, which was paid by the Delhi office to the Hotel located in Rajasthan.
- (b) The company purchased certain gift items for distribution to the participants in the conclave. The gift items were purchased from the vendor located in Ludhiana, Punjab and were delivered to the hotel in Udaipur, Rajasthan for distribution to the participants of the conclave. The cost of such gift items was ₹ 25 lakh. However, the value of individual gift items was restricted to ₹ 75,000.
- (c) The company purchased an insurance policy for its employees travelling for the conclave and the premium for such insurance policy was ₹ 1 lakh which was paid by the company. There is no requirement under any law requiring such insurance policy.
- (d) The company took on rent, a new warehouse near its factory in Delhi for storage and dispatch of goods. The goods are being transported between the factory and new warehouse in non-motorized cart. The value of such goods transported in single trip is up to ₹ 5 lakh. Further, the rent of warehouse is ₹ 18 lakh for the initial 11 months and the same shall be revised to ₹ 21 lakh after expiry of initial 11 months.

The rate of tax applicable is 18% IGST, 9% CGST and SGST each unless otherwise specified.

On the basis of the facts given above, choose the most appropriate answer to Q.1 to Q.5 below -

### **MULTIPLE CHOICE QUESTIONS**

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1. Which of the following statements is correct under GST law in relation to the hotel accommodation service received by the company?
  - (a) The hotel shall charge CGST and SGST on the invoice issued to the company.
  - (b) The hotel shall charge IGST on the invoice issued to the company
  - (c) The hotel shall issue a bill of supply to the company.
  - (d) The hotel shall charge CGST and SGST to the extent the charges are related to participants of Rajasthan and IGST to the extent charges are related to the participants of Gujarat and Madhya Pradesh, on invoice issued to the company.
2. What shall be the place of supply in relation to the gift items purchased by the company?
  - (a) Rajasthan i.e. the location where the goods were received
  - (b) Delhi i.e. the principal place of business of the company
  - (c) Punjab i.e. the location from where the goods were dispatched
  - (d) Permanent location of participants receiving the gifts
3. Which of the following statements is true in relation to the gift items and the insurance policy purchased by the company?
  - (a) The company is not eligible to avail the input tax credit in relation to both, gift items and the insurance policy.
  - (b) The company is eligible to avail the input tax credit related to gifts valuing less than ₹ 50,000.
  - (c) The company is eligible to avail the input tax credit only on insurance policy as the same is provided to employees i.e. related person of the Company.



- (d) There is no restriction in availment of input tax credit related to gifts and insurance policy.
4. Which of the following statements is correct in relation to the issuance of e-way bill for transportation of goods between factory and warehouse in non-motorized cart?
- (a) E-way bill is required to be issued by the company for each instance of transportation of goods irrespective of the consignment value of goods.
  - (b) E-way bill is not required to be issued in the given case irrespective of the consignment value of the goods.
  - (c) E-way bill is required to be issued for goods of the consignment value above ₹ 50,000
  - (d) E-way bill is required to be issued for goods of the consignment value above ₹ 1,00,000
5. Which of the following statements is most appropriate in relation to the new warehouse taken on rent by the Company?
- (a) Separate GST registration is not required mandatorily.
  - (b) Separate GST registration is required mandatorily.
  - (c) GST registration is required as a casual taxable person for the term of rent agreement.
  - (d) Separate GST registration is required once the rent is more than ₹ 20 lakh per annum.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (a)** The hotel shall charge CGST and SGST on the invoice issued to the Company

**Reason**

As per section 12(3)(c) of the IGST Act, 2017, the place of supply of services by way of accommodation in any immovable property for organizing any official function shall be the location at which the

immovable property is located. Accordingly, the supply shall be an intra-State supply and therefore CGST and SGST shall be charged.

2. **Option (b)** Delhi i.e. the principal place of business of the company

**Reason**

The place of supply shall be Delhi as the transaction is in the nature of bill-to-ship supply where in the gifts are dispatched at the direction of the company to the location of conclave i.e. the hotel in Udaipur.

3. **Option (a)** The company is not eligible to avail the input tax credit in relation to both, gift items and the insurance policy.

**Reason**

As per section 17(5)(h) of the CGST Act, 2017 input tax credit is blocked for goods distributed as gifts.

Further, the input tax credit is also blocked for insurance unless the same is mandatory under any law. In the present case, the provision of insurance is not mandatory and hence the input tax credit shall not be available to the company in terms of section 17(5)(b) of the CGST Act, 2017.

4. **Option (b)** E-way bill is not required to be issued in the given case irrespective of the consignment value of the goods.

**Reason**

The transportation is being undertaken by a non-motorized conveyance and therefore, no e-way bill is required irrespective of the value of goods being transported between the factory and warehouse.

5. **Option (a)** Separate GST registration is not required mandatorily

**Reason**

The company is already having a GST registration in Delhi. There is no mandatory requirement of separate GST registration as per section 25(2) of the CGST Act, 2017. The factory can be added as an additional place of business in the existing GST registration of the company.

**CASE SCENARIO 5**

Vidhula Impex Ltd. ('company') is engaged in supplying sports goods. The company did not opt for registration under GST. The proper officer under GST, based on enquiry, finds that the company is liable for registration and he registers the company on temporary basis on 15<sup>th</sup> June, 2023.

After being granted the registration certificate, the company availed the following services for the purpose of its business-

- i. Renting of motor vehicles from Blue Taxi Pvt. Ltd. where GST was charged @ 12%.
- ii. Appointed Mr. Rajesh as Technical Director for advisory role in business and the payment was made based on the contract entered. However, he was not covered under any employment contract with the company.

During the course of its business, the company issued an invoice to a customer and erroneously charged a higher value by ₹ 34,000. Such invoice was issued on 28<sup>th</sup> February, 2024.

Further, in the month of February 2024, the company also generated an e-way bill for inter-State transport of goods. However, immediately on generation of the e-way bill, the buyer cancelled the order before it was dispatched from the factory for delivery.

In the month of March 2024, since the company was incurring heavy losses, it applied for cancellation of GST registration on 15<sup>th</sup> March 2024. The order for cancellation was made on 30<sup>th</sup> March 2024, effecting cancelling the registration with effect from 15<sup>th</sup> March 2024.

On the basis of the facts given above, choose the most appropriate answer to Q.1 to Q.5 below:-

**MULTIPLE CHOICE QUESTIONS**

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1. After the grant of temporary registration, company needs to apply for registration within \_\_\_\_\_ from the date of grant of temporary registration, if no extension of period is to be granted for such temporary registration.
  - (a) 30 days
  - (b) 90 days
  - (c) 7 days
  - (d) 15 days
2. Which of the following input services are liable to GST under reverse charge in the hands of company?
  - (a) Renting of Motor Vehicles
  - (b) Directorship services
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
3. Which document is required to be issued by the company in respect of the invoice issued on 28<sup>th</sup> February 2024?
  - (a) Debit note
  - (b) Credit note
  - (c) Bill of supply
  - (d) Revised Tax invoice
4. The Company needs to file its Final return by \_\_\_\_\_.
  - (a) 30<sup>th</sup> April, 2024
  - (b) 30<sup>th</sup> August, 2024
  - (c) 15<sup>th</sup> June, 2024
  - (d) 30<sup>th</sup> June, 2024

5. Which of the following statements is correct in respect of e-way bill generated for goods in the month of February for which order was cancelled?
- (a) Once generated, E-way bill cannot be cancelled
  - (b) E-way bill can be cancelled within 24 hours of generation
  - (c) E-way bill can be cancelled within 48 hours of generation
  - (d) E-way bill can be cancelled within 72 hours of generation

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** 90 days

**Reason**

As per section 25(8) of the CGST Act, 2017 read with rule 16(3) of the CGST Rules, 2017, the person shall submit an application for registration in prescribed form within 90 days from the date of grant of temporary registration.

2. **Option (b)** Directorship services

**Reason**

Reverse charge is not applicable in case of renting of motor vehicles if the supplier of services is issuing invoice and charging GST at 12%. Also, Director providing any service to the company is liable to GST under reverse charge.

3. **Option (b)** Credit Note

**Reason**

As per Section 34 of the CGST Act, 2017, a supplier can issue credit note to reduce value of supply if he has erroneously declared a value which is more than the actual value of the goods or services provided.

4. **Option (d)** 30<sup>th</sup> June, 2024

**Reason**

As per section 45 of the CGST Act, 2017, the final return has to be filed within 3 months of the:

- (i) date of cancellation  
or
  - (ii) date of order of cancellation
- whichever is later.

**5. Option (b)** E-way bill can be cancelled within 24 hours of generation

**Reason**

Where an e-way bill has been generated, but goods are either not transported or are not transported as per the details furnished in the e-way bill, the e-way bill may be cancelled electronically on the common portal within 24 hours of generation of the e-way bill vide rule 138(9) of the CGST Rules, 2017.

**CASE SCENARIO 6**

M/s. Delight Brothers, a partnership firm, is engaged in the restaurant business. It is registered under the composition levy scheme under section 10(1) of the CGST Act, 2017 for the current financial year. It's turnover in the State for the month of April was ₹ 12,00,000.

It received new orders in the month of May to run a mess facility for supplying food at:

- i. Vishwas Public School, a higher secondary School;
- ii. Knowledge Institute of Technology, an engineering college, approved by AICTE and UGC; and
- iii. Frontline Hospital

It also provided catering services to a Coral limited company for their Annual General Meeting. Service was provided on 3<sup>rd</sup> July. But invoice was not issued by the firm to the company till the end of August. However, payment was received on 25<sup>th</sup> July for which bank account was credited on 28<sup>th</sup> July. The turnover of restaurant business for the current financial year is ₹ 48,00,000.

From the beginning of next financial year, M/s. Delight Brothers will close down the restaurant business and will provide service of repairing of air conditioners. However, the firm wishes to continue with the Composition Scheme, if eligible.

M/s Delight Brothers undertakes intra-State transactions only.

On the basis of the facts given above, choose the most appropriate answer to Q.1 to Q.5 below-

**MULTIPLE CHOICE QUESTIONS**

1. Compute the tax liability of M/s. Delight Brothers for the month of April?
  - (a) CGST & SGST of ₹ 6,000 each
  - (b) CGST & SGST of ₹ 12,000 each
  - (c) CGST & SGST of ₹ 30,000 each
  - (d) CGST & SGST of ₹ 60,000 each

2. Out of new orders received by the firm in May, which of the following services are exempt from GST?
- (i) Service provided to Vishwas Public School
  - (ii) Service provided to Knowledge Institute of Technology
  - (iii) Service provided to Frontline Hospital
- (a) (i) and (iii)
- (b) (ii) and (iii)
- (c) only (i)
- (d) (i) and (ii)
3. Time of supply of catering services provided to a Coral limited company is
- (a) 3<sup>rd</sup> July
  - (b) 25<sup>th</sup> July
  - (c) 28<sup>th</sup> July
  - (d) 2<sup>nd</sup> August
4. Which of the following statements is most appropriate in respect of next financial year for M/s Delight Brothers?
- (a) M/s Delight Brothers can continue to avail composition levy scheme under section 10(1) and 10(2) of the CGST Act, 2017.
  - (b) M/s Delight Brothers is not eligible to avail composition levy scheme under section 10(1) and 10(2) of the CGST Act, 2017.
  - (c) M/s Delight Brothers is not eligible to avail composition levy scheme under section 10(1) and 10(2) of the CGST Act, 2017, but can avail benefit of composition levy under section 10(2A) of the CGST Act, 2017.
  - (d) M/s Delight Brothers can neither avail composition levy scheme under section 10(1) and 10(2) of the CGST Act, 2017 nor under section 10(2A) of the CGST Act, 2017.



5. Rate of GST applicable for service of repairing of air conditioners made by M/s Delight Brothers will be \_\_\_\_\_, assuming that it intends to pay the tax at the minimum rate available?
- (a) 1%
  - (b) 5%
  - (c) 6%
  - (d) 12%

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** CGST & SGST of ₹ 30,000 each

**Reason**

As per section 10 of the CGST Act, 2017 read with rule 7 of the CGST Rules, 2017, the rate of tax in case of composition registration opted by a restaurant service provider is 2.5% each for CGST and SGST and accordingly on supply of ₹ 12,00,000 during the month of April, GST shall apply at 5% (CGST+SGST).

2. **Option (c)** only (i)

**Reason**

Since food is not provided by Hospital but outsourced, so the same is taxable.

However, said services when provided to an educational institution providing pre-school education or education up to higher secondary school or equivalent are exempt from tax [covered under Entry 66(b)(ii) of Exemption Notification No. 12/2017 CT(R) dated 28.06.2017].

3. **Option (a)** 3<sup>rd</sup> July

**Reason**

As per section 31(2) of the CGST Act, 2017 read with rule 47 of CGST Rules, 2017, the tax invoice is to be issued within 30 days of supply of service. In the given case, the invoice is not issued within the prescribed time limit. As per section 13(2)(b) of the CGST Act, 2017, in a case where the invoice

is not issued within the prescribed time, the time of supply of service is the date of provision of service or receipt of payment, whichever is earlier.

4. **Option (c)** M/s Delight Brothers is not eligible to avail composition levy scheme under section 10(1) and 10(2) of the CGST Act, 2017, but can avail benefit of composition levy under section 10(2A) of the CGST Act, 2017.

**Reason**

A person engaged exclusively in supply of services other than restaurant service is not eligible for the composition scheme. stipulated under sub-sections (1) and (2) of section 10 of the CGST Act, 2017.

However, under section 10(2A) of the CGST Act, 2017, composition scheme is available for persons engaged in supply of services other than restaurant service whose aggregate turnover in the preceding financial year is up to ₹ 50 lakh.

5. **Option (c)** 6%

**Reason**

Section 10(2A) of the CGST Act, 2017 read with Rule 7 of the CGST Rules, 2017 provides an option to a registered person (subject to certain conditions) whose aggregate turnover in the preceding financial year is upto ₹ 50 lakh and who is not eligible to pay tax under composition scheme under section 10(1) & 10(2) of the CGST Act, 2017, to pay tax @ 3% [Effective rate 6% (CGST+ SGST/UTGST)] of the turnover of supplies of goods and services in the State or Union territory.

## CASE SCENARIO 7

Safe Bank Ltd., a small finance bank, was incorporated in April this year. The bank got registered under GST immediately on its incorporation as a banking company.

Safe Bank Ltd. received software support service free of cost from its Head office (HO) located in United Kingdom for business purpose in April. Safe Bank Ltd. provided one high-end laptop worth ₹ 50,000 to its new Managing Director (MD) as a gift for discharge of his duties.

Initially the bank opened 125 branches across India covering various States. To secure business, the bank appointed 'Quick Loan Providers LLP,' a direct selling agent, on PAN India basis. The bank needed the services of recovery agents for various retail and personal loans granted by its branches. For this purpose, the bank appointed 'Fast Recovery Services Pvt. Ltd.', a recovery agent, on PAN India basis.

Safe Bank Ltd. provided the following details for the month of May, in respect of one of its branches-

Sl. No	Nature of receipt	Amount in ₹
i.	Interest received on Term Loan	10,75,000
ii.	Interest received on credit card transactions	6,20,000
iii.	Interest received on Fixed Deposit held with SBI, Mumbai	25,00,000
iv.	Commission received on Letter of Credit issued	3,00,000
v.	Documentation charges collected from borrowers	1,25,000
vi.	Sale of foreign exchange to Bank of Rajasthan, an authorized dealer	15,60,000

All the amounts given above are exclusive of taxes wherever applicable. All the supplies referred to above are intra-state unless specified otherwise.

On the basis of the facts given above, choose the most appropriate answer to Q.1 to Q.4 below-

**MULTIPLE CHOICE QUESTIONS**

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1. Which of the following statements is correct under GST law?
  - (i) Receipt of software support service by Safe Bank Ltd. from HO is supply.
  - (ii) Issue of laptop to new MD as gift is supply.
  - (iii) Receipt of software support service by Safe Bank Ltd. from HO is not a supply.
  - (iv) Issue of laptop to new MD as gift is not a supply.
  - (a) (i) & (ii)
  - (b) (i) & (iv)
  - (c) (ii) & (iii)
  - (d) (iii) & (iv)
2. In respect of services availed by Safe Bank Ltd., the bank shall pay tax under reverse charge for which of the following services?
  - (a) Service availed from 'Quick Loan Providers LLP'
  - (b) Service availed from 'Fast Recovery Services Pvt. Ltd.'
  - (c) Both (a) and (b)
  - (d) None of the services availed attracts RCM
3. Compute the value of exempt supply provided by the branch of Safe Bank Ltd. for the month of May?
  - (a) ₹ 15,00,000
  - (b) ₹ 41,95,000
  - (c) ₹ 51,35,000
  - (d) ₹ 66,95,000
4. Compute the value of taxable supply made by the branch of Safe Bank Ltd. for the month of May?
  - (a) ₹ 10,45,000
  - (b) ₹ 21,20,000

(c) ₹ 36,80,000

(d) ₹ 61,80,000

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (b) (i) & (iv)**

**Reason**

Both the transactions are covered within the purview of Schedule I of the CGST ACT, 2017. However, the laptop is worth ₹ 50,000 i.e. not exceeding ₹ 50,000 and therefore, is not a deemed supply as per Schedule I of the CGST Act, 2017. But the software support service received from the HO is a supply as import of services by a person from a related person or from his establishments located outside India, without consideration, in the course or furtherance of business shall be treated as "supply".

**2. Option (b) Service availed from 'Fast recovery services Pvt Ltd'**

**Reason**

Services supplied by an individual Direct Selling Agents (DSAs) other than a body corporate, partnership or limited liability partnership (LLP) firm to bank or non-banking financial company (NBFCs) are taxable under reverse charge. In the given case, Quick Loan Providers LLP is a LLP and hence said service is not taxable under reverse charge. However, recovery services provided by any recovery agent are liable to GST under reverse charge.

**3. Option (c) ₹ 51,35,000**

**Reason**

Interest other than interest received from services related to credit card transactions is exempt vide entry 27 of Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*. Further, the sale of foreign exchange is also exempt from GST.

Documentation services, commission related to letter of credit and interest related to credit card services are liable to GST.

**4. Option (a) ₹ 10,45,000****Reason**

Interest other than interest received from services related to credit card transactions is exempt vide entry 27 of Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*. Further, the sale of foreign exchange is also exempted from GST.

Documentation services, commission related to letter of credit and interest related to credit card services is liable to GST.

**CASE SCENARIO 8**

Mr. Lala is engaged in supply of tiles and marbles in the State of Telangana. He is not registered under GST. He commenced his business from the month of July.

He availed godown construction services for business from his brother-in-law who was dependent on him. He also availed professional consultancy services for the purpose of business from his son who is a Company Secretary, and his son is not dependent on him. Mr. Lala did not pay anything for both the services as both were his relative / family member respectively.

Based on advice of his son, Mr. Lala made the supply of tiles within his State only. His turnover reached to ₹ 7 lakh as on 31st October. However, he planned to expand his business to other States, since he has received decent orders from other States also.

During the month of December, he received a consignment of tiles from Rajasthan through Prompt Carriers, a goods transport agency based in the State of Rajasthan. Goods were dispatched by the supplier on 'to-pay' basis for freight. Freight charges were ₹ 50,000 and the said GTA pays GST @ 12%. Mr. Lala paid the invoice amount in the month of December itself. This was an inter-State transaction.

During the month of January, Mr. Lala made his first inter-State supply to Tamil Nadu on 4th January. His turnover before making such supply was ₹ 15 lakh.

Value of such inter-state supply was ₹ 4,50,000, exclusive of taxes. Payment for the said inter-State supply was received on 28th February. Invoice was raised by Mr. Lala on 25th January.

All the figures given above are exclusive of taxes wherever applicable.

On the basis of the facts given above, choose the most appropriate answer to Q.1 to Q.5 below-

**MULTIPLE CHOICE QUESTIONS**

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1. In respect of services availed by Mr. Lala, which of the following is a correct statement?
  - (a) Godown construction service availed from his brother-in-law free of cost is considered as a deemed supply
  - (b) Professional service availed from his son free of cost is considered as a deemed supply
  - (c) Neither of the services is a deemed supply
  - (d) Both services are deemed supply
2. Upto which limit of aggregate turnover, Mr Lala can continue to supply goods without registration within his State, if he does not procure any goods/services on which tax is payable under reverse charge mechanism?
  - (a) ₹ 20 lakh
  - (b) ₹ 40 lakh
  - (c) ₹ 10 lakh
  - (d) ₹ 150 lakh
3. What is the tax liability for the freight charges?
  - (a) ₹ 6000 of IGST under reverse charge
  - (b) ₹ 6000 of IGST under forward charge
  - (c) ₹3000 each under CGST and SGST under reverse charge
  - (d) Nil as it is exempt
4. Which of the following statement(s) is correct with respect to liability of Mr. Lala to register under GST?
  - (a) Mr. Lala is liable to register in the month of December for receipt of GTA services.
  - (b) Mr. Lala is liable to register in the month of January for effecting inter-State outward supply of goods.



- (c) Mr. Lala is liable to register only when his turnover exceeds the threshold limit irrespective of whether he is in receiving any GTA services or is effecting inter-State outward supply.
  - (d) Mr. Lala is not required to register as it is his first year of business.
5. What is the time of supply of goods made by Mr Lala during January?
- (a) 4<sup>th</sup> January
  - (b) 25<sup>th</sup> January
  - (c) 3<sup>rd</sup> February
  - (d) 28<sup>th</sup> February

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** Professional service availed from his son free of cost is considered as a deemed supply

**Reason**

Deemed supply as per Schedule I of the CGST ACT, 2017 covers transactions with related persons when made in the course or furtherance of business and as per the definition of "Family", Mr. Lala's son is a related person, but the definition of family excludes "brother-in-law" even if he is dependent on Mr. Lala. Therefore, the transaction between Mr. Lala and his brother-in-law is not a deemed supply.

2. **Option (a)** ₹ 20 lakh

**Reason**

*Notification No. 10/2019 CT dated 07.03.2019* exempts any person who is engaged in exclusive supply of goods and whose aggregate turnover in the financial year does not exceed ₹ 40 lakh, from registration requirement.

Exceptions to this exemption is *inter alia* persons engaged in making intra-State supplies in the States of Telangana and other specified States.

**3. Option (d)** Nil as it is exempt**Reason**

Services provided by a GTA to an unregistered person, including an unregistered casual taxable person is exempt from GST vide Entry 21A of Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*.

**4. Option (b)** Mr. Lala is liable to register in the month of January for effecting inter-State outward supply of goods.**Reason**

Person making inter-State taxable supply of goods is liable to registration compulsorily vide section 24 of the CGST Act, 2017.

**5. Option (a)** 4<sup>th</sup> January**Reason**

As per section 12(2) of the CGST Act, 2017, the time of supply of goods that are taxable under forward charge, is the earlier of the following two dates:

- (a) Date of issue of invoice by the supplier or the last date on which the invoice ought to have been issued in terms of section 31 of the CGST Act, 2017, to the extent the invoice covers the supply of goods; [4<sup>th</sup> January] or
- (b) Date of receipt of payment by the supplier, to the extent the payment covers the supply of goods [28<sup>th</sup> February].

Further, the time-limit for raising invoices in case of supply of goods as per section 31(1) of the CGST Act, 2017 is before or at the time of removal of goods for supply to the recipient, where the supply involves movement of goods.

**CASE SCENARIO 9**

Purvi, registered under GST in the State of Madhya Pradesh, is engaged in supplying multiple taxable goods and services. She has undertaken the following activities/transactions in the month of October in the current financial year:

- (i) Donated some money to Divyaprakash Charitable Trust, Madhya Pradesh, in the memory of her late father. The Divyaprakash Charitable Trust constructed a room in the school run by it from such donation and wrote "Donated by Miss. Purvi in the memory of her father" on the door of the room so constructed.
- (ii) Organized a seminar in Indore which was sponsored by WE-WIN Cricket Academy, an LLP. Purvi received a sponsorship fee of ₹1,50,000.
- (iii) Bindusar Public School intended to distribute gift packages consisting of fountain pen, calculator and tape dispenser to its students on the occasion of Children's Day. Therefore, it entered into a contract with Purvi on 28<sup>th</sup> October for supply of 2,000 packages at a single price of ₹ 250. Rates of GST for fountain pen, calculator and tape dispenser are 5%, 12% and 18% respectively.
- (iv) Received the following payments during the month of October:
  - earned ₹ 1,60,000 by performing at a western music concert in Indore
  - earned ₹ 50,000 for renting of space for use as a Textile Emporium
  - received ₹ 70,000 for supply of farm labour

All the amounts given above are exclusive of GST, wherever applicable.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 4 below:-

**MULTIPLE CHOICE QUESTIONS**

1. Donation made by Purvi to Divyaprakash Charitable Trust is \_\_\_\_\_.
  - (a) exempted from GST by way of a notification

- (b) not a supply at all
  - (c) liable to GST under forward charge
  - (d) liable to GST under reverse charge
2. Which of the following statements is correct with respect to the sponsorship fee received by Purvi?
- (a) Tax on sponsorship services is payable by Purvi under forward charge.
  - (b) Tax on sponsorship services is payable by WE-WIN Cricket Academy under reverse charge.
  - (c) Sponsorship services are exempt from GST since services provided to a sports academy are exempt.
  - (d) Tax on sponsorship services is payable by Purvi under reverse charge.
3. Determine the nature of supply and the applicable rate of GST for the packages supplied by Purvi to Bindusar Public School.
- (a) composite supply & applicable rate of GST is 12%
  - (b) mixed supply & applicable rate of GST is 18%
  - (c) composite supply & applicable rate of GST is 18%
  - (d) mixed supply & applicable rate of GST is 12%
4. Out of all the payments received by Purvi in the month of October, value of exempt supply amounts to \_\_\_\_.
- (a) ₹ 4,30,000
  - (b) ₹ 70,000
  - (c) ₹ 1,20,000
  - (d) ₹ 2,20,000

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (b)** not a supply at all

**Reason**

There is no obligation (quid pro quo) on part of recipient of the donation to do anything (i.e. supply a service). Thus, it can be said that there is no supply of service for the payment in the form of donation.

2. **Option (b)** Tax on sponsorship services is payable by WE-WIN Cricket Academy under reverse charge.

**Reason**

Services provided by way of sponsorship to any body corporate or partnership firm is liable to GST under reverse charge. LLP is also considered as a partnership firm or firm.

3. **Option (b)** mixed supply & applicable rate of GST is 18%

**Reason**

Supply of fountain pen, calculator and tape dispenser is not a supply wherein one of the supply is a principal supply and these are not naturally bundled. Therefore, the supply is a mixed supply and the highest tax rate shall be applied for the whole supply.

4. **Option (b)** ₹ 70,000

**Reason**

Out of the transactions made in October, only supply of farm labour is covered within the purview of exempt supplies.

**CASE SCENARIO 10**

Sarabhai & Sarabhai Associates, a partnership firm registered under GST, is engaged in various types of business activities. It has provided the details of the following activities undertaken by it in the current financial year:

- (i) It supplied taxable goods to Dhanush Enterprises valuing ₹ 8,00,000 in the month of April, with a credit period of 1 month for payment. Thereafter, interest @ 12% p.a. is chargeable on the consideration. The payment is received from Dhanush Enterprises after the lapse of two months from the date of supply.
- (ii) It enters into a contract for supply of 100 office chairs @ ₹ 15,000 with Ashoka Mart on 21<sup>st</sup> August. Chairs are removed from the warehouse of Sarabhai & Sarabhai Associates on 5<sup>th</sup> September along with the invoice of said date. Ashoka Mart has paid 30% of the total contract value on 21<sup>st</sup> August; 70% is paid after delivery of chairs on 10<sup>th</sup> September.
- (iii) In the month of October, it provided services by way of transportation of goods in a goods carriage by road to Fisheries Department of Government of India, which is registered under GST only for the purpose of deducting tax at source. Sarabhai & Sarabhai Associates is a registered goods transport agency and charges ₹1,20,000 for the said services.
- (iv) It also provided services of Direct Selling Agent to an NBFC located in Mumbai in the month of December for ₹ 50,000.
- (v) It organized a business exhibition in the month of December for which it received a sponsorship fee of ₹ 3,00,000 from Dhara Ltd.
- (vi) It has a policy to provide free gifts to each of its employees valuing ₹ 50,000 at the end of each financial year.
- (vii) It availed services of Dhruv Travel Agency for organizing a free vacation for its top performing employees in the month of December. GST of ₹ 50,000 was paid for the same. In the same month, it also paid GST of ₹ 20,000 on membership of Rudraksh Fitness Centre taken for its CEO.

All the amounts given above are exclusive of GST, wherever applicable. All conditions for availing ITC are fulfilled subject to the information given above.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 5 below:

**MULTIPLE CHOICE QUESTIONS**

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1. Value of supply made to Dhanush Enterprises, assuming the interest on delayed payment to be exclusive of GST, is \_\_\_\_\_.
  - (a) ₹ 8,00,000
  - (b) ₹ 8,08,000
  - (c) ₹ 7,92,000
  - (d) ₹ 8,16,000
2. The time of supply of advance money of ₹ 4,50,000 received for supply of office chairs to Ashoka Mart is \_\_\_\_\_. For balance payment of ₹ 10,50,000 received, the time of supply is \_\_\_\_\_.
  - (a) 21<sup>st</sup> August; 5<sup>th</sup> September
  - (b) 5<sup>th</sup> September; 10<sup>th</sup> September
  - (c) 21<sup>st</sup> August; 10<sup>th</sup> September
  - (d) 5<sup>th</sup> September; 5<sup>th</sup> September
3. Determine the value of outward supplies made by Sarabhai & Sarabhai Associates on which tax is payable under reverse charge.
  - (a) ₹ 1,20,000
  - (b) ₹ 50,000
  - (c) ₹ 1,70,000
  - (d) ₹ 3,00,000
4. Free gifts of value of ₹ 50,000 provided by Sarabhai & Sarabhai Associates to each of its employee is:
  - (a) a supply as gifts of only less than ₹ 50,000 in value are not treated as supply in terms of Schedule I of the CGST Act, 2017.
  - (b) a supply as gifts provided by employer to employee of any value are treated as supply in terms of Schedule I of the CGST Act, 2017.

- (c) a supply as gifts of only more than ₹ 50,000 in value are not treated as supply in terms of Schedule I of the CGST Act, 2017.
  - (d) not a supply as gifts not exceeding ₹ 50,000 in value in a financial year by an employer to an employee shall not be treated as supply in terms of Schedule I of the CGST Act, 2017.
5. Sarabhai & Sarabhai Associates is eligible to claim input tax credit of \_\_\_\_\_ in the month of December.
- (a) ₹ 50,000
  - (b) ₹ 20,000
  - (c) ₹ 3,70,000
  - (d) Nil

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** ₹ 8,08,000

**Reason**

The value of supply as per Section 15 of the CGST Act, 2017 includes interest or late fee or penalty for delayed payment of any consideration for any supply. In the present case, there is a delay of 1 month in payment of consideration after considering the credit period.

2. **Option (d)** 5<sup>th</sup> September; 5<sup>th</sup> September

**Reason**

Taxpayers under forward charge (except composition suppliers and registered persons making supply of specified actionable claims) are not required to pay GST at the time of receipt of advance in relation to supply of goods. The entire GST shall become payable only when the invoice for the supply of such goods is issued or ought to have been issued. Thus, time of supply of goods for the purpose of payment of tax is the date of issue of invoice or the last date when the invoice ought to have been issued under section 31 of the CGST Act, 2017.



**3. Option (d) ₹ 3,00,000****Reason**

Sarabhai & Sarabhai Associates, being a partnership firm, is liable to pay GST on Direct Selling Agent related services under forward charge.

The services of goods transport to Fisheries Department of Government of India are not liable to GST under reverse charge mechanism but is exempt vide entry 21B of Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*.

Sponsorship services are liable to GST under reverse charge as sponsorship services are provided to a body corporate.

**4. Option (d) not a supply as gifts not exceeding ₹ 50,000 in value in a financial year by an employer to an employee shall not be treated as supply in terms of Schedule I of the CGST Act, 2017.****Reason**

As the amount of gift is not exceeding ₹ 50,000 the same is not covered under deemed supply provisions as per Schedule I of the CGST Act, 2017.

**5. Option (d) Nil****Reason**

The expenses are specifically blocked under section 17(5)(b) of the CGST Act, 2017 where it is not obligatory for an employer to provide the same to its employees under any law for the time being in force and therefore no input tax credit is available.

**CASE SCENARIO 11**

Poorva Logistics, a Goods Transport Agency, is registered under GST. It did not exercise the option to pay GST itself on the services supplied by it in the preceding financial year. It provided goods transport services to the following persons in February of preceding financial year-

- (a) Kunal Traders, an unregistered partnership firm
- (b) Mr. Amar, a casual taxable person, who is not registered under GST
- (c) Small Traders Co-Operative Society registered under Societies Registration Act

In a particular consignment in March of preceding financial year, Poorva Logistics transported the following-

- (a) Defence Equipments
- (b) Railway Equipments
- (c) Organic Manure

Poorva Logistics exercises the option to itself pay GST on services supplied by it @ 12% from April, of the current financial year. It provided goods transport services to Bama Steels Pvt. Ltd. on 1<sup>st</sup> April and issued an invoice dated 5<sup>th</sup> May. Payment was received on 6<sup>th</sup> May.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 3 below:

**MULTIPLE CHOICE QUESTIONS**

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1. Which of the following persons are liable to pay GST under reverse charge in respect of the GTA services provided by Poorva Logistics in February of the preceding financial year?
  - (i) Kunal Traders
  - (ii) Mr. Amar
  - (iii) Small Traders Co-operative society

- 
- (a) i & ii  
(b) ii & iii  
(c) i & iii  
(d) i, ii & iii
2. Transportation of \_\_\_\_\_ by Poorva Logistics is exempt from GST.  
(i) Defence Equipments  
(ii) Railway Equipments  
(iii) Organic Manure  
(a) i  
(b) i & ii  
(c) i & iii  
(d) i, ii & iii
3. What will be the time of supply in respect of the services provided by Poorva Logistics to Bama Steels Pvt. Ltd.?  
(a) 6<sup>th</sup> May  
(b) 5<sup>th</sup> May  
(c) 30<sup>th</sup> May  
(d) 1<sup>st</sup> April

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** i & iii

**Reason**

Unregistered individual end consumer or unregistered casual taxable person (Mr. Amar in the present case) is exempt from payment of GST vide entry 21A of Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*.

Further, Supply of services by a Goods Transport Agency (GTA) in respect of transportation of goods by road to *inter alia*-

- (a) any co-operative society established by or under any law; or
- (b) any partnership firm whether registered or not under any law including association of persons;

is taxable under RCM.

**2. Option (c) i & iii**

**Reason**

Transportation of defence equipments and organic manures is exempted vide Entry 21 of Exemption *Notification No. 12/2017 CT (R) dated 28.06.2017*.

**3. Option (d) 1<sup>st</sup> April**

**Reason**

RCM is applicable only when Poorva Logistics has opted to charge GST @ 5%. In the given case, rate of GST-12% hence RCM not applicable. Thus, Poorva will pay GST on forward charge basis.

Since the invoice is not issued within the prescribed time period of 30 days as per Section 31 of the CGST Act, 2017, the time of supply of services as per section 13 of the CGST Act, 2017 is earliest of the following:

- (a) Date of provision of service or
- (b) Date of receipt of payment

Thus, the date of provision of service shall be considered as time of supply.

**CASE SCENARIO 12**

Ms. Chanchala, a doctor by profession, is a registered person under GST as a monthly return filer, having in-patient facility in her hospital wherein room charges are capped at ₹ 3,000 per day.

Ms. Chanchala provided treatment of various diseases in her hospital and apart from that, she also provided the following services in her hospital-

- (a) Plastic surgery to enhance the beauty of the face
- (b) Ambulance service for transportation of patients
- (c) Renting of space to run medical store in hospital premises

She is also a consultant in other hospitals and received ₹ 40,00,000 as consultancy fee from the other hospitals.

Further, she also provides canteen facility and received ₹ 55,000 from in-patients for supply of food as per advise of nutritionist, ₹ 35,000 from patients who are not admitted and ₹ 25,000 from visitors for the same facility.

She filed GSTR-3B for the month of June with some errors. She filed the Annual return for the said financial year on 31<sup>st</sup> October of the next financial year, whereas due date for the said Annual return was 31<sup>st</sup> December of the next financial year.

All the amounts given above are exclusive of taxes, wherever applicable. All the supplies referred above are intra-State unless specified otherwise.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 3 below:

1. Compute the taxable value of supply of canteen service provided by Ms. Chanchala?
  - (a) ₹ 25,000
  - (b) ₹ 35,000
  - (c) ₹ 60,000
  - (d) ₹ 80,000

2. Maximum time permissible for rectification of error committed in monthly return of June is \_\_\_\_\_
- (a) 30<sup>th</sup> November of the next year
  - (b) 31<sup>st</sup> October of the next year
  - (c) 20<sup>th</sup> October of the next year
  - (d) 31<sup>st</sup> December of the next year
3. Determine which of the following services provided by Ms. Chanchala and her hospital is exempt from GST?
- (i) Plastic surgery to enhance the beauty of the face
  - (ii) Ambulance service for transportation of patients
  - (iii) Renting of space to run medical store in hospital premises
  - (iv) Consultancy service by Ms. Chanchala in other hospitals
- (a) (i), (ii) & (iv)
  - (b) (i), (ii)
  - (c) (ii) & (iv)
  - (d) (i) & (iii)

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (c)** ₹ 60,000

**Reason**

Food supplied to the in-patients by a canteen run by the hospital, as advised by the doctor/nutritionists, is a part of composite supply of healthcare and not separately taxable. Thus, said services are exempt from GST.

2. **Option (b)** 31<sup>st</sup> October of the next year

**Reason**

As per section 16(4) of the CGST Act, 2017 the maximum time limit within which such amendments are permissible is earlier of the following dates:

- (a) 30<sup>th</sup> day of November following the end of the financial year to which such details pertain or
- (b) Date of filing of the relevant annual return

**3. Option (c) (ii) & (iv)**

**Reason**

'Health care services' does not include hair transplant or cosmetic or plastic surgery, except when undertaken to restore or to reconstruct anatomy or functions of body affected due to congenital defects, developmental abnormalities, injury or trauma.

Transportation of a patient in an ambulance by any person other than Intensive Care Unit (ICU)/Critical Care Unit (CCU)/Intensive Cardiac Care Unit (ICCU)/Neo natal Intensive Care Unit (NICU)] having room charges exceeding ₹ 5000 per day to a person receiving health care services is exempt vide entry 74 of Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*.

Services by way of health care services by a clinical establishment, an authorised medical practitioner or para-medics are exempt from GST.

### CASE SCENARIO 13

M/s. Neelkanth & Co., a registered supplier under GST, is dealing in supply of taxable goods in the State of Karnataka.

The firm had opted for Composition Scheme from April month of last financial year. It's turnover crossed ₹ 1.50 crores on 9<sup>th</sup> May of current financial year and had opted for withdrawal of composition scheme on the said date.

Neelkanth & Co. removed goods on 10<sup>th</sup> June for delivery to Chandra & Co. on 'Sale or Return Basis'. Chandra & Co. accepted the goods vide its confirmation mail dated 15<sup>th</sup> December.

The firm has paid GST for various items during the month of August. It is comprised of the following-

- (a) GST paid on input services intended to be used for personal purposes – ₹ 12,000
- (b) GST paid on purchase of Motor Vehicle for business use (being a two-wheeler having engine capacity of 25CC) – ₹ 9,000
- (c) GST paid on purchase of computer – ₹ 19,000

(GST portion was included as part of cost to claim depreciation under Income-tax Act, 1961)

During May, Neelkanth and Co. had reversed ITC of ₹ 10,000 for not making payment to Vendors within the time prescribed under CGST Act, 2017. This pending payment was cleared in the month of August.

Out of purchases made and ITC availed during earlier months, the following information is made available as on September:

Supplier Name	Payment is due for (Number of days)	Related ITC Component
XYZ	145	₹ 13,000
ABC	199	₹ 15,000
PQR	99	₹ 20,000



Neelkanth & Co received accounting services from Raghu & Co., an associated enterprise, located in Sri Lanka. Raghu & Co. issued invoice for the service on 1<sup>st</sup> September, which was entered by Neelkanth & Co. in its book on 10<sup>th</sup> October. But payment was made on 30<sup>th</sup> September.

All the supply referred above is intra-State unless specified otherwise. Conditions applicable for availment of ITC are fulfilled subject to the information given above.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 5 below:

**MULTIPLE CHOICE QUESTIONS**

1. Neelkanth & Co. needs to furnish a statement containing details of stock of inputs/ inputs held in semi-finished / finished goods on the withdrawal of composition scheme by \_\_\_\_\_
  - (a) 9<sup>th</sup> May
  - (b) 23<sup>rd</sup> May
  - (c) 8<sup>th</sup> June
  - (d) 7<sup>th</sup> July
2. In respect of the goods sent on sale or return basis, Neelkanth & Co. shall issue the invoice by \_\_\_\_\_
  - (a) 10<sup>th</sup> June
  - (b) 10<sup>th</sup> September
  - (c) 10<sup>th</sup> December
  - (d) 15<sup>th</sup> December
3. Determine the amount of eligible input tax credit that can be availed by Neelkanth & Co for the month of August?
  - (a) Nil
  - (b) ₹ 19,000
  - (c) ₹ 22,000
  - (d) ₹ 50,000

4. Compute the amount of ITC to be reversed for the month of September. Ignore interest liability, if any.
- (a) Nil
  - (b) ₹ 28,000
  - (c) ₹ 15,000
  - (d) ₹ 13,000
5. Time of supply in respect of service imported by Neelkanth & Co from its Associated Enterprise is \_\_\_\_\_
- (a) 1<sup>st</sup> September
  - (b) 30<sup>th</sup> September
  - (c) 1<sup>st</sup> October
  - (d) 10<sup>th</sup> October

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** 8<sup>th</sup> June

**Reason**

After filing the application to withdraw from the Composition levy, it is mandatory to file statement in FORM GST ITC-01 containing details of the stock of inputs and inputs contained in semi-finished or finished goods held in stock on the date on which the option is withdrawn or denied, within a period of 30 days from the date from which the option is withdrawn in terms of Rule 6(6) of the CGST Rules, 2017.

2. **Option (c)** 10<sup>th</sup> December

**Reason**

As per section 31(7) of the CGST Act, 2017 where the goods being sent or taken on approval for sale or return are removed before the supply takes place, the invoice shall be issued before or at the time of supply or 6 months from the date of removal, whichever is earlier.

**3. Option (b) ₹ 19,000****Reason**

ITC related to personal expenses is not allowed. Further, the ITC related to scooter is allowed as the same is not a motor vehicle. The ITC related to computer is not available as depreciation has been claimed on the same. Further, the pending payment of ₹ 10,000 was cleared in the month of August. So, the credit of same is available.

**4. Option (c) ₹ 15,000****Reason**

As per second proviso to section 16(2) of the CGST Act, 2017, only ITC relating to the supply where the consideration has not been paid within 180 days is to be reversed in September.

**5. Option (b) 30<sup>th</sup> September****Reason**

As per second proviso to section 13(3) of the CGST Act, 2017, in case of supply by associated enterprises, where the supplier of service is located outside India, the time of supply shall be the date of entry in the books of account of the recipient of supply or the date of payment, whichever is earlier.

**CASE SCENARIO 14**

XYZ Electronics Pvt. Ltd. is a leading electronic goods manufacturing company in Delhi. The company produces a wide range of products, including smartphones, laptops, and home appliances.

The sales by the Company are mainly through its distributors on the following credit terms:

For laptops – up to 15 days

For smartphones – up to 90 days

For other home appliances – up to 45 days

During the year, the Company purchased plant and machinery worth ₹ 1 crore exclusive of GST. The GST rate for such plant and machinery is 18%. The input tax credit on such plant and machinery is not blocked under any provision of the GST law.

The Company is planning to demerge its operations in relation to the laptops and other computer accessories from the next financial year. The demerged entity "PR Ltd." will be a separate legal entity of the Company in form of a wholly owned subsidiary of the Company having common Board of Directors.

The Company also participates in domestic and international level trade fairs to showcase its products and sale through those events. The Electronics Association of Rajasthan is organising a trade fair in Jaipur. The Company is keen to participate in the same. To ensure the GST compliances, the Company wants to obtain the GST registration as casual taxable person in the state of Rajasthan. The Company obtained the GST registration as casual taxable person in the state of Rajasthan with the validity period of 45 days.

The Company transferred the goods from one of its godown in Delhi to another godown in Gujarat wherein the Company has a registered place of business. The value of goods transferred is ₹ 5 crores and the rate of GST applicable on such transfer is 18%. The tax invoice was issued, and GST was deposited by the Company. However, the consideration was not paid by the Gujarat office of the Company to the Delhi office even after 180 days of the invoice date. Further,

there was no reverse movement of such goods from Gujarat godown to Delhi Godown.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 6 below:

**MULTIPLE CHOICE QUESTIONS**

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1. What shall be the time limit to issue invoice for supply of smartphones on credit:
  - (a) Invoice shall be issued on 31<sup>st</sup> day from the date of removal of smartphones to distributors.
  - (b) Invoice shall be issued before or at the time of removal of smartphones to distributors.
  - (c) Invoice shall be issued at the time of receiving payment from distributors.
  - (d) Invoice shall be issued upon completion of credit term, i.e. 90 days.
2. In relation to the plant and machinery purchased by the Company, select the correct alternative from the following:
  - (a) ITC of ₹ 18 lakh can be claimed and value of asset on which depreciation can be claimed under the provisions of Income-Tax Act, 1961 shall be ₹ 1.18 crore.
  - (b) ITC of ₹ 18 lakh can be claimed and value of asset on which depreciation can be claimed under the provisions of Income-Tax Act, 1961 shall be ₹ 1 crore.
  - (c) ITC cannot be claimed on such transaction and value of asset on which depreciation can be claimed under the provisions of Income-Tax Act, 1961 shall be ₹ 1 crore.
  - (d) ITC of ₹ 18 lakh can be claimed and value of asset on which depreciation can be claimed under the provisions of Income-Tax Act, 1961 shall be ₹ 82 lakh.
3. How shall the PR Ltd. be treated under the provisions of GST Law?
  - (a) The PR Ltd. shall be treated as related party of the XYZ Electronics Pvt. Ltd.

- (b) The PR Ltd. shall be treated as distinct entity of the XYZ Electronics Pvt. Ltd.
  - (c) The PR Ltd. shall be treated as additional place of business of XYZ Electronics Pvt. Ltd.
  - (d) The PR Ltd. shall be treated as sole selling agent of XYZ Electronics Pvt. Ltd.
- 4. The period of retention of books of accounts related to period prior to demerger under GST Law is:
  - (a) 36 months from the end of financial year
  - (b) 60 months from the end of financial year
  - (c) 72 months from the end of financial year
  - (d) 72 months from due date of furnishing annual return for the relevant financial year
- 5. The validity of GST registration in the state of Rajasthan is:
  - (a) 45 days
  - (b) 90 days
  - (c) 180 days
  - (d) 135 days
- 6. Which of the following statements is true in relation to the non-payment of consideration by the Gujarat godown to Delhi godown?
  - (a) The Gujarat godown shall reverse the ITC availed on the goods received from Delhi and also required to pay interest computed from the date of invoice till the date of reversal of ITC.
  - (b) The Gujarat godown shall reverse the ITC availed on the goods received from Delhi and no interest shall be applicable.
  - (c) The restriction of 180 days for payment of consideration is not applicable in the present case.
  - (d) The Delhi godown shall issue a credit note to Gujarat godown to reverse the supply.

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (b)** Invoice shall be issued before or at the time of removal of smartphones to distributors.

**Reason**

As per Section 31(1) of the CGST Act, 2017, the invoice in case of supply of goods shall be issued on or before the removal of goods for supply. The same is irrespective of the fact that the supply is made for cash or credit.

Accordingly, even if the smartphones are supplied for a credit period of up to 90 days, the invoice shall be issued on or before removal of smartphones for supply.

2. **Option (b)** ITC of ₹ 18 lakh can be claimed and value of asset on which depreciation can be claimed under the provisions of Income-Tax Act, 1961 shall be ₹ 1 crore.

**Reason**

As per the provisions of Section 16(3) of the CGST Act, 2017, where the registered person has claimed depreciation on the tax component of the cost of capital goods and plant and machinery under the provisions of the Income-tax Act, 1961 the input tax credit on the said tax component shall not be allowed.

3. **Option (a)** The PR Ltd. shall be treated as related party of the XYZ Electronics Pvt. Ltd.

**Reason**

The proposed demerged company, "PR Ltd." shall be a separate legal entity having common board of directors as that of the Company. Since, the demerged entity will be a separate legal entity, it will be termed as a related party as per the provisions under explanation to Section 15 of the CGST Act, 2017.

4. **Option (d)** 72 months from due date of furnishing annual return for the relevant financial year

**Reason**

As per Section 36 of the CGST Act, 2017, the Company is required to keep and maintain books of account or other records until the expiry of seventy-two months from the due date of furnishing of annual return for the year pertaining to such accounts and records.

**5. Option (a) 45 days****Reason**

As per Section 27(1) of the CGST Act, 2017, the registration as a casual taxable person is valid for a period specified in the registration certificate or 90 days from the effective date of registration, whichever is earlier. In the present case, the Company obtained registration having validity of 45 days only.

**6. Option (c) The restriction of 180 days for payment of consideration is not applicable in the present case.****Reason**

In case of distinct persons having same PAN, the restriction of 180 days for payment of consideration is not applicable as per proviso to rule 37(1) of the CGST Rules, 2017.



**CASE SCENARIO 15**

Ecotech Solutions Private Limited is engaged in manufacturing and supply of energy products and solutions across multiple States in India. The Company manufactures solar panels and also imports certain category of solar panels as per the customer orders. The company also provides installation services and annual maintenance contracts for its products.

The Company received an advance payment for a bulk order of goods in March 2024, but the delivery was completed in May, 2024. The amount of advance received by the Company was ₹ 1 crore.

During the month of March 2024, the Company sold goods worth ₹ 5 crores and provided services amounting to ₹ 1 crore to its customers across India. The goods worth ₹ 1 crore sold under multiple invoices were returned by a customer due to defective quality in the month of March, 2024 which were originally sold by the Company in January, 2024. The Company issued a GST credit note against the returned goods in March, 2024.

The Company incurred an amount of ₹ 5 lakh on the repair of the returned goods to make them resalable in the market to customers other than a related party.

Further, the customers who returned the goods issued an invoice to Gujarat unit of the Company of ₹ 1 lakh for the expense related to return of goods. The goods were initially sold from the Gujarat unit of the Company but the same were returned to Maharashtra unit of the Company and subsequently moved by the Company from Maharashtra unit to Gujarat Unit i.e. the original place of supply. The Company is registered under GST in both the States i.e. Gujarat and Maharashtra.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 6 below:

**MULTIPLE CHOICE QUESTIONS**

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1. At what point of time, tax will be payable in relation to the advance received by the Company of ₹ 1 crore?
  - (a) The tax is payable at the time of receipt of advance.
  - (b) The tax is payable at the time of supply of goods.
  - (c) 50% of tax is payable at the time of receipt of advance.
  - (d) Tax is payable at the time of issuance of receipt voucher.
2. The total amount of supply during the month of March, 2024 to be reported in GSTR -1 by the Company is \_\_\_\_\_.
  - (a) ₹ 1 crore
  - (b) ₹ 5 crores
  - (c) ₹ 6 crores
  - (d) ₹ 7 crores
3. Which of the following options is correct in relation to the returned goods of value ₹ 1 crore ?
  - (a) Company has an option to issue single credit note against multiple invoices.
  - (b) Company has to mandatorily issue separate credit note against each invoice.
  - (c) The Company cannot issue credit note in any subsequent period after the supply is made.
  - (d) The Company can only issue a commercial credit note and GST adjustment cannot be made.
4. In case returned goods are sold by the Company to customers other than the related parties, the value of supply of such goods under GST shall be \_\_\_\_\_.
  - (a) equivalent to original value of supply only.
  - (b) equivalent to original value of supply plus the cost incurred on making the goods reusable

- (c) 110% of original value of supply plus the cost incurred on making the goods reusable.
  - (d) transaction value subject to the conditions mentioned in Section 15(2) of the CGST Act, 2017.
5. Which of the following option(s) is correct in relation to the invoice of ₹ 1 lakh issued by the customer for the expenses relating to returned goods?
- (a) The Company shall be eligible to avail full input tax credit.
  - (b) The Company shall not be allowed to avail input tax credit.
  - (c) The Company shall not be allowed to avail input tax credit in excess of 50% of the tax amount charged on such invoice.
  - (d) The Company shall be allowed to claim input tax credit only if it has not issued any credit note to the customer against such returned goods.
6. While moving the goods from Maharashtra unit to Gujarat unit by the Company, goods shall be accompanied by \_\_\_\_\_.
- (a) Original invoice issued in January, 2024
  - (b) Invoice issued by the returning customer to the Gujarat unit of the Company
  - (c) Invoice by Maharashtra unit to the Gujarat unit of the Company
  - (d) Delivery challan issued by the Customer to the Company.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** The tax is payable at the time of supply of goods

**Reason**

*Notification No. 66/2017 CT dated 15.11.2017* specifies that all taxpayers under forward charge (except composition suppliers and registered persons making supply of specified actionable claims) are not required to pay GST at the time of receipt of advance in relation to supply of goods. The entire GST shall become payable only when the invoice for the supply of such goods is issued or ought to have been issued.

Accordingly, ₹ 1 crore advance for supply of goods shall be liable to tax only at the time of supply of goods and not at the time of receipt of advance.

**2. Option (b)** ₹ 5 crores

**Reason**

The total amount of supply to be reported in GSTR 1 of March, 2024 is worked out as:

Supply of goods = ₹ 5 crores

Supply of services = ₹ 1 crore

Return of Goods sold in January, 2024 = ₹ 1 crore

Total supply to be reported in March 2024 =  $a+b-c = 5+1-1 = ₹ 5$  crores

**3. Option (a)** Company has an option to issue single credit note against multiple invoices.

**Reason**

As per the section 34(1) of the CGST Act, 2017, there is no requirement to match the credit notes with the invoices. A single credit note can be issued for multiple invoices as per the choice of the registered person.

**4. Option (d)** transaction value subject to the conditions mentioned in Section 15(2) of the CGST Act, 2017.

**Reason**

The goods being resold by the Company can be sold at any value to third party customer. The amount received from the customer shall be treated as transaction value liable to GST subject to the adjustments mentioned in section 15(2) of the CGST Act, 2017.

**5. Option (a)** The Company shall be eligible to avail full input tax credit.

**Reason**

The invoice of ₹ 1 lakh issued by the customer is in course or furtherance of business of the Company and accordingly, the ITC on the same cannot be disallowed unless the same is specifically blocked under GST provisions.

- 6. Option (c)** Invoice by Maharashtra unit to the Gujarat unit of the Company

**Reason**

The Gujarat and Maharashtra unit of the Company are distinct entities as per the provisions of GST Law, accordingly the movement of goods between the same shall be considered as inter-State supply of goods as per Schedule I of the CGST Act, 2017 and an invoice shall be issued by the dispatching unit to the receiving unit.

**CASE SCENARIO 16**

M/s. Maahi & Co., a LLP registered dealer under GST, is engaged in various types of business activities.

It provided GTA services to Government Department, registered under GST for providing various services. Maahi & Co. did not exercise the option to pay GST.

The firm provided service by way of renting of residential dwelling to the student, Mr. Pawan, an unregistered person.

M/s Maahi & Co let out its warehouse to Mr. Shankar, who in turn let out to an agriculturist for warehousing of agricultural produce. The firm also undertakes catering service to "Vishwas" Anganwadi. The said Anganwadi has received fundings from the Government.

The firm purchased the following goods during the month of July:-

- (a) Capital goods amounting to ₹ 45,000 purchased on which depreciation has been taken on full value including GST paid thereon.
- (b) Raw materials purchased amounting to ₹ 55,000 for which invoice is missing but delivery challan is available.

Further, for the month of July, the GST liability of the firm was ₹ 20,000 IGST; ₹ 10,000 CGST; ₹ 10,000 SGST. The following credits were available in the said month-

IGST: ₹ 8,000

CGST: ₹ 12,000

SGST: ₹ 5,000

All the amounts given above are exclusive of taxes, wherever applicable. All the supply referred to above is intra-State unless specified otherwise. Conditions for availing ITC are fulfilled subject to the information given above.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 5 below:-

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**MULTIPLE CHOICE QUESTIONS**

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1. Choose the correct statement(s).
  - (i) For GTA services, Government is liable to pay GST under reverse charge
  - (ii) For renting services, Mr. Pawan is liable to pay GST under reverse charge
  - (iii) For GTA services, Maahi & Co is liable to pay GST under forward charge
  - (iv) For renting services, Maahi & Co is liable to pay GST under forward charge
  - (a) i & ii
  - (b) iii & iv
  - (c) i & iv
  - (d) ii & iii
2. Which of the following options is correct in respect of GTA services provided to Government Department?
  - (a) GTA service is taxable @ 12% without restriction of availing input tax credit.
  - (b) GTA service is taxable @ 12%, but input tax credit cannot be availed for the same.
  - (c) GTA service is taxable @ 5% without restriction of availing input tax credit.
  - (d) GTA service is taxable @ 5%, but input tax credit cannot be availed for the same.
3. Which of the following statements is correct:-
  - (i) Letting out of warehouse to Shankar is exempt
  - (ii) Catering service to "Vishesh" Anganwadi is exempt
  - (iii) Letting out of warehouse to Shankar is not exempt

- (iv) Catering service to "Vishesh" Anganwadi is not exempt
  - (a) i & ii
  - (b) iii & iv
  - (c) i & iv
  - (d) ii & iii
4. M/s Maahi & Co is eligible to claim input tax credit on the procurement value of \_\_\_\_\_.
- (a) ₹ 45,000
  - (b) ₹ 55,000
  - (c) ₹ 1,00,000
  - (d) Nil
5. Compute the GST liability of the firm for July to be paid in cash, if rule 86B of the CGST Rules, 2017 is not applicable?
- (a) IGST: ₹ 10,000; CGST: Nil, SGST: ₹ 5000
  - (b) IGST: ₹ 12,000; CGST: Nil; SGST: ₹ 5000
  - (c) IGST: Nil; CGST: ₹ 10,000, SGST: ₹ 5000
  - (d) IGST: ₹ 5,000; CGST: Nil, SGST: ₹ 10,000

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

**1. Option (c) i & iv**

**Reason**

Service provided by any person by way of renting of residential dwelling to a registered person is taxable under reverse charge.

GTA services are liable to reverse charge as reverse charge mechanism (RCM) does not apply to services provided by a GTA, by way of transport of goods in a goods carriage by road to a Department of the Central Government/ State Government which has taken registration under the



CGST Act only for the purpose of deducting tax under section 51 of the CGST Act, 2017 and not for making a taxable supply of goods or services.

In the given case, Government department is registered under GST for providing various services.

2. **Option (d)** GTA service is taxable @ 5%, but input tax credit cannot be availed for the same.

**Reason**

Where GTA does not exercise the option to itself pay GST, GTA service is taxable @ 5%. Further input tax credit (ITC) on goods or services used in supplying GTA service cannot be availed by GTA in this case.

3. **Option (d)** ii & iii

**Reason**

Services provided to an educational institution by way of serving of food (catering including mid- day meals) is exempt from levy of GST irrespective of its funding from government grants or corporate donations.

Hence, serving of food to anganwadi shall also be covered by said exemption, whether sponsored by government or through donation from corporates.

Warehousing rental services are provided to Mr. Shankar who is not an agriculturist and hence the services are not exempt.

4. **Option (d)** Nil

**Reason**

Depreciation has been claimed on the total value including the value of GST and hence input tax credit cannot be claimed on capital goods.

Further, without availability of invoice, input tax credit related to raw material cannot be claimed.

**5. Option (a)** IGST: ₹ 10,000; CGST: Nil, SGST: ₹ 5000**Reason**

Available IGST credit in the credit ledger should first be utilized towards payment of IGST. Entire ITC of IGST is to be fully utilised first before the ITC of CGST or SGST/UTGST can be utilized.

Available CGST Credit in the credit ledger shall first be utilized for payment of CGST. The remaining amount if any, will be utilized for payment of IGST.

Available SGST /UTGST credit in the credit ledger shall first be utilized for payment of SGST/UTGST. Remaining amount if any, will be utilized for payment of IGST, only when credit of CGST is not available for payment of IGST.

**CASE SCENARIO 17**

M/s. Veena & Co. of Jabalpur was registered under GST under composition scheme. Outward Supply of the firm for the month of July 2024 was ₹10 lakh. Out of which ₹ 2 lakh was supply of repairing services. In the preceding financial year, the firm was doing trading of taxable goods only. Turnover of the concern for the previous financial year was ₹ 100 lakh.

The firm imported the following services during August, 2024:

- (a) Architect services from Mr. Vinod, a partner of the firm, who resides in France for ₹ 1,00,000. The said service was paid but not used for the furtherance of the business.
- (b) Management consultancy services from Mr. Lal, a renowned lawyer in Sweden, who was an ex-employee of the firm. The value of the said service was ₹ 3,00,000. Even though it was used in the furtherance of the business, no consideration was paid by the firm.

Aggregate turnover of the firm crossed the limit of ₹ 150 lakhs on 25.09.2024 from which date the firm was liable to pay tax under regular scheme.

All the amounts given above are exclusive of taxes wherever applicable. All the supply referred above is intra-State unless specified otherwise.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 3 below:-

**MULTIPLE CHOICE QUESTIONS**

1. Tax liability of Veena & Co. for the month of July 2024 is ₹\_\_\_\_\_each under CGST and SGST.
  - (a) 5,000
  - (b) 9,000
  - (c) 10,000
  - (d) 14,000

2. Import of services by Veena & Co. that will be treated as supply is ₹ \_\_\_\_\_.  
(a) Nil  
(b) 1,00,000  
(c) 3,00,000  
(d) 4,00,000
3. Veena & Co. will be eligible to claim ITC held on Stock and Capital goods as on \_\_\_\_\_.  
(a) 01-09-2024  
(b) 24-09-2024  
(c) 25-09-2024  
(d) 30-09-2024

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** 5,000

**Reason**

The second proviso to section 10(1) of the CGST Act, 2017 permits marginal supply of services [other than restaurant services – not supplying alcoholic liquor for human consumption] for a specified value along with the supply of goods and/or restaurant service, as the case may be. This specified value is value not exceeding:

- (a) 10% of the turnover in a State/U.T. in the preceding financial year  
or  
(b) ₹ 5 lakh,

whichever is higher.

In the present case, composition scheme is available for the month of July and thus, tax shall be applicable at the rate of 1 % [CGST + SGST] of turnover of taxable supplies of goods & services in the State.

**2. Option (b) 1,00,000****Reason**

Supply includes importation of services for consideration whether or not in course or furtherance of business [Section 7(1)(b) of the CGST Act, 2017]. Thus, the services from Mr. Vinod is a supply.

Import of services by a person from a related person or from his establishments located outside India, without consideration, in the course or furtherance of business shall be treated as "supply" as per Schedule I of the CGST Act, 2017.

In the given case, Mr. Lal is not a related person and therefore his service is not a supply.

**3. Option (b) 24-09-2024****Reason**

As per section 18(1)(c) of the CGST Act, 2017, the registered person is entitled to input tax credit from the day immediately preceding the date from which he becomes liable to pay tax under regular scheme.

**CASE SCENARIO 18**

Pawan was engaged in providing various services within the State of Rajasthan since May 2024. His Aggregate turnover crossed the threshold limit on 04.07.2024. He applied for registration under GST on 02.08.2024. He got his GST registration on 10.08.2024.

After taking registration, Pawan started a business across India including supply of goods also. He dispatched goods pan India based on orders he got for the goods dealt by him.

He received an order from Delhi for which he supplied taxable goods valuing ₹45,000. The applicable rate of IGST was 12%. He also supplied certain exempted goods valuing ₹ 4,000. He made one invoice for both taxable as well as exempted supply made to Delhi.

He asked his tax consultant for the requirement of the generation of e-way bill for this order. The tax consultant informed him that the requirement of e-way bill is based on consignment value of goods supplied.

Even being a micro enterprise, Pawan did not receive timely payment from his customers because of which he ran into severe cash crunch and eventually could not make on-time payment to his suppliers. As a result, he decided to shut down his business and got placed in a software company as a senior programmer executive.

While shutting down his business, he informed his tax consultant to cancel the GST registration. The tax consultant surrendered his registration online on GST Portal on 25.10.2024 and his application for cancellation was approved by the Proper Officer on 31.10.2024.

All the amounts given above are exclusive of taxes wherever applicable.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 3 below:-

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**MULTIPLE CHOICE QUESTIONS**

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1. Effective date of registration of Pawan is \_\_\_\_\_.
  - (a) 04.07.2024
  - (b) 02.08.2024
  - (c) 03.08.2024
  - (d) 10.08.2024
2. Consignment value of goods supplied to Delhi by Pawan is ₹ \_\_\_\_\_.
  - (a) 45,000
  - (b) 49,000
  - (c) 50,400
  - (d) 54,400
3. Due date by which Pawan is supposed to file Final return under GST is \_\_\_\_\_.
  - (a) 25.11.2024
  - (b) 30.11.2024
  - (c) 25.01.2025
  - (d) 31.01.2025

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (a)** 04.07.2024

**Reason**

As per rule 10 of the CGST Rules, 2017, where a person submits the application for registration within 30 days of becoming liable for registration, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration.

**2. Option (c) 50,400****Reason**

As per Explanation 2 to Rule 138(1) of the CGST Rules, 2017, consignment value of goods shall be the value:

- determined in accordance with the provisions of section 15 of the CGST Act, 2017,
- declared in an invoice, a bill of supply or a delivery challan, as the case may be, issued in respect of the said consignment and
- also includes the Central tax, State or Union territory tax, integrated tax and cess charged, if any, in the document and
- shall exclude the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods.

Thus, consignment value in the given case = ₹ 45,000 x 112% = ₹ 50,400

**3. Option (d) 31.01.2025****Reason**

As per section 45 of the CGST Act, 2017, the final return has to be filed within 3 months of the:

- (i) date of cancellation
  - or
  - (ii) date of order of cancellation
- whichever is later.



### CASE SCENARIO 19

KBC Insurance Ltd., is an insurance company providing life and non-life insurance products across India. The company has been carrying on its business for the past three years with the approval of IRDA.

KBC Insurance Ltd. secure its business through various insurance agents spread across India. Those agents include individuals, firm, LLP and private limited company also. However, all of them are licensed under the Insurance Act.

The company availed services of renting of motor vehicles for its employees in PAN India through 'RR Travels Private Limited', where cost of fuel is included in the consideration charged. The service provider charged 5% GST and informed the company that it is claiming ITC only in respect of the same line of business.

KBC Insurance Ltd. provided the following details of insurance business for the month of May-

Sl. No.	Nature of receipt	Amount in ₹
i.	Premium received on Pradhan Mantri Jan Dhan Yojana	5,00,000
ii.	Premium received on Aam Aadmi Bima Yojana	3,00,000
iii.	Premium received on Life micro-insurance product having a sum assured of ₹ 2.50 lakh	4,00,000
iv.	Premium received on reinsurance of Group Personal Accident Policy for Self-Employed Women	1,00,000
v.	Premium received on Fire and Special perils policy of various business units	7,00,000
vi.	Premium received on Money-back policies issued	12,00,000

KBC Insurance Ltd. received a proposal for Pandemic Insurance for IPL matches from the franchisees. Sum assured for said insurance was ₹ 250 crores with a premium of ₹ 50 lakh. The company issued the said policy on 1<sup>st</sup> July. The invoice for the same was issued on 5<sup>th</sup> August. Premium was received on 14<sup>th</sup> August.

KBC Insurance Ltd. received the following supplies in the month of May and the details of GST paid on such supplies are as follows-

- i GST paid on purchase of car for use of Managing Director – ₹ 5,00,000
- ii GST paid on bus (seating capacity for 14 persons) purchased by the company for transportation of its employees from their residence to office and back – ₹ 3,00,000
- iii GST of ₹ 80,000 was paid on general insurance taken from Amity Insurance Ltd. for motor vehicles for transportation of persons with seating capacity ≤ 13 persons (including the driver) which were used in transportation of staff of the company.

All the amounts given above are exclusive of taxes wherever applicable. All the supplies referred above are intra-State unless specified otherwise. The company has a policy to claim input tax credit (ITC) for all the capital goods, where it is eligible to avail ITC on such capital goods. Aggregate turnover of the company is not less than ₹ 10 crores for the past three years. Conditions necessary for availment of ITC are fulfilled subject to the information given.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 5 below:-

### **MULTIPLE CHOICE QUESTIONS**

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1. Determine the services on which the company is liable to pay tax under reverse charge?
  - (a) Service availed from insurance agents
  - (b) Service availed from RR Travels Private Limited
  - (c) None of the services availed attracts RCM
  - (d) Both (a) & (b)
2. Compute the total value of exempt supply provided by KBC Insurance Ltd. for the month of May?
  - (a) ₹ 9,00,000
  - (b) ₹ 13,00,000
  - (c) ₹ 20,00,000
  - (d) ₹ 32,00,000

- 
3. Compute the total value of taxable supply made by KBC Insurance Ltd. for the month of May?
- (a) ₹ 4,00,000
  - (b) ₹ 12,00,000
  - (c) ₹ 23,00,000
  - (d) ₹ 32,00,000
4. Determine the amount of ITC that can be claimed by KBC Insurance Ltd?
- (a) ₹ 80,000
  - (b) ₹ 3,00,000
  - (c) ₹ 3,80,000
  - (d) ₹ 8,80,000
5. Determine the time of supply of service provided to IPL franchisees?
- (a) 1<sup>st</sup> July
  - (b) 16<sup>th</sup> August
  - (c) 05<sup>th</sup> August
  - (d) 14<sup>th</sup> August

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (a)** Service availed from Insurance Agents

**Reason**

Services availed from insurance agent is covered under reverse charge. Renting of motor vehicle is not covered under reverse charge as the service is provided by a body corporate.

2. **Option (a)** ₹ 9,00,000

**Reason**

Insurance services under following schemes is exempted-

- Aam Aadmi Bima Yojana; [Entry 36 of Exemption Notification No. 12/2017 CT(R) dated 28.06.2017]

- Life micro-insurance product as approved by the Insurance Regulatory and Development Authority (IRDA), having maximum amount of cover of ₹ 2,00,000; [Entry 36 of Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*]
- Pradhan Mantri Jan Dhan Yojana; [Entry 36 of Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*]
- Group Personal Accident Policy for Self-Employed Women [Entry 35 of Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*]

**3. Option (c) ₹ 23,00,000**

**Reason**

All the services for insurance other than the following are taxable:

Insurance services under following schemes is exempted-

- Aam Aadmi Bima Yojana; [Entry 36 of Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*]
- Life micro-insurance product as approved by the Insurance Regulatory and Development Authority (IRDA), having maximum amount of cover of ₹ 2,00,000; [Entry 36 of Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*]
- Pradhan Mantri Jan Dhan Yojana; [Entry 36 of Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*]
- Group Personal Accident Policy for Self-Employed Women [Entry 35 of Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017*]

**4. Option (c) ₹ 3,80,000**

**Reason**

ITC on motor vehicles for transportation of persons with seating capacity ≤ 13 persons (including the driver) is blocked except when the same are used for

- (i) making further taxable supply of such motor vehicles
- (ii) making taxable supply of transportation of passengers

- (iii) making taxable supply of imparting training on driving such motor vehicles.

Thus, the input tax credit on purchase of car is blocked under section 17 of the CGST Act, 2017.

ITC on motor vehicles for transportation of persons with seating capacity > 13 persons (including the driver) used for any purpose is allowed. Thus, ITC on bus is allowed.

As per section 17(5)(ab) of the CGST Act, 2017, the input tax credit in respect of services of general insurance in so far as they relate to motor vehicles is available where received by a taxable person engaged in the supply of general insurance services in respect of such motor vehicles insured by him.

Thus, insurance related input tax credit is available as the ITC in respect of such goods and/or services shall be available where an inward supply of such goods and/or services is used by a registered person for making an outward taxable supply of the same category of goods/services as per Section 17 of the CGST Act, 2017.

**5. Option (c) 5<sup>th</sup> August**

**Reason**

As per section 31 of the CGST Act, 2017 read with the rule 47 of the CGST Rules, 2017 in case of taxable supply of services, invoices should be issued before or after the provision of service, but within a period of 45 days in case of insurer/ banking company or financial institutions including NBFCs from the date of supply of service.

As per section 13(2)(a) of the CGST Act, 2017, time of supply of services is the date of issue of invoice by the supplier, if the invoice is issued within the period prescribed under section 31 of the CGST Act, 2017 or the date of receipt of payment, whichever is earlier.

In the given case, since the invoice has been issued within 45 days of provision of service i.e. 1<sup>st</sup> July and hence the invoice issuance date shall be considered as the time of supply.

**CASE SCENARIO 20**

M/s Aditi & Co, a partnership firm registered under GST, is undertaking various Government projects.

The firm has let out on hire the following vehicles-

- i. A motor vehicle to carry more than 15 passengers to the State Government Electricity Department
- ii. An electric operated vehicle to carry more than 12 passengers to Local Municipal Corporation
- iii. An electric operated vehicle to carry up to 12 passengers to State Transport Undertaking

The firm issued invoices pertaining to two independent outward supplies, where in one invoice value of supply was understated by ₹ 75,000 and in another invoice, value was overstated by ₹ 45,000.

The firm received certain supply of goods amounting to ₹ 8,40,000 from registered persons on which tax was payable under reverse charge basis.

All the amounts given above are exclusive of taxes, wherever applicable. All transactions referred to above are intra-State. All the conditions for availing ITC have been fulfilled subject to the information given above.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 3 below:-

**MULTIPLE CHOICE QUESTIONS**

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1. In respect of vehicles let out on hire by the firm, services that are exempt from GST are \_\_\_\_\_.
  - (i) Letting on hire a motor vehicle to the State Electricity Department
  - (ii) Letting on hire an electric operated vehicle to Local Municipality
  - (iii) Letting on hire an electric operated vehicle to State Transport Undertaking

- 
- (a) (i)
- (b) (ii)
- (c) (i) and (iii)
- (d) (ii) and (iii)
2. Which of the following is correct in respect of document to be issued by the firm for understatement and overstatement of invoice value?
- (i) Debit note is to be issued for ₹ 75,000.
- (ii) Credit note is to be issued for ₹ 75,000.
- (iii) Debit note is to be issued for ₹ 45,000.
- (iv) Credit note is to be issued for ₹ 45,000.
- (a) i & iii
- (b) ii & iii
- (c) i & iv
- (d) ii & iv
3. Which of the following statements is correct in respect of supply of goods amounting to ₹ 8,40,000 received by the firm which are taxable under reverse charge?
- (i) Firm shall issue a payment voucher at the time of making payment to supplier.
- (ii) Firm shall issue a delivery challan for supply of goods.
- (iii) Firm shall issue receipt voucher at the time of making payment to supplier.
- (iv) Firm is not required to issue any document in respect of such supply.
- (a) i
- (b) i & ii
- (c) ii & iii
- (d) iv

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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**1. Option (b) (ii)****Reason**

Services by way of giving on hire –

- (a) to a state transport undertaking (STU), a motor vehicle meant to carry more than 12 passengers;
- (aa) to a local authority, an Electrically operated vehicle (EOV) meant to carry more than 12 passengers

are exempt from GST [Entry 22 of *Exemption Notification No. 12/2017 CT(R) dated 28.06.2017*].

**2. Option (c) i & iv****Reason**

As per Section 34 of the CGST Act, 2017, debit note is issued for under-valued invoices and credit note is issued for invoices where the value has exceeded the actual value of supply.

**3. Option (a) i**

As per section 31(3)(g) of the CGST Act, 2017, a registered person who is liable to pay tax under reverse charge shall issue a payment voucher at the time of making payment to the supplier.



**CASE SCENARIO 21**

MM Charitable Trust is registered under section 12AB of the Income-tax Act, 1961.

The trust conducted a three-day residential yoga camp among people on international yoga day for the advancement of yoga and charged ₹ 7,500 per person inclusive of stay and food.

The trust also conducted programmes for the advancement of education of people aged above 65 years in metro cities. A nominal fee was charged for the same.

The trust received the following donations during the month of September: -

- i. Mr. Sunil Sharma, proprietor of Solid Steels donated a RO water plant to the trust costing ₹ 75,000 and displayed his firm name in the RO system installed at the premises of the trust as "Donated by Mr. Sunil, owner of Solid Steels -trusted by all'.
- ii. Mr. Prasanna, a lawyer, donated chairs to the trust costing ₹ 25,000 and 'Love all' is printed on all chairs donated by him to the trust.

MM Charitable Trust also owns and manages a gurudwara. It rented the community hall located in the precincts of the gurudwara for a rent of ₹ 8,500 per day for a marriage function. It also rented the commercial shop located in the precincts of the gurudwara for a rent of ₹ 10,000 per month per shop.

You can assume that the Trust is registered under GST and all the transactions are intra-State only. Conditions for availing ITC are fulfilled subject to the above- mentioned information.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 3 below:-

**MULTIPLE CHOICE QUESTIONS**

1. Which of the following activities conducted by trust is exempt from GST?
  - (a) Advancement of Yoga
  - (b) Advancement of education

- (c) Both (a) and (b)
  - (d) Neither of the activities
2. Determine the value of taxable supply in respect of donations received by the Trust?
- (a) ₹ 25,000
  - (b) ₹ 75,000
  - (c) ₹ 1,00,000
  - (d) Nil
3. Which of the following statements is/are correct under GST law in respect of gurudwara managed by MM Charitable Trust?
- (a) Renting of community hall is taxable while renting of commercial shop is exempt.
  - (b) Renting of community hall is exempt while renting of commercial shop is taxable.
  - (c) Both renting of community hall and renting of commercial shop are taxable.
  - (d) Both renting of community hall and renting of commercial shop are exempt.

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (a)** Advancement of Yoga

**Reason**

Advancement of yoga by charitable trust is exempted. However, the advancement of education is in metro cities and thus, not exempted. [Entry 1 of Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017.*]

2. **Option (b)** ₹ 75,000

**Reason**

If donation is received with specific instructions/mutual understanding between the donor and the receiver that the same will advertise or promote business of the donor, such donation will be subject to GST.

3. **Option (b)** Renting of community hall is exempt while renting of commercial shop is taxable.

**Reason**

Services by a person by way of renting of precincts of a religious place meant for general public, owned/managed by institutions/entities/trusts, registered under section 12AB of the Income tax Act is exempt except where-

- (i) charges for renting of premises, community halls, etc. are  $\geq$  ₹ 10,000 per day;
- (ii) charges for renting of shops/spaces for business/commerce are  $\geq$  ₹ 10,000 per month.

Since rent of commercial shop is ₹ 10,000 per month, so same is taxable.

**CASE SCENARIO 22**

Vedanshi & Co., a partnership firm, is engaged in retail trade since 1<sup>st</sup> April. The firm became liable for registration on 1<sup>st</sup> October. However, it applied for registration on 10<sup>th</sup> October. It had inputs held in stock, semi-finished and finished goods. The firm was granted certificate of registration on 5<sup>th</sup> November.

Vedanshi & Co. needs to transport one consignment to the transporter and then to the consignee. The distance, within the same state, between godown of the firm and the transporter is 20 kms and from the place of transporter to consignee is 99 kms, respectively.

Also, while filing return for the month of November, the firm generated E-Challan on 5<sup>th</sup> December for making payment of GST through RTGS of their bank.

All the supplies referred above are intra-State unless specified otherwise. Conditions applicable for availment of ITC are fulfilled subject to the information given above.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 4 below:-

**MULTIPLE CHOICE QUESTIONS**

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1. Determine the effective date of registration of Vedanshi & Co.?
  - (a) 1<sup>st</sup> April
  - (b) 1<sup>st</sup> October
  - (c) 10<sup>th</sup> October
  - (d) 5<sup>th</sup> November
2. Vedanshi & Co. is eligible to claim ITC in respect of inputs held in stock as on-
  - (a) 30<sup>th</sup> September
  - (b) 1<sup>st</sup> October

- (c) 10<sup>th</sup> October
  - (d) Not eligible to claim ITC
3. Which of the following statements is true in respect of furnishing of details of conveyance in Part B of e- way bill?
- (a) Part B need not be filed in respect of transport of consignment from Godown of Vedanshi & Co. to transporter location.
  - (b) Part B need not be filed in respect of transport of consignment from transporter location to consignee's location.
  - (c) Information in Part-B is neither required in transport of consignment from Godown of Vedanshi & Co. to transporter location nor from transporter location to consignee's location.
  - (d) Information in Part-B is mandatory in transport of consignment from Godown of Vedanshi & Co. to transporter location and from transporter location to consignee's location.
4. Determine the validity of E-Challan generated by Vedanshi & Co. for payment of taxes for the month of November?
- (a) 5<sup>th</sup> December
  - (b) 15<sup>th</sup> December
  - (c) 20<sup>th</sup> December
  - (d) 31<sup>st</sup> December

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** 1<sup>st</sup> October

**Reason**

As per rule 10 of the CGST Rules, 2017, where a person submits the application for registration within 30 days of becoming liable for registration, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration.

**2. Option (a) 30<sup>th</sup> September****Reason**

As per section 18(1)(a) of the CGST Act, 2017, person who has applied for registration within 30 days from the date on which he becomes liable to registration and has been granted such registration shall be eligible for input tax credit on inputs held in stock and inputs contained in semi-finished or finished goods held in stock from the day immediately preceding the date from which he becomes liable to pay tax.

**3. Option (a) Part B need not be filed in respect of transport of consignment from Godown of Vedanshi & Co. to transporter location.****Reason**

Details of conveyance may not be furnished in Part-B of the e-way bill where the goods are transported for a distance of upto 50 km within the State/Union territory:

- from the place of business of the consignor to the place of business of the transporter for further transportation or
- from the place of business of the transporter finally to the place of business of the consignee

**4. Option (c) 20<sup>th</sup> December****Reason**

Rule 87(2) of the CGST Rules, 2017 provides that challan generated at the common portal shall be valid for a period of 15 days.

**CASE SCENARIO 23**

M/s. Shanky Consultants, a partnership firm, registered in Delhi, as a regular taxpayer, renders the following services during the year:

- (i) Security services: ₹ 2,00,00,000 to registered business entities.
- (ii) Manpower services (Accountants): ₹ 5,00,000
- (iii) Auditing services: ₹ 1,00,00,000

Other Information:

- (i) Shanky Consultants also paid sponsorship fees of ₹ 70,000 at seminar organized by Banarsidas Private Limited in Delhi.
- (ii) Shanky Consultants pays rent amounting to ₹ 6,00,000 for a building owned by Municipal Corporation of Delhi.
- (iii) Assume all services are taxable at 18% and all transactions to be intra-State supplies.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 3 below:-

**MULTIPLE CHOICE QUESTIONS**

1. What is the aggregate turnover of Shanky Consultants?
  - (a) ₹ 3,05,00,000
  - (b) ₹ 3,05,70,000
  - (c) ₹ 1,05,00,000
  - (d) ₹ 1,05,70,000
2. GST liability paid under reverse charge by Shanky Consultants is?
  - (a) CGST: ₹ 60,300, SGST: ₹ 60,300
  - (b) CGST: ₹ 6,300, SGST: ₹ 6,300
  - (c) CGST: ₹ 54,000, SGST: ₹ 54,000
  - (d) CGST: ₹ 2,40,300, SGST: ₹ 2,40,300

3. State which of the following statements is true in respect of security services provided by Shanky Consultants to registered business entities:
- (a) Shanky Consultants shall issue GST compliant tax invoice.
  - (b) Shanky Consultants shall issue bill of supply stating "Tax to be paid by service recipient under reverse charge".
  - (c) Shanky Consultants can issue any document in lieu of tax invoice.
  - (d) Shanky Consultants shall issue receipt voucher every time, it receives payment.

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (a)** ₹ 3,05,00,000

**Reason**

Aggregate turnover includes all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-State supplies of persons having the same Permanent Account Number.

In the present case, while the outward security services are liable to GST under reverse charge but the same shall form part of the turnover.

Thus, Aggregate turnover = ₹ 2 crore + ₹ 5 lakh + ₹ 1 crore = ₹ 3,05,00,000.

2. **Option (a)** CGST: ₹ 60,300, SGST: ₹ 60,300

**Reason**

As per entry 4 of Reverse Charge *Notification No. 13/2017 CT (R) dated 28.06.2017* -Reverse Charge Mechanism (RCM) is applicable on services provided by any person by way of sponsorship service to any body corporate or partnership firm located in the taxable territory.

Further, as per entry 5A of Reverse Charge *Notification No. 13/2017 CT (R) dated 28.06.2017* - RCM is applicable on services supplied by Central Government, State Government, Union territory or local authority by way of renting of immovable property to a person registered under the CGST Act, 2017.



Hence liability under RCM is 9% of [₹ 70,000 + ₹ 6,00,000] = ₹ 60,300 CGST & SGST each.

Further, the security services provided by any person other than a body corporate to a registered person, located in the taxable territory are liable to tax under reverse charge in the hands of the recipient of services as per Entry 14 of Reverse Charge Notification No. 13/2017 CT (R) dated 28.06.2017.

- 3. Option (a)** Shanky Consultants shall issue GST compliant tax invoice.

**Reason**

Since Shanky consultants is registered under GST, a tax invoice as per Section 31 of the CGST Act, 2017 read with rule 46 of the CGST Rules, 2017, shall be issued.

**CASE SCENARIO 24**

PTL Pvt. Ltd. is a registered company and have retail store of merchandise located in 25 States in the country. For the purpose of clearance of stock of merchandise and to attract consumers, PTL Pvt. Ltd. launched scheme of "Buy One Get One Free" for the same type of merchandise, for instance, one shirt to be given free with purchase of one shirt. For saving cost, PTL Pvt. Ltd. directly purchases merchandise from the manufacturers.

In the month of May, to save employee cost, PTL Pvt. Ltd. purchased a tempo traveller worth ₹ 12,00,000 with seating capacity of 25 persons (including driver) for transportation of its employees. Further, to ensure the well-being of its employees, PTL Pvt. Ltd. voluntarily obtained the health insurance cover of ₹ 2,00,000 for each employee in the same month. The premium of ₹ 1,500 per employee has been paid by the company for 100 employees.

In the month of July, Mr. Raghav, a customer of the company, filed a law suit in the Court, against the company for not supplying goods of the value of ₹ 1,00,000. PTL Pvt. Ltd. engaged Mr. Ram, an advocate, to represent it in Court for an agreed consideration of ₹ 25,000. As per the terms of the contract, Mr. Ram issued an invoice on 5<sup>th</sup> July. However, consideration was not paid till February next year.

All the amounts given above are excluding taxes and all transactions are intra-State transactions. Rates of taxes are CGST - 9% and SGST – 9%. However, for tempo traveller, the rates of taxes are CGST - 14% and SGST – 14%.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 3 below:

1. With respect to "Buy One, Get One free" offer, which of the following statements is true:
  - (a) It will not be considered as supply at all since no consideration is involved in one of the items.
  - (b) Supply of item for which consideration is charged is a supply under section 7 of the CGST Act, 2017 while supply of the other item supplied free of cost is not a supply.

- 
- (c) These are two individual supplies where a single price is charged for the entire supply. Since a single price is charged, the same will always be taxed as a mixed supply.
- (d) These are two individual supplies where a single price is charged for the entire supply. Their taxability will depend upon as to whether the supply is a composite supply or a mixed supply.
2. Eligible input tax credit for the month of May (i) on the purchase of tempo traveller and (ii) on health insurance premium paid (assuming that all other conditions, for availing input tax credit have been complied with) is:
- (a) (i) CGST - Nil, SGST - Nil and (ii) CGST - Nil, SGST - Nil
- (b) (i) CGST - ₹ 1,68,000, SGST - ₹ 1,68,000 and (ii) CGST - Nil, SGST - Nil
- (c) (i) CGST - Nil, SGST - Nil and (ii) CGST - ₹ 18,000, SGST - ₹ 18,000
- (d) (i) CGST - ₹ 1,68,000, SGST - ₹ 1,68,000 and (ii) CGST - ₹ 18,000, SGST - ₹ 18,000
3. Which of the following statements is true in respect of the services of advocate availed by the company?
- (a) CGST-₹ 2,250 and SGST-₹ 2,250 on advocate services are payable by PTL Pvt Ltd. ITC availed thereon is to be added to its output tax liability with interest as consideration along with tax is not paid within 180 days of the issuance of invoice.
- (b) CGST-₹ 2,250 and SGST- ₹ 2,250 on advocate services are payable by Mr. Ram. ITC availed thereon is to be added to output tax liability of PTL Pvt Ltd. with interest as consideration along with tax is not paid within 180 days of the issuance of invoice.
- (c) CGST-₹ 2,250 and SGST- ₹ 2,250 on advocate services are payable by PTL Pvt. Ltd. The condition of payment of consideration along with tax within 180 days of the issuance of invoice does not apply in the given case.
- (d) CGST-₹ 2,250 and SGST- ₹ 2,250 on advocate services are payable by Mr. Ram. The condition of payment of consideration along with tax within 180 days of the issuance of invoice does not apply in the given case.

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (d)** These are two individual supplies where a single price is charged for the entire supply. Their taxability will depend upon as to whether the supply is a composite supply or a mixed supply.

**Reason**

*Circular No. 92/11/2019 GST dated 07.03.2019* has clarified the entitlement of ITC in the hands of supplier in respect of sales promotional scheme like 'buy one get one free'. Such promotional offers are not individual supplies of free goods, but a case of two or more individual supplies where a single price is being charged for the entire supply. It can at best be treated as supplying two goods for the price of one.

Taxability of such supply will be dependent upon as to whether the supply is a composite supply or a mixed supply and the rate of tax shall be determined as per the provisions of section 8 of the CGST Act, 2017.

2. **Option (b)** (i) CGST - ₹ 1,68,000, SGST - ₹ 1,68,000 and (ii) CGST - Nil, SGST - Nil

**Reason**

Only motor vehicles for transportation of persons with seating capacity  $\leq$  13 persons (including the driver) is blocked as per section 17(5) of the CGST Act, 2017. Further, same is used for business purpose, so admissible ITC = CGST-₹ 1,68,000, SGST-₹ 1,68,000

Health insurance- When such goods and/or services are provided by the employer to its employees without any statutory obligation, ITC thereon is blocked as per section 17(5) of the CGST Act, 2017.

3. **Option (c)** CGST-₹ 2,250 and SGST- ₹ 2,250 on advocate services are payable by PTL Pvt. Ltd. The condition of payment of consideration along with tax within 180 days of the issuance of invoice does not apply in the given case.

**Reason**

Services provided by an individual advocate including a senior advocate or firm of advocates by way of legal services, directly or indirectly to any business entity located in the taxable territory is payable under reverse charge.

Further, as per 2<sup>nd</sup> proviso to section 16(2) of the CGST Act, 2017, the requirement of reversing input tax credit on account of non-payment to the supplier of services within 180 days is not applicable in case of services liable to GST under reverse charge.

### CASE SCENARIO 25

Ms. Neha is engaged in the supply of services. She is registered under GST and has opted to pay tax under the composition scheme for service provider under section 10(2A) of the CGST Act. The turnover for the quarter ending June was ₹ 12,00,000.

During July, she crossed the aggregate turnover of ₹ 50 lakh and opted out of composition scheme. She also started trading of goods in July.

She supplied an order to Breathe Well LLP on ex-factory basis, the details of which are as follows-

- |      |  |            |
|------|--|------------|
| i.   | Basic price of the product   | – ₹ 53,000 |
| ii.  | Outward freight  | – ₹ 12,000 |
| iii. | Packing Charges  | – ₹ 5,000  |
| iv.  | Discount given on receiving payment  | – ₹ 2,000  |
|      | (not included in the invoice and there was not any agreement for the same) |            |

For supplies, provided to Breathe Well LLP, she received half of the amount in advance on 22<sup>nd</sup> July. The goods were dispatched from her factory on 25<sup>th</sup> July and delivered on 28<sup>th</sup> July. She raised the invoice on 30<sup>th</sup> July and the balance payment was also received on the same date.

Ms. Neha supplied goods to the following persons-

Sl. No.	Recipient	Value of Supply
1	Mr. Pawan - an unregistered person	₹ 150
2	Mr. Umesh, a registered person	₹ 110
3	Rains Trust, an unregistered entity	₹ 250

None of the above persons requires a tax invoice.

All the amounts given above are exclusive of taxes, wherever applicable. All the supplies referred above are intra-State unless specified otherwise. Conditions

applicable for availment of ITC are fulfilled subject to the information given above.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 4 below:

**MULTIPLE CHOICE QUESTIONS**

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1. Compute the tax liability for the quarter ending June under CGST and SGST?
  - (a) ₹ 30,000 each
  - (b) ₹ 12,000 each
  - (c) ₹ 6,000 each
  - (d) ₹ 36,000 each
2. Compute the value of Supply made by Ms. Neha to Breathe Wall LLP?
  - (a) ₹ 56,000
  - (b) ₹ 58,000
  - (c) ₹ 68,000
  - (d) ₹ 70,000
3. Determine the time of supply made to Breathe Wall LLP?
  - (a) 22<sup>nd</sup> July
  - (b) 25<sup>th</sup> July
  - (c) 28<sup>th</sup> July
  - (d) 30<sup>th</sup> July
4. Ms. Neha need not issue tax invoice to which of the following persons but required to issue a consolidated tax invoice?
  - (a) Mr. Pawan
  - (b) Mr. Pawan and Umesh
  - (c) Mr. Pawan and Rains Trust
  - (d) Need not issue invoice to all the three persons

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (d)** ₹ 36,000 each

**Reason**

The rate of tax for services supplied under section 10(2A) of the CGST Act, 2017 i.e. composition scheme for service providers is 6%. The taxable value in the current case is ₹12,00,000 for the quarter ended on 30<sup>th</sup> June. The tax accordingly on such taxable supply is ₹ 36,000 each as CGST and SGST.

2. **Option (b)** ₹ 58,000

**Reason**

Outward freight is not includible in the value as the supply was ex-factory basis.

The packing charges are includible in the value as the same are incidental to supply.

Post sale discount without any agreement is not deductible from the value of supply.

3. **Option (b)** 25<sup>th</sup> July

As per *Notification No. 66/2017 CT dated 15.11.2017*, a registered person (excluding composition supplier and registered persons making supply of specified actionable claims) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a) of the CGST Act, 2017 i.e., date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31 of the CGST Act, 2017.

As per section 31(1) of the CGST Act, 2017, the invoice needs to be issued either before or at the time of removal of goods where supply involves movement of goods.

In the given case, date of issue of invoice-30<sup>th</sup> July or last date on which supplier is required to issue invoice (date of removal)-25<sup>th</sup> July.

Thus, time of supply- 25<sup>th</sup> July



**4. Option (a) Mr. Pawan****Reason**

Section 31(3)(b) of the CGST Act, 2017 read with proviso to rule 46 of the CGST Rules, 2017 provides that a registered person may not issue a Tax Invoice if:

- (i) Value of the goods/services/both supplied < ₹ 200,
- (ii) the recipient is unregistered; and
- (iii) the recipient does not require such invoice.

Instead, such registered person shall issue a Consolidated tax invoice for such supplies at the close of each day in respect of all such supplies.

Sl. No.	Recipient	Value of Supply	Remarks
1.	Mr. Pawan - an unregistered person	₹ 150	Unregistered and less than ₹ 200- so, no invoice
2.	Mr. Umesh, a registered person	₹ 110	Registered-so invoice to be issued
3.	Rains Trust, an unregistered entity	₹ 250	Unregistered and more than ₹ 200- so, invoice to be issued

**CASE SCENARIO 26**

Mr. Kumar started interior designing practice from the month of January. His turnover up to the month of March was ₹ 12,50,000. On 30<sup>th</sup> June, his turnover exceeded ₹ 20,00,000 & reached to ₹ 20,05,000. Mr. Kumar applied for GST registration (as regular taxpayer) on 15<sup>th</sup> July and registration certificate was issued to him on 25<sup>th</sup> July.

On 16<sup>th</sup> July, he entered into a contract for designing the flat of Mr. Shyam. The service was completed on 22<sup>nd</sup> July and Mr. Kumar issued invoice on the same day for ₹ 6,00,000. On 5<sup>th</sup> July, Mr. Kumar purchased capital goods amounting to ₹ 4,50,000 and from 25<sup>th</sup> July to 31<sup>st</sup> July, he availed input services amounting to ₹ 1,75,000 in relation to an output service to be provided in the month of August.

On 1<sup>st</sup> August, Mr. Kumar got another contract for interior designing from Mr. Ram, which he accepted on 2<sup>nd</sup> August. The service was completed on 6<sup>th</sup> August and invoice was issued on 7<sup>th</sup> August for ₹ 5,00,000. Payment was received on 29<sup>th</sup> August.

All values are excluding taxes, unless specifically mentioned. Mr. Kumar makes only intra-State outward supplies and all purchases are also intra-State. Rates of tax are CGST - 9% and SGST – 9%.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 5 below:

**MULTIPLE CHOICE QUESTIONS**

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1. The effective date of registration for Mr. Kumar is-
  - (a) 30<sup>th</sup> June
  - (b) 15<sup>th</sup> July
  - (c) 25<sup>th</sup> July
  - (d) 16<sup>th</sup> July
2. Mr. Kumar can issue a revised tax invoice till-
  - (a) 23<sup>rd</sup> October

- (b) 8<sup>th</sup> September
  - (c) 25<sup>th</sup> September
  - (d) 25<sup>th</sup> August
3. Eligible input tax credit that can be availed by Mr. Kumar for the month of July is-
- (a) CGST ₹ 40,500 & SGST ₹ 40,500
  - (b) CGST ₹ 15,750 & SGST ₹ 15,750
  - (c) CGST ₹ 56,250 & SGST ₹ 56,250
  - (d) CGST ₹ 36,000 & SGST ₹ 36,000
4. The time of supply of services provided by Mr. Kumar to Mr. Ram is-
- (a) 7<sup>th</sup> August
  - (b) 1<sup>st</sup> August
  - (c) 29<sup>th</sup> August
  - (d) 6<sup>th</sup> August
5. What will be the tax liability of July month if Mr. Kumar is paying tax under section 10(2A) of the CGST Act, 2017?
- (a) CGST Nil and SGST Nil
  - (b) CGST ₹ 54,000 & SGST ₹ 54,000
  - (c) CGST ₹ 18,000 & SGST ₹ 18,000
  - (d) CGST ₹ 78,150 & SGST ₹ 78,150

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (a)** 30<sup>th</sup> June

**Reason**

As per Rule 10(2) of the CGST Rules, 2017, where a person submits the application for registration within 30 days of becoming liable for registration, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration.

2. **Option (d)** 25<sup>th</sup> August

**Reason**

Revised tax invoices shall be issued within 1 month from the date of issuance of certificate of registration as per section 31(3)(a) of the CGST Act, 2017.

3. **Option (c)** CGST ₹ 56,250 & SGST ₹ 56,250

**Reason**

Since the effective date of registration is 30<sup>th</sup> June, the supplies received after such date shall be eligible for input tax credit vide section 16 of the CGST Act, 2017 unless the same is specifically blocked.

ITC on Capital goods- ₹ 4,50,000 x 9% = ₹ 40,500 each CGST & SGST

ITC on input services = ₹ 1,75,000 x 9% = ₹ 15,750 each CGST & SGST

Thus, total ITC = ₹ 40,500 + ₹ 15,750 = ₹ 56,250

4. **Option (a)** 7<sup>th</sup> August

**Reason**

Section 13 of the CGST Act, 2017 provides that the time of supply of services shall be the date of issue of invoice by the supplier, if the invoice is issued within 30 days of supply of services as per Section 31 of the CGST Act, 2017 or the date of receipt of payment, whichever is earlier. Thus, the time of supply shall be the date of issuance of invoice.

5. **Option (c)** CGST ₹ 18,000 & SGST ₹ 18,000

**Reason**

The rate of tax for services supplied under section 10(2A) of the CGST Act, 2017 i.e. composition scheme for service providers is 3% CGST & SGST each [Effective rate 6% (CGST+ SGST/UTGST)] of the turnover of supplies of goods and services in the State.

Mr. Kumar completed services on 22<sup>nd</sup> July and issued invoice on same day for ₹ 6,00,000. GST @ 6% = ₹ 36,000, i.e. CGST + SGST = ₹ 18,000 each.

**CASE SCENARIO 27**

M/s. Visali & Co, a Partnership firm, is engaged in manufacturing of equipment's in the State of Kerala.

The firm became liable for registration on 10<sup>th</sup> July. It applied for registration on 10<sup>th</sup> August and was granted registration certificate by 14<sup>th</sup> August. The firm opted for a monthly return filing.

The firm received sponsorship services from "Leisure Treat Bay Private limited" for a business expo conducted by such company. It received a consignment from M/s. Safe Logistics, a GTA, which charged 6% for each CGST and SGST for their services. It also received security services from Prompt Security Agency Pvt. Ltd.

The firm had opted for composition levy and it's turnover for the quarter ending September was ₹ 14 lakh, out of which taxable supply amounted to ₹ 10 lakh and exempt supply amounted to ₹ 4 lakh.

The firm made a supply of equipment's to an unrelated limited company in the month of October with a market value of ₹ 12 lakh, wholesale value of ₹ 13 lakh and maximum retail price was ₹ 14 lakh. However, the transaction was made at ₹ 11 lakh which was the only consideration.

The firm belatedly paid the tax amounting to ₹ 40,000 by debiting the electronic cash ledger for the month of December on 09<sup>th</sup> February of the succeeding year.

All the amounts given above are exclusive of taxes, wherever applicable. All the supplies referred above are intra-State unless specified otherwise.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 5 below:

**MULTIPLE CHOICE QUESTIONS**

1. The effective date of registration of M/s. Visali & Co is \_\_\_\_\_.
  - (a) 10<sup>th</sup> July
  - (b) 9<sup>th</sup> August

- (c) 10<sup>th</sup> August
  - (d) 14<sup>th</sup> August
2. Amongst the services availed by M/s. Visali & Co, which of the following services are taxable under reverse charge mechanism?
- (i) Sponsorship services received from Leisure Treat Bay Pvt. Ltd. Co.
  - (ii) GTA Services received from Safe Logistics
  - (iii) Security Services received from Prompt Security Agency Pvt. Ltd.
- (a) i
  - (b) i & ii
  - (c) i & iii
  - (d) ii & iii
3. Determine the value of supply of equipments under section 15(1) of CGST Act, 2017 made by M/s. Visali & Co. in the month of October?
- (a) ₹ 14 lakh
  - (b) ₹ 13 lakh
  - (c) ₹ 12 lakh
  - (d) ₹ 11 lakh
4. Compute the tax payable by the firm for the quarter ending September under CGST and SGST?
- (a) ₹ 5,000 each
  - (b) ₹ 7,000 each
  - (c) ₹ 10,000 each
  - (d) ₹ 35,000 each
5. Compute the interest payable by the firm for the belated payment of tax?
- (a) ₹ 395
  - (b) ₹ 434
  - (c) ₹ 414
  - (d) ₹ 552

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (d)** 14<sup>th</sup> August

**Reason**

As per rule 10 of the CGST Rules, 2017, where a person submits the application for registration within 30 days of becoming liable for registration, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration.

2. **Option (a)** i

**Reason**

Sponsorship services provided by any person to any body corporate or partnership firm are liable to GST under reverse charge.

GTA services are not liable to GST under reverse charge if the service provider is paying tax at the rate of 12%.

Security services are not liable to GST under reverse charge if the services are provided by a body corporate.

3. **Option (d)** ₹ 11 lakh

**Reason**

The value of a supply of goods or services or both shall be the transaction value, which is the price actually paid or payable for the said supply of goods or services or both where the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply.

4. **Option (b)** ₹ 7,000 each

**Reason**

The registered manufacturers, other than manufacturers of notified goods opting for composition levy under section 10(1) of the CGST Act, 2017 shall pay tax @ ½% CGST & SGST each [Effective rate 1% (CGST+ SGST/UTGST)] of the turnover in the State/Union territory during the current FY, in lieu of the tax payable by him under regular scheme.

Thus, tax liability under CGST & SGST each is ₹ 14 lakh (10 lakh + ₹ 4 lakh) x 0.5% = ₹ 7,000 each.

**5. Option (b) ₹ 434**

**Reason**

Interest is payable in case of delayed payment of tax @ 18% per annum from the date following the due date of payment to the actual date of payment of tax.

Interest = ₹ 40,000 x 18% x 22 days (18<sup>th</sup> January to 9<sup>th</sup> February)/365



**CASE SCENARIO 28**

Mr. Pasupathi, registered taxpayer under GST in the State of Karnataka, is engaged in trading of various types of consumer goods. His turnover in the preceding financial year was below the threshold limit liable for registration and so, was eligible for exemption from registration under GST in the preceding year.

He received goods on 1<sup>st</sup> May that are liable to tax under reverse charge. Invoice was issued on 5<sup>th</sup> May and payment for the same was made on 6<sup>th</sup> June entered in the books of accounts on same day and debited in the bank account on 7<sup>th</sup> June.

He got an order from Ravi & Co of Punjab with an instruction to dispatch the goods to Kumar & Co of Tamil Nadu, which was executed as ordered. He had sourced the goods from Lal & Co of Kerala.

He paid repair expenses for trucks used for transportation of goods of his business. The GST component involved thereon was ₹ 13,000. He arranged for catering for his workers on Labour Day function and paid bill in which GST component was ₹ 15,000. He received the first lot of certain goods having GST component of ₹ 25,000.

All the amounts given above are exclusive of taxes, wherever applicable. All the supplies referred above are intra-State unless specified otherwise. Conditions necessary for claiming ITC have been fulfilled subject to the information given above.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 3 below:

**MULTIPLE CHOICE QUESTIONS**

1. Time of Supply of goods received by Mr. Pasupathi is \_\_\_\_\_.
  - (a) 1<sup>st</sup> May
  - (b) 5<sup>th</sup> May

- (c) 5<sup>th</sup> June
  - (d) 6<sup>th</sup> June
2. Compute the amount of input tax credit (except ITC on services taxable under reverse charge mechanism) that can be claimed by Mr. Pasupathi?
- (a) ₹ 28,000
  - (b) ₹ 38,000
  - (c) ₹ 40,000
  - (d) ₹ 13,000
3. Place of Supply for delivery of order placed by Ravi and Co. is \_\_\_\_\_.
- (a) Karnataka
  - (b) Punjab
  - (c) Tamilnadu
  - (d) Kerala

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (a)** 1<sup>st</sup> May

**Reason**

In case of supplies in respect of which tax is paid or liable to be paid on reverse charge basis, the time of supply shall be the earliest of the following dates, namely:-

- (a) the date of the receipt of goods; or
- (b) the date of payment as entered in the books of account of the recipient or the date on which the payment is debited in his bank account, whichever is earlier; or
- (c) the date immediately following thirty days from the date of issue of invoice or any other document, by whatever name called, in lieu thereof by the supplier.

2. **Option (d)** ₹ 13,000

**Reason**

ITC related to goods received in lots is available upon receipt of last lot. Further, ITC related to catering services is not available in the present case. Hence, only ITC related to repair expense of trucks shall be available.

3. **Option (b)** Punjab

**Reason**

The place of supply in case of bill to ship to transactions shall be the location of such person on whose instance/instruction the supply has taken place.

**CASE SCENARIO 29**

Mr. Rajeev Sharma, a regular GST registered supplier located in Jaipur, Rajasthan, provides the following details:

- (i) He received an order from Velocity Ltd. of Jodhpur, Rajasthan, for a taxable supply of goods worth ₹ 2,50,000 on 15<sup>th</sup> November 2024 and received payment on 18<sup>th</sup> November 2024. The goods were supplied on 22<sup>nd</sup> November 2024, and the invoice was issued on 23<sup>rd</sup> November 2024. The applicable GST rate on such goods is CGST 2.5%, SGST 2.5%, and IGST 5%.
- (ii) He deals in laptops and related accessories. He sold a laptop along with a lapdesk for a single price of ₹ 1,25,000 to Zenith Pvt. Ltd., a registered person in Ahmedabad, Gujarat, on 28<sup>th</sup> November 2024.

Applicable GST Rate:

- Laptop - CGST 9%, SGST 9%, and IGST 18%.
  - Lapdesk - CGST 6%, SGST 6%, and IGST 12%.
- (iii) He purchased raw materials worth ₹ 75,000 for business use from Orion Industries, a registered supplier in Bengaluru, Karnataka, on 10<sup>th</sup> November, 2024. However, he consumed raw materials worth ₹ 10,000 from the said purchase for his personal use during the month of November, 2024. The applicable GST Rate is CGST 2.5%, SGST 2.5%, and IGST 5%.
  - (iv) He has paid ₹ 1,00,000 on 20<sup>th</sup> November, 2024 for membership in a club located in Udaipur, Rajasthan, availed for employees working in the factory (not obligatory under any law). The applicable GST Rate is CGST 9%, SGST 9%, and IGST 18%.

Notes:

- All figures mentioned above are exclusive of taxes.
- All conditions required for availing ITC have been complied with.

Based on the information given above, choose the most appropriate answer for the questions 1-3

### MULTIPLE CHOICE QUESTIONS

---

1. The time of supply of goods supplied to Velocity Ltd. is:-
  - (a) 23<sup>rd</sup> November, 2024
  - (b) 22<sup>nd</sup> November, 2024
  - (c) 18<sup>th</sup> November, 2024
  - (d) 15<sup>th</sup> November, 2024
2. GST payable on outward supply for the month of November, 2024 is:
  - (a) IGST - ₹ 22,500, CGST - ₹ 6,250, SGST - ₹ 6,250
  - (b) IGST - ₹ 15,000, CGST - ₹ 6,250, SGST - ₹ 6,250
  - (c) IGST-Nil, CGST - ₹ 13,750, SGST - ₹ 13,750
  - (d) IGST-Nil, CGST- ₹ 17,500, SGST - ₹ 17,500
3. Amount of total eligible Input Tax Credit for the month of November 2024 is:
  - (a) IGST ₹ 3,750, CGST ₹ 9,000, SGST ₹ 9,000
  - (b) IGST ₹ 3,250, CGST ₹ 9,000, SGST ₹ 9,000
  - (c) IGST ₹ 3,750, CGST NIL, SGST NIL
  - (d) IGST ₹ 3,250, CGST NIL, SGST NIL

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

---

1. **Option (b)** 22<sup>nd</sup> November, 2024

**Reason**

As per *Notification No. 66/2017 CT dated 15.11.2017*, a registered person (excluding composition supplier and registered persons making supply of specified actionable claims) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a) of the CGST

Act, 2017 i.e., date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31 of the CGST Act, 2017.

As per section 31(1) of the CGST Act, 2017, the invoice needs to be issued either before or at the time of removal of goods where supply involves movement of goods.

In the given case, date of issue of invoice - 23<sup>rd</sup> November or last date on which supplier is required to issue invoice (date of removal) - 22<sup>nd</sup> November.

Thus, time of supply- 22<sup>nd</sup> November

**2. Option (a)**      IGST - ₹ 22,500, CGST - ₹ 6,250, SGST - ₹ 6,250

**Reason**

1. Tax on ₹ 2,50,000 supply to Velocity Ltd. (within Rajasthan – Intra-State)

CGST (2.5%) = ₹ 6,250

SGST (2.5%) = ₹ 6,250

2. Tax on ₹ 1,25,000 supply of laptop alongwith lapdesk to Zenith Pvt. Ltd. (Inter State - IGST)

Laptop (₹ 1,25,000 at 18%) = ₹ 22,500

Since it's a composite supply, the highest rate (18%) applies to the whole transaction.

IGST = ₹ 22,500

Thus, total GST Payable:

- **IGST** = ₹ 22,500
- **CGST** = ₹ 6,250
- **SGST** = ₹ 6,250

**3. Option (d)**      IGST ₹ 3,250, CGST NIL, SGST NIL

**Reason**

Amount of total eligible input tax credit (ITC) for the month of November 2024 is:

ITC on raw material purchased from Orion Industries (₹ 75,000) (Inter-State - IGST 5%)

IGST on ₹ 75,000 = ₹ 3,750

*Less:* ITC not available for personal use ₹ 10,000 x 5% = ₹ 500

Eligible ITC = ₹ 3,750 - ₹ 500 = ₹ 3,250

ITC on Club Membership (₹ 1,00,000) (Intra-State - CGST 9%, SGST 9%)

CGST (9%) = ₹ 9,000

SGST (9%) = ₹ 9,000

Not eligible for ITC since it's for employees & not obligatory

Total Eligible ITC:

IGST = ₹ 3,250

CGST = ₹ 9,000

SGST = ₹ 9,000

**CASE SCENARIO 30**

Bright Star Pvt. Ltd., a regular GST registered supplier of both taxable and exempted goods, is located in Shimla, Himachal Pradesh. The company provides the following details:

- (i) The aggregate turnover (all intra-State) of goods exceeded ₹ 20 lakh on 29<sup>th</sup> July 2024 and ₹ 40 lakh on 16<sup>th</sup> August 2024. It submitted the application for GST registration on 30<sup>th</sup> August, 2024. The registration certificate is granted to it on 8<sup>th</sup> September 2024.
- (ii) It also entered into a contract with Zenith Ltd. of Manali, Himachal Pradesh on 10<sup>th</sup> September 2024 for the supply of taxable goods worth ₹ 15 lakh. The payment for the same was received on 12<sup>th</sup> September 2024. The goods were scheduled for delivery on 25<sup>th</sup> September, 2024 but were removed from the factory on 24<sup>th</sup> September, 2024.
- (iii) It has opted monthly filing of GSTR 3B return and filed GSTR 3B return for the month of September, 2024 on 19<sup>th</sup> December 2024. The prescribed due date to file the said GSTR 3B return was 20<sup>th</sup> October, 2024. The amount of net GST payable in cash on supplies made for said September month work out to be 56,000 which was paid on 19<sup>th</sup> December, 2024.

Based on the above information, choose the correct answer for the questions 1 to 3.

**MULTIPLE CHOICE QUESTIONS**

---

- 1. The effective date of registration under the CGST Act, 2017, of Bright Star Pvt. Ltd. is:
  - (a) 29<sup>th</sup> July 2024
  - (b) 16<sup>th</sup> August 2024
  - (c) 30<sup>th</sup> August 2024
  - (d) 8<sup>th</sup> September 2024
- 2. The date by which an invoice must be issued to Zenith Ltd. is:
  - (a) 10<sup>th</sup> September 2024



- (b) 12<sup>th</sup> September 2024
  - (c) 25<sup>th</sup> September 2024
  - (d) 24<sup>th</sup> September 2024
3. The amount of interest payable for delay in payment of GST as per section 50 of the CGST Act 2017 is:
- (a) ₹ 1,629
  - (b) ₹ 1,657
  - (c) ₹ 2,209
  - (d) ₹ 2,182

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b)** 16<sup>th</sup> August 2024

**Reason**

Since Bright Star Pvt. Ltd., is a registered supplier of both taxable and exempted goods in Shimla, Himachal Pradesh, the applicable threshold limit of registration is ₹ 40 lakh. The turnover exceeded ₹ 40 lakh on 16<sup>th</sup> August 2024.

As per rule 10 of the CGST Rules, 2017, where a person submits the application for registration within 30 days of becoming liable for registration, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration.

2. **Option (d)** 24<sup>th</sup> September 2024

**Reason**

As per section 31(1) of the CGST Act, 2017, the invoice needs to be issued either before or at the time of removal of goods where supply involves movement of goods.

Since the goods were removed on 24<sup>th</sup> September 2024, the invoice must be issued on or before that date.

**3. Option (b)      ₹ 1,657****Reason**

Interest is payable in case of delayed payment of tax @ 18% per annum from the date following the due date of payment to the actual date of payment of tax.

Interest Calculation:

Due date for payment of GST = 20<sup>th</sup> October 2024

Actual date of payment = 19<sup>th</sup> December 2024




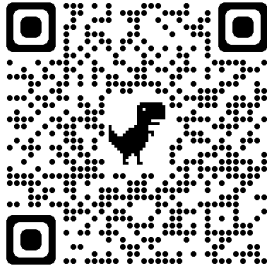
Delay in payment = 21<sup>st</sup> October, 2024 – 19<sup>th</sup> December, 2024 = 60 days

Net GST payable in cash = ₹ 56,000

Interest rate = 18% per annum

Interest =  $56,000 \times 18\% \times 60/365 = ₹ 1,657$  (rounded off)

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# **INTERMEDIATE COURSE**

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## **PAPER – 4**

### **COST AND MANAGEMENT ACCOUNTING**

**[RELEVANT FOR MAY, 2025 EXAMINATION AND ONWARDS]**

## **BOOKLET ON CASE SCENARIOS**



**BOARD OF STUDIES**

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All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the booklet has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

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# PREFACE

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Under the New Scheme of Education and Training which was introduced on 1<sup>st</sup> July, 2023, 30% of the examination assessment is by the way of Objective Type Questions at Intermediate and Final level. Therefore, to provide hands-on practice for such type of questions, BOS launched MCQ Paper Practice Portal on 1<sup>st</sup> July, 2023. This online portal contains independent MCQs as well as case scenario based MCQs both for conceptual clarity and practice of the students.

In continuation to this handholding initiative and to provide quality academic inputs to the students to help them grasp the intricate aspects of the subject, the Board of studies has brought forth subject-wise booklets on Case Scenarios at Intermediate and Final level. These booklets are meticulously designed to assist Chartered Accountancy (CA) students in their preparation of the CA course.

The '**Booklet on Case Scenarios for Paper 4: Cost and Management Accounting**' will serve as revision help book towards preparing for Intermediate examination of the Institute and help the students in identifying the gaps in the preparation of the examination and developing plan to make it up. The case scenario-based MCQs are all application oriented MCQs and arise from the facts of the case. At the end of each case scenario followed by MCQs, we have also provided explanations/hints for each MCQ which will enable the students to evaluate their performance and identify areas requiring further attention.

The objective of this subject is to develop an understanding of the basic concepts and applications to establish the cost associated with the production of products and provision of services and apply the same to determine prices, understanding of cost accounting statements and to acquire the ability to apply information for cost ascertainment, planning, control and decision making. This case scenario booklet on Cost and Management Accounting assists Chartered Accountant students to know about the process of making prompt and knowledgeable business decisions.

After attaining conceptual clarity by reading the Study Material, you are expected to apply the concepts learnt in answering the MCQs given in this booklet. You have to read the case scenarios and the MCQs, identify the

concepts involved, apply the provisions correctly in addressing the issue raised/making the computation required in the MCQ, and finally, choose the correct answer. This process of learning and understanding the concepts and solving MCQs based thereon will help you attain conceptual clarity and hone your application and analytical skills so that you are able to approach the examination with confidence and a positive attitude.

We are confident that this booklet will serve as a valuable companion in your preparation journey. We encourage students to make the most of this resource by engaging deeply with the scenarios, reflecting on the MCQs, and embracing the learning process.

**Happy Reading and Best Wishes!**

## CASE SCENARIO 1

Arnav Ltd. manufactures chemical solutions used in paint and adhesive products. Chemical solutions are produced in different processes. Some of the processes are hazardous in nature which may result in fire accidents.

At the end of the last month, one fire accident occurred in the factory. The fire destroyed some of the paper files containing records of the process operations for the month.

You being an associate to the Chief Manager (Finance), are assigned to prepare the process accounts for the month during which the fire occurred. From the documents and files of other sources, following information could be retrieved:

Opening work-in-process at the beginning of the month was 500 litres, 80% complete for labour and 60% complete for overheads. Opening work-in-process was valued at ₹2,78,000.

Closing work-in-process at the end of the month was 100 litres, 20% complete for labour and 10% complete for overheads.

Normal loss is 10% of input (fresh) and total losses during the month were 800 litres partly due to the fire damage.

Output transferred to finished goods was 3,400 litres.

Losses have a scrap value of ₹20 per litre.

All raw materials are added at the commencement of the process.

The cost per equivalent unit is ₹660 for the month made up as follows:

Raw Material ₹300 Labour ₹200 Overheads ₹160

The company uses FIFO method to value work-in-process and finished goods.



**MULTIPLE CHOICE QUESTIONS**

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The following information are required for managerial decisions:

1. How much quantity of raw material introduced during the month?
  - (a) 4,300 Litres
  - (b) 3,500 Litres
  - (c) 4,200 Litres
  - (d) 3,800 Litres
2. The Quantity of normal loss and abnormal loss are:
  - (a) Normal loss- 380 litres & Abnormal loss- 420 litres
  - (b) Normal loss- 350 litres & Abnormal loss – 450 litres
  - (c) Normal loss- 430 litres & Abnormal loss – 370 litres
  - (d) Normal loss- 420 litres & Abnormal loss – 380 litres.
3. Value of raw material added to the process during the month is:
  - (a) ₹10,10,000
  - (b) ₹10,33,600
  - (c) ₹10,18,400
  - (d) ₹10,20,000
4. Value of labour and overhead in closing Work-in-process are:
  - (a) ₹4,000 & ₹1,600 respectively
  - (b) ₹20,000 & ₹16,000 respectively
  - (c) ₹16,000 & ₹9,000 respectively
  - (d) ₹13,200 & ₹6,600 respectively
5. Value of output transferred to finished goods is:
  - (a) ₹22,57,200
  - (b) ₹20,06,400

(c) ₹22,44,000

(d) ₹19,27,200

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

#### 1. Option (d) 3,800 Litres

Reason:

Inflow into process	Litres	Outflow from process	Litres
Opening WIP	500	Transferred to finished goods	3,400
Quantity introduced (Balancing figure)	3,800	Total loss	800
		Closing WIP	100
	4,300		4,300

#### 2. Option(a) Normal loss- 380 litres & Abnormal loss- 420 litres

Reason:

Total loss	800 litres
Normal loss (10% of fresh input i.e. 3,800)	380 litres
Abnormal loss	420 litres

## 3. Option (b) ₹10,33,600

Reason:

## Calculation of Equivalent production units

Input Details	Units	Output Particulars	Units	Equivalent Production					
				Material		Labour		Overheads	
				%	Units	%	Units	%	Units
Opening WIP	500	From Opening WIP	500	-	-	20	100	40	200
Fresh inputs	3,800	From fresh units	2900	100	2900	100	2900	100	2900
		Normal loss	380	-		-		-	
		Closing WIP	100	100	100	20	20	10	10
		Abnormal loss	420	100	420	100	420	100	420
	4,300		4,300		3,420		3,440		3,530

## Value of raw materials introduced during the month

	Equivalent units	Cost per EU (₹)	Total cost (₹)
Total value of raw material	3420	300	10,26,000
Add: Scrap value of normal loss	380	20	7,600
<b>Value of raw material introduced</b>			<b>10,33,600</b>

**4. Option (a) ₹4,000 & ₹1,600 respectively****Reason:**

Value of labour and overhead in closing Work in process

Cost elements	Equivalent units	Cost per EU (₹)	Total cost (₹)
Labour	20	200	<b>4,000</b>
Overheads	10	160	<b>1,600</b>

**5. Option (c) ₹ 22,44,000**

Value of output transferred to finished goods

Output transferred (Units) × Equivalent cost per unit

3,400 Litres × ₹ 660 = ₹ 22,44,000

**CASE SCENARIO 2**

M Ltd. is producing a single product and may expand into product diversification in next one to two years. M Ltd. is amongst a labour-intensive company where majority of processes are done manually. Employee cost is a major cost element in the total cost of the company. The company conventionally uses performance parameters Earnings per manshift (EMS) to measure cost paid to an employee for a shift of 8 hours, and Output per manshift (OMS) to measure an employee's output in a shift of 8 hours.

The Chief Manager (Finance) of the company has emailed you few information related to the last month. The email contains the following data related to the last month:

During the last month, the company has produced 2,34,000 tonnes of output. Expenditures for the last months are:

- (i) Raw materials consumed ₹50,00,000
- (ii) Power consumed 13,000 Kwh @ ₹8 per Kwh to run the machines for production.
- (iii) Diesels consumed 2,000 litres @ ₹93 per litre to run power generator used as alternative or backup for power cuts.
- (iv) Wages & salary paid – ₹6,40,00,000
- (v) Gratuity & leave encashment paid – ₹64,20,000
- (vi) Hiring charges paid for HEMM- ₹30,00,000. HEMM are directly used in production.
- (vii) Hiring charges paid for cars used for official purpose – ₹66,000
- (viii) Reimbursement of diesel cost for the cars – ₹22,000
- (ix) The hiring of cars attracts GST under RCM @5% without credit.
- (x) Maintenance cost paid for weighing bridge (used for weighing of final goods at the time of dispatch) – ₹12,000

- (xi) AMC cost of CCTV installed at weighing bridge (used for weighing of final goods at the time of dispatch) and factory premises is ₹8,000 and ₹18,000 per month respectively.
- (xii) TA/ DA and hotel bill paid for sales manager- ₹36,000
- (xiii) The company has 1,800 employees works for 26 days in a month.

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**MULTIPLE CHOICE QUESTIONS**

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You are asked to calculate the followings:

1. What is the amount of prime cost incurred during the last month:
  - (a) ₹7,54,20,000
  - (b) ₹7,57,10,000
  - (c) ₹7,56,06,000
  - (d) ₹7,87,10,000
2. What is the total and per shift cost of production for last month:
  - (a) ₹7,87,10,000 and ₹336.37 respectively
  - (b) ₹7,87,10,000 and ₹1,681.84 respectively
  - (c) ₹7,87,28,000 and ₹1,682.22 respectively
  - (d) ₹7,87,28,000 and ₹336.44 respectively
3. What is the value of administrative cost incurred during the last month:
  - (a). ₹ 92,400
  - (b). ₹ 88,000
  - (c). ₹1,48,400
  - (d). ₹1,44,000
4. What is the value of selling and distribution cost and total cost of sales:
  - (a). ₹36,000 & ₹7,88,76,400 respectively
  - (b). ₹56,000 & ₹7,88,76,400 respectively
  - (c). ₹36,000 & ₹7,88,72,000 respectively

- (d). ₹56,000 & ₹7,88,72,000 respectively
5. What is the value EMS and OMS for the last month:
- (a). ₹1,504.70 & 5 tonnes respectively
- (b). ₹1,367.52 & 5 tonnes respectively
- (c). ₹1,504.70 & 4.37 tonnes respectively
- (d). ₹1,367.52 & 4.37 tonnes respectively

### ANSWERS TO MULTIPLE CHOISE QUESTIONS

1. **Option (d) ₹7,87,10,000**

**Reason:**

2. **Option (c) ₹7,87,28,000 and ₹1,682.22 respectively**

**Reason:**

Please refer cost sheet below for cost of production

Cost of production per manshift =

Cost of production ÷ Total manshift

₹ 7,87,28,000 ÷ 46,800 = ₹1,682.22

3. **Option (a) ₹ 92,400**

**Reason:**

Car hire charges including GST @5%, please refer the cost sheet

4. **Option (b) ₹56,000 & ₹7,88,76,400 respectively**

**Reason:**

Selling and distribution cost includes the following:

Maintenance cost for weighing bridge	12,000
AMC cost of CCTV installed at weigh bridge	8,000
TA/ DA & hotel bill of sales manager	36,000
	56,000

For Cost of Sale please refer the cost sheet

**5. Option (a) ₹1,504.70 & 5 tonnes respectively**

Manshift = 1,800 employees × 26 days = 46,800 manshifts

Computation of earnings per manshift (EMS):

$$\text{EMS} = \frac{\text{Total employee benefits paid}}{\text{Manshift}} = \frac{\text{₹ 7,04,20,000}}{46,800} = \text{₹ 1504.70}$$

Computation of Output per manshift (OMS):

$$\text{OMS} = \frac{\text{Total Output/ Production}}{\text{Manshift}} = \frac{2,34,000 \text{ Tonne}}{46,800} = 5 \text{ tonnes}$$

**Workings****Cost Sheet of M Ltd. for the last month**

Particulars	Amount (₹)	Amount (₹)
Materials consumed		50,00,000
Wages & Salary	6,40,00,000	
Gratuity & leave encashment	64,20,000	7,04,20,000
Power cost (13,000 kwh × ₹8)	1,04,000	
Diesel cost (2,000 ltr × ₹93)	1,86,000	2,90,000
HEMM hiring charges		30,00,000
<b>Prime Cost</b>		<b>7,87,10,000</b>
AMC cost of CCTV installed at factory premises		18,000
<b>Cost of Production/ Cost of Goods Sold</b>		<b>7,87,28,000</b>
Hiring charges of cars	66,000	
Reimbursement of diesel cost	22,000	
	88,000	
Add: GST @5% on RCM basis	4,400	92,400
Maintenance cost for weighing bridge	12,000	
AMC cost of CCTV installed at weigh bridge	8,000	20,000
TA/ DA & hotel bill of sales manager		36,000
<b>Cost of Sales</b>		<b>7,88,76,400</b>



**CASE SCENARIO 3**

A meeting of the heads of departments of the Arnav Ltd. has been called to review the operating performance of the company in the last financial year. The head of the production department appraised that during the last year the company could operate at 70% capacity level but in the coming financial year 95% capacity level can be achieved if an additional amount of ₹100 Crore on capex and working capital is incurred.

The head of the finance department has presented that during the last financial year the company had a P/V ratio of 40%, margin of safety and the break-even were ₹50 crore and ₹200 crore respectively.

To the reply to the proposal of increasing the production capacity level to 95%, the head of the finance department has informed that this could be achieved if the selling price and variable cost are reduced by 8% and 5% of sales respectively. Fixed cost will also increase by ₹20 crore due to increased depreciation on additional assets. The additional capital will be arranged at a cost of 15% p.a. from a bank.

In the coming financial year, it has been aimed to achieve an additional profit of ₹10 crore over and above the last year's profit after adjusting the interest cost on the additional capital.

The following points is required to be calculated on urgent basis to put the same in the meeting. You being an assistant to the head of finance, has been asked the followings:

**MULTIPLE CHOICE QUESTIONS**

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1. What will be the revised sales for the coming financial year?
  - (a). ₹ 322.22 Crore
  - (b). ₹ 311.11 Crore
  - (c). ₹ 300.00 Crore
  - (d). ₹ 324.24 Crore

- 
2. What will be the revised break-even point for the coming financial year?
- (a). ₹ 222.22 Crore  
(b). ₹ 252.22 Crore  
(c). ₹ 244.44 Crore  
(d). ₹ 255.56 Crore
- 3.. What will be the revised margin of safety for the coming financial year?
- (a). ₹ 100 Crore  
(b). ₹ 58.89 Crore  
(c). ₹ 55.56 Crore  
(d). ₹ 66.66 Crore
4. The profit of the last year and for the coming year are:
- (a). ₹ 50 Crore & ₹95 Crore respectively  
(b). ₹ 20 Crore & ₹ 65 Crore respectively  
(c). ₹ 20 Crore & ₹ 30 Crore respectively  
(d). ₹ 45 Crore & ₹ 66.66 Crore respectively
5. The total cost of the last year and for the coming year are:
- (a). ₹ 230 Crore & ₹292.22  
(b). ₹ 230 Crore & ₹275 Crore  
(c). ₹ 220 Crore & ₹282.22 Crore  
(d). ₹ 220 Crore & ₹292.22 Crore

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (a) ₹ 322.22 Crore**

**Reason:**

$$\begin{aligned}\text{Revised Sale} &= \frac{\text{Revised Fixed Cost} + \text{Expected Profit}}{\text{P/V Ratio}} \\ &= \{\text{₹}115 + (20+10)\} \div 45\% = \text{₹ } 322.22 \text{ crores}\end{aligned}$$

**2. Option (d) ₹ 255.56 Crore**

$$\begin{aligned}\text{Revised Break – even Point} &= \frac{\text{Fixed Cost}}{\text{P/V Ratio}} \\ &= ₹115 \text{ Crore} \div 45\% = ₹255.56 \text{ Crore} \\ &\quad (\text{Refer working notes})\end{aligned}$$

**3. Option (d) ₹ 66.66 Crore****Reason:**

$$\begin{aligned}\text{Revised Margin of Safety} &= \text{Revised Sales} - \text{Revised Break-even Sales} \\ &= ₹ 322.22 \text{ Crores} - ₹ 255.56 \text{ Crores} \\ &= ₹ 66.66 \text{ Crores.}\end{aligned}$$

**4. Option (c) ₹ 20 Crore & ₹ 30 Crore respectively****Reason:**

₹ 20 Crore & ₹ 30 Crore respectively (Refer working note)

**5. Option (a) ₹ 230 Crore & ₹ 292.22**

Total cost in last year = ₹230 Crore

Total cost in coming year = Variable Cost + Fixed Cost

Revised sales × 55% + 115 Crore

$$= ₹ 322.22 \text{ Crore} \times 55\% + ₹ 115 \text{ Crore} = ₹ 292.22 \text{ Crore}$$

**Working Note****Present Sales and Profit**

$$\begin{aligned}\text{Total Sales} &= \text{Break – even Sales} + \text{Margin of Safety} \\ &= ₹ 200 \text{ Crores} + ₹ 50 \text{ Crores} \\ &= ₹ 250 \text{ Crores} \\ \text{P/V Ratio} &= 40\% \\ \text{Variable Cost} &= 60\% \text{ of Sales} \\ &= ₹ 250 \text{ Crores} \times 60\% \\ &= ₹ 150 \text{ Crores}\end{aligned}$$

$$\begin{aligned}
 \text{Fixed Cost} &= \text{Break – even Sales} \times \text{P/V Ratio} \\
 &= ₹ 200 \text{ Crores} \times 40\% \\
 &= ₹ 80 \text{ Crores} \\
 \text{Total Cost} &= ₹ 150 \text{ Crores} + ₹ 80 \text{ Crores} \\
 &= ₹ 230 \text{ Crores} \\
 \text{Profit} &= \text{Total Sales} - \text{Total Cost} \\
 &= ₹ 250 \text{ Crores} - ₹ 230 \text{ Crores} \\
 &= ₹ 20 \text{ Cores}
 \end{aligned}$$

Revised Sales (₹ in Crores)

Present Fixed Cost	80.00
Increase in Fixed Cost	20.00
Interest at 15 <i>per cent</i> on Additional Capital (₹100Crores × 15%)	15.00
Total Revised Fixed Cost (in crore)	115.00
Assuming that the Present Selling Price is ₹100	
Revised Selling Price will be (8% Less)	92.00
New Variable Cost (Reduced from 60% to 55%) of Sales (₹ 92 × 55%)	50.60
Contribution (₹92.00 – ₹ 50.60)	41.40

$$\begin{aligned}
 \text{New P / V Ratio} &= \frac{₹ 41.40}{₹ 92.00} \times 100 \\
 &= 45\%
 \end{aligned}$$

**CASE SCENARIO 4**

K Ltd. is a manufacturer of a single product A. 8,000 units of the product A has been produced in the month of March 2024. At the beginning of the year a total 1,20,000 units of the product-A has been planned for production. The cost department has provided the following estimates of overheads:

Fixed	₹ 12,00,000	Variable	₹ 6,00,000
Semi-Variable	₹ 1,80,000		

Semi-variable charges are considered to include 60 per cent expenses of fixed nature and 40 per cent of variable character.

The records of the production department shows that the company could have operated for 20 days but there was a festival holiday during the month.

The actual cost data for the month of March 2024 are as follows:

Fixed	₹ 1,19,000	Variable	₹ 48,000
Semi-Variable	₹ 19,200		

The cost department of the company is now preparing a cost variance report for managerial information and action. You being an accounts officer of the company are asked to calculate the following information for preparation of the variance report:

**MULTIPLE CHOICE QUESTIONS**

1. What is the amount of variable overhead cost variance for the month of March 2024:
  - (a). ₹ 10,200 (A)
  - (b). ₹ 10,400 (A)
  - (c). ₹ 10,800 (A)
  - (d). ₹ 10,880 (A)

- 
2. What is the amount of fixed overhead volume variance for the month of March 2024:
- (a). ₹ 9,000 (F)
  - (b). ₹ 9,000 (A)
  - (c). ₹ 21,800 (A)
  - (d). ₹ 11,000 (A)
3. What is the amount of fixed overhead expenditure variance for the month of March 2024:
- (a). ₹ 21,520 (A)
  - (b). ₹ 21,500 (A)
  - (c). ₹ 21,400 (A)
  - (d). ₹ 21,480 (A)
4. What is the amount of fixed overhead calendar variance for the month of March 2024:
- (a). ₹ 5,400 (A)
  - (b). ₹ 5,450 (A)
  - (c). ₹ 5,480 (A)
  - (d). ₹ 5.420 (A)
5. What is the amount of fixed overhead cost variance for the month of March 2024:
- (a). ₹ 43,320 (A)
  - (b). ₹ 43,300 (A)
  - (c). ₹ 43,200 (A)
  - (d). ₹ 43,380 (A)

### ANSWERS TO MULTIPLE CHOISE QUESTIONS

**1. Option (d) ₹ 10,880 (A)**

**Reason:**

**Variable Overhead Cost** = Standard Variable Overheads for  
Production – Actual

**Variance** Variable Overheads

= ₹ 44,800 – ₹ 55,680

= **₹ 10,880 (A)**

**2. Option (c) ₹ 21,800 (A)**

**Reason:**

**Fixed Overhead Volume** = Absorbed Fixed Overheads –  
Budgeted Fixed Overheads

**Variance** = ₹ 87,200 – ₹ 1,09,000

= **₹ 21,800 (A)**

**3. Option (a) ₹ 21,520 (A)**

**Reason:**

**Fixed Overhead Expenditure** = Budgeted Fixed Overheads –  
Actual Fixed Overheads

**Variance** = ₹ 10.9 × 10,000 units – ₹ 1,30,520

= **₹ 21,520 (A)**

**4. Option (b) ₹ 5,450 (A)**

**Reason:**

**Calendar Variance** = Possible Fixed Overheads –  
Budgeted Fixed Overheads

= ₹ 1,03,550 – ₹ 1,09,000

= **₹ 5,450 (A)**

## 5. Option (a) ₹ 43,320 (A)

Reason:

$$\begin{aligned}
 \text{Fixed Overhead Cost Variance} &= \text{Absorbed Fixed Overheads} - \text{Actual Fixed Overheads} \\
 &= ₹ 87,200 - ₹ 1,30,520 \\
 &= \text{₹ 43,320 (A)}
 \end{aligned}$$

## WORKING NOTE

Fixed Overheads = $\frac{\text{Budgeted Fixed Overheads}}{\text{Budgeted Output}}$ = $12,00,000 \div 1,20,000$	₹ 10.00
Fixed Overheads element in <i>Semi-Variable</i> Overheads i.e. 60% of ₹ 1,80,000	₹ 1,08,000
Fixed Overheads $\frac{\text{Budgeted Fixed Overheads}}{\text{Budgeted Output}}$ ₹ 1,08,000/1,20,000	₹ 0.90
Standard Rate of Absorption of Fixed Overheads <i>per unit</i> (₹ 10.00 + ₹ 0.90)	₹ 10.90
Fixed Overheads Absorbed on 8,000 units @ ₹10.90	₹ 87,200
Budgeted Variable Overheads	₹ 6,00,000
Add: Variable element in Semi-Variable Overheads 40% of ₹ 1,80,000	<u>₹ 72,000</u>
Total Budgeted Variable Overheads	₹ 6,72,000
Standard Variable Cost per unit = $\frac{\text{Budgeted Variable Overheads}}{\text{Budgeted Output}}$	₹5.60
Standard Variable Overheads for 8,000 units @ ₹5.60	₹ 44,800
Budgeted Annual Fixed Overheads (₹ 12,00,000 + 60% of ₹ 1,80,000)	₹ 13,08,000



Possible Fixed Overheads = $\frac{\text{Budgeted Fixed Overheads}}{\text{Budgeted Days}} \times \text{Actual Days}$ = 1,09,000/20 days × 19 days	₹ 1,03,550
Actual Fixed Overheads (₹ 1,19,000 + 60% of ₹ 19,200)	₹ 1,30,520
Actual Variable Overheads (₹ 48,000 + 40% of ₹ 19,200)	₹ 55,680

**CASE SCENARIO 5**

Tropic Pvt Ltd was engaged in the business of manufacturing Product P. The product P required 2 units of Material R. The company intends to sell 24,000 units of Product P and does not wish to retain any closing stock. However, the opening stock of Product P is 4,000 units. Raw Material R has to be procured after considering the opening stock of R amounting to 10,000 units. The technical team further confirms that the yield in the course of manufacture of Product P is 80% of the input.

The company presently procures its annual requirement of materials on a quarterly basis from its regular supplier enjoying a discount of 2.5% on the invoice price of the material of ₹ 20 per unit. Every time the company places orders for Material R, it incurs ₹ 125 for each of the order placed. The company also has taken a rented warehouse for storing material R and the annual cost of storage is ₹ 10 per unit. The company appointed Mr. T a Chartered Accountant to review the cost of inventory and provide measures of improvement of cost. After reviewing the material purchase and consumption pattern, Mr. T suggested that the implementation of Wilson's EOQ would be beneficial to the company. He emphasized that the change in the quantity ordered would result in reduction of inventory carrying costs.

Mr. T further reviewed the labour costing and identified that the employees were paid overtime wages to ensure timely completion of projects. Overtime wages comprised of daily wage and 100% of daily wages as overtime premium. Based on the cost record it was understood that every month had 180 hours of regular working hours which was remunerated at ₹ 200 per hour and Overtime of 20 hours which was remunerated at ₹ 400 per hour. Mr. T suggested that the above time taken may be considered as standard and a scheme of Incentive be introduced to reduce overtime cost. He further indicated that Rowan scheme of incentive be used to measure performance and the improved productivity per hour would be 125 units per hour.

In this regard, address the following queries in line with the suggestions provided by Mr. T to Tropic Pvt Ltd.

**MULTIPLE CHOICE QUESTIONS**

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1. The annual requirement of Material R to meet the target sales of 24,000 units of Product P is:
  - (a) 48,000 units
  - (b) 60,000 units
  - (c) 40,000 units
  - (d) 50,000 units
2. The ordering quantity as per the current inventory policy and the proposed Wilson's Economic order quantity of Material R are:
  - (a) Order Quantity as per the current inventory policy – 10,000 units & Economic Order Quantity – 1,000 units
  - (b) Order Quantity as per the current inventory policy – 15,000 units & Economic Order Quantity – 1,225 units
  - (c) Order Quantity as per the current inventory policy – 12,000 units & Economic Order Quantity – 1,095 units
  - (d) Order Quantity as per the current inventory policy – 12,500 units & Economic Order Quantity – 1,118 units
3. The net savings to inventory cost on migration from the current inventory policy to the Wilson's Economic Order Quantity policy would be:
  - (a) Savings from EOQ as compared to current discount policy – ₹ 26,820
  - (b) Savings from EOQ as compared to current discount policy – ₹ 20,500
  - (c) Savings from EOQ as compared to current discount policy – ₹ 33,253
  - (d) Savings from EOQ as compared to current discount policy – ₹ 25,546
4. Incentive payable under the Rowan Incentive scheme amounts to:
  - (a) ₹ 7,500

- (b) ₹ 6,400  
 (c) ₹ 6,000  
 (d) ₹ 8,000
5. The savings in labour cost achieved by implementation of incentive scheme over the overtime payments amounts to:
- (a) ₹ 9,600  
 (b) ₹ 5,600  
 (c) ₹ 8,000  
 (d) ₹ 3,200

### ANSWERS TO MULTIPLE CHOISE QUESTIONS

**1. Option (c) 40,000 units.**

**Reason:**

Projected Sales of Product P	– 24,000 units
Less: Opening stock of Product P	– (4,000 units)
Product P to be produced	– 20,000 units
Raw Material required	– 50,000 units (20,000 x 2/80% yield)
Opening stock of Material R available	– 10,000 units
Material to be procured	– 40,000 units.

**2. Option (a) Order Quantity as per the current inventory policy – 10,000 units and EOQ – 1,000 units**

**Reason:**

Annual requirement - Procurement	- 40,000 units
Order Quantity as per the current inventory policy (Quarterly)	- 10,000 units
Ordering Cost	- ₹125 per order
Carrying Cost	- ₹ 10 per unit p.a.
EOQ	- 1,000 units.

**3. Option (b) Savings from EOQ as Compared to current discount policy – ₹ 20,500**

**Reason:**

Associated Costs under EOQ:

Ordering Costs = No. of orders x Ordering cost per order

No of orders = Annual Requirement/ EOQ (or) current order quantity

Hence No of orders = 40

Therefore Ordering Cost =  $40 \times 125 = ₹ 5,000$ .

Carrying cost = Average Inventory x Carrying cost per unit per annum

Average Inventory =  $(\text{EOQ/ current order quantity})/2$

$= 1,000/2 = 500$

Carrying cost =  $500 \times 10 = ₹ 5,000$

Associated Costs under EOQ = Ordering cost + Carrying Cost

$= ₹ 10,000$  A

Associated Costs under current inventory policy:

No of orders = 4 (Quarterly)

Ordering cost =  $4 \times 125 = ₹ 500$

Average inventory =  $10,000/2 = 5,000$

Carrying cost =  $5,000 \times 10 = 50,000$

Associated Costs =  $50,000 + 500 = 50,500$

Less: Discount = 20,000

Net cost = 30,500. B

Incremental Cost =  $B - A = 20,500$

**4. Option (b) ₹ 6,400****Reason:**

Time taken under the Overtime regime 180 Hours + 20 Hours overtime  
= 200 Hours

Time to be taken under the Incentive regime

Units to be produced = 20,000 units

Units produced per hour under incentive scheme = 125 units

Time taken = 160 Hours

Time saved = 200 – 160 = 40 hours.

Incentive under Rowan scheme = (Time saved/Time allowed) x time taken  
x Rate

=  $(40/200) \times 160 \times 200 = ₹ 6,400$ .

**5. Option (b) ₹ 5,600**Cost under the Overtime scheme:

Base wage = 200 x 200 = 40,000

OT Premium = 20 x 200 = 4,000

Total Wages under Overtime scheme = 44,000

Cost under Incentive scheme:

Base Wage = 160 hours x 200 = 32,000

Incentive = 6,400

Total wages paid = 38,400

Savings in Incentive scheme over Overtime scheme = ₹ 5,600.

### CASE SCENARIO 6

XYZ Manufacturing Pvt. Ltd. is a prominent company in the electric appliances industry, known for producing a diverse range of high-quality products. The company has built a reputation for reliability and innovation in the manufacturing of household appliances, including fans, mixers, and heaters. XYZ Manufacturing Pvt. Ltd. is dedicated to delivering products that meet the needs of its customers while adhering to the highest standards of quality and performance.

The company operates a state-of-the-art factory that is fully equipped with advanced machinery and technology to ensure efficient and consistent production. The factory operates 25 days a month, running multiple shifts to meet the growing demand for its products. The company has spare capacity to take additional orders. Each product type—fans, mixers, and heaters—undergoes a meticulous manufacturing process that includes assembly, quality testing, and packaging.

Cost Category	Amount (₹)
Fixed Costs (per month)	
Factory Rent	₹ 3,00,000
Depreciation	₹ 2,00,000
Administrative Expenses	₹ 1,00,000
Salaries	₹ 4,00,000
Total Fixed Costs	₹ 10,00,000
Number of units produced per month (Note: Last month there was an additional special order of 2000 units which resulted in higher production)	10,000 units
Selling price per unit	₹ 1,500

**Additional Info:** Raw Materials include Copper, Plastic, and Other Materials. The per unit cost of Copper is ₹ 80 more than the cost of Plastic, while the cost of Other Materials is twice that of Plastic. And the total Raw Material Cost per unit is ₹ 210 more than the combined cost of Copper & Plastic.

The Labour Hour Rate is ₹ 100 per hour. The total labour hours used in the last month were 36,000 Hours. The Utilities Cost per unit is ₹ 100, and the Packaging Cost per unit is ₹ 50. Being a finance manager of the company, you are required to answer the following:

### MULTIPLE CHOICE QUESTIONS

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1. Calculate the contribution margin per unit.
  - (a) ₹ 550
  - (b) ₹ 600
  - (c) ₹ 650
  - (d) ₹ 700
2. Determine the break-even point in sales revenue.
  - (a) ₹ 31,28,593
  - (b) ₹ 25,85,153
  - (c) ₹ 27,27,025
  - (d) ₹ 27,05,983
3. If the company wants to achieve a target profit of ₹ 5,00,000, what should be the sales volume (in units)?
  - (a) 2,000 units
  - (b) 2,727 units
  - (c) 2,750 units
  - (d) 3,000 units
4. What would be the impact on the break-even point if the variable cost per unit increases by 10%?
  - (a) 2,178 units
  - (b) 2,198 units
  - (c) 2,248 units
  - (d) 2,258 units



5. Calculate the margin of safety in percentage if the company sells 4,000 units if the variable cost per unit increases by 10%
- (a) 44.85%
  - (b) 42.55%
  - (c) 45.05%
  - (d) 45.75%

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### ANSWERS TO MULTIPLE CHOISE QUESTIONS

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#### Answer

**1. Option (a) ₹ 550**

**Reason:**

Contribution Margin per Unit = Selling Price per Unit - Variable Cost per Unit

= Variable Cost per unit = ₹ 500\*+ ₹ 300\*\*+ ₹ 100+ ₹ 50

Contribution Margin per Unit = ₹ 1,500 - ₹ 950 = ₹ 550

\*Raw Material Cost Calculation

Let the cost of Plastic be x

The cost of Copper is ₹ 80 more than the cost of Plastic: Cost of Copper

= x + 80

The cost of Other Materials is twice that of Plastic: Cost of Other Materials

= 2x

The total Raw Material Cost per unit is ₹ 210 more than the combined cost of Copper & Plastic:  $x + (x+80) + 2x = (x + (x+80)) + 210$

Solving for X = 105

Now, calculate the total cost of Raw Materials:

$105 + (105+80) + 210 = 500$

So, the total cost of Raw Materials is ₹ 500.

\*\* Labour Cost Calculation

The Labour Hour Rate is ₹ 100 per hour.

The total labour hours used in the last month were 36,000 hours.

The production units last month were 12,000 units (10,000 normal units plus 2,000 special order).

Total Labour Cost = Labour Hour Rate × Total Labour Hours

Total Labour Cost = ₹ 100 /hour × 36,000 hours = ₹ 3,600,000

Per Unit Labour Cost = Total Labour Cost / Production Units

Per Unit Labour Cost = ₹ 3,600,000 / 12,000

Per Unit Labour Cost = ₹ 300

So, the per unit labour cost is ₹ 300.

**2. Option (c) ₹ 27,27,025**

**Reason:**

- Break-even Point (Sales Revenue) = Total Fixed Costs / Contribution Margin Ratio
- Contribution Margin Ratio = Contribution Margin per Unit / Selling Price per Unit
- = ₹ 550 / ₹ 1,500 = 0.3667
- Break-even Point = ₹ 10,00,000 / 0.3667 ≈ ₹ 27,27,025

**3. Option (b) 2,727 units**

**Reason:**

- Required Sales Volume (Units) = (Total Fixed Costs + Target Profit) / Contribution Margin per Unit
- = (₹ 10,00,000 + ₹ 5,00,000) / ₹ 550 ≈ 2,727.27 units ≈ 2,727 units (rounded up)

**4. Option (b) 2,198 units**

**Reason:**

- New Variable Cost per Unit = ₹ 950 + 10% of ₹ 950 = ₹ 950 + ₹ 95 = ₹ 1,045

- New Contribution Margin per Unit = ₹ 1,500 - ₹ 1,045 = ₹ 455
- New Break-even Point (Units) = Total Fixed Costs / New Contribution Margin per Unit
- = ₹ 10,00,000 / ₹ 455  $\approx$  2198 units

**5. Option (c) 45.05%**

**Reason:**

- Margin of Safety (Units) = Actual Sales - Break-even Sales
- = 4,000 - 2198 = 1,802 units
- Margin of Safety (%) = (Margin of Safety in Units / Actual Sales in Units) \* 100
- = (1,802 / 4,000) \* 100  $\approx$  45.05%

### CASE SCENARIO 7

Mr. Vikas, a toy importer has understood the importance of manufacturing in India. He is backed up by the new govt. policies that motivate him to manufacture in India. As per the custom department any import made for the manufacturing under "Made in India", custom duty will be refunded upto 80%. Vikas decided not to import toy from China anymore, instead import raw material from Srilanka, for the manufacturing of toys in India. Under an agreement of Govt. Of India with Srilankan Govt., any import from Srilanka will receive tax benefits.

Vikas ordered material Xendga & material Zenga from Srilanka. Details are given below:-

	Srilankan Rupees (SLR)
Material Xendga (12,000 units * 125 SLR)	15,00,000
Material Zenga (8,000 units * 225 SLR)	<u>18,00,000</u>
Factory cost	33,00,000
Add: Containers cost	2,00,000
Add: Freight upto loading shipment on ship (paid by exporter)	<u>50,000</u>
F.O.B.	<u>35,50,000</u>

- Ocean Freight is \$ 2,000
- Insurance is \$ 1,500

When shipment reached India, it was unloaded at Chennai port. Vikas requested to put the goods in custom port's warehouse. Vikas due to cash crunch was not in a position to pay custom duty and therefore did not file the bill of exchange (B.O.E.). Custom authorities charged a penalty of INR 15,000.

Finally, after a month Vikas filled B.O.E. and paid custom duty of 20% on CIF value of the shipment. IGST was also applicable @ 18% on the combined value of CIF & custom duty paid.

He spent further a sum of INR 12,500 to bring the imported goods to his factory. An inspection was done on the goods and it was found that 5% of the goods

were broken. This came to management as a surprise because generally such rate of defects on imports is 8%.

Additional Information:

- Exchange rates:
  - (1) 1 SLR = 0.25 INR
  - (2) 1 USD = 75 INR
- IGST credits are available.
- Containers were refunded at INR 38,000.
- Indian and Srilankan brokers were paid commission by Vikas on factory cost. Indian broker charged 6% whereas Srilankan broker charged 12%.
- CIF (cost, insurance and Freight) includes F.O.B (Free on Board), Insurance & Ocean freight.

You are required to answer the following 5 questions:

### **MULTIPLE CHOICE QUESTIONS**

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1. What is the total cost of shipment to be recorded by Vikas?
  - (a) INR 13,17,000
  - (b) INR 13,04,500
  - (c) INR 13,54,500
  - (d) INR 13,32,500
2. What is the absorption rate of total cost per unit of Zenga?
  - (a) INR 90.28
  - (b) INR 84.44
  - (c) INR 93.62
  - (d) INR 85.77
3. What is the absorption rate of total cost per unit of Xendga?
  - (a) INR 52.01
  - (b) INR 54.24

- (c) INR 58.13  
(d) INR 68.65
4. Amount of refundable taxes?
- (a) INR 4,13,600  
(b) INR 4,57,600  
(c) INR 2,20,000  
(d) INR 2,37,600
5. If loss of goods was 9% instead of 5%, what will be the amount that will be charged to statement of profit & loss?
- (a) INR 13,045  
(b) INR 19,898.4  
(c) INR 14,178.4  
(d) INR 24,045

### ANSWERS TO MULTIPLE CHOISE QUESTIONS

#### 1. Option (a) INR 13,17,000

**Reason:**

**Working notes:**

Factory cost (33,00,000 x 0.25)	INR 8,25,000
Add: Freight (50,000 x 0.25)	<u>INR 12,500</u>
F.O.B. (Free On Board)	<u>INR 8,37,500</u>
Containers (2,00,000 x 0.25)	INR 50,000
Insurance (1,500 x 75)	INR 1,12,500
Ocean freight (2,000 x 75)	INR 1,50,000
CIF (Cost, Insurance and Freight)	= 8,37,500 + 1,12,500 + 1,50,000
	= INR 11,00,000
Custom duty	= 20% x 11,00,000 = INR 2,20,000

IGST	= 18% x (11,00,000 + 2,20,000)
	= INR 2,37,600
Penalty	= INR 15,000
Commission	
Indian	= 6% x 8,25,000 = INR 49,500
Srilankan	= 12% x 8,25,000 = INR 99,000

Particulars	Amount (INR)
Factory cost	8,25,000
Containers (50,000-38,000)	12,000
Insurance	1,12,500
Ocean freight	1,50,000
Freight inwards	12,500
Commission (49,500+99,000)	1,48,500
Custom duty non-refundable 20%* 2,20,000	44,000
<b>TOTAL</b>	<b>13,04,500</b>

## 2. Option (a) INR 90.28

### Reason:

Good units = 8,000\* (1-5%) = 7,600 UNITS

Normal loss to be absorbed in good units. No abnormal loss.

Particulars	Product Zenga (INR)
Factory cost	4,50,000
Other cost except commission, insurance and custom duty to be absorbed on the basis of quantity i.e. 12:8 or 3:2 (12,000+1,50,000+12,500)*2/5	69,800
Commission, insurance and custom duty to be absorbed on value basis 15:18 or 5:6 (1,48,500+1,12,500+44,000)*6/11	1,66,363.63

Total Cost	6,86,163.63
Number of good units	7,600 units
Per unit Cost	<b>90.28</b>

**3. Option (b) INR 54.24**

**Reason:**

Good units =  $12000 \times (1-5\%) = 11400$  units

Particulars	Product Xendga (INR)
Factory cost	3,75,000
Other cost $(12,000 + 1,50,000 + 12,500) \times 3/5$	1,04,700
Commission, insurance and custom duty $(1,48,500 + 1,12,500 + 44,000) \times 5/11$	1,38,636.36
Total Cost	618,336.36
Number of good units	11,400 units
Per unit Cost	<b>54.24</b>

**4. Option (a) INR 4,13,600**

**Reason:**

Custom duty 80% x 2,20,000	= 1,76,000
Add: IGST	= <u>2,37,600</u>
	<b><u>4,13,600</u></b>

**5. Option (c) INR 14,178.4**

**Reason:**

Normal loss upto 8%

Abnormal loss 1%

Total cost of xendga INR 6,18,336.36

Total cost of zenga INR 6,86,163.63



Particulars	XENGDA (INR)	ZENGA (INR)	(INR)
Normal loss of 8%	960 units	640 units	
Good units after normal loss	11,040 units	7,360 units	
Per unit cost to be absorbed in good units (total costs/no of good units after normal loss)	56 (6,18,336.36/11,040)	93.23 (6,86,163.63/7,360)	
Abnormal loss in units 1%	120 units	80 units	
Loss in Profit & Loss	56 x 120 = 6,720	93.23 x 80 = 7,458.4	14,178.4

### CASE SCENARIO 8

Hilfy textiles Ltd. has been a major player in the textile industry, producing high-quality polyester mix cotton fabric. The production process is complex and involves multiple stages, including spinning, weaving, quality control, and packaging. The company has been facing challenges in controlling costs and maintaining profitability, mainly due to fluctuating material costs and labor inefficiencies.

To address these challenges, the company's management has decided to implement a **standard costing** system to better manage costs, set benchmarks, and identify variances. The goal is to gain better control over production costs, improve budgeting accuracy, and enhance decision-making.

Hilfy textiles Ltd. had prepared the following estimation for the month of April:

	Quantity/Time	Rate (₹)	Amount (₹)
Cotton	8,000 m	50.00	4,00,000
Polyester	6,000 m	40.00	2,40,000
Skilled labour	1,000 hours	37.50	37,500
Unskilled labour	800 hours	22.00	17,600

Normal loss was expected to be 10% of total input materials and an idle labour time of 5% of expected labour hours was also estimated.

At the end of the month the following information has been collected from the cost accounting department:

The company has produced 14,800 m finished product by using the followings:

	Quantity/Time	Rate (₹)	Amount (₹)
Cotton	9,000 m	48.00	4,32,000
Polyester	6,500 m	37.00	2,40,500
Skilled labour	1,200 hours	35.50	42,600
Unskilled labour	860 hours	23.00	19,780

On the basis of analysis of standard costing system, company's management wants to take actions like supplier negotiation, process optimisation, employee training, etc.

Being the cost manager of the company, you are required to answer the following five requirements of the management:

### **MULTIPLE CHOICE QUESTIONS**

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1. Compute Material mix variance and Material Yield Variance
  - (a) ₹ 1430 (A) & 43,200 (F)
  - (b) ₹ 1430 (F) & 43,200 (F)
  - (c) ₹ 24,000 (A) & 37,500 (F)
  - (d) ₹ 19,300 (A) & 37,500 (F)
2. Compute Material Price Variance for supplier negotiation
  - (a) ₹ 18,000 (A)
  - (b) ₹ 43,200 (F)
  - (c) ₹ 37,500 (A)
  - (d) ₹ 37,500 (F)
3. Compute Material Cost Variance
  - (a) ₹ 32,500 (F)
  - (b) ₹ 24,500 (A)
  - (c) ₹ 79,270 (F)
  - (d) ₹ 79,270 (A)
4. Compute Labour Efficiency Variance and Labour Yield Variance.
  - (a) ₹ 940 (A) & 1,140 (A)
  - (b) ₹ 2,424 (A) & 1,556 (A)
  - (c) ₹ 2,424 (A) & 1,556 (A)
  - (d) ₹ 940 (A) & 1,140 (F)

5. Compute Labour Cost Variance.

- (a) ₹ 884 (A)
- (b) ₹ 1,556 (F)
- (c) ₹ 884 (F)
- (d) ₹ 1,556 (A)

### ANSWERS TO MULTIPLE CHOISE QUESTIONS

1. **Option (a) ₹ 1430 (A) & 43,200 (F)**

**Reason:**

$$\begin{aligned}\text{Material Mix Variance (Cotton + Polyester)} &= \{(RSQ \times SP) - (AQ \times SP)\} \\ &= \{7,08,570 - 7,10,000\} \\ &= 1,430 \text{ (A)}\end{aligned}$$

$$\begin{aligned}\text{Material Yield Variance (Cotton + Polyester)} &= \{(SQ \times SP) - (RSQ \times SP)\} \\ &= \{7,51,770 - 7,08,570\} \\ &= 43,200 \text{ (F)}\end{aligned}$$

2. **Option (d) ₹ 37,500 (F)**

**Reason:**

$$\begin{aligned}\text{Material Price Variance (Cotton + Polyester)} &= \{(AQ \times SP) - (AQ \times AP)\} \\ &= \{7,10,000 - 6,72,500\} \\ &= 37,500 \text{ (F)}\end{aligned}$$

3. **Option (c) ₹ 79,270 (F)**

**Reason:**

$$\begin{aligned}\text{Material Cost Variance (Cotton + Polyester)} &= \{(SQ \times SP) - (AQ \times AP)\} \\ &= \{7,51,770 - 6,72,500\} \\ &= 79,270 \text{ (F)}\end{aligned}$$

## Working Note

## Material Variances:

Material	SQ (WN-1)	SP (₹)	SQ × SP (₹)	RSQ (WN-2)	RSQ × SP (₹)	AQ	AQ × SP (₹)	AP (₹)	AQ × AP (₹)
Cotton	9,397 m	50	4,69,850	8,857 m	4,42,850	9,000 m	4,50,000	48	4,32,000
Polyester	7,048 m	40	2,81,920	6,643 m	2,65,720	6,500 m	2,60,000	37	2,40,500
	<b>16,445 m</b>		<b>7,51,770</b>	<b>15,500 m</b>	<b>7,08,570</b>	<b>15,500 m</b>	<b>7,10,000</b>		<b>6,72,500</b>

**WN-1: Standard Quantity (SQ):**

$$\text{Cotton} - \left( \frac{8,000\text{m}}{0.9 \times 14,000\text{m}} \times 14,800\text{m} \right) = 9,396.8 \text{ or } 9,397 \text{ m}$$

$$\text{Polyester} - \left( \frac{6,000\text{m}}{0.9 \times 14,000\text{m}} \times 14,800\text{m} \right) = 7,047.6 \text{ or } 7048 \text{ m}$$

**WN- 2: Revised Standard Quantity (RSQ):**

$$\text{Cotton} - \left( \frac{8,000\text{m}}{14,000\text{m}} \times 15,500\text{m} \right) = 8,857.1 \text{ or } 8857\text{m}$$

$$\text{Polyester} - \left( \frac{6,000\text{m}}{14,000\text{m}} \times 15,500\text{m} \right) = 6,642.8 \text{ or } 6643 \text{ m}$$

**4. Option (b) ₹ 2,424 (A) & 1,556 (A)****Reason:**

$$\begin{aligned} \text{Labour Efficiency Variance (Skilled + Unskilled)} &= \{(SH \times SR) - (AH \times SR)\} \\ &= \{61,496 - 63,920\} \\ &= 2,424 \text{ (A)} \end{aligned}$$

$$\begin{aligned} \text{Labour Yield Variance (Skilled + Unskilled)} &= \{(SH \times SR) - (RSH \times SR)\} \\ &= \{61,496 - 63,052\} \\ &= 1,556 \text{ (A)} \end{aligned}$$

**5. Option (a) ₹ 884 (A)****Reason:**

$$\begin{aligned} \text{Labour Cost Variance (Skilled + Unskilled)} &= \{(SH \times SR) - (AH \times AR)\} \\ &= \{61,496 - 62,380\} \\ &= 884 \text{ (A)} \end{aligned}$$

## Working Note

## Labour Variances:

Labour	SH (WN-3)	SR (₹)	SH × SR (₹)	RSH (WN-4)	RSH × SR (₹)	AH	AH × SR (₹)	AR (₹)	AH × AR (₹)
Skilled	1,116 hrs	37.50	41,850	1144	42,900	1,200	45,000	35.50	42,600
Unskilled	893 hrs	22.00	19,646	916	20,152	860	18,920	23.00	19,780
	2,009 hrs		61,496	2,060	63,052	2,060	63,920		62,380

**WN- 3: Standard Hours (SH):**

$$\text{Skilled labour- } \left( \frac{0.95 \times 1,000 \text{ hr.}}{0.90 \times 14,000 \text{ m.}} \times 14,800 \text{ m.} \right) = 1,115.87 \text{ or } 1,116 \text{ hrs.}$$

$$\text{Unskilled labour- } \left( \frac{0.95 \times 800 \text{ hr.}}{0.90 \times 14,000 \text{ m.}} \times 14,800 \text{ m.} \right) = 892.69 \text{ or } 893 \text{ hrs.}$$

**WN- 4: Revised Standard Hours (RSH):**

$$\text{Skilled labour- } \left( \frac{1,000 \text{ hr.}}{1,800 \text{ hr.}} \times 2,060 \text{ hr.} \right) = 1,144.44 \text{ or } 1,144 \text{ hrs.}$$

$$\text{Unskilled labour- } \left( \frac{800 \text{ hr.}}{1,800 \text{ hr.}} \times 2,060 \text{ hr.} \right) = 915.56 \text{ or } 916 \text{ hrs.}$$



**CASE SCENARIO 9**

XYZ Manufacturing Ltd. is a mid-sized enterprise that has established a strong reputation in the field of precision engineering. The company specializes in producing high-quality engineering components that meet the stringent requirements of various industries including automotive, aerospace, medical devices, and industrial machinery. With a commitment to precision and excellence, XYZ Manufacturing Ltd. has positioned itself as a reliable supplier of critical components that demand the highest levels of accuracy and durability.

To maintain stringent control over its production costs and enhance cost efficiency, XYZ Manufacturing Ltd. operates under a standard costing system. This system plays a pivotal role in the company's financial and operational management. Standard costing involves setting predetermined costs for each production element, including materials, labor, and overheads. These predetermined costs, known as standard costs, serve as benchmarks against which actual production costs are measured.

Particulars	Budgeted Data	Actual Data
<b>Units Produced</b>	10,000 units	9,500 units
<b>Fixed Overheads</b>	₹ 20,00,000	₹ 19,50,000 + ₹ 1,00,000 (additional quality control cost for 1,000 units chosen on sample basis)
<b>Hours Worked</b>	15,000 hours	14,250 hours
<b>Variable Overhead Rate</b>	₹ 50 per hour	₹ 50 per hour (first 10,000 hours) ₹ 60 per hour (additional hours)

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**MULTIPLE CHOICE QUESTIONS**

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**Based on the given information, you are being required to answer the following questions**

1. What is the Fixed Overhead Cost Variance for XYZ Manufacturing Ltd. in May 2024?
  - (a) ₹ 50,000 (A)
  - (b) ₹ 1,00,000 (A)
  - (c) ₹ 1,50,000 (A)
  - (d) ₹ 2,00,000 (A)
2. What is the Fixed Overhead Volume Variance for XYZ Manufacturing Ltd. in May 2024?
  - (a) ₹ 50,000 (F)
  - (b) ₹ 50,000 (A)
  - (c) ₹ 1,00,000 (F)
  - (d) ₹ 1,00,000 (A)
3. What is the Variable Overhead Efficiency Variance for XYZ Manufacturing Ltd. in May 2024?
  - (a) ₹ 37,500 (A)
  - (b) ₹ 42,500 (A)
  - (c) ₹ 0
  - (d) ₹ 25,000 (A)
4. What is the Variable Overhead Expenditure Variance for XYZ Manufacturing Ltd. in May 2024?
  - (a) ₹ 40,000 (A)
  - (b) ₹ 42,500 (A)
  - (c) ₹ 45,000 (A)
  - (d) ₹ 45,030 (A)

5. What is the Fixed Overhead Expenditure Variance for XYZ Manufacturing Ltd. in May 2024?
- (a) ₹ 50,000 (F)
  - (b) ₹ 50,000 (A)
  - (c) ₹ 1,00,000 (F)
  - (d) ₹ 1,00,000 (A)

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (c) ₹ 1,50,000 (A)**

**Reason:**

Fixed Overhead Cost Variance = Absorbed Fixed Overheads - Actual Fixed Overheads

Absorbed Fixed Overheads = (Budgeted Fixed Overheads / Budgeted Production) x Actual Production

= (₹ 20,00,000 / 10,000 units) x 9,500 units

= ₹ 19,00,000

Adjusted Actual Fixed Overheads = ₹ 19,50,000 + ₹ 1,00,000 = ₹ 20,50,000

Fixed Overhead Cost Variance = ₹ 19,00,000 - ₹ 20,50,000 = ₹ 1,50,000 (Adverse)

**2. Option (d) ₹ 1,00,000 (A)**

**Reason:**

Fixed Overhead Volume Variance = (Actual Production - Budgeted Production) x Standard Fixed Overhead Rate per Unit

Standard Fixed Overhead Rate per Unit = ₹ 20,00,000 / 10,000 units = ₹ 200 per unit

Fixed Overhead Volume Variance = (9,500 units - 10,000 units) x ₹ 200

= 500 units x ₹ 200

= ₹ 1,00,000 (Adverse)

**3. Option (c) 0****Reason:**

Variable Overhead Efficiency Variance = (Standard Hours for Actual Production - Actual Hours Worked) x Standard Variable Overhead Rate

Standard Hours for Actual Production = 9,500 units x 1.5 hours/unit  
= 14,250 hours

Variable Overhead Efficiency Variance = (14,250 - 14,250) x ₹ 50 = 0

**4. Option (b) ₹ 42,500 (A)****Reason:**

Variable Overhead Expenditure Variance = (Standard Rate - Actual Rate) x Actual Hours Worked

Total Variable Overhead for Actual Hours = (10,000 x ₹ 50) + (4,250 x ₹ 60)  
= ₹ 5,00,000 + ₹ 2,55,000  
= ₹ 7,55,000

Variable Overhead Expenditure Variance = (₹ 50 x 14,250 hours)  
- ₹ 7,55,000  
= ₹ 42,500 (Adverse)

**5. Option (b) ₹ 50,000 (A)****Reason:**

Fixed Overhead Expenditure Variance = Budgeted Fixed Overheads - Actual Fixed Overheads  
= ₹ 20,00,000 - ₹ 20,50,000  
= ₹ 50,000 (Adverse)

### CASE SCENARIO 10

A garment manufacturer has been producing and selling T-shirts exclusively for Indian market. His T-shirts are made of a specific material which is eco-friendly. It means that T-shirts are bio-degradable in soil after they become unsuitable for use.

This invention has been applauded throughout the country. Owner, Vikas, registered for the patent rights for his invention so that no one else could use it.

Vikas feels that this invention will also be liked in foreign markets, and thus plans to expand his business outside India. He feels that US market is the first foreign market he should tap into.

Current cost structure (each T-shirt):

Direct material	90
Direct labour	60
Special service	80
(Used in T-shirt making, 50% fixed)	
Fixed overhead	50
Administration overhead (fixed)	<u>20</u>
Total cost per T-shirt	300
(+) Profit margin	<u>200</u>
Selling price in India	<u>500</u>

There is no limitation of any resources in India. Vikas is able to sell 80,000 T-shirts each year. He is currently working at 80% of his total capacity.

After searching for potential customers in US, Vikas received an inquiry for 30,000 units from a wholesale distributor in California. As per the inquiry, order will be placed if price per T-shirt is reasonable and the order has to be satisfied in full.

Vikas decided to send a quote and the order was placed by the foreign client, on the same day. Vikas, without a second thought accepted the order, but did not feel the need to extend the manufacturing capacity; therefore he decided forgo a few Indian clients.

This foreign order also required special packaging. It is spent at 20% of the total prime cost per T-shirt. The production was done quickly and foreign consignment was transported to custom port via services from a carriage agency. It charged ₹ 80,000 for 1 truck, whose capacity was 500 kg, to transport whole of the consignment. Truck was 20% vacant after loading the consignment.

Bill of lading was filed and a professional fee of ₹ 25,000 for filing this was paid to a Chartered accountant. Custom port also charged ₹ 80 per kg per day to handle the material, storing it in warehouse, and for loading the goods on ship.

The shipping company, which was booked by Vikas for taking the consignment to US, got delayed due to bad weather. Stock was held at port for 5 days and on 6<sup>th</sup> day it was loaded on ship. Shipping company charged ₹ 2,800/ 10kg of goods. Insurance was charged flat at ₹ 1,11,000.

There is no custom duty on such exports.

### MULTIPLE CHOICE QUESTIONS

Answer the following questions (MCQs 61 to 5):

1. Vikas had sufficient funds in his hands but he still raised a short-term working capital loan @ 6.5% p.a. for the satisfaction of this foreign order because he found a one time investment opportunity which was giving him 9.25% returns. Foreign order was accepted on 1<sup>st</sup> June and loan was taken on the same day. Repayment of the loan will be made on 1<sup>st</sup> September. Calculate net cash outflow due to this export order. Which of the following is correct?
  - (a) ₹ 73,91,000
  - (b) ₹ 75,47,750
  - (c) ₹ 74,76,500

- (d) ₹ 71,06,000
2. What would have been the minimum price that Vikas could have quoted per T-shirt in US dollars? (exchange rate on 1<sup>st</sup> June, \$1 = ₹ 83.86)
- (a) \$ 4.23
- (b) \$ 4.20
- (c) \$ 4.17
- (d) \$4.05
3. Payment from foreign client was received on 8<sup>th</sup> October when exchange rate was ₹ 86 for each US \$. Calculate the profit earned from this export order if actual quoted price was \$4.90 per T-shirt. Select the correct amongst following:
- (a) ₹ 40,65,500
- (b) ₹ 41,51,000
- (c) ₹ 39,94,250
- (d) ₹ 44,36,000
4. What is the net cash Inflow from this export order?
- (a) ₹ 55,36,000
- (b) ₹ 51,65,500
- (c) ₹ 52,51,000
- (d) ₹ 50,94,250
5. What is the Incremental benefit from this export order?
- (a) ₹ 19,94,250
- (b) ₹ 21,51,000
- (c) ₹ 20,65,500
- (d) ₹ 24,36,000

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

**1. Option (b) ₹ 75,47,750**

**Reason:**

**Funds required for foreign order:**

Costs	Amounts
Direct material per unit	90
Add: Direct labour per unit	60
Add: special services per unit	40
	<b>190</b>
Add: packaging per unit [20% x prime cost, 20% x (90 + 60 + 80)]	46
Variable cost per unit	236
Total variable cost (236x30,000)	<b>70,80,000</b>
Add: freight	80,000
Add: professional fees	25,000
Add: custom charges (500kg x 80% x 80 x 6)	1,92,000
	<b>73,77,000</b>
Add: shipping ((500x80%/10) x 2,800)	1,12,000
Add: insurance	1,11,000
<b>Funds required</b>	<b>76,00,000</b>

Net amount of interest earned (interest earned in 9.25% and paid is 6.50% for 3 months) =  $76,00,000 \times (9.25\% - 6.50\%) \times 3/12 = 52,250$

So, net cash outflow due to export order =  $76,00,000 - 52,250$   
= 75,47,750

**2. Option (a) \$ 4.23**

**Reason:**

**Minimum price :-**

Variable cost (net)	75,47,750
Add: fixed cost recovery (110 x 10,000 units)	11,00,000



Add: loss of profit (200 x 10,000 units)	<u>20,00,000</u>
Minimum price	<u>1,06,47,750</u>
Minimum price per unit 1,06,47,750/30,000	<u>₹ 354.925</u>
Minimum price is \$ (\$1 = ₹ 83.864)	<u>\$ 4.23</u>

3. **Option (c) ₹ 39,94,250**

**Reason:**

**PROFIT EARNED:**

<b>SALES (\$4.90 x 30,000 x RS. 86)</b>	<b>₹ 1,26,42,000</b>
(-) Variable cost (net)	(75,47,750)
(-) allotted fixed cost (10,000 units x110)	<u>(11,00,000)</u>
<b>PROFIT</b>	<b><u>₹ 39,94,250</u></b>

4. **Option (d) ₹ 50,94,250**

**Reason:**

**CASH INFLOW:**

<b>SALES (\$4.90 x 30,000 x RS. 86)</b>	<b>₹ 1,26,42,000</b>
(-) Variable cost (net)	<u>(75,47,750)</u>
<b>CASH INFLOW</b>	<b><u>₹ 50,94,250</u></b>

5. **Option (a) ₹ 19,94,250**

**Option**

**Incremental benefits:**

<b>SALES (\$4.90 x 30,000 x RS. 86)</b>	<b>₹ 1,26,42,000</b>
(-) Variable cost (net)	(75,47,750)
(-) allotted fixed cost (10,000 units x110)	(11,00,000)
(-) loss of profit (10,000x200)	<u>(20,00,000)</u>
<b>Incremental benefits</b>	<b><u>19,94,250</u></b>

**CASE SCENARIO 11**

A truck driver, named Raju, owns a truck which can carry 5 tonne of material at a time. Raju has no other truck and he has listed himself with various carriage services agencies, to offer his services. He gets his work from these agencies and they pay him as per the load and the distance. Raju has one condition that he must be paid for at least 75% of his total capacity. Raju charges freight at ₹ 10 per tonne-km.

He received a work contract, from one of these agencies, where he has to take 4 tonne from Delhi in the morning and drop it off at Chandigarh. After that he will move to Ludhiana, where he again loads 3 tonne and come back to Delhi by evening. This contract is for nearly 3 months.

Raju is excited to accept the order but it is not physically possible for Raju to complete this project alone. He decides to hire a helper cum driver who will assist him in this work contract and will also drive in turns with Raju. Thus, such a long contract will be managed comfortably. This helper will take ₹ 15,000 per month.

The contract will start from 15<sup>th</sup> June, 2024 and will run till 14<sup>th</sup> September, 2024. Throughout this time period there are only 2 days holidays, both falling in August (1 for Independence Day and 1 for Raksha Bandhan).

Some information about the Truck and its associated costs:

- Truck was purchased on 1<sup>st</sup> April, 2021 by taking a loan of ₹ 20,00,000 @ 10% p.a. from Punjab national bank for 5 years. Raju mortgaged jewellery of his wife to get this loan.
- Every year-end he has to pay ₹ 5,27,595 as instalment.
- Scrap value after 10 years is expected to be ₹ 500,000.
- Depreciation is charged on straight-line method.
- Services and maintenance charges each month is ₹ 80,000.
- Truck runs on diesel and its running average is 8kms/ litre.
- Diesel cost per litre:

June	80.30
July	80.50
August	81.25
September	80.90

Yearly interest amount of loan and yearly depreciation is charged to a work contract on the basis of days worked in a year in the contract.

Distance between these places:

- (1) Delhi to Chandigarh = 250 kms
- (2) Chandigarh to Ludhiana = 100 kms
- (3) Ludhiana to Delhi = 150 kms

### **MULTIPLE CHOICE QUESTIONS**

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Answer the following questions (MCQs 1 to 5):

1. What would be the amount of profit Raju would have earned if he had no minimum charges limit of 75% of total capacity on absolute Tonne-km basis? (If the vehicle runs empty then he would only charge for Diesel expenses).
  - (a). 3,34,249
  - (b). 4,43,249
  - (c). 5,96,977
  - (d). 4,34,249
2. If payment was made on commercial Tonne-km basis and Raju had no minimum charges limit of 75%, how much he would have lost due to no minimum requirement?
  - (a). ₹ 6,37,500
  - (b). ₹ 5,93,750
  - (c). ₹ 4,92,438
  - (d). ₹ 3,91,126

- 
3. What should be the minimum amount charged on basis of absolute Tonne-km if Raju wants to earn ₹ 2,70,000?
- (a). ₹ 4.58  
(b). ₹ 6.13  
(c). ₹ 8.39  
(d). ₹ 3.21
4. Choose the correct amount of depreciation and interest that should be charged to this work contract.
- (a). 56,983 & 22,588  
(b). 36,986 & 22,578  
(c). 63,963 & 12,568  
(d). 63,953 & 12,558
5. What is the profit as per current rate charged by Raju? (Use absolute Tonne-Km).
- (a). 7,34,249  
(b). 9,44,863  
(c). 5,96,977  
(d). 4,34,249

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

- 1. Option (c) Profit if no minimum charges are there, on absolute tonne basis, but he will charge for diesel petrol when running empty**

**Reason:**

Absolute tonne-kms:  $(250 \text{ kms} \times 4 \text{ tonnes} + 150 \text{ kms} \times 3 \text{ tonnes}) \times 90 \text{ days}$   
 $= 1,30,500 \text{ tonne-kms}$

Vacant moving (Chandigarh to Ludhiana) =  $100 \text{ kms} \times 90 \text{ days} = 9,000 \text{ kms}$

Charges for vacant running:

	(₹)
June $(80.30 \times 16 \times 100)/8$	16,060
July $(80.50 \times 31 \times 100) /8$	31,194
August $(81.25 \times 29 \times 100) /8$	29,453
September $(80.90 \times 14 \times 100) /8$	14,158
<b>Total Charges</b>	<b>90,864</b>

	(₹)
Total revenue $(1,30,500 \times 10)$	13,05,000
Add: diesel recovery for vacant running	90,864
Less: service & maintenance $(80,000 \times 3)$	(2,40,000)
Less: salary $(15,000 \times 3)$	(45,000)
Less: diesel cost	(4,54,323)
Less: interest	(22,578)
Less: depreciation	(36,986)
<b>Profit</b>	<b>5,96,977</b>

Bifurcation of principal and interest

Years	Calculation of interest (₹)	Interest (₹)	Principal repayment (₹)	Loan balance (₹)
0	-	-	-	20,00,000
1	$20,00,000 \times 10\%$	2,00,000	3,27,595	16,72,405
2	$16,72,405 \times 10\%$	1,67,241	3,60,354	13,12,051
3	$13,12,051 \times 10\%$	1,31,205	3,96,390	9,15,661
4	$9,15,661 \times 10\%$	91,566	4,36,029	4,79,632
5	$4,79,632 \times 10\%$	47,963	4,79,632	-

Interest allocated to this job =  $91,566 \times 90 / 365 = 22,578$

$$\text{Depreciation} = \frac{20,00,000 - 5,00,000}{10} \times \frac{90}{365} = 36,986$$

Diesel expenses:

	(₹)
June $(80.30 \times 16 \times 500)/8$	80,300
July $(80.50 \times 31 \times 500)/8$	1,55,969
August $(81.25 \times 29 \times 500)/8$	1,47,266
September $(80.90 \times 14 \times 500)/8$	70,788
<b>Total diesel expenses</b>	<b>4,54,322</b>

**2. Option (a) ₹ 6,37,500**

**Reason:**

	<b>With minimum limit (₹)</b>	<b>Without minimum limit (₹)</b>
Commercial tonne kms	$3.75 \times 500 \times 90$ $= 1,68,750$	$((4+0+3)/3) \times 500 \times 90$ $= 1,05,000$
revenue	$1,68,750 \times 10$ $= 16,87,500$	$1,05,000 \times 10$ $= 10,50,000$
Less: costs	<u>(7,98,887)</u>	<u>(7,98,887)</u>
Profit/(loss)	<u>8,88,613</u>	<u>2,51,113</u>

Loss arising due to no minimum limit =  $8,88,613 - 2,51,113 = 6,37,500$

**3. Option (b) ₹ 6.13**

**Reason:**

**Total Revenue** = Cost + Profit =  $7,98,887 + 2,70,000 = ₹ 10,68,887$

Absolute Tonne-Kms = 1,74,375

Rate =  $10,68,887 / 1,74,375 = ₹ 6.13$

**4. Option (b) 36,986 & 22,578**

**5. Option (b) 9,44,863**

**Reason for 4 & 5:**

Profit at current rate (based on minimum charges of 75%)

Absolute tonne-kms: (250 kms x 4 tonnes + 100 kms x 3.75 tonnes + 150 kms x 3.75 tonnes) x 90 days = 1,74,375 tonne-kms

	(₹)
Total revenue (1,74,375 x 10)	17,43,750
Less: service & maintenance (80,000 x 3)	(2,40,000)
Less: salary (15,000 x 3)	(45,000)
Less: diesel cost	(4,54,323)
Less: interest	(22,578)
Less: depreciation	(36,986)
<b>Profit</b>	<b>9,44,863</b>

**CASE SCENARIO 12**

eSalt is the biggest producer of sodium hydroxide in India. This main product of the company has a strong reactivity with other organic compounds. It is highly versatile and is alkaline in nature. However, the basic material required for the production of this product is salt along with the electricity.

The manufacturing process involves electrolysis which produces Halogen as co-product. Modern use of Halogen is widespread. However, the common use is in disinfection like for purifying drinking water or swimming pool water. It is also an important ingredient of toothpaste. Thus, the company's management affirmed the simultaneous production of Halogen.

During the previous financial year, the company purchased the base material of ₹ 5,34,000. For the current year, the company decided to increase the production by 2 times. Due to increased production, the total conversion cost hiked to 3 times. Last year, the conversion cost accounted to ₹ 8,01,000 up to the point at which two products i.e. sodium hydroxide and Halogen are separated.

The production and sales information for current year is provided as below:

	<b>Sodium hydroxide</b>	<b>Halogen</b>
Production/ Sales(in tonne)	24,030	16,020
Selling price per tonne (₹)	100	150

During the current year, the management of the company pointed the extensive use of Vinyl which can be produced by further processing Halogen. Having selling price of ₹ 250 per tonne higher than that of the Halogen, it was decided not to sell Halogen and further process it into Vinyl. The incremental processing cost took ₹ 8,01,000 producing 10,012.50 tonnes of Vinyl.



**MULTIPLE CHOICE QUESTIONS**

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You are required to FIGURE OUT the following for managerial decision (MCQs 1 to 5):

1. For the current year, the amount of base material purchased and the conversion cost up to the point at which two products i.e. Sodium hydroxide and Halogen are separated would be:
  - (a). base material ₹ 10,68,000 and conversion cost ₹ 24,03,000
  - (b). base material ₹ 10,68,000 and conversion cost ₹ 16,02,000
  - (c). base material ₹ 16,02,000 and conversion cost ₹ 24,03,000
  - (d). base material ₹ 24,03,000 and conversion cost ₹ 16,02,000
2. Joint cost to be apportioned between Sodium hydroxide and Halogen as per the physical unit method would be:
  - (a). Sodium hydroxide ₹ 24,03,000 and Halogen ₹ 10,68,000
  - (b). Sodium hydroxide ₹ 10,68,000 and Halogen ₹ 16,02,000
  - (c). Sodium hydroxide ₹ 16,02,000 and Halogen ₹ 24,03,000
  - (d). Sodium hydroxide ₹ 24,03,000 and Halogen ₹ 16,02,000
3. Joint cost to be apportioned between Sodium hydroxide and Halogen as per the sales value at split- off point method would be:
  - (a). Sodium hydroxide ₹ 20,02,500 and Halogen ₹ 20,02,500
  - (b). Sodium hydroxide ₹ 16,02,000 and Halogen ₹ 24,03,000
  - (c). Sodium hydroxide ₹ 24,03,000 and Halogen ₹ 16,02,000
  - (d). Sodium hydroxide ₹ 10,68,000 and Halogen ₹ 20,02,500
4. Joint cost to be apportioned between Sodium hydroxide and Halogen as per the estimated net realisable value method would be:
  - (a). Sodium hydroxide ₹ 23,44,390 and Halogen ₹ 16,60,610
  - (b). Sodium hydroxide ₹ 17,16,429 and Halogen ₹ 22,88,571

- (c). Sodium hydroxide ₹ 22,88,571 and Halogen ₹ 17,16,429
- (d). Sodium hydroxide ₹ 16,60,610 and Halogen ₹ 23,44,390
5. Considering that the decision relating to further processing Halogen is not approved, suggest whether this would be in favour of the management by calculating incremental revenue /loss from further processing Halogen into Vinyl.
- (a). Incremental loss would be ₹ 16,02,000, thus the decision of not further processing Halogen is correct.
- (b). Incremental loss would be ₹ 8,01,000, thus the decision of not further processing Halogen is correct.
- (c). Incremental revenue would be ₹ 8,01,000, thus the decision relating to further processing Halogen needs to be approved.
- (d). Incremental revenue would be ₹ 16,02,000, thus the decision relating to further processing Halogen needs to be approved.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option(c) base material ₹ 16,02,000 and conversion cost ₹ 24,03,000**

**Reason:**

Particulars	Base Material	Conversion cost
Previous year cost (₹)	5,34,000	8,01,000
Increased by	2 times	-
Increased to		3 times
Current year cost (₹)	$5,34,000 + (5,34,000 \times 2) = 16,02,000$	$8,01,000 \times 3 = 24,03,000$

## 2. Option (d) Sodium hydroxide ₹ 24,03,000 and Halogen ₹ 16,02,000

Reason:

Products	Production/ Sales(in tonne)	Joint Cost Apportioned (₹)
Sodium hydroxide	24,030	24,03,000
Halogen	16,020	16,02,000
<b>Total</b>	<b>40,050</b>	<b>40,05,000</b>

$$\begin{aligned}
 \text{Joint cost} &= \text{base material} + \text{conversion cost} \\
 &= 16,02,000 + 24,03,000 \\
 &= 40,05,000
 \end{aligned}$$

$$\text{Apportioned joint cost} = \frac{\text{Total joint cost}}{\text{Total physical value}} \times \text{Physical units of each product}$$

$$\text{For Sodium hydroxide} = \frac{₹ 40,05,000}{40,050 \text{ tonnes}} \times 24,030 \text{ tonnes}$$

$$= ₹ 24,03,000$$

$$\text{For Halogen} = \frac{₹ 40,05,000}{40,050 \text{ tonnes}} \times 16,020 \text{ tonnes}$$

$$= ₹ 16,02,000$$

## 3. Option (a) Sodium hydroxide ₹ 20,02,500 and Halogen ₹ 20,02,500

Reason:

Products	Sales (in Tonne)	Selling Price per Tonne (₹)	Sales Revenue (₹)	Joint Cost Apportioned (₹)
Sodium hydroxide	24,030	100	24,03,000	20,02,500
Halogen	16,020	150	24,03,000	20,02,500
<b>Total</b>	<b>40,050</b>		<b>48,06,000</b>	<b>40,05,000</b>

$$\text{Apportioned joint cost} = \frac{\text{Total joint cost}}{\text{Total sale revenue}} \times \text{Sale revenue of each product}$$

$$\text{For Sodium hydroxide} = \frac{\text{₹ } 40,05,000}{\text{₹ } 48,06,000} \times 24,03,000 = \text{₹ } 20,02,500$$

$$\text{For Halogen} = \frac{\text{₹ } 40,05,000}{\text{₹ } 48,06,000} \times 24,03,000 = \text{₹ } 20,02,500$$

**4. Option (b) Sodium hydroxide ₹ 17,16,429 and Halogen ₹ 22,88,571**

**Reason:**

Products	Sales (in Tonne)	Selling Price per Tonne (₹)	Sales Value (₹)	Post split- off cost (₹)	Net Realisable Value (₹)	Joint Cost Apportioned (₹)
Sodium hydroxide	24,030	100	24,03,000	-	24,03,000	17,16,429
Halogen (Vinyl after further processing)	10,012.50	150 + 250 = 400	40,05,000	8,01,000	32,04,000	22,88,571
<b>Total</b>					<b>56,07,000</b>	<b>40,05,000</b>

$$\text{Apportioned joint cost} = \frac{\text{Total joint cost}}{\text{Total Net Realisable Value}} \times \text{Net Realisable Value of each product}$$

$$\text{For Sodium hydroxide} = \frac{\text{₹ } 40,05,000}{\text{₹ } 56,07,000} \times 24,03,000$$

$$= \text{₹ } 17,16,429$$

$$\text{For Halogen} = \frac{\text{₹ } 40,05,000}{\text{₹ } 56,07,000} \times 32,04,000$$

$$= \text{₹ } 22,88,571$$

5. Option (c) Incremental revenue would be ₹ 8,01,000, thus the decision relating to further processing Halogen needs to be approved.

Reason:

Particulars	Amount (in ₹)
Revenue from sales of Vinyl if Halogen further processed (10,012.50 tonnes × ₹ 400) (A)	40,05,000
Revenue from sales of Halogen if no further processing done (16,020 tonnes × ₹ 150)(B)	24,03,000
<b>Incremental revenue from further processing of Halogen into Vinyl (A-B)</b>	<b>16,02,000</b>
Incremental cost of further processing Halogen into Vinyl	8,01,000
<b>Incremental operating income from further processing</b>	<b>8,01,000</b>

Incremental revenue would be ₹ 8,01,000, thus the decision relating to further processing Halogen needs to be approved.

**CASE SCENARIO 13**

The purchase committee of A Ltd. has been entrusted to review the material procurement policy of the company. The chief marketing manager has appraised the committee that the company at present produces a single product X by using two raw materials A and B in the ratio of 3:2. Material A is perishable in nature and has to be used within 10 days from Goods received note (GRN) date otherwise material becomes obsolete. Material B is durable in nature and can be used even after one year. Material A is purchased from the local market within 1 to 2 days of placing order. Material B, on the other hand, is purchased from neighbouring state and it takes 2 to 4 days to receive the material in the store.

The purchase price of per kilogram of raw material A and B is ₹30 and ₹44 respectively exclusive of taxes. To place an order, the company has to incur an administrative cost of ₹1,200. Carrying cost for Material A and B is 15% and 5% respectively. At present material A is purchased in a lot of 15,000 kg. to avail 10% discount on market price. GST applicable for both the materials is 18% and the input tax credit is availed.

The sales department has provided an estimate that the company could sell 30,000 kg. in January 2024 and also projected the same trend for the entire year.

The ratio of input and output is 5:3. Company works for 25 days in a month and production is carried out evenly.

The following queries/ calculations to be kept ready for purchase committees' reference:

1. For the month of January 2024, what would be the quantity of the materials to be requisitioned for both material A and B:
  - (a) 9,000 kg & 6,000 kg respectively
  - (b) 18,000 kg & 12,000 kg respectively
  - (c) 27,000 kg & 18,000 kg respectively
  - (d) 30,000 kg & 20,000 kg respectively.
2. The economic order quantity (EOQ) for both the material A & B:

- (a) 13,856 kg & 16,181 kg respectively
  - (b) 16,197 kg & 17,327 kg respectively
  - (c) 16,181 kg & 17,165 kg respectively
  - (d) 13,197 kg & 17,165 kg respectively
3. What would the maximum stock level for material A:
- (a) 18,200 kg.
  - (b) 12,000 kg.
  - (c) 16,000 kg.
  - (d) 16,200 kg.
4. Calculate saving/ loss in purchase of Material A if the purchase order quantity is equal to EOQ.
- (a) Profit of ₹ 3,21,201.
  - (b) Loss of ₹ 3,21,201.
  - (c) Profit of ₹ 2,52,500.
  - (d) Loss of ₹ 2,52,500.
5. What would the minimum stock level for material A:
- (a) 1,800 kg.
  - (b) 1,200 kg.
  - (c) 600 kg.
  - (d) 2,400 kg.

---

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d) 30,000 kg & 20,000 kg respectively.**

**Reason:**

Monthly Production of X = 30,000 kgs.

Raw Material Required =  $\frac{30,000}{3} \times 5 = 50,000$  kgs.

$$\text{Material A} = \frac{50,000}{5} \times 3 = \mathbf{30,000 \text{ kg.}}$$

$$\text{Material B} = \frac{50,000}{5} \times 2 = \mathbf{20,000 \text{ kg.}}$$

## 2. Option (a) 13,856 kg & 16,181 kg respectively

### Reason:

Calculation of Economic Order Quantity (EOQ):

$$\text{Material A} = \sqrt{\frac{2 \times \text{Annual consumption} \times \text{Order cost}}{\text{Carrying cost per unit p.a.}}}$$

$$= \sqrt{\frac{2 \times (30,000 \times 12) \times 1,200}{15\% \text{ of } 30}} = \mathbf{13,856 \text{ kg.}}$$

$$\text{Material B} = \sqrt{\frac{2 \times (20,000 \times 12) \times 1,200}{5\% \text{ of } 44}} = \mathbf{16,181 \text{ kg.}}$$

## 3. Option (b) 12,000 kg.

### Reason:

Calculation of Maximum Stock level: Since, the Material A is perishable in nature and it required to be used within 10 days, hence, the Maximum Stock Level shall be lower of two:

- (a) Stock equal to 10 days consumption

$$= \frac{30,000}{25} \times 10 \text{ days} = 12,000 \text{ kg.}$$

- (b) Maximum Stock Level for Material A:

Re-order Quantity + Re-order level – (Min consumption\* × Min. lead time)

Where,

$$\text{Re-order Quantity} = 15,000 \text{ kg.}$$

$$\text{Re-order level} = \text{Max. Consumption}^* \times \text{Max. Lead time}$$

$$= 30,000/25 \times 2 \text{ days} = 2,400 \text{ kg.}$$

$$\text{Maximum stock Level} = 15,000 \text{ kg.} + 2,400 \text{ kg.} - \left(\frac{30,000}{25} \times 1 \text{ day}\right)$$

$$= 17,400 - 1,200 = 16,200 \text{ kg.}$$



Stock required for 10 days consumption is lower than the maximum stock level calculated through the formula. Therefore, Maximum Stock Level will be **12,000 kg.**

(\*Since, production is processed evenly throughout the month hence material consumption will also be even.)

**4. Option (b) Loss of ₹ 3,21,201.**

**Reason:**

**Calculation of Savings/ loss in Material A if purchase quantity equals to EOQ.**

	<b>Purchase Quantity = 15,000 kg.</b>	<b>Purchase Quantity = EOQ i.e. 13,856 kg.</b>
Annual consumption	3,60,000 kg. (30,000 × 12 months)	3,60,000 kg. (30,000 × 12 months)
No. of orders [Note- (i)]	30 (3,60,000 ÷ 12,000)	30 (3,60,000 ÷ 12,000)
Ordering Cost (a)	₹36,000 (₹1200 × 30)	₹36,000 (₹1200 × 30)
Carrying Cost (b) [Note- (ii)]	₹30,375 (15% of ₹27 × 7,500)	₹31,176 (15% of ₹30 × 6,928)
Purchase Cost (c) (for good portion)	₹97,20,000 (₹27 × 3,60,000)	₹1,08,00,000 (₹30 × 3,60,000)
Loss due to obsolescence (d) [Note- (iii)]	₹24,30,000 [₹27 × (30 × 3,000)]	₹16,70,400 [₹30 × (30 × 1,856)]
Total Cost [(a) + (b) + (c) + (d)]	₹ 1,22,16,375	₹ 1,25,37,576

Purchasing of material -A at present policy of 15,000 kg. saves **₹ 3,21,201.**

**Notes:**

- (i) Since, material gets obsolete after 10 days, the quantity in excess of 10 days consumption i.e. 12,000 kg. are wasted. Hence, after 12,000 kg. a fresh order needs to be given.
- (ii) Carrying cost is incurred on average stock of Materials purchased.
- (iii) the excess quantity of material becomes obsolete and loss has to be incurred.

**5. Option (c) 600 kg.****Reason:**

Minimum Stock Level for Material A

$$= \text{Re-order level} - (\text{Average Consumption Rate} \times \text{Average Re-order Period})$$

$$= 2400 - (1200 \times 1.5) = \mathbf{600 \text{ kgs}}$$

$$\begin{aligned} \text{Re-order level} &= \text{Max. Consumption}^* \times \text{Max. Lead time} \\ &= 30,000/25 \times 2 \text{ days} = 2,400 \text{ kg.} \end{aligned}$$

$$\begin{aligned} \text{Average Consumption Rate} &= (30,000/25 + 30,000/25)/2 \\ &= 1,200 \text{ Kg} \end{aligned}$$

$$\text{Average Re-order Period} = (1 + 2)/2 = 1.5 \text{ Days}$$

Stock required for 10 days consumption is lower than the maximum stock level calculated through the formula. Therefore, Maximum Stock Level will be 12,000 kg.

(\*Since, production is processed evenly throughout the month hence material consumption will also be even.)

**CASE SCENARIO 14**

The board of the J Ltd. has been appraised by the General Manager (HR) that the employee attrition rate in the company has increased. The following facts has been presented by the GM(HR):

- (1) Training period of the new recruits is 50,000 hours. During this period their productivity is 60% of the experienced workers. Time required by an experienced worker is 10 hours per unit.
- (2) 20% of the output during training period was defective. Cost of rectification of a defective unit was ₹ 25.
- (3) Potential productive hours lost due to delay in recruitment were 1,00,000 hours.
- (4) Selling price per unit is ₹ 180 and P/V ratio is 20%.
- (5) Settlement cost of the workers leaving the organization was ₹ 1,83,480.
- (6) Recruitment cost was ₹ 1,56,340
- (7) Training cost was ₹ 1,13,180

**MULTIPLE CHOICE QUESTIONS**

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You being an associate finance to GM(HR), has been asked the following questions:

1. How much quantity of output is lost due to labour turnover?
  - (a) 10,000 units
  - (b) 8,000 units
  - (c) 12,000 units
  - (d) 12,600 units
2. How much loss in the form of contribution, the company incurred due to labour turnover?
  - (a) ₹ 4,32,000

- (b) ₹ 4,20,000
  - (c) ₹ 4,36,000
  - (d) ₹ 4,28,000
3. What is the cost repairing of defective units?
- (a) ₹ 75,000
  - (b) ₹ 15,000
  - (c) ₹ 50,000
  - d) ₹ 25,000
4. Calculate the profit lost by the company due to increased labour turnover.
- (a) ₹ 7,50,000
  - (b) ₹ 15,00,000
  - (c) ₹ 5,00,000
  - (d) ₹ 9,00,000
5. How much quantity of output is lost due to inexperience of the new worker?
- (a) 1,000 units
  - (b) 2,600 units
  - (c) 2,000 units
  - (d) 12,600 units

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**ANSWERS TO MULTIPLE CHOISE QUESTIONS**

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**1. Option (c) 12,000 units****Reason:**

Output by experienced workers in 50,000 hours

$$= \frac{50,000}{10}$$

$$= 5,000 \text{ units}$$

$\therefore$  Output by new recruits = 60% of 5,000 = 3,000 units  
 Loss of output = 5,000 – 3,000 = 2,000 units  
 Total loss of output = Due to delay recruitment + Due to inexperience  
 = 10,000 + 2,000 = **12,000 units**

**2. Option (a) ₹ 4,32,000**

**Reason:**

Contribution per unit = 20% of ₹ 180 = ₹ 36  
 Total contribution lost = ₹ 36 × 12,000 units = **₹ 4,32,000**

**3. Option (b) ₹ 15,000**

**Reason:**

Cost of repairing defective units = 3,000 units × 0.2 × ₹ 25  
 = **₹ 15,000**

**4. Option (d) ₹ 9,00,000**

**Reason:**

**Calculation of loss of profit due to labour turnover**

	(₹)
Loss of Contribution	4,32,000
Cost of repairing defective units	15,000
Recruitment cost	1,56,340
Training cost	1,13,180
Settlement cost of workers leaving	1,83,480
Profit forgone in 2022-23	9,00,000

**5. Option (c) 2,000 units****Reason:**

Output by experienced workers in 50,000 hours

$$= \frac{50,000}{10}$$

$$= 5,000 \text{ units}$$

$$\therefore \text{Output by new recruits} = 60\% \text{ of } 5,000 = 3,000 \text{ units}$$

$$\text{Loss of output} = 5,000 - 3,000 = \mathbf{2,000 \text{ units}}$$

### CASE SCENARIO 15

During half year ending inter departmental review meeting of P Ltd., cost variance report was discussed and the performance of the departments were assessed. The following figures were presented.

For a period of first six months of the financial year, following information were extracted from the books:

Actual production overheads	₹ 34,08,000
The above amount is inclusive of the following payments made:	
Paid as per court's order	₹ 4,50,000
Expenses of previous year booked in current year	₹ 1,00,000
Paid to workers for strike period under an award	₹ 4,20,000
Obsolete stores written off	₹ 36,000

Production and sales data for the six months are as under:

Production:	
Finished goods	1,10,000 units
Works-in-progress	
(50% complete in every respect)	80,000 units
Sale:	
Finished goods	90,000 units

Machine worked during the period was 3,000 hours.

At the of preparation of revenue budget, it was estimated that a total of ₹ 50,40,000 would be required for budgeted machine hours of 6,000 as production overheads for the entire year.

During the meeting, a data analytic report revealed that 40% of the over/under-absorption was due to defective production policies and the balance was attributable to increase in costs.

You were also present at the meeting; the chairperson of the meeting has asked you to be ready with the followings for the performance appraisal of the departmental heads:

### MULTIPLE CHOICE QUESTIONS

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1. How much was the budgeted machine hour rate used to recover overhead?
  - (a) ₹ 760
  - (b) ₹ 820
  - (c) ₹ 780
  - (d) ₹ 840
2. How much amount of production overhead has been recovered (absorbed) upto the end of half year end?
  - (a) ₹ 25,20,000
  - (b) ₹ 34,08,000
  - (c) ₹ 24,00,000
  - (d) ₹ 24,60,000
3. What is the amount of overhead under/ over absorbed?
  - (a) 1,18,000 over-absorbed
  - (b) 1,18,000 under- absorbed
  - (c) 18,000 over-absorbed
  - (d) 18,000 under-absorbed
4. What is the supplementary rate for apportionment of over/under absorbed overheads over WIP, Finished goods and Cost of sales?
  - (a) ₹ 0.315 per unit
  - (b) ₹ 0.472 per unit
  - (c) ₹ 0.787 per unit
  - (d) ₹ 1 per unit



5. What is the amount of over/under absorbed overhead apportioned to Work in Progress?
- (a) ₹ 9,440  
 (b) ₹ 42,480  
 (c) ₹ 18,880  
 (d) ₹ 70,800

### ANSWERS TO MULTIPLE CHOISE QUESTIONS

1. **Option (d) ₹ 840**

**Reason:**

Budgeted Machine hour rate (Blanket rate)

$$= \frac{\text{₹ } 50,40,000}{6,000 \text{ hours}} = \text{₹ } 840 \text{ per hour}$$

2. **Option (a) ₹ 25,20,000**

**Reason:**

3. **Option (a) 1,18,000 over-absorbed**

**Reason:**

	Amount (₹)	Amount (₹)
Total production overheads actually incurred during the period		34,08,000
Less: Amount paid to worker as per court order	4,50,000	
Expenses of previous year booked in the current year	1,00,000	
Wages paid for the strike period under an award	4,20,000	
Obsolete stores written off	36,000	10,06,000
		24,02,000

Less: Production overheads absorbed as per machine hour rate (3,000 hours × ₹ 840*)		25,20,000
Amount of over absorbed production overheads		<b>1,18,000</b>

\* Budgeted Machine hour rate (Blanket rate) calculated in part (i)

**4. Option (b) ₹ 0.472 per unit**

**Reason:**

**Accounting treatment of over absorbed production overheads:** As, 40% of the over absorbed overheads were due to defective production policies, this being abnormal, hence should be credited to Costing Profit and Loss Account.

Amount to be credited to Costing Profit and Loss Account

$$= ₹ 1,18,000 \times 40\% = ₹ 47,200.$$

Balance of over absorbed production overheads should be distributed over Works in progress, Finished goods and Cost of sales by applying supplementary rate\*.

$$\text{Amount to be distributed} = ₹ 1,18,000 \times 60\% = ₹ 70,800$$

$$\text{Supplementary rate} = \frac{₹ 70,800}{1,50,000 \text{ units}} = ₹ 0.472 \text{ per unit}$$

**5. Option (c) ₹ 18,880**

**Reason:**

Apportionment of over absorbed production overheads over WIP, Finished goods and Cost of sales:

	Equivalent completed units	Amount (₹)
Work-in-Progress (80,000 units × 50% × 0.472)	40,000	<b>18,880</b>
Finished goods (20,000 units × 0.472)	20,000	9,440
Cost of sales (90,000 units × 0.472)	90,000	42,480
Total	1,50,000	70,800

**CASE SCENARIO 16**

'Axe Trade', an unregistered supplier under GST, purchased material from Vye Ltd. which is registered supplier under GST. During the month of June 2024, the Axe Traders has purchased a lot of 5,000 units on credit from Vye Ltd. The information related to the purchase are as follows:

Listed price of one lot of 5,000 units	₹ 2,50,000
Trade discount	- @ 10% on listed price
CGST and SGST (Credit available)	- 18% (9% CGST + 9% SGST)
Cash discount	- @ 10%
(Will be given only if payment is made within 30 days.)	
Toll Tax paid	₹ 5,000
Freight and Insurance	₹ 17,220
Demurrage paid to transporter	₹ 5,000
Commission and brokerage on purchases	₹ 10,000
Amount deposited for returnable containers	₹ 30,000
Amount of refund on returning the container	₹ 20,000
Other Expenses	@ 2% of total cost

A 20% shortage in material on receipt is expected considering the nature of the raw material.

The payment to the supplier was made within 21 days of the purchases.

**MULTIPLE CHOICE QUESTIONS**

1. If Axe Traders pays the supplier within 30 days of purchase, then, what is the total amount of cash discount received from the supplier and how it is treated to calculate material cost?
  - (a) ₹ 25,000 & it will not be deducted from the material cost
  - (b) ₹ 26,550 & it will be deducted from the material cost

- (c) ₹ 26,550 & it will not be deducted from the material cost
  - (d) ₹ 22,500 & it will not be deducted from the material cost
2. What will be the amount of other expenses and how it is treated in material cost?
- (a) ₹ 6,154.40 & it will be added with the material cost
  - (b) ₹ 6,280.00 & it will be added with the material cost
  - (c) ₹ 5,344.40 & it will be added with the material cost
  - (d) ₹ 5,453.47 & it will not be added with the material cost
3. What is the amount of GST and how will it be treated in cost sheet of Axe Traders?
- (a) ₹ 40,500 & it will not be added with material cost
  - (b) ₹ 40,500 & it will be added with material cost
  - (c) ₹ 45,000 & it will not be added with material cost
  - (d) ₹ 45,000 & it will be added with material cost
4. What is the total material cost chargeable in the cost sheet of Axe Traders?
- (a) ₹ 3,14,000
  - (b) ₹ 2,73,500
  - (c) ₹ 2,72,673
  - (d) ₹ 3,13,874
5. The number of good units and cost per unit of the materials received are:
- (a) 5,000 units & ₹ 62.80
  - (b) 5,000 units & ₹ 54.70
  - (c) 4,000 units & ₹ 78.50
  - (d) 4,000 units & ₹ 68.38

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

**1. Option (d) ₹ 22,500 & it will not be deducted from the material cost**

**Reason:**

Cash discount is received when credit amount is paid within the stipulated period of 30 days. The amount of cash discount to be received from the supplier is:

	Particulars	Amount (₹)
A.	Listed price	2,50,000
B.	Less: Trade Discount @10%	(25,000)
C.	Taxable value (A-B)	2,25,000
D.	Add: GST@18% (18% of C)	40,500
E.	Total amount payable to the supplier	2,65,500
F.	Cash discount @10% (10% of C)	<b>(22,500)</b>
G.	Net amount to be paid to the supplier (E-F)	2,43,000

**2. Option (b) ₹ 6,280.00 & it will be added with the material cost**

**Reason:**

Particulars	Units	(₹)
Listed Price of Materials	5,000	2,50,000
Less: Trade discount @ 10% on invoice price		(25,000)
		2,25,000
Add: GST @ 18% of ₹ 2,25,000		40,500
		2,65,500
Add: Toll Tax		5,000
Freight and Insurance		17,220
Commission and Brokerage Paid		10,000
Add: Cost of returnable containers:		
Amount deposited ₹ 30,000		
Less: Amount refunded ₹ 20,000		10,000
		3,07,720

Add: Other Expenses @ 2% of Total Cost $\left(\frac{₹ 3,07,720}{98} \times 2\right)$		6,280
Total cost of material		3,14,000
Less: Shortage material due to normal reasons @ 20%	1,000	-
Total cost of material of good units	4,000	3,14,000
Cost per unit (₹ 3,14,000/4,000 units)		78.5

**3. Option (b) ₹ 40,500 & it will be added with material cost**

**Reason:**

Axe Traders is an unregistered supplier in the GST; thus, GST credit is not applicable for it. GST paid on the purchase of the material will be the part of the material cost.

**4 Option (a) ₹ 3,14,000**

**Reason:**

Please refer the solution above

**5. (c) 4,000 units & ₹ 78.50**

**Reason:**

Please refer the solution above

**CASE SCENARIO 17**

ABC Pvt Ltd is engaged in the manufacture of a Product Q. The product has the following standard production requirements determined by the technical team of the company post satisfactory completion of test run.

Raw Material Z – 2 units @ ₹ 2 per unit

Skilled labour of – 2.5 hours@ ₹ 5 per hour

Fixed Overheads – ₹ 7.5 per unit

The input of Raw material Z has a yield of 80% everytime when infused into production. The actual quantity of Raw material Z consumed for production during the year was 24,000 units. The Usage variance of Material Z was 2,000 Favourable. Further the actual amount of material cost for the material consumed amounted to ₹ 45,000.

During the said year, the actual working hours were 30,000 for which the labour cost paid by the company amounted to ₹1,20,000. The idle time variance amounted to 10,000 Adverse.

The actual fixed overheads incurred for the year amounted to ₹ 1,50,000 and the expenditure variance was ₹25,000 Favourable.

**MULTIPLE CHOICE QUESTIONS**

In the context of the above, the following needs to be determined:

1. The Actual output of Product Q produced during the year is:
  - (a) 10,000 units
  - (b) 12,500 units
  - (c) 25,000 units
  - (d) 15,000 units
2. The Material price and material cost variance are:
  - (a) Price variance – 3,000 Adverse, Cost Variance – 5,000 Adverse
  - (b) Price variance – 3,000 Favourable, Cost Variance – 5,000 Favourable



- (c) Price variance – 3,000 Favourable, Cost Variance – 8,000 Adverse
  - (d) Price variance – 5,000 Adverse, Cost Variance – 3,000 Favourable
3. The Standard Hours, Net Actual hours and the idle time are:
- (a) Standard Hours – 27,500 Net Actual Hours – 28,000 hours Idle Time – 2,000 hours
  - (b) Standard Hours – 22,500 Net Actual Hours – 28,500 hours Idle Time – 1,500 hours
  - (c) Standard Hours – 24,000 Net Actual Hours – 29,000 hours Idle Time – 1,000 hours
  - (d) Standard Hours – 25,000 hours Net Actual Hours – 28,000 hours Idle Time – 2,000 hours
4. Labour Efficiency variance and Labour rate variance are:
- (a) Labour Efficiency Variance – 30,000 Favourable Labour rate Variance – 25,000 Adverse
  - (b) Labour Efficiency Variance – 25,000 Favourable, Labour rate Variance – 30,000 Adverse
  - (c) Labour Efficiency Variance – 25,000 Adverse, Labour rate Variance – 30,000 Favourable
  - (d) Labour Efficiency Variance – 30,000 Adverse Labour rate Variance – 25,000 Favourable
5. Fixed Overhead volume variance is:
- (a) Fixed Overhead volume variance – 1,00,000 Favourable
  - (b) Fixed Overhead volume variance – 50,000 Adverse
  - (c) Fixed Overhead volume variance – 1,00,000 Adverse
  - (d) Fixed Overhead volume variance – 50,000 Favourable

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**ANSWERS TO MULTIPLE CHOISE QUESTIONS**


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**1. Option (a) 10,000 units****Reason:**

$$\begin{aligned}
 \text{Usage variance of Material Z} &= 2,000 \text{ F} \\
 \text{Usage Variance} &= \text{SQ} \times \text{SP} - \text{AQ} \times \text{SP} \\
 \text{SP} &= ₹ 2 \\
 \text{AQ} &= 24,000 \text{ units} \\
 2 \times (\text{SQ} - 24,000) &= 2,000 \\
 2\text{SQ} &= 50,000 \\
 \text{Therefore SQ} &= 25,000 \\
 \text{No of units of Input required per output} &= 2 \\
 \text{Yield of input} &= 80\% \\
 &= (25000/2) \times 80\% = 10,000 \text{ units.}
 \end{aligned}$$

**2. Option (b) Price variance – 3,000 Favourable, Cost Variance – 5,000 Favourable****Reason:**

Price variance – 3,000 Favourable,

Cost Variance – 5,000 Favourable

$$\begin{aligned}
 \text{Price variance} &= \text{AQ} \times (\text{SP} - \text{AP}) \\
 24,000 \times (2 - 1.875) &= 3,000 \text{ Favourable.} \\
 \text{Cost variance} &= \text{SQ} \times \text{SP} - \text{AQ} \times \text{AP} \\
 &= 50,000 - 45,000 = 5,000 \text{ Favourable.}
 \end{aligned}$$

**3. Option (d) Standard Hours – 25,000 hours Net Actual Hours –28,000 hours Idle Time – 2,000 hours**

**Reason:**

Standard Hours – 25,000 hours Net Actual Hours –28,000 hours Idle Time – 2,000 hours

Actual output = 10,000 units

Standard hours per unit = 2.5

Therefore standard hours = 10,000 x 2.5 = 25,000 hours.

Idle time variance = SR x (Net AH – AH)

5 x (Net AH – 30,000) = 10,000 Adverse

5 Net AH – 1,50,000 = -10,000

5 Net AH = 1,40,000

Net AH = 28,000 hours

Idle time = 2,000 hours

**4. Option (c) Labour Efficiency Variance – 25,000 Adverse, Labour rate Variance – 30,000 Favourable**

**Reason:**

Labour Efficiency Variance – 25,000 Adverse,

Labour rate Variance – 30,000 Favourable

Efficiency Variance = SR x (SH-AH)

= 5 x (25,000 – 30,000)

= 25,000 Adverse

Rate Variance = AH x (SR – AR)

= 30,000 (5 – 4) [1,20,000/30,000]

= 30,000 Favourable.

**5. Option (c) Fixed Overhead volume variance – 1,00,000 Adverse****Reason:**

Fixed Overhead Volume variance – 1,00,000 Adverse

Overhead Volume variance = Actual Output x SR per unit – Budgeted FOH

Budgeted FOH = Actual FOH (+/-) Expenditure variance

1,50,000 + 25,000 = 1,75,000

AO x SR = 10,000 x 7.5 = 75,000

Therefore volume variance = 75,000 – 1,75,000  
= 1,00,000 Adverse.

**CASE SCENARIO 18**

Popular company produces various articles for student purposes. It has been in industry since last 25 years. Company had a very humble start but gained popularity over the years due to excellent quality products which were sold at very competitive prices. Company has huge reserves and feel that it is also obligated to give back to the society from which it has grown.

Last year management decided to produce and supply special quality school bags, water bottles, & geometry boxes to NGOs, at no price, as a social responsibility. These articles were simple looking but were more durable, that would not have wore-off easily and could have been used for long-term.

This year management wants to add another dimension to this social work. It approached charitable schools and government run schools and offered them the supply of the same articles, at cost. This will help students in these schools to get these things at a very low price compared to market.

The variable costs are ₹ 100, ₹ 80, and ₹ 40 for school bags, water bottles, and geometry boxes, respectively. These articles are made using a single machine. 0.20 hours of machine operation is required for manufacturing 1 unit of school bag. Similarly, machine hours required for each units of water bottle and geometry box is 0.15 hours and 0.10 hours, respectively. Fixed overhead related to machine is ₹ 7,40,000 per year. Machine can operate for 8,000 hours in a year.

Company has decided to sell its 80% capacity production in markets. Rest is divided amongst the 2 undergoing social works, equally.

All Schools requests these items in the ratio of 2:3:5, as per their demand by the school students.

Company wants to set a price for these articles to be offered to the schools. Management has few questions they need the answers to. They assigned the task to their team. Team made rough calculations but as there were too many people on the team, each came up with different answers. As a Chartered accountant, you have been approached. Understand the case closely, find the correct answers and help management to set a price.

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**MULTIPLE CHOICE QUESTIONS**

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1. What is allocated fixed cost per unit of School bags, water bottles, and geometry boxes?
  - (a) 18.5, 13.875, 9.75
  - (b) 18.5, 13.875, 9.25
  - (c) 18.5, 13.785, 9.25
  - (d) 18.5, 13.785, 9.50
2. If the prices were ₹ 200, ₹ 160, and ₹ 100, what would be the overall break-even point in units in relation to fixed cost allocated to these supplies?
  - (a) 308.33 units
  - (b) 500 units
  - (c) 508.33 units
  - (d) 1,000 units
3. Find out the maximum number of units of each article that can be given at the prices given in Part (ii).
  - (a) 61, 92, 154
  - (b) 200, 300, 500
  - (c) 101, 152, 254
  - (d) 100, 150, 250
4. What will be the maximum units that can be supplied to the schools of each article?
  - (a) 1103, 1645, 2726
  - (b) 1093, 1655, 2748
  - (c) 1185, 1777, 2962
  - (d) 1133, 1675, 2958
5. What should be the correct price for each item as per the management's decision?

- (a) 118.50, 93.875, 49.75
- (b) 118.50, 93.785, 49.25
- (c) 118.50, 93.785, 49.50
- (d) 118.50, 93.875, 49.25

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

#### 1. Option (b) 18.5, 13.875, 9.25

**Reason:**

Fixed overhead	= 740000
Total machine hours	= 8000 hours
Fixed OH per hour	= ₹ 92.5
Fixed OH per unit of:	
School bag	= 0.20 x 92.5 = ₹ 18.5
Water bottle	= 0.15 x 92.5 = ₹ 13.875
Geometry box	= 0.10 x 92.5 = ₹ 9.25

#### 2. Option (d) 1,000 units

**Reason:**

Hours allocated	= 8000 x 10% = 800 hours
Fixed overhead allocated	= 800 x 92.5 = ₹ 74,000
Contribution:	
Bag	= 200-100 = 100
Bottle	= 160-80=80
Geometry	= 100- 40 = 60
Composite contribution	= 100 x 2/10 + 80 x 3 / 10 + 60 x 5/10 = ₹ 74

Overall breakeven point for this assignment is = fixed cost allocated/composite contribution = 74,000/74 = **1,000 units**

**3. Option (b) 200, 300, 500****Reason:**

1000 units are to be distributed in the ratio of 2:3:5

Bag = 200 units, bottle = 300 units, geometry = 500 units

**4. Option (c) 1185, 1777, 2962****Reason:**

Total hours = 800 hours

let total no of units = X

Supply = bag  $\frac{2}{10} \times X$ ;

bottle =  $\frac{3}{10} \times X$ ;

geometry =  $\frac{5}{10} \times X$

Hours =  $(\frac{2X}{10}) \times 0.20 + (\frac{3X}{10}) \times 0.15 + (\frac{5X}{10}) \times 0.10$

= 800 hours

X = 5925

Units of :

Bag =  $\frac{2}{10} \times 5925 = 1185$

Bottle =  $\frac{3}{10} \times 5925 = 1777.5$  or 1777

Geometry =  $\frac{5}{10} \times 5925 = 2962.5$  or 2962

**5. Option (d) 118.50, 93.875, 49.25****Reason:**

Correct price is AT COST.

COST = Marginal Cost Per Unit + Fixed Overhead Cost Allocated Per Unit

	Bag	Bottle	Geometry
Variable cost per unit	100	80	40
Fixed cost per unit	18.5	13.875	9.25
Total	<b>118.5</b>	<b>93.875</b>	<b>49.25</b>



### CASE SCENARIO 19

Knowing the hectic schedule of a student preparing for the examination, a homemaker managing work from home or a new parent busy in neonatal care, a freshly qualified professional (Mr. Rishi) entered into a start-up business of manufacturing frozen foods.

The process majorly involve washing and cutting the vegetables (Process I), blanching, cooling and mixing of ingredients with spices (Process II), forming, frying and freezing the final product (Process III).

In Accounts, Mr. Rishi normally transfers the output of one process to another process at cost but, being a young entrepreneur, he is interested in knowing the profit made at each and every process. Thus, it was decided to transfer the output of Process I and II to the next process at cost plus 25%. Further, the output of Process III is also transferred to finished stock at cost plus 33 1/3%.

Following information is extracted from the books of Mr. Rishi for the current year:

	Process I (₹)	Process II (₹)	Process III (₹)	Finished Stock (₹)
Opening stock	8,02,500	14,44,500	21,40,000	24,07,500
Direct materials	42,80,000	34,77,500	26,75,000	--
Direct wages	66,87,500	57,78,000	49,22,000	--
Factory overheads	51,36,000	38,52,000	35,57,750	--
Closing stock	10,70,000	17,12,000	20,86,500	26,75,000
Inter-process profit included in opening stock	NIL	2,14,000	5,35,000	10,70,000

Stock in processes is valued at prime cost. The finished stock is valued at the price at which it is received from Process III.

Mr. Rishi wants you to FIGURE OUT the following to analyse the profit generated at each process:

---

**MULTIPLE CHOICE QUESTIONS**

---

1. What is the transfer price value at which the output of Process I is transferred to Process II?
  - (a) ₹ 1,97,95,000
  - (b) ₹ 39,59,000
  - (c) ₹ 1,58,36,000
  - (d) ₹ 1,69,06,000
2. What is the transfer price value at which the output of Process II is transferred to Process III?
  - (a) ₹ 1,20,97,476
  - (b) ₹ 4,07,93,750
  - (c) ₹ 2,86,96,274
  - (d) ₹ 3,43,47,000
3. What is the transfer price value at which the output of Process III is transferred to Finished Stock?
  - (a) ₹ 5,40,88,500
  - (b) ₹ 3,98,91,140
  - (c) ₹ 2,94,44,860
  - (d) ₹ 6,93,36,000
4. What is the cost value at which the output of Process III is transferred to Finished Stock?
  - (a) ₹ 5,40,88,500
  - (b) ₹ 3,98,91,140
  - (c) ₹ 2,94,44,860
  - (d) ₹ 6,93,36,000
5. What is the cost value of closing stock of Process III A/c?
  - (a) ₹ 20,86,500
  - (b) ₹ 15,64,884

(c) ₹ 3,98,91,140

(d) ₹ 5,21,616

## ANSWERS TO MULTIPLE CHOICE QUESTIONS

## 1. Option (a) ₹ 1,97,95,000

Reason:

## Process I Account

Particulars	Cost (₹)	Profit (₹)	Total (₹)	Particulars	Cost (₹)	Profit (₹)	Total (₹)
Opening Stock	8,02,500	—	8,02,500	Process II A/c (Transfer)*	1,58,36,000	39,59,000	1,97,95,000
Direct Material	42,80,000	—	42,80,000	Closing stock	10,70,000	—	10,70,000
Direct Wages	66,87,500	—	66,87,500				
Prime Cost	1,17,70,000	—	1,17,70,000				
Manufacturing Overheads	51,36,000	—	51,36,000				
Total cost	1,69,06,000	—	1,69,06,000				
Costing Profit and Loss A/c**		39,59,000	39,59,000				
	1,69,06,000	39,59,000	2,08,65,000		1,69,06,000	39,59,000	2,08,65,000

\*Transfer price

= (Total Cost - Closing Stock) (1 + 25%)

= (1,69,06,000 - 10,70,000) x 1.25

= ₹ 1,97,95,000

\*\*Profit on transfer

= (1,69,06,000 - 10,70,000) x .25 = ₹ 39,59,000

## 2. Option (b) ₹ 4,07,93,750

Reason:

## Process II Account

Particulars	Cost (₹)	Profit (₹)	Total (₹)	Particulars	Cost (₹)	Profit (₹)	Total (₹)
Opening Stock	12,30,500	2,14,000	14,44,500	By Process III A/c (Transfer)**	2,86,96,274	1,20,97,476	4,07,93,750
Process I A/c	1,58,36,000	39,59,000	1,97,95,000	Closing stock*	14,77,726	2,34,274	17,12,000
Direct Material	34,77,500	-	34,77,500				
Direct Wages	57,78,000	-	57,78,000				
Prime Cost	2,63,22,000	41,73,000	3,04,95,000				
Manufacturing Overheads	38,52,000	-	38,52,000				
Total cost	3,01,74,000	41,73,000	3,43,47,000				
Costing Profit and Loss A/c***	-	81,58,750	81,58,750				
	3,01,74,000	1,23,31,750	4,25,05,750		3,01,74,000	1,23,31,750	4,25,05,750

$$* \text{ Cost of Closing Stock} = \left( \frac{\text{₹ } 2,63,22,000}{\text{₹ } 3,04,95,000} \right) \times \text{₹ } 17,12,000 = \text{₹ } 14,77,726$$

$$\begin{aligned} **\text{Transfer price} &= (\text{Total Cost} - \text{Closing Stock}) (1 + 25\%) \\ &= (3,43,47,000 - 17,12,000) \times 1.25 = \text{₹ } 4,07,93,750 \end{aligned}$$

$$***\text{Profit on transfer} = (3,43,47,000 - 17,12,000) \times .25 = \text{₹ } 81,58,750$$

## 3. Option (d) ₹ 6,93,36,000

Reason:

## Process III Account

Particulars	Cost (₹)	Profit (₹)	Total (₹)	Particulars	Cost (₹)	Profit (₹)	Total (₹)
Opening Stock	16,05,000	5,35,000	21,40,000	By Finished Stock A/c** (Transfer)	3,98,91,140	2,94,44,860	6,93,36,000
Process II A/c	2,86,96,274	1,20,97,476	4,07,93,750	Closing stock*	15,64,884	5,21,616	20,86,500
Direct Material	26,75,000	--	26,75,000				
Direct Wages	49,22,000	--	49,22,000				
Prime Cost	3,78,98,274	1,26,32,476	5,05,30,750				
Manufacturing Overheads	35,57,750	--	35,57,750				
Total cost	4,14,56,024	1,26,32,476	5,40,88,500				
Costing Profit and Loss A/c***	-	1,73,34,000	1,73,34,000				
	4,14,56,024	2,99,66,476	7,14,22,500		4,14,56,024	2,99,66,476	7,14,22,500

$$\begin{aligned}
 * \text{ Cost of Closing Stock} &= \left( \frac{\text{₹ } 3,78,98,274}{\text{₹ } 5,05,30,750} \right) \times \text{₹ } 20,86,500 \\
 &= \text{₹ } 15,64,884
 \end{aligned}$$

$$\begin{aligned} \text{**Transfer price} &= (\text{Total Cost} - \text{Closing Stock}) (1 + 33 \frac{1}{3}\%) \\ &= (5,40,88,500 - 20,86,500) \times (1 + 33 \frac{1}{3}\%) \\ &= ₹ 6,93,36,000 \end{aligned}$$

$$\begin{aligned} \text{***Profit on transfer} &= (5,40,88,500 - 20,86,500) \times 33 \frac{1}{3}\% \\ &= ₹ 1,73,34,000 \end{aligned}$$

**4. Option (b) ₹ 3,98,91,140**

**Reason:**

Refer part (iii) above.

**5. Option (b) ₹ 15,64,884**

**Reason:**

Refer part (iii) above.

### CASE SCENARIO 20

P Ltd. has gathered cost information from ledgers and other sources for the year ended 31<sup>st</sup> December 2023. The information are tabulated below:

Sl. No.		Amount (₹)	Amount (₹)
(i)	Raw materials purchased		5,00,00,000
(ii)	Freight inward		9,20,600
(iii)	Wages paid to factory workers		25,20,000
(iv)	Royalty paid for production		1,80,000
(v)	Amount paid for power & fuel		3,50,000
(vi)	Job charges paid to job workers		3,10,000
(vii)	Stores and spares consumed		1,10,000
(viii)	Depreciation on office building		50,000
(ix)	Repairs & Maintenance paid for:		
	- Plant & Machinery	40,000	
	- Sales office building	20,000	60,000
(x)	Insurance premium paid for:		
	- Plant & Machinery	28,200	
	- Factory building	18,800	47,000
(xi)	Expenses paid for quality control check activities		18,000
(xii)	Research & development cost paid for improvement in production process		20,000
(xiii)	Expenses paid for pollution control and engineering & maintenance		36,000
(xiv)	Salary paid to Sales & Marketing mangers		5,60,000

(xv)	Salary paid to General Manager		6,40,000
(xvi)	Packing cost paid for:		
	- Primary packing necessary to maintain quality	46,000	
	- For re-distribution of finished goods	80,000	1,26,000
(xvii)	Fee paid to independent directors		1,20,000
(xviii)	Performance bonus paid to sales staffs		1,20,000
(xix)	Value of stock as on 1 <sup>st</sup> January, 2023:		
	- Raw materials	10,00,000	
	- Work-in-process	8,60,000	
	- Finished goods	12,00,000	30,60,000
(xx)	Value of stock as on 31 <sup>st</sup> December, 2023:		
	- Raw materials	8,40,000	
	- Work-in-process	6,60,000	
	- Finished goods	10,50,000	25,50,000

Amount realized by selling of scrap and waste generated during manufacturing process – ₹ 48,000/-

The board meeting is scheduled to be held in next week and you being an associate to the chief cost controller of the company, has been asked to be prepared with the following figures:

### MULTIPLE CHOICE QUESTIONS

- How much is the prime cost of the company?
  - ₹ 5,10,80,600
  - ₹ 5,44,40,600
  - ₹ 5,36,00,600



- (d) ₹ 5,19,20,600
2. How much is the cost of production?
- (a) ₹ 5,49,09,600
- (b) ₹ 5,50,59,600
- (c) ₹ 5,48,73,600
- (d) ₹ 5,50,59,000
3. What is the value of cost of goods sold?
- (a) ₹ 5,49,09,600
- (b) ₹ 5,50,59,600
- (c) ₹ 5,48,73,600
- (d) ₹ 5,50,59,000
4. How much is the factory cost?
- (a) ₹ 5,49,09,600
- (b) ₹ 5,50,59,600
- (c) ₹ 5,48,73,600
- (d) ₹ 5,50,59,000
5. What is the value of cost of sales?
- (a) ₹ 5,66,49,600
- (b) ₹ 5,50,59,600
- (c) ₹ 5,48,73,600
- (d) ₹ 5,50,59,000

**Answer**

- 1 Option (b) ₹ 5,44,40,600**
- 2. Option (a) ₹ 5,49,09,600**
- 3. Option (b) ₹ 5,50,59,600**
- 4. Option (c) ₹ 5,48,73,600**

### 5. Option (a) ₹ 5,66,49,600

#### Reason for 1,2,3,4 & 5

Statement of Cost of P Ltd. for the year ended 31<sup>st</sup> December, 2023:

Sl. No.	Particulars	Amount (₹)	Amount (₹)
(i)	Material Consumed:		
	- Raw materials purchased	5,00,00,000	
	- Freight inward	9,20,600	
	Add: Opening stock of raw materials	10,00,000	
	Less: Closing stock of raw materials	(8,40,000)	5,10,80,600
(ii)	Direct employee (labour) cost:		
	- Wages paid to factory workers		25,20,000
(iii)	Direct expenses:		
	- Royalty paid for production	1,80,000	
	- Amount paid for power & fuel	3,50,000	
	- Job charges paid to job workers	3,10,000	8,40,000
	<b>Prime Cost</b>		5,44,40,600
(iv)	Works/ Factory overheads:		
	- Stores and spares consumed	1,10,000	
	- Repairs & Maintenance paid for plant & machinery	40,000	
	- Insurance premium paid for plant & machinery	28,200	
	- Insurance premium paid for factory building	18,800	
	- Expenses paid for pollution control and engineering & maintenance	36,000	2,33,000
	Gross factory cost		5,46,73,600

	Add: Opening value of W-I-P		8,60,000
	Less: Closing value of W-I-P		(6,60,000)
	<b>Factory Cost</b>		5,48,73,600
(v)	Quality control cost:		
	- Expenses paid for quality control check activities		18,000
(vi)	Research & development cost paid for improvement in production process		20,000
(vii)	Less: Realisable value on sale of scrap and waste		(48,000)
(viii)	Add: Primary packing cost		46,000
	<b>Cost of Production</b>		5,49,09,600
	Add: Opening stock of finished goods		12,00,000
	Less: Closing stock of finished goods		(10,50,000)
	<b>Cost of Goods Sold</b>		5,50,59,600
(ix)	Administrative overheads:		
	- Depreciation on office building	50,000	
	- Salary paid to General Manager	6,40,000	
	- Fee paid to independent directors	1,20,000	8,10,000
(x)	Selling overheads:		
	- Repairs & Maintenance paid for sales office building	20,000	
	- Salary paid to Manager- Sales & Marketing	5,60,000	
	- Performance bonus paid to sales staffs	1,20,000	7,00,000

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(xi)	Distribution overheads:		
	- Packing cost paid for re-distribution of finished goods		80,000
	<b>Cost of Sales</b>		5,66,49,600

### CASE SCENARIO 21

Pari Ltd. operates in beverages industry where it manufactures soft-drink in three sizes of Large (3 litres), Medium (1.5 litres) and Small (600 ml) bottles. The products are processed in batches. The 5,000 litres capacity processing plant consumes electricity of 90 Kilowatts per hour and a batch takes 1 hour 45 minutes to complete. Only symmetric size of products can be processed at a time. The machine set-up takes 15 minutes to get ready for next batch processing. During the set-up power consumption is only 20%.

- (i) The current price of Large, Medium and Small are ₹150, ₹90 and ₹50 respectively.
- (ii) To produce a litre of beverage, 14 litres of raw material-W and 25 ml of Material-C are required which costs ₹0.50 and ₹1,000 per litre respectively.
- (iii) 20 direct workers are required. The workers are paid ₹880 for 8 hours shift of work.
- (iv) The average packing cost per bottle is ₹3
- (v) Power cost is ₹7 per Kilowatt -hour (Kwh)
- (vi) Other variable cost is ₹30,000 per batch.
- (vii) Fixed cost (Administration and marketing) is ₹4,90,00,000.
- (viii) The holding cost is ₹1 per bottle per annum.

The marketing team has surveyed the following demand (bottle) of the product:

Large	Medium	Small
3,00,000	7,50,000	20,00,000

### MULTIPLE CHOICE QUESTIONS

The following information has been sought from you for the purpose of performance review meeting:

1. Number of large size bottles that can be processed in a batch?
  - (a) 5,000 bottles

- 
- (b) 1,666 bottles  
(c) 3,333 bottles  
(d) 8,333 bottles
2. Total number of batches to be run to process medium size bottles  
(a) 180  
(b) 225  
(c) 240  
(d) 645
3. Material -W required for small size bottles  
(a) 1,26,00,000 ltrs  
(b) 1,68,00,000 ltrs  
(c) 1,57,50,000 ltrs  
(d) 1,51,50,000 ltrs
4. Calculate profit/ loss per batch for large size bottles.  
(a) ₹89,03,880  
(b) ₹2,12,41,650  
(c) ₹4,70,71,840  
(d) ₹7,72,17,370
5. Compute Economic Batch Quantity (EBQ) for small size bottles.  
(a) 1,34,234  
(b) 2,12,243  
(c) 3,46,592  
(d) 4,42,562

### ANSWERS TO MULTIPLE CHOISE QUESTIONS

#### 1 Option (b) 1,666 bottles

**Reason:**

Working note 1: Maximum number of bottles that can be processed in a batch:

$$= \frac{5,000 \text{ ltrs}}{\text{Bottle volume}}$$

Large		Medium		Small	
Qty (ltr)	Max bottles	Qty (ltr)	Max bottles	Qty (ml)	Max bottles
3	1,666	1.5	3,333	600	8,333

\*For simplicity of calculation small fractions has been ignored.

#### 2. Option (b)

**Reason:**

**Working note 2: Number of batches to be run:**

		Large	Medium	Small	Total
A	Demand	3,00,000	7,50,000	20,00,000	
B	Bottles per batch (Refer WN-1)	1,666	3,333	8,333	
C	No. of batches [A÷B]	180	225	240	645

\*For simplicity of calculation small fractions has been ignored.

#### 3. Option (b)

**Reason:**

**Working note 3:**

**Quantity of Material-W and Material C required to meet demand:**

	Particulars	Large	Medium	Small	Total
A	Demand (bottle)	3,00,000	7,50,000	20,00,000	

B	Qty per bottle (Litre)	3	1.5	0.6	
C	Output (Litre) [A×B]	9,00,000	11,25,000	12,00,000	32,25,000
D	Material-W per litre of output (Litre)	14	14	14	
E	Material-W required (Litre) [C×D]	<b>1,26,00,000</b>	<b>1,57,50,000</b>	<b>1,68,00,000</b>	<b>4,51,50,000</b>
F	Material-C required per litre of output (ml)	25	25	25	
G	Material-C required (Litre) [(C×F)÷1000]	<b>22,500</b>	<b>28,125</b>	<b>30,000</b>	<b>80,625</b>

#### 4. Option (a)

Reason:

**Working note 4: No. of Man-shift required**

		<b>Large</b>	<b>Medium</b>	<b>Small</b>	<b>Total</b>
A	No. of batches	180	225	240	645
B	Hours required per batch (Hours)	2	2	2	
C	Total hours required (Hours) [A×B]	360	450	480	1,290
D	No. of shifts required [C÷8]	45	57	60	162
<b>E</b>	<b>Total manshift [D×20 workers]</b>	<b>900</b>	<b>1,140</b>	<b>1,200</b>	<b>3,240</b>



**Working note 5: Power consumption in Kwh**

		Large	Medium	Small	Total
<b>For processing</b>					
A	No. of batches	180	225	240	645
B	Hours required per batch (Hours)	1.75	1.75	1.75	1.75
C	Total hours required (Hours) [A×B]	315	393.75	420	1,128.75
D	Power consumption per hour	90	90	90	90
E	<b>Power consumption in Kwh [C×D]</b>	<b>28,350</b>	<b>35,437.5</b>	<b>37,800</b>	<b>1,01,587.5</b>
F	<b>Per batch consumption (Kwh) [E÷A]</b>	<b>157.5</b>	<b>157.5</b>	<b>157.5</b>	<b>157.5</b>
<b>For set-up</b>					
G	Hours required per batch (Hours)	0.25	0.25	0.25	0.25
H	Total hours required (Hours) [A×G]	45	56.25	60	161.25
I	Power consumption per hour [20%×90]	18	18	18	18
J	<b>Power consumption in Kwh [H×I]</b>	<b>810</b>	<b>1,012.5</b>	<b>1,080</b>	<b>2,902.5</b>
K	<b>Per batch consumption (Kwh) [J÷A]</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>

**Calculation of Profit/ loss per batch:**

	Particulars	Large	Medium	Small	Total
A	Demand (bottle)	3,00,000	7,50,000	20,00,000	30,50,000
B	Price per bottle (₹)	150	90	50	
C	<b>Sales value (₹) [A×B]</b>	<b>4,50,00,000</b>	<b>6,75,00,000</b>	<b>10,00,00,000</b>	<b>21,25,00,000</b>

	<b>Direct Material cost:</b>				
E	Material-W (₹) [Qty in WN-3 × ₹0.50]	63,00,000	78,75,000	84,00,000	2,25,75,000
F	Material-C (₹) [Qty in WN-3 × ₹1,000]	2,25,00,000	2,81,25,000	3,00,00,000	8,06,25,000
G	[E+F]	<b>2,88,00,000</b>	<b>3,60,00,000</b>	<b>3,84,00,000</b>	<b>10,32,00,000</b>
H	Direct Wages (₹) [Man-shift in WN-4 × ₹880]	7,92,000	10,03,200	10,56,000	28,51,200
I	Packing cost (₹) [A×₹3]	9,00,000	22,50,000	60,00,000	91,50,000
	<b>Power cost (₹)</b>				
J	For processing (₹) [WN-5 × ₹7]	1,98,450	2,48,062.5	2,64,600	7,11,112.5
K	For set-up time (₹) [WN-5 × ₹7]	5,670	7,087.5	7,560	20,317.5
L	[J+K]	<b>2,04,120</b>	<b>2,55,150</b>	<b>2,72,160</b>	<b>7,31,430</b>
M	Other variable cost (₹) [No. of batch in WN-2 × ₹30,000]	54,00,000	67,50,000	72,00,000	1,93,50,000
N	<b>Total Variable cost per batch [G+H+I+L+M]</b>	<b>3,60,96,120</b>	<b>4,62,58,350</b>	<b>5,29,28,160</b>	<b>13,52,82,630</b>
O	<b>Profit/ loss before fixed cost [C-N]</b>	<b>89,03,880</b>	<b>2,12,41,650</b>	<b>4,70,71,840</b>	<b>7,72,17,370</b>
P	Fixed Cost				4,90,00,000
Q	<b>Total Cost [O-P]</b>				<b>2,82,17,370</b>

## 5. Option (c)

Reason:

Computation of Economic Batch Quantity (EBQ):

$$EBQ = \sqrt{\frac{2 \times D \times S}{C}}$$

D = Annual Demand for the Product = Refer A below

S = Set-up cost per batch = Refer D below

C = Carrying cost per unit per annum = Refer E below

	Particulars	Large	Medium	Small
A	Annual Demand (bottle)	3,00,000	7,50,000	20,00,000
<b>Set-up Cost:</b>				
B	Power cost for set-up time (₹) [Consumption per batch in WN-5 × ₹7]	31.50	31.50	31.50
C	Other variable cost (₹)	30,000	30,000	30,000
D	Total Set-up cost [B+C]	30,031.50	30,031.50	30,031.50
E	Holding cost:	1.00	1.00	1.00
<b>F</b>	<b>EBQ (Bottle)</b>	<b>1,34,234</b>	<b>2,12,243</b>	<b>3,46,592</b>

**CASE SCENARIO 22**

The analysis of cost sheet of A Ltd. for the last financial year has revealed the following information for its product R:

Elements of Cost	Variable Cost portion	Fixed Cost
Direct Material	30% of cost of goods sold	--
Direct Labour	15% of cost of goods sold	--
Factory Overhead	10% of cost of goods sold	₹ 2,30,000
General & Administration Overhead	2% of cost of goods sold	₹ 71,000
Selling & Distribution Overhead	4% of cost of sales	₹ 68,000

Last year 5,000 units were sold at ₹185 per unit.

**MULTIPLE CHOICE QUESTIONS**

You being an associate to cost controller of the A Ltd., is expected to answer the followings:

- What is the cost of goods sold for the last year?
  - ₹7,20,000
  - ₹7,00,000
  - ₹7,10,000
  - ₹7,30,000
- What is the cost of sales for the last year?
  - ₹8,00,000
  - ₹8,20,000
  - ₹8,10,000
  - ₹7,90,000

3. The total fixed cost is :
- (a) ₹3,79,000
  - (b) ₹3,89,000
  - (c) ₹3,59,000
  - (d) ₹3,69,000
4. Calculate Break-even Sales (in rupees)
- (a) ₹6,90,882
  - (b) ₹7,90,000
  - (c) ₹3,89,000
  - (d) ₹5,48,692
5. What is the Margin of safety (in %)?
- (a) 26.58%
  - (b) 25.31%
  - (c) 53.41%
  - (d) 34.25%

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### ANSWERS TO MULTIPLE CHOISE QUESTIONS

#### 1. Option (b) ₹7,00,000

**Reason:**

**Calculation of Cost of Goods Sold (COGS):**

$$\text{COGS} = \{(\text{DM} - 0.3 \text{ COGS}) + (\text{DL} - 0.15 \text{ COGS}) + (\text{FOH} - 0.10 \text{ COGS} + ₹ 2,30,000) + (\text{G\&AOH} - 0.02 \text{ COGS} + ₹ 71,000)\}$$

$$\text{Or } \text{COGS} = 0.57 \text{ COGS} + ₹ 3,01,000$$

$$\text{Or } \text{COGS} = \frac{₹ 3,01,000}{0.43} = ₹ 7,00,000$$

**2. Option (a) ₹8,00,000****Reason:****Calculation of Cost of Sales (COS):**

$$\text{COS} = \text{COGS} + (\text{S\&DOH} - 0.04 \text{ COS} + ₹ 68,000)$$

$$\text{Or COS} = ₹ 7,00,000 + (0.04 \text{ COS} + ₹ 68,000)$$

$$\text{Or COS} = \frac{₹ 7,68,000}{0.96} = ₹ 8,00,000$$

**3. Option (d) ₹3,69,000****Reason:****Calculation of total Fixed Costs:**

Factory Overhead-	₹ 2,30,000
General & Administration OH-	₹ 71,000
Selling & Distribution OH	₹ 68,000
	₹ 3,69,000

**4. Option (a) ₹6,90,882****Reason:****Workings:****Calculation of Variable Costs:**

Direct Material-	(0.3 × ₹ 7,00,000)	₹ 2,10,000
Direct Labour-	(0.15 × ₹ 7,00,000)	₹ 1,05,000
Factory Overhead-	(0.10 × ₹ 7,00,000)	₹ 70,000
General & Administration OH	(0.02 × ₹ 7,00,000)	₹ 14,000
Selling & Distribution OH	(0.04 × ₹ 8,00,000)	₹ 32,000
		<u>₹ 4,31,000</u>

**Calculation of P/V Ratio:**

$$\begin{aligned} \text{P/V Ratio} &= \frac{\text{Contribution}}{\text{Sales}} \times 100 = \frac{\text{Sales} - \text{Variable Costs}}{\text{Sales}} \times 100 \\ &= \frac{(₹ 185 \times 5,000 \text{ units}) - ₹ 4,31,000}{₹ 185 \times 5,000 \text{ units}} \times 100 = 53.41\% \end{aligned}$$

$$\text{Break-Even Sales} = \frac{\text{Fixed Costs}}{\text{P / V Ratio}} = \frac{\text{₹ 3,69,000}}{53.41\%} = \text{₹ 6,90,882}$$

**5. Option (b) 25.31%**

**Reason:**

$$\begin{aligned}\text{Margin of Safety (\%)} &= \frac{\text{Sales - Breakeven sales}}{\text{Sales}} \times 100 \\ &= \frac{\text{₹ 9,25,000 - ₹ 6,90,882}}{\text{₹ 9,25,000}} \times 100 = 25.31\%\end{aligned}$$

**CASE SCENARIO 23**

The following data are available in respect of Process-I for January 2024:

- (1) Opening stock of work in process: 600 units at a total cost of ₹4,200.
- (2) Degree of completion of opening work in process:

Material	100%
Labour	60%
Overheads	60%
- (3) Input of materials at a total cost of ₹ 55,200 for 9,200 units.
- (4) Direct wages incurred ₹ 18,600
- (5) Overheads ₹ 8,630.
- (6) Units scrapped 200 units. The stage of completion of these units was:

Materials	100%
Labour	80%
Overheads	80%
- (7) Closing work in process; 700 units. The stage of completion of these units was:

Material	100%
Labour	70%
Overheads	70%
- (8) 8,900 units were completed and transferred to the next process.
- (9) Normal loss is 4% of the total input (opening stock plus units put in)
- (10) Scrap value is ₹6 per unit.



**MULTIPLE CHOICE QUESTIONS**

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You are required to be ready with the following information:

1. What is the equivalent units for labour?
  - (a) 9,800 units
  - (b) 8,808 units
  - (c) 9,030 units
  - (d) 8,838 units
2. What is the total cost of per equivalent units?
  - (a) ₹9.08
  - (b) ₹10.10
  - (c) ₹8.08
  - (d) ₹8.68
3. What is the total cost of abnormal gain?
  - (a) ₹1,743.36
  - (b) ₹1,209.52
  - (c) ₹2,506.25
  - (d) ₹3,728.16
4. What is the total cost of closing work in process?
  - (a) ₹5,709.20
  - (b) ₹6,203.20
  - (c) ₹5,806.20
  - (d) ₹5,734.80
5. What is the cost of the units to be transferred to the next process using the FIFO method?
  - (a) ₹50,900.15
  - (b) ₹80,303.20

(c) ₹80,800.36

(d) ₹50,300.80

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

#### 1. Option (d) 8,838 units

Reason:

#### Statement of Equivalent Production (FIFO Method)

Input		Output		Equivalent Production					
				Materials		Labour		Overheads	
Details	Units	Details	Units	%	Units	%	Units	%	Units
Opening Stock	600	Finished goods transferred to next process:- from opening stock	600	-	-	40	240	40	240
		- From fresh materials	8,300	100	8,300	100	8,300	100	8,300
		Closing W-I-P	700	100	700	70	490	70	490
Fresh inputs	9,200	Normal loss	392	-	-	-	-	-	-
			9,992		9,000		9,030		9,030
		Less: Abnormal Gain	(192)	100	(192)	100	(192)	100	(192)
	9,800		9,800		8,808		8,838		8,838

#### 2. Option (a) ₹9.08

Reason:

#### Statement of Cost per equivalent units

Elements		Cost	Equivalent units	Cost per equivalent Unit
	(₹)	(₹)		(₹)
Material Cost	55,200			

Less: Scrap realisation 392 units @ ₹ 6/- p.u.	<u>2,352</u>	52,848	8,808	6.00
Labour cost		18,600	8,838	2.10
Overheads		<u>8,630</u>	8,838	<u>0.98</u>
Total Cost		<u>80,078</u>		<u>9.08</u>

**3. Option (a) ₹1,743.36**

**Reason:**

Cost of Abnormal Gain – 192 Units

	(₹)	(₹)
Material cost of 192 units @ ₹ 6.00/- p.u.	1,152.00	
Labour cost of 192 units @ ₹ 2.10/- p.u.	403.20	
Overheads of 192 units @ ₹ 0.98/- p.u.	<u>188.16</u>	<u>1,743.36</u>

**4. Option (a) ₹ ₹5,709.20**

**Reason:**

Cost of closing WIP – 700 Units

<b>Material cost of 700 equivalent units @ ₹ 6.00/- p.u.</b>	<b>4,200.00</b>	
Labour cost of 490 equivalent units @ ₹ 2.10/- p.u.	1,029.00	
Overheads of 490 equivalent @ ₹ 0.98/- p.u.	<u>480.20</u>	<u>5709.20</u>

**5. Option (b) ₹80,303.20**

**Reason:**

Calculation of cost of 8,900 units transferred to next process (₹)

(i) Cost of opening W-I-P Stock b/f – 600 units	4,200.00
(ii) Cost incurred on opening W-I-P stock	
Material cost	—
Labour cost 240 equivalent units @ ₹ 2.10 p.u.	504.00
Overheads 240 equivalent units @ ₹ 0.98/- p.u.	<u>235.20</u>
	739.20

---

(iii) Cost of 8,300 completed units	
8,300 units @ ₹9.08 p.u.	<u>75,364.00</u>
Total cost [(i) + (ii) + (iii)]	<u>80,303.20</u>

**CASE SCENARIO 24**

Miniso Pvt Ltd a company engaged in the business of manufacturing wireless Bluetooth earphones. The company wishes to track its operating profitability and the margin it needs to maintain to sustain profitability in the long run. Further the company has adopted the marginal costing technique to identify and define operational levels. In this regard the company has provided the following information for the current year:

Opening stock of earphones	-	30,000 units
Selling Price of the earphones	-	₹450 per unit
Variable costs incurred in manufacture	-	₹270 per unit
Units produced during the previous year	-	1,80,000 units
Expected production for the current year	-	2,25,000 units
Expected sales for the current year	-	2,40,000 units
Fixed cost per unit for last year was	-	₹60 per unit
Expected rise in Fixed Cost	-	10%
Expected Increase in Variable cost	-	25%

**MULTIPLE CHOICE QUESTIONS**

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Based on the above information available, the following needs to be determined.

- The profit that the company will make on achieving its targeted sales amounts to:
  - ₹1,51,20,000
  - ₹1,62,00,000
  - ₹1,71,45,000
  - ₹1,72,00,000
- The units to be sold by the company to achieve Break-even is:

1. 57,600 units
  2. 87,600 units
  3. 1,05,600 units
  4. 96,000 units
3. The total fixed cost for the current year post the cost increase amounts to:
- (a) ₹1,08,00,000
  - (b) ₹1,48,50,000
  - (c) ₹1,18,80,000
  - (d) ₹1,44,00,000
4. The quantity of closing stock and its value amounts to:
- (a) Closing stock in units – NIL and Value – NIL
  - (b) Closing stock in units – 15,000 and Value – ₹40,50,000
  - (c) Closing stock in units – 15,000 and Value – ₹50,62,500
  - (d) Closing stock in units – 15,000 and Value – ₹58,05,000
5. Margin of Safety in units amounts to:
- (a) 87,600 units
  - (b) 1,52,400 units
  - (c) 1,62,000 units
  - (d) 1,60,000 units

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (c) ₹1,71,45,000**
2. **Option (b) 87,600 units**
3. **Option (c) ₹1,18,80,000**
4. **Option (c) Closing stock in units – 15,000 and Value – ₹50,62,500**
5. **Option (b) 1,52,400 units**

**Reason:**

Selling Price	= 450
Less: Variable cost of Prior Year	= 270
Contribution per unit prior year	= 180
Variable cost for current year	= 337.5
Contribution per unit	= 112.5
Total Contribution	= 2,90,25,000 (30,000 x 180 + 2,10,000 x 112.5)

**Less: Fixed Cost** = **1,18,80,000**  
**(1,80,000 x 60 x 110%)**

**Profit for the year** = **1,71,45,000**

Contribution from Opening stock	= 54,00,000 (30,000 x 180)
Balance fixed cost to be covered	= 64,80,000 (1,18,80,000-54,00,000)
Contribution per unit	= 112.5
Units to be to be sold to break even	= 57,600

**Therefore total units for break even = 30,000 + 57,600 = 87,600**

Opening stock	- 30,000
Add: Manufactured	- 2,25,000
Less: Sales	- (2,40,000)
Closing stock	- 15,000
Cost per unit (VC only)	- 337.5

**Closing stock** = **50,62,500**

Margin of safety in units = Profit/contribution per unit  
= 1,71,45,000/112.5

**Margin of safety in units** = **1,52,400 units**

### CASE SCENARIO 25

The sales department of A Limited is analysing the customer profitability for its Product Z. It has decided to analyse the profitability of its five new customers using activity-based costing method. It buys Product Z at ₹ 5,400 per unit and sells to retail customers at a listed price of ₹ 6,480 per unit. The data pertaining to five customers are:

	Customers				
	A	B	C	D	E
Units sold	4,500	6,000	9,500	7,500	12,750
Listed Selling Price	₹6,480	₹6,480	₹6,480	₹6,480	₹6,480
Actual Selling Price	₹6,480	₹6,372	₹5,940	₹6,264	₹5,832
Number of Purchase orders	15	25	30	25	30
Number of Customer visits	2	3	6	2	3
Number of deliveries	10	30	60	40	20
Kilometers travelled per delivery	20	6	5	10	30
Number of expedited deliveries	0	0	0	0	1

After a detailed analysis and computation, the following activities has been identified and respective cost has been calculated:

Activity	Cost Driver Rate
Order taking	₹4,500 per purchase order
Customer visits	₹ 3,600 per customer visit
Deliveries	₹ 7.50 per delivery Km travelled
Product handling	₹ 22.50 per case sold
Expedited deliveries	₹ 13,500 per expedited delivery



**MULTIPLE CHOICE QUESTIONS**

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You have been assigned the following task of computing different cost information for managerial decision making:

1. How much cost on customer visit is incurred on customer E?
  - (a) ₹7,200
  - (b) ₹10,800
  - (c) ₹21,600
  - (d) ₹3,600
2. What is the cost of goods sold for customer D?
  - (a) ₹2,43,00,000
  - (b) ₹3,24,00,000
  - (c) ₹5,13,00,000
  - (d) ₹4,05,00,000
3. How much is the cost of expediting delivery for customer A?
  - (a) ₹13,500
  - (b) ₹27,000
  - (c) ₹40,500
  - (d) ₹0
4. Compute the customer-level operating income of each of customers A.
  - (a) ₹55,72,350
  - (b) ₹46,82,550
  - (c) ₹47,57,400
  - (d) ₹50,57,325
5. Compute the customer-level operating income of each of five retail customers D and E.
  - (a) ₹46,82,550 & 50,65,720

(b) ₹55,72,350 & 46,85,500

(c) ₹47,57,400 & 55,72,350

(d) ₹61,88,550 & 50,57,325

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b) ₹10,800
2. Option (d) ₹4,05,00,000
3. Option (c) ₹0
4. Option (b) ₹46,82,550
5. Option (d) ₹61,88,550 & 50,57,325

Reason for 1,2,3,4 & 5)

Working note:

1. Computation of revenues (at listed price), discount, cost of goods sold and customer level operating activities costs:

	Customers				
	A	B	C	D	E
Units sold: (a)	4,500	6,000	9,500	7,500	12,750
Revenues (at listed price) (₹): (b) {(a) × ₹6,480}	2,91,60,000	3,88,80,000	6,15,60,000	4,86,00,000	8,26,20,000
Revenues (at listed price) (₹): (c) {(a) × Actual selling price}	2,91,60,000 (4,500 × 6,480)	3,82,32,000 (6,000 × 6,372)	5,64,30,000 (9,500 × 5,940)	4,69,80,000 (7,500 × 6,264)	7,43,58,000 (12,750 × 5,832)
Discount (₹) (d) {(b) – (c)}	0	6,48,000	51,30,000	16,20,000	82,62,000
Cost of goods sold (₹) : (e) {(a) × ₹5,400}	2,43,00,000	3,24,00,000	5,13,00,000	4,05,00,000	6,88,50,000
<b>Customer level operating activities costs</b>					
Order taking costs (₹): (No. of purchase orders × ₹ 4,500)	67,500	1,12,500	1,35,000	1,12,500	1,35,000

Customer visits costs (₹) (No. of customer visits x ₹ 3,600)	7,200	10,800	21,600	7,200	10,800
Delivery vehicles travel costs (₹) (Kms travelled by delivery vehicles x ₹ 7.50 per km.)	1,500	1,350	2,250	3,000	4,500
Product handling costs (₹) {(a) x ₹ 22.50}	1,01,250	1,35,000	2,13,750	1,68,750	2,86,875
Cost of expediting deliveries (₹) {No. of expedited deliveries x ₹ 13,500}	-	-	-	-	13,500
Total cost of customer level operating activities (₹)	1,77,450	2,59,650	3,72,600	2,91,450	4,50,675

#### Computation of Customer level operating income

	Customers				
	A	B	C	D	E
	(₹)	(₹)	(₹)	(₹)	(₹)
Revenues (At list price) (Refer to working note)	2,91,60,000	3,82,32,000	5,64,30,000	4,69,80,000	7,43,58,000
Less: Cost of goods sold (Refer to working note)	(2,43,00,000)	(3,24,00,000)	(5,13,00,000)	(4,05,00,000)	(6,88,50,000)
Gross margin	48,60,000	58,32,000	51,30,000	64,80,000	55,08,000
Less: Customer level operating activities costs (Refer to working note)	(1,77,450)	(2,59,650)	(3,72,600)	(2,91,450)	(4,50,675)
Customer level operating income	46,82,550	55,72,350	47,57,400	61,88,550	50,57,325

**CASE SCENARIO 26**

Litto Ltd. is a manufacturing company which has as a machine shop cost centre that contains three machines of equal capacities. To operate these three machines nine operators are required i.e. three operators on each machine. Operators are paid ₹ 20 per hour. The factory works for forty eight hours in a week which includes 4 hours set up time. The work is jointly done by operators. The operators are paid fully for the forty eight hours. In additions they are paid a bonus of 10 per cent of productive time. Costs are reported for this company on the basis of thirteen four-weekly period.

The company for the purpose of computing machine hour rate includes the direct wages of the operator and also recoups the factory overheads allocated to the machines. The following details of factory overheads applicable to the cost centre are available:

- Depreciation 10% per annum on original cost of the machine. Original cost of each machine is ₹52,000.
- Maintenance and repair per week per machine is ₹60.
- Consumable stores per week per machine are ₹75.
- Power: 20 units per hour per machine at the rate of 80 paise per unit. No power is used during the set-up hours.
- Apportionment to the cost centre: Rent per annum ₹5,400, Heat and Light per annum ₹9,720, foreman's salary per annum ₹12,960 and other miscellaneous expenditure per annum ₹18,000.

1. What is the effective machine hour for four-week period?
  - (a) 170 hours
  - (b) 176 hours
  - (c) 189 hours
  - (d) 192 hours
2. What is the bonus charges and power expenses for four-week period?
  - (a) ₹1,056 and ₹2,816
  - (b) ₹1,562 and ₹3,560

- (c) ₹1,240 and ₹3,325
- (d) ₹860 and ₹2,450
- 3. What is the standing charges for four-week period?
  - (a) ₹12,357
  - (b) ₹10,450
  - (c) ₹13,757
  - (d) ₹14,226
- 4. What is the machine expenses for four-week period?
  - (a) ₹2,500
  - (b) ₹3,450
  - (c) ₹3.986
  - (d) ₹3,756
- 5. What is the machine hour rate?
  - (a) ₹99.51
  - (b) ₹92.25
  - (c) ₹105.22
  - (d) ₹86.90

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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- 1. **Option (b) 176 hours**
- 2. **Option (a) ₹1,056 and ₹2,816**
- 3. **Option (c) ₹13,757**
- 4. **Option (d) ₹3,756**
- 5. **Option (a) ₹99.51**

#### **Reason for 1,2,3,4 & 5**

Effective Machine hour for four-week period

= Total working hours – unproductive set-up time

$$= \{(48 \text{ hours} \times 4 \text{ weeks}) - \{(4 \text{ hours} \times 4 \text{ weeks})\}$$

$$= (192 - 16 \text{ hours}) = 176 \text{ hours.}$$

**Computation of cost of running one machine for a four week period**

$$\text{Machine hour rate} = \frac{\text{₹ } 17,513.54}{176 \text{ hours}} = \text{₹ } 99.51$$

		(₹)	(₹)
(A)	Standing charges (per annum)		
	Rent	5,400	
	Heat and light	9,720	
	Forman's salary	12,960	
	Other miscellaneous expenditure	18,000	
	Standing charges (per annum)	46,080	
	Total expenses for one machine for four-week period $\left( \frac{\text{₹ } 46,080}{3 \text{ machines} \times 13 \text{ four-week period}} \right)$		1,181.54
	Wages (48 hours × 4 weeks × ₹ 20 × 3 operators)		11,520.00
	Bonus {(176 hours × ₹ 20 × 3 operators) × 10%}		1,056.00
	Total standing charges		13,757.54
B)	Machine Expenses		
	Depreciation $\left( \text{₹ } 52,000 \times 10\% \times \frac{1}{13 \text{ four-week period}} \right)$		400.00
	Repairs and maintenance (₹60 × 4 weeks)		240.00
	Consumable stores (₹75 × 4 weeks)		300.00
	Power (176 hours × 20 units × ₹ 0.80)		2,816.00
	Total machine expenses		3,756.00
(C)	Total expenses (A) + (B)		17,513.54

### CASE SCENARIO 27

A LMV Pvt. Ltd, operates cab/ car rental service in Delhi/NCR. It provides its service to the offices of Noida, Gurugram and Faridabad. At present it operates CNG fuelled cars but it is also considering to upgrade these into Electric vehicle (EV). The following details related with the owning of CNG & EV propelled cars are as tabulated below:

Particulars	CNG Car	EV Car
Car purchase price (₹)	9,20,000	15,20,000
Govt. subsidy on purchase of car (₹)	--	1,50,000
Life of the car	15 years	10 years
Residual value (₹)	95,000	1,70,000
Mileage	20 km/kg	240 km per charge
Electricity consumption per full charge	--	30 Kwh
CNG cost per Kg (₹)	60	--
Power cost per Kwh (₹)	--	7.60
Annual Maintenance cost (₹)	8,000	5,200
Annual insurance cost (₹)	7,600	14,600
Tyre replacement cost in every 5 -year (₹)	16,000	16,000
Battery replacement cost in every 8- year (₹)	12,000	5,40,000

Apart from the above, the following are the additional information:

Particulars	
Average distance covered by a car in a month	1,500 km
Driver's salary (₹)	20,000 p.m
Garage rent per car (₹)	4,500 p.m
Share of Office & Administration cost per car (₹)	1,500 p.m

You have been approached by the management of A LMV Pvt. Ltd. for consultation on the two options of operating the cab service.

The expected questions that may be asked by the management are as follows:

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**MULTIPLE CHOICE QUESTIONS**

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1. What would be the depreciable value of EV Car?
  - (a) ₹13,50,000
  - (b) ₹15,20,000
  - (c) ₹14,40,000
  - (d) ₹12,00,000
2. What would be the monthly cost of electricity for an EV car?
  - (a) ₹1,425
  - (b) ₹1,500
  - (c) ₹1,450
  - (d) ₹1,525
3. What would be the total cost to be incurred for replacement of tyres for EV car?
  - (a) ₹32,000
  - (b) ₹24,000
  - (c) ₹12,000
  - (d) ₹16,000
4. Calculate the operating cost of vehicle per month per car for CNG options.
  - (a) ₹36,627.78
  - (b) ₹24,000.50
  - (c) ₹43,708.33
  - (d) ₹16,605.55
5. Calculate the operating cost of vehicle per month per car for EV options
  - (a) ₹36,627.78
  - (b) ₹24,000.50
  - (c) ₹43,708.33
  - (d) ₹16,605.55



### ANSWERS TO MULTIPLE CHOICE QUESTIONS

**1. Option (d) ₹12,00,000**

**Reason:**

**Calculation of Depreciation per month:**

	Particulars	CNG Car	EV Car
A	Car purchase price (₹)	9,20,000	15,20,000
B	Less: Govt. subsidy (₹)	--	(1,50,000)
C	Less: Residual value (₹)	(95,000)	(1,70,000)
D	Depreciable value of car (₹) [A-B-C]	8,25,000	12,00,000
E	Life of the car	15 years	10 years
F	Annual depreciation (₹) [D÷E]	55,000	1,20,000
G	<b>Depreciation per month (₹) [F÷12]</b>	<b>4,583.33</b>	<b>10,000</b>

**2. Option (a) ₹1,425**

**Reason:**

**Fuel/ Electricity consumption cost per month:**

	Particulars	CNG Car	EV Car
A	Average distance covered in a month (KM)	1,500	1,500
B	Mileage (KM)	20	240
C	Qty. of CNG/ Full charge required [A÷B]	75 kg.	6.25
D	Electricity Consumption [C×30kwh]	-	187.5
E	Cost of CNG per kg (₹)	60	-
F	Power cost per Kwh (₹)	-	7.60
G	<b>CNG Cost per month (₹) [C×E]</b>	<b>4,500</b>	-
H	<b>Power cost per month (₹) [D×F]</b>	-	<b>1,425</b>

### 3. Option (d) ₹16,000

Reason:

**Amortised cost of Tyre replacement:**

	Particulars	CNG Car	EV Car
A	Life of vehicle	15 years	10 years
B	Replacement interval	5 years	5 years
C	No. of time replacement required	2 times	1 time
D	Cost of tyres for each replacement (₹)	16,000	16,000
E	Total replacement cost (₹) [C×D]	32,000	16,000
F	Amortised cost per year (₹) [E÷A]	2,133.33	1,600
<b>E</b>	<b>Cost per month (₹) [F÷12]</b>	<b>177.78</b>	<b>133.33</b>

### 4. Option (a) ₹36,627.78

### 5. Option (c) ₹43,708.33

Reason for 4 & 5:

**Amortised cost of Battery replacement:**

	Particulars	CNG Car	EV Car
A	Life of vehicle	15 years	10 years
B	Replacement interval	8 years	8 years
C	No. of time replacement required	1 time	1 time
D	Cost of battery for each replacement (₹)	12,000	5,40,000
E	Total replacement cost (₹) [C×D]	12,000	5,40,000
F	Amortised cost per year (₹) [E÷A]	800	54,000
<b>E</b>	<b>Cost per month (₹) [F÷12]</b>	<b>66.67</b>	<b>4,500</b>

## Calculation of Operating cost per month

	Particulars	CNG Car (₹)	EV Car (₹)
<b>A</b>	<b>Running cost:</b>		
	Fuel cost/ Power consumption cost [Refer WN-2]	4,500	1,425
<b>B</b>	<b>Maintenance cost:</b>		
	Annual Maintenance cost [Annual cost ÷ 12]	666.67	433.33
	Annual Insurance cost [Annual cost ÷ 12]	633.33	1,216.67
	Amortised cost of Tyre replacement [Refer WN-3]	177.78	133.33
	Amortised cost of Battery replacement [Refer WN-4]	66.67	4,500
		1,544.45	6,283.33
<b>C</b>	<b>Fixed cost:</b>		
	Depreciation [Refer WN-1]	4,583.33	10,000
	Driver's salary	20,000	20,000
	Garage rent	4,500	4,500
	Share of Office & Administration cost	1,500	1,500
		30,583.33	36,000
<b>D</b>	<b>Operating cost per month [A+B+C]</b>	<b>36,627.78</b>	<b>43,708.33</b>

**CASE SCENARIO 28**

Phalsa Ltd. pays its workers on time-basis because their services cannot be tangibly measured. The company's normal working week includes 5 days of 8 hours each. Sometimes, the workers need to work late at night which was 3 nights of 3 hours each for the current week. The average output produced per worker for the week is 120 units.

Information regarding incentive rate is as follows:

Rate of Payment	Day shift: ₹ 320 per hour
	Night shift: ₹ 450 per hour

However, this time-basis payment made workers lazy, making their expected output lower. As workers started doing more of the night shifts for higher earnings with minimal impact on the outputs, the company decided to shift on to a system of payments on output basis. Information regarding amended incentive rate is as follows:

Time-rate (as usual)	: ₹ 320 per hour
Basic time allowed for 15 units	: 5 hours
Piece-work rate	: Add 15% to basic piece-rate

In the amended incentive system, the normal weekly working hours remained the same while production increased to 135 units.

**MULTIPLE CHOICE QUESTION**

1. CALCULATE the labour cost per unit as per the existing incentive system, along with the amended incentive system.
  - (a) ₹ 140.42 and ₹ 122.67 respectively
  - (b) ₹ 124.81 and ₹ 138.00 respectively
  - (c) ₹ 124.81 and ₹ 122.67 respectively
  - (d) ₹ 140.42 and ₹ 138.00 respectively

### ANSWER TO MULTIPLE CHOISE QUESTION

#### 1. Option (a) Calculation of existing labour cost per unit (time basis)

##### Reason:

Normal weekly hours = 5 days x 8 hours = 40 hours

Night shift hours = 3 nights x 3 hours = 9 hours

Average production per week = 120 units

Weekly wages:		
Normal shift	(40 hours × ₹ 320)	₹ 12,800
Night shift	(9 hours × ₹ 450)	₹ 4,050
Total wages		₹ 16,850

$$\begin{aligned}\text{Labour cost per unit} &= \left( \frac{\text{₹ } 16,850}{120 \text{ units}} \right) \\ &= \text{₹ } 140.42\end{aligned}$$

#### Calculation of amended labour cost per unit (piece basis)

15 units are produced in 5 hours

Therefore, to produce 135 units, hours required is  $\left( \frac{5 \text{ hours}}{15 \text{ units}} \right) \times 135 \text{ units}$   
= 45 hours.

Labour cost of producing 135 units:

At basic time rate (45 hours × ₹ 320) = ₹ 14,400

Add: Bonus @ 15% on basic Piece rate

$$\left[ \left( \frac{\text{₹ } 14,400}{135 \text{ units}} \right) \times 15\% \right] \times 135 \text{ units} = \text{₹ } 2,160$$

Earning for the week ₹ 16,560

$$\begin{aligned}\text{Labour cost per unit} &= \left( \frac{\text{₹ } 16,560}{135 \text{ units}} \right) \\ &= \text{₹ } 122.67\end{aligned}$$

**CASE SCENARIO 29**

Gaarmentz Ltd. run a sewing factory for medical garments. But, the company suffers from the limiting factor i.e. labor. Each sewing machine needs 100% attention of one person at a particular point of time to operate it. The company has 8 number of alike sewing machines on which 8 operators work separately. The following particulars are furnished for a six months period:

Paid hours for all the 8 operators	9,594 hours
Effective working hours for all the 8 operators	9,360 hours
Average rate of wages per day of 8 hours per operator	₹ 110
Power consumed	₹ 60,125
Supervision and Indirect Labour	₹ 21,450

The following particulars are given for a year:

Insurance	₹ 4,68,000
Sundry Expenses	₹ 7,15,000

Depreciation charged is 10% on the original cost of all the sewing machines.

Repairs and Maintenance comes to 5% of the value of all the sewing machines.

The original cost of all the sewing machines works out to ₹ 41,60,000

**MULTIPLE CHOICE QUESTIONS**

1. CALCULATE the Comprehensive Machine Hour Rate.
  - (a) ₹ 215.86
  - (b) ₹ 217.99
  - (c) ₹ 116.43
  - (d) ₹ 119.34

### ANSWER TO MULTIPLE CHOISE QUESTION

1. Option (d) ₹ 119.34

Reason:

**Computation of Comprehensive Machine Hour Rate**

Particulars	Amount for six months (₹)
Operators' wages paid [(9,594 hrs./ 8 hrs.) x ₹ 110]	1,31,918
Power consumed	60,125
Supervision and indirect labour	21,450
Insurance (₹ 4,68,000/2)	2,34,000
Sundry expenses (₹ 7,15,000/2)	3,57,500
Depreciation {(₹ 41,60,000 × 10%)/2}	2,08,000
Repair and maintenance {(5% × ₹ 41,60,000)/2}	1,04,000
<b>Total Overheads for 6 months</b>	<b>11,16,993</b>
<b>Comprehensive Machine Hour Rate = <math>\left(\frac{₹\ 11,16,993}{9,360\ \text{hours}}\right)</math></b>	<b>119.34</b>

**CASE SCENARIO 30**

Following information is available for the month of March relating to manufacturing of a product:

Particulars	Amount (₹)
Cost of Sales	37,51,540
Stock of Raw material as on 01 <sup>st</sup> March	6,50,000
Direct Wages	11,44,000
Hire charges paid for Plant (indirect expenses)	3,24,740
Salary to office staff	1,78,750
Maintenance of office building	13,000
Depreciation on Delivery van	39,000
Warehousing charges	61,750
Stock of Raw material as on 31 <sup>st</sup> March	1,95,000
Realisable value on sale of scrap	32,500

Factory overheads are 20% of the Prime cost.

**MULTIPLE CHOICE QUESTION**

1. FIND OUT the value of Raw Material purchased with the help of Statement of Cost.
  - (a) ₹ 10,40,000
  - (b) ₹ 14,95,000
  - (c) ₹ 26,39,000
  - (d) ₹ 34,91,540



### ANSWER TO MULTIPLE CHOISE QUESTION

#### 1 Option (a) ₹ 10,40,000

**Reason:**

#### Statement of Cost for the month of March

Particulars	Amount (₹)	Amount (₹)
Cost of Material Consumed:		
Raw materials purchased	10,40,000**	
Add: Opening stock of raw materials	6,50,000	
Less: Closing stock of raw materials	(1,95,000)	14,95,000
Direct Wages		11,44,000
Prime Cost		26,39,000*
Hire charges paid for Plant (indirect expenses)	3,24,740	
Factory overheads (20% of Prime cost)	5,27,800	8,52,540
Works/ Factory Cost		34,91,540
Less: Realisable value on sale of scrap		(32,500)
Cost of Production/ Cost of Goods Sold		34,59,040
Administrative overheads:		
Maintenance of office building	13,000	
Salary paid to Office staff	1,78,750	1,91,750
Distribution overheads:		
Depreciation on delivery van	39,000	
Warehousing charges	61,750	1,00,750
Cost of Sales		37,51,540

(Reverse calculation to be done to find out the value of Raw materials purchased)

$$* \text{ Prime Cost} + 3,24,740 + 20\% \text{ of Prime Cost} = 34,91,540$$

$$\begin{aligned} 1.2 \text{ Prime Cost} &= 34,91,540 - 3,24,740 \\ &= 31,66,800 \end{aligned}$$

$$\text{Prime Cost} = 26,39,000$$

$$\begin{aligned} ** \text{ Raw materials purchased} &= 14,95,000 - 6,50,000 + \\ &\quad 1,95,000 \\ &= 10,40,000 \end{aligned}$$

### CASE SCENARIO 31

ICT Ltd. belongs to pharmaceutical industries. The chemical process that ICT Ltd. operates convert one compound into three category of medicines viz. BetaTab, Folick and TegriCap. Though BetaTab and Folick are already converted to final product at split-off point, Tegricap needs further processing along with addition of new compound with it.

The market for BetaTab and Folick is highly active, thus the production is sold at split-off point, however, Tegricap can be sold only after further processing.

Following information is provided for the current year:

Products	Quantity sold (tons)	Selling price per ton (₹)
BetaTab	372	7,500
Folick	1,054	5,625
TegriCap	1,472	3,750

The selling price is expected to remain the same for coming years.

The total joint manufacturing costs till split-off point is ₹ 62,50,000 and the amount spent for further processing w.r.t. Tegricap is ₹ 31,00,000

The details regarding closing inventories are as follows:

Products	Completed units (tons)
BetaTab	360
Folick	120
TegriCap	50

### MULTIPLE CHOICE QUESTION

- You are required to COMPUTE the joint cost allocated to BetaTab, Folick and TegriCap using Net realizable value (NRV) method.
  - BetaTab- ₹ 15,65,481, Folick - ₹ 33,26,647 and TegriCap - ₹ 13,57,872

- (b) BetaTab - ₹ 23,33,985, Folick - ₹ 28,07,478 and TegriCap - ₹ 11,08,537
- (c) BetaTab - ₹ 19,27,533, Folick - ₹ 23,18,570 and TegriCap - ₹ 20,03,897
- (d) BetaTab - ₹ 11,08,537, Folick - ₹ 28,07,478 and TegriCap - ₹ 23,33,985

### ANSWER TO MULTIPLE CHOICE QUESTION

1. **Option (b) BetaTab - ₹ 23,33,985, Folick - ₹ 28,07,478 and TegriCap - ₹ 11,08,537**

#### Calculation of total production of BetaTab, Folick and TegriCap

Products	Quantity sold (tons)	Quantity of closing inventories (tons)	Total production
(1)	(2)	(3)	(4) = [(2) + (3)]
BetaTab	372	360	732
Folick	1,054	120	1,174
TegriCap	1,472	50	1,522

#### Calculation of Net Realisable Value (at split-off point)

	Products			Total (₹)
	BetaTab	Folick	TegriCap	
Total Production (tons) (A)	732	1,174	1,522	
Selling price per ton (₹) (B)	7,500	5,625	3,750	
Final sales value of total production (₹) [(A) x (B)]	54,90,000	66,03,750	57,07,500	1,78,01,250
Less: Additional cost (₹)	-	-	(31,00,000)	(31,00,000)
<b>Net realisable value (₹) (at split-off point)</b>	54,90,000	66,03,750	26,07,500	1,47,01,250

Joint cost allocated using Net Realisable Value (at split-off point):

$$\frac{\text{Total Joint cost}}{\text{Total Net Realisable Value}} \times \text{Net Realisable Value of each product}$$

$$\text{BetaTab} = \left( \frac{\text{₹ } 62,50,000}{\text{₹ } 1,47,01,250} \right) \times \text{₹ } 54,90,000$$

$$= \text{₹ } 23,33,985$$

$$\text{Folick} = \left( \frac{\text{₹ } 62,50,000}{\text{₹ } 1,47,01,250} \right) \times \text{₹ } 66,03,750$$

$$= \text{₹ } 28,07,478$$

$$\text{TegriCap} = \left( \frac{\text{₹ } 62,50,000}{\text{₹ } 1,47,01,250} \right) \times \text{₹ } 26,07,500$$

$$= \text{₹ } 11,08,537$$

### CASE SCENARIO 32

Ms. Gauri has the business of selling pens. She has setup this pen retailing for over 10 years with good profit volume ratio. Her average cost from the retailing is ₹ 11.25 per unit if she sells 16,000 units and is ₹ 11 per unit if she sells 20,000 units.

For the current month, she also charged ₹ 5,000 towards depreciation and the rental payment due.

The excess of sales revenue over the variable costs is ₹ 3.333 per unit.

#### MULTIPLE CHOICE QUESTION

1. You are required to CALCULATE Break-even Point (in units), Cash Break-even Point (in units) and Profit Volume Ratio.
  - (a) Break-even Point- 6,000 units, Cash Break-even Point- 6,000 units and Profit Volume Ratio- 33.33%
  - (b) Break-even Point- 6,000 units, Cash Break-even Point- 4,500 units and Profit Volume Ratio- 25%
  - (c) Break-even Point- 4,500 units, Cash Break-even Point- 4,500 units and Profit Volume Ratio- 33.33%
  - (d) Break-even Point- 4,500 units, Cash Break-even Point- 4,500 units and Profit Volume Ratio- 25%

#### ANSWER TO MULTIPLE CHOICE QUESTION

1. **Option (b) Break-even Point- 6,000 units, Cash Break-even Point- 4,500 units and Profit Volume Ratio- 25%**

$$\begin{aligned}
 \text{Variable cost per unit} &= \frac{\text{Change in Total cost}}{\text{Change in units}} \\
 &= \left( \frac{(\text{₹ } 11 \times 20,000 \text{ units}) - (\text{₹ } 11.25 \times 16,000 \text{ units})}{20,000 \text{ units} - 16,000 \text{ units}} \right) \\
 &= \left( \frac{\text{₹ } 2,20,000 - \text{₹ } 1,80,000}{4,000 \text{ units}} \right) = \text{₹ } 10
 \end{aligned}$$

$$\begin{aligned}\text{Fixed cost} &= \text{Total Cost} - \text{Variable cost (at 20,000 units level)} \\ &= (\text{₹ } 11 \times 20,000 \text{ units}) - (\text{₹ } 10 \times 20,000 \text{ units}) \\ &= \text{₹ } 20,000\end{aligned}$$

$$\begin{aligned}\text{(i) Break-even Point (in units)} &= \left( \frac{\text{Fixed Costs}}{\text{Contribution per unit}^*} \right) \\ &= \left( \frac{\text{₹ } 20,000}{\text{₹ } 3.333} \right) \\ &= \mathbf{6,000 \text{ units}}\end{aligned}$$

\* Contribution is the excess of sales revenue over the variable costs.

$$\begin{aligned}\text{(ii) Cash Break-even Point (in units)} &= \left( \frac{\text{Cash Fixed Costs}^{**}}{\text{Contribution per unit}} \right) \\ &= \left( \frac{\text{₹ } 20,000 - \text{₹ } 5,000}{\text{₹ } 3.333} \right) \\ &= \mathbf{4,500 \text{ units}}\end{aligned}$$

\*\* depreciation and other non-cash fixed costs are excluded from the fixed costs to compute cash break-even point.

$$\begin{aligned}\text{(iii) P/V Ratio} &= \frac{\text{Contribution per unit}}{\text{Sale price per unit}} \\ &= \left( \frac{\text{₹ } 3.333}{\text{₹ } 10 + \text{₹ } 3.333} \right) \\ &= \mathbf{25\%}\end{aligned}$$

**CASE SCENARIO 33**

The accountant for Brilliant Tools Ltd applies overhead based on machine hours. The budgeted overhead and machine hours for the year are ₹ 1,30,000 and 8,000 hours, respectively. The actual overhead and machine hours incurred were ₹ 1,37,500 and 10,000 hours. The cost of goods sold and inventory data compiled for the year is as follows:

Direct Material	₹ 25,000
Cost of Goods Sold	₹ 2,25,000
Units:	WIP 50,000 and Finished Goods 75,000

**MULTIPLE CHOICE QUESTION**

- What is the amount of over/under absorbed overhead for the year?
  - Over absorbed by ₹ 25,000
  - Under absorbed by ₹ 25,000
  - Over a absorbed by ₹ 32,500
  - Under absorbed by ₹ 32,500

**ANSWER TO MULTIPLE CHOISE QUESTION****1. Option (a) Over absorbed by ₹ 25,000****Reason:**

Overabsorbed by ₹ 25,000

$$\begin{aligned}\text{Predetermined Overhead Rate} &= \text{Budgeted Overhead} / \text{Budgeted hours i.e. } 130,000 / 8,000 \\ &= ₹ 16.25 \text{ per hour.}\end{aligned}$$

$$\text{Hence, absorbed overhead} = 10,000 \times 16.25 = ₹ 1,62,500.$$

Since actual overhead incurred were ₹ 1,37,500

$$\begin{aligned}\text{Hence the overhead were over absorbed by } &1,62,500 - 1,37,500 \\ &= ₹ 25,000.\end{aligned}$$

### CASE SCENARIO 34

The following information is available in respect of Process I: Raw material purchased and introduced 10,000 units @ 5 per unit Raw Material received from store 4000 units @ 6 per unit Direct Labour 40,000 Overheads 28,000 Output of Process is 13,500 units, Normal wastage 5% of inputs Scrap value of wastage 4 per unit

#### MULTIPLE CHOICE QUESTION

1. The value of Abnormal Gain is:
  - (a) ₹ 2062.68
  - (b) ₹ 2135.34
  - (c) ₹ 2103.70
  - (d) ₹ 2093.2

#### ANSWER TO MULTIPLE CHOISE QUESTION

1. **Option (d) ₹ 2093.2**

**Reason:**

#### Process a/c

Particulars	Units	Amount	Particulars	units	Amount
Raw material	10,000	50,000	Normal loss	700	2,800
Stores	4,000	24,000	Units transferred	13,500	1,41,293.2
Direct Wages		40,000			
Production overheads		28,000			
Abnormal gain	200	2,093.2			
		1,44,093.2			1,44,093.2

$$\text{Cost per unit} = \frac{1,42,000 - 2,800}{14,000 - 700} = 10.466 \text{ per unit}$$



### CASE SCENARIO 35

A hotel has 200 rooms (120 Deluxe rooms and 80 Premium rooms). The normal occupancy in summer is 80% and winter 60%. The period of summer and winter is taken as 8 months and 4 months respectively. Assume 30 days in each month. Room rent of Premium room will be double of Deluxe room. Hotel is expecting a profit of 20% on total revenue, total cost for the year is 2,66,11,200.

#### MULTIPLE CHOICE QUESTION

1. Calculate the room rent to be charged for Premium room.
  - (a) ₹ 450 per room day
  - (b) ₹ 900 per room day
  - (c) ₹ 380 per room day
  - (d) ₹ 760 per room day

#### ANSWER TO MULTIPLE CHOISE QUESTION

1. **(b) ₹ 900 per room day**

**Reason:**

Total Revenue  $(2,66,11,200/80\%) = 3,32,64,000$

Calculation of Room Days:

	Deluxe	Premium
<b>Summer</b>	120 rooms x 80% x 30 days x 8 months = 23,040	80 rooms x 80% x 30 days x 8 months = 15,360
<b>Winter</b>	120 rooms x 60% x 30 days x 4 months = 8,640	80 rooms x 60% x 30 days x 4 months = 5,760
<b>Total room days</b>	31,680	21,120

Let's assume the room rent of Deluxe room be 'x'

Then rent of Premium room will be '2x'

Therefore:  $31,680x + 42,240x = 3,32,64,000$

$X = 450$

Rent of Premium room will be  $450 \times 2 = ₹ 900$  per room day

# **INTERMEDIATE COURSE**

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## **PAPER – 6**

### **FINANCIAL MANAGEMENT AND STRATEGIC MANAGEMENT**

#### **SECTION A: FINANCIAL MANAGEMENT**

**[RELEVANT FOR MAY, 2025 EXAMINATION AND ONWARDS]**

## **BOOKLET ON CASE SCENARIOS**



**BOARD OF STUDIES**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

This booklet has been prepared by the faculty of the Board of Studies. The objective of the booklet is to provide teaching material to the students to enable them to obtain knowledge in the subject. In case students need any clarifications or have any suggestions to make for further improvement of the material contained herein, they may write to the Joint Director, Board of Studies.

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the booklet has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

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# PREFACE

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Under the New Scheme of Education and Training which was introduced on 1<sup>st</sup> July, 2023, 30% of the examination assessment is by the way of Objective Type Questions at Intermediate and Final level. Therefore, to provide hands-on practice for such type of questions, BOS launched MCQ Paper Practice Portal on 1<sup>st</sup> July, 2023. This online portal contains independent MCQs as well as case scenario based MCQs both for conceptual clarity and practice of the students.

In continuation to this handholding initiative and to provide quality academic inputs to the students to help them grasp the intricate aspects of the subject, the Board of studies has brought forth subject-wise booklets on Case Scenarios at Intermediate and Final level. These booklets are meticulously designed to assist Chartered Accountancy (CA) students in their preparation of the CA course.

The '**Booklet on Case Scenarios for Paper 6A: Financial Management**' will serve as revision help book towards preparing for Intermediate examination of the Institute and help the students in identifying the gaps in the preparation of the examination and developing plan to make it up. The case scenario-based MCQs are all application oriented MCQs and arise from the facts of the case. At the end of each case scenario followed by MCQs, we have also provided explanations/hints for each MCQ which will enable the students to evaluate their performance and identify areas requiring further attention.

Learning Financial Management fosters both analytical skills and a holistic perspective on key financial topics, developing students' critical thinking and acumen. At the Intermediate Level, students are encouraged not only to gain professional knowledge but also to develop the ability to apply that knowledge effectively in practical questions and case scenarios. By bridging theoretical understanding with case scenarios, the subject equips students with the critical thinking and analytical abilities, necessary for success in today's complex business environments. Through this approach, students become well-prepared to face the challenges of the professional world with confidence and skill.

After attaining conceptual clarity by reading the Study Material, you are expected to apply the concepts learnt in answering the MCQs given in this booklet. You have to read the case scenarios and the MCQs, identify the concepts involved, apply the provisions correctly in addressing the issue raised/making the computation required in the MCQ, and finally, choose the correct answer. This process of learning and understanding the concepts and solving MCQs based thereon will help you attain conceptual clarity and hone your application and analytical skills so that you are able to approach the examination with confidence and a positive attitude.

We are confident that this booklet will serve as a valuable companion in your preparation journey. We encourage students to make the most of this resource by engaging deeply with the scenarios, reflecting on the MCQs, and embracing the learning process.

**Happy Reading and Best Wishes!**

## CASE SCENARIO 1

NV Industries Ltd. is a manufacturing industry which manages its accounts receivables internally by its sales and credit department. It supplies small articles to different industries. The total sales ledger of the company stands at ₹ 200 lakhs of which 80% is credit sales. The company has a credit policy of 2/40, net 120. Past experience of the company has been that on average out of the total, 50% of customers avail of discount and the balance of the receivables are collected on average in 120 days. The finance controller estimated, bad debt losses are around 1% of credit sales.

With escalating cost associated with the in-house management of the debtors coupled with the need to unburden the management with the task so as to focus on sales promotion, the CFO is examining the possibility of outsourcing its factoring service for managing its receivables. Currently, the firm spends about ₹ 2,40,000 per annum to administer its credit sales. These are avoidable as a factoring firm is prepared to buy the firm's receivables. The main elements of the proposal are : (i) It will charge 2% commission (ii) It will pay advance against receivables to the firm at an interest rate of 18% after withholding 10% as reserve.

Also, company has option to take long term loan at 15% interest or may take bank finance for working capital at 14% interest.

You were also present at the meeting; being a financial consultant, the CFO has asked you to be ready with the following questions:

Consider year as 360 days.

### MULTIPLE CHOICE QUESTIONS

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1. What is average level of receivables of the company?
  - (a) ₹ 53,33,333
  - (b) ₹ 35,55,556
  - (c) ₹ 44,44,444

- (d) ₹ 71,11,111
2. How much advance factor will pay against receivables?
- (a) ₹ 31,28,889
- (b) ₹ 39,11,111
- (c) ₹ 30,03,733
- (d) ₹ 46,93,333
3. What is the annual cost of factoring to the company?
- (a) ₹ 8,83,200
- (b) ₹ 4,26,667
- (c) ₹ 5,51,823
- (d) ₹ 4,00,000
4. What is the net cost to the company on taking factoring service?
- (a) ₹ 4,00,000
- (b) ₹ 4,26,667
- (c) ₹ 3,50,000
- (d) ₹ 4,83,200
5. What is the effective cost of factoring on advance received?
- (a) 16.09%
- (b) 13.31%
- (c) 12.78%
- (d) 15.89%

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ₹ 35,55,556
2. **Option (c)** ₹ 30,03,733
3. **Option (a)** ₹ 8,83,200



4. **Option (d)** ₹ 4,83,200

5. **Option (a)** 16.09%

**Reason:**

**Working Note**

Particulars	(₹)
Total Sales	₹ 200 lakhs
Credit Sales (80%)	₹ 160 lakhs
Receivables for 40 days	₹ 80 lakhs
Receivables for 120 days	₹ 80 lakhs
Average collection period $[(40 \times 0.5) + (120 \times 0.5)]$	80 days
Average level of Receivables $(₹ 1,60,00,000 \times 80/360)$	₹ 35,55,556
Factoring Commission $(₹ 35,55,556 \times 2/100)$	₹ 71,111
Factoring Reserve $(₹ 35,55,556 \times 10/100)$	₹ 3,55,556
Amount available for advance $\{₹ 35,55,556 - (3,55,556 + 71,111)\}$	₹ 31,28,889
Factor will deduct his interest @ 18%: Interest = $\frac{₹ 31,28,889 \times 18 \times 80}{100 \times 360}$	₹ 1,25,156
Advance to be paid $(₹ 31,28,889 - ₹ 1,25,156)$	₹ 30,03,733

**(i) Statement Showing Evaluation of Factoring Proposal**

	₹
<b>A. Annual Cost of Factoring to the Company:</b>	
Factoring commission $(₹ 71,111 \times 360/80)$	3,20,000
Interest charges $(₹ 1,25,156 \times 360/80)$	<u>5,63,200</u>
Total	<u>8,83,200</u>
<b>B. Company's Savings on taking Factoring Service:</b>	₹
Cost of credit administration saved	2,40,000
Bad Debts $(₹ 160,00,000 \times 1/100)$ avoided	<u>1,60,000</u>
Total	<u>4,00,000</u>
<b>C. Net Cost to the company <math>(A - B)</math> <math>(₹ 8,83,200 - ₹ 4,00,000)</math></b>	<u>4,83,200</u>

$$\text{Effective cost of factoring} = \frac{₹ 4,83,200}{₹ 30,03,733} \times 100 = 16.09\%$$

**CASE SCENARIO 2**

Tiago Ltd is an all-equity company engaged in manufacturing of batteries for electric vehicles. There has been a surge in demand for their products due to rising oil prices. The company was established 5 years ago with an initial capital of ₹ 10,00,000 and since then it has raised funds by IPO taking the total paid up capital to ₹ 1 crore comprising of fully paid-up equity shares of face value ₹ 10 each. The company currently has undistributed reserves of ₹ 60,00,000. The company has been following constant dividend payout policy of 40% of earnings. The retained earnings by company are going to provide a return on equity of 20%. The current EPS is estimated as ₹ 20 and prevailing PE ratio on the share of company is 15x. The company wants to expand its capital base by raising additional funds by way of debt, preference and equity mix. The company requires an additional fund of ₹ 1,20,00,000. The target ratio of owned to borrowed funds is 4:1 post the fund-raising activity. Capital gearing is to be kept at 0.4x.

The existing debt markets are under pressure due to ongoing RBI action on NPAs of the commercial bank. Due to challenges in raising the debt funds, the company will have to offer ₹ 100 face value debentures at an attractive yield of 9.5% and a coupon rate of 8% to the investors. Issue expenses will amount to 4% of the proceeds.

The preference shares will have a face value of ₹ 1000 each offering a dividend rate of 10%. The preference shares will be issued at a premium of 5% and redeemed at a premium of 10% after 10 years at the same time at which debentures will be redeemed.

The CFO of the company is evaluating a new battery technology to invest the above raised money. The technology is expected to have a life of 7 years. It will generate a after tax marginal operating cash flow of ₹ 25,00,000 p.a. Assume marginal tax rate to be 27%.

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**MULTIPLE CHOICE QUESTIONS**

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1. Which of the following is best estimate of cost of equity for Tiago Ltd?
  - (a) 12.99%
  - (b) 11.99%
  - (c) 13.99%
  - (d) 14.99%
2. Which of the following is the most accurate measure of issue price of debentures?
  - (a) 100
  - (b) 96
  - (c) 90.58
  - (d) 95.88
3. Which of the following is the best estimate of cost of debentures to be issued by the company? (Using approximation method)
  - (a) 7.64%
  - (b) 6.74%
  - (c) 4.64%
  - (d) 5.78%
4. Calculate the cost of preference shares using approximation method
  - (a) 10.23%
  - (b) 9.77%
  - (c) 12.12%
  - (d) 12.22%
5. Which of the following best represents the overall cost of marginal capital to be raised?
  - (a) 10.52%
  - (b) 17.16%
  - (c) 16.17%

(d) 16.71%

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (d) 14.99%**

**Reason:**

B = retention ratio = 0.6,

R = return on equity = 20%,

DPS = D<sub>0</sub> = 20 × 0.4 = 8,

MPS = P<sub>0</sub> = EPS × PE = 20 × 15 = 300

G = b × r = 0.6 × 20% = 12%

D<sub>1</sub> = D<sub>0</sub>(1 + g) = 8 (1.12) = 8.96

K<sub>e</sub> = D<sub>1</sub>/P<sub>0</sub> + g = 8.96/300 + 0.12 = 14.99%

**2. Option (c) 90.58**

**Reason:**

Price of debentures = PV of future cash flows for investor discounted at their yield

= 8 × PVAF (9.5%, 10 years) + 100 × PVF (9.5%, 10 years)

= 8 × 6.2788 + 100 × 0.4035

= 50.2304 + 40.35

= 90.58

**3. Option (a) 7.64%**

**Reason:**

NP = 90.58 × 96% = 86.96,

RV = 100, Interest = 8,

T = 0.27,

n = 10

$$K_d = \frac{\text{Int}(1-t) + (RV - NP)/n}{(RV + NP)/2}$$

$$= \frac{8(1-0.27) + (100 - 86.96)/10}{(100 + 86.96)/2}$$

$$= 7.64\%$$

**4. Option (b) 9.77%**

**Reason:**

$$K_p = \frac{PD + (RV - NP)/n}{(RV + NP)/2}$$

$$= \frac{100 + (1100 - 1050)/10}{(1100 + 1050)/2}$$

$$= 9.77\%$$

**5. Option (a) 10.52%**

**Reason:**

	Existing	Total	Additional	
Equity Funds	1,60,00,000	2,00,00,000	40,00,000	
Preference Shares		24,00,000	24,00,000	
Debt		56,00,000	56,00,000	
	1,60,00,000	2,80,00,000	1,20,00,000	
Capital gearing =	0.4			
(PSC + Debt)/ Equity =	0.4			
(Total Funds - Equity)/ Equity = 0.4				
(2.8 crores - Equity)/ equity = 0.4				
Equity =	2 crores			

Weighted avg cost of marginal capital		Weights	Cost	W.C
Equity Funds	40,00,000	0.333333333	14.99%	5.00%
Preference Shares	24,00,000	0.2	9.77%	2.00%
Debt	56,00,000	0.466666667	7.64%	3.565%
<b>Total</b>	<b>1,20,00,000</b>			<b>10.52%</b>

## CASE SCENARIO 3

Kaivalyabodhi Limited (**KbL**) has completed 35 years of operations in India. It has many subsidiary & associate companies in more than 100 countries. KbL's business s include home and personal care, foods and beverages, and industrial, agricultural and other products. It is one of the largest producers of soaps and detergents in India. The company has grown organically as well as through acquisitions. Over the years, the company has built a diverse portfolio of powerful brands, some being household names.

It is planning to acquire one of its competitors named Prestige Limited, which would enhance the growth of 'KbL'. The consideration amount will be 1.5X of its average Market Capitalization. Prestige limited has 1,30,000 outstanding equity shares and its shares were traded at an average market price of ₹ 45 as on the valuation date. The consideration amount will be paid equally in 5 years where the first installment is to be paid immediately. Prestige Limited has Ko of 15%

KbL will raise the funds required through debt and equity in the ratio of 30:70. The company requires the cost of capital estimates for evaluating its acquisitions, investment decisions and the performance of its businesses.

KbL's share price has grown from ₹ 150 to ₹ 301 in the last 5 years and it will continue to grow at the same rate. KbL pays dividends regularly. The company has recently paid a dividend of ₹ 8. For the calculation of equity, an average of 52 weeks high market price in the last 5 years is to be considered, which is as follows:

Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
MPS 185	MPS 210	MPS 252	MPS 325	MPS 280

Ke calculated as per growth model holds a weight of 0.6.

The company also wishes to calculate the equity's expectation using CAPM which holds a weight of 0.4. The risk-free rate is assumed as the yield on long-term government bonds that the company regards as about 8%. KbL regards the market-risk premium to be equal to 11 per cent. Its estimation on the Beta is 0.78.

KbL will issue debentures with FV of ₹ 10,500 which is to be amortised equally over the life of 7 years. The company considers the effective rate of interest applicable to an 'AAA' rated company with a markup of 200 basis points as its coupon rate. It thinks that considering the trends over the years, 'AAA' rate is 7.5%.

Ignore taxation. Based on the above details, answer the question 1 to 5:

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### MULTIPLE CHOICE QUESTIONS

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1. Calculate the cost of equity under both the methods
  - (a) 11%, 16%
  - (b) 18.65%, 10.34%
  - (c) 18.65%, 16.58%
  - (d) 16.5%, 9%
2. Calculate the overall cost of equity
  - (a) 17.82%
  - (b) 17.63%
  - (c) 15.37%
  - (d) 35.25%
3. Calculate the cost of debt, if the intrinsic value of debenture today is close to ₹ 9,740
  - (a) 15%
  - (b) 12%
  - (c) 9.5%
  - (d) 7.5%
4. Calculate the WACC & the amount of purchase consideration
  - (a) 18%, ₹ 90,00,000
  - (b) 15.21%, ₹ 87,75,000
  - (c) 16.07%, ₹ 87,75,000



- (d) 15.94%, ₹ 58,50,000
5. Present Value of Purchase consideration is close to ₹
- (a) 58,83,032
- (b) 67,65,487
- (c) 57,35,680
- (d) 66,58,997

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** 18.65%, 16.58%

**Reason:**

Ke under two approaches

**Calculation of Ke (Using Gordon's Model)**

$$K_e = \frac{D_1}{P_0} + g$$

Share Price has grown from 150 to 301 in 5 years,

$$150 (1 + g)^5 = 301.$$

$$(1 + g)^5 = 2.01$$

Therefore,  $g = 15\%$ , (From Annuity table – Re 1 after 5 years becomes ₹ 2.01 at rate of 15%)

$$D_1 = 8 + 15\% \text{ of } 8 = 9.2$$

$P_0$  = Average of 52 weeks High price in last 5 years

$$P_0 = (185 + 210 + 252 + 325 + 280) / 5 \\ = 252.40$$

$$K_e = 9.2 / 252.40 + 0.15$$

$$= \mathbf{18.65\%}$$

**Calculation of Ke (Using CAPM)**

$$K_e = R_f + (R_m - R_f) \times \text{Beta}$$

$$= 8 + (11 \times 0.78)$$

$$= 16.58\%$$

**2. Option (a) 17.82%**

**Reason:**

Overall Ke for the company

Approach	Cost of Equity (k)	Weight (w)	K x w
Gordon's	18.65%	0.6	11.19%
CAPM	16.58%	0.4	6.63%
			<b>Total Ke = 17.82%</b>

**3. Option (b) 12%**

**Reason:**

Intrinsic Value of Debentures today is ₹ 9,740

**WN 1 – Calculation of the Pattern of Future Cash flows**

YR	PRINCIPAL (I)	INTEREST (II) = Coupon Rate = 9.5% (7.5% + 2%)	PV OF (I + II) @ 10%	PV OF (I + II) @ 15%
1	1,500	997.50	2270.45	2171.74
2	1,500	855	1946.28	1780.72
3	1,500	712.5	1662.28	1454.75
4	1,500	570	1413.84	1183.53
5	1,500	427.50	1196.83	958.31
6	1,500	285	1007.59	771.70
7	1,500	142.50	842.86	617.48
			10340.13	8938.23

$$= 10\% + \frac{(10,340.13 - 9,740)}{(10,340.13 - 8,938.23)} \times 5\% = 12.14\% = \mathbf{12\%} \text{ (approx.)}$$

**4. Option (c) 16.07%, ₹ 87,75,000**

**Reason:**

$$\begin{aligned}
 K_o &= W_d \times K_d + W_e \times K_e \\
 &= 0.3 \times 12 + 0.7 \times 17.82 \\
 &= \mathbf{16.07\%}
 \end{aligned}$$

**Purchase Consideration using M-Cap method**

$$\begin{aligned}
 &= 1,30,000 \text{ eq shares} \times 45 \text{ MPS} \times 1.5X \\
 &= \mathbf{₹ 87,75,000}
 \end{aligned}$$

**5. Option (d) ₹ 66,58,997****Reason:**

It is to be paid equally over 5 years and first instalment is to be paid immediately at Yr 0

Discount rate will be the  $K_o$  calculated as above of the company and not 15% which is  $K_o$  of Prestige Limited

Year	Amount each year	PV @ 16.07%	PV (₹)
0	17,55,000	1.0000	17,55,000
1	17,55,000	0.8615	15,11,933
2	17,55,000	0.7423	13,02,737
3	17,55,000	0.6395	11,22,323
4	17,55,000	0.5510	9,67,005
	<b>TOTAL PV</b>		<b>66,58,997</b>

### CASE SCENARIO 4

Mathangi Ltd is a News broadcasting channel having its broadcasting Centre in Chennai. There are total 200 employees in the organisation including top management. As a part of employee benefit expenses, the company serves tea to its employees, which is outsourced from a third-party. The company offers tea three times a day to each of its employees. The third-party charges ₹ 10 for each cup of tea. The company works for 200 days in a year.

Looking at the substantial amount of expenditure on tea, the finance department has proposed to the management an installation of a master tea vending machine from Nirmal Ltd which will cost ₹ 5,00,000 with a useful life of five years. Upon purchasing the machine, the company will have to incur annual maintenance which will require a payment of ₹ 25,000 every year. The machine would require electricity consumption of 500 units p.m. and current incremental cost of electricity for the company is ₹ 24 per unit. Apart from these running costs, the company will have to incur ₹ 8,00,000 for consumables like milk, tea powder, paper cup, sugar etc. The company is in the 25% tax bracket. Straight line method of depreciation is allowed for the purpose of taxation.

Nirmal Ltd sells 100 master tea vending machines. Variable cost is ₹ 4,50,000 per machine and fixed operating cost is ₹ 25,00,000. Capital Structure of Mathangi Ltd and Nirmal Ltd consists of the following –

Particulars	Mathangi Ltd.	Nirmal Ltd.
Equity Share Capital (Face value ₹ 10 each)	40,00,000	40,00,000
Reserves & Surplus	25,00,000	50,00,000
12% Preference Share Capital	12,00,000	Nil
15% Debentures	20,00,000	40,00,000

Risk free rate of return = 5%, Market return = 10%, Beta of the company = 1.9

You are required to answer the following five questions based on the above details:

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**MULTIPLE CHOICE QUESTIONS**

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1. If sales of Nirmal Ltd are up by 10%, impact on its EBIT is
  - (a) 30%
  - (b) 60%
  - (c) 5%
  - (d) 20%
2. Combined leverage of Nirmal Ltd is
  - (a) 1.63
  - (b) 2.63
  - (c) 1.315
  - (d) 2
3. Discount rate that can be applied for making investment decisions of Mathangi Ltd is
  - (a) 12%
  - (b) 13.52%
  - (c) 15%
  - (d) 20%
4. Incremental cash flow after tax per annum attributable to Mathangi Ltd due to investment in the machine is
  - (a) ₹ 2,39,438
  - (b) ₹ 1,98,250
  - (c) ₹ 98,250
  - (d) ₹ 1,31,000
5. Net present value of investment in the machine by Mathangi Ltd is
  - (a) ₹ 6,88,522
  - (b) ₹ 1,88,522

(c) ₹ 9,91,250

(d) ₹ 4,91,250

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** 20%

2. **Option (b)** 2.63

**Reason:**

Particulars	Computation	Result
Sales	$100 \times 5,00,000$	5,00,00,000
Less Variable cost	$100 \times 4,50,000$	4,50,00,000
<b>Contribution</b>		<b>50,00,000</b>
Less Fixed cost		25,00,000
<b>EBIT</b>		<b>25,00,000</b>
Less Interest	$15\% \times 40,00,000$	6,00,000
<b>EBT</b>		<b>19,00,000</b>

Operating leverage = Contribution ÷ EBIT = 50 Lakhs ÷ 25 Lakhs = 2 times

Operating leverage = % Change in EBIT ÷ % Change in Sales i.e. if sales increase by 10%, EBIT increase by 20%.

Financial leverage = EBIT ÷ EBT = 25 Lakhs ÷ 19 Lakhs = 1.315 times

Combined leverage = Operating leverage × Financial leverage  
=  $2 \times 1.315 = 2.63$  times

3. **Option (b)** 13.52%

**Reason:**

Particulars	Weights	Cost in %	Weights × Cost
Share Capital	40,00,000	$5 + 1.9 \times (10 - 5) = 14.5$	5,80,000
Reserves & Surplus	25,00,000	14.5	3,62,500

Preference Share Capital	12,00,000	12	1,44,000
15% Debentures	20,00,000	$15 \times (1 - 25\%) = 11.25$	2,25,000
<b>Total</b>	<b>97,00,000</b>	<b>Total Cost</b>	<b>13,11,500</b>

Discount rate = WACC =  $13,11,500 \div 97,00,000 \times 100 = 13.52\%$

**4. Option (b) ₹ 1,98,250**

**Reason:**

Particulars	Computation	Result
Savings in Tea cost	200 Employees $\times$ 200 days $\times$ 3 times $\times$ ₹ 10	12,00,000
Less: Annual maintenance		(25,000)
Less: Cost of Electricity	500 units $\times$ ₹ 24 per unit $\times$ 12 months	(1,44,000)
Less: Consumables		(8,00,000)
Less: Depreciation	$5,00,000 \div 5$ years	(1,00,000)
<b>Profit before tax</b>		<b>1,31,000</b>
Less: Tax	$1,31,000 \times 25\%$	32,750
<b>Profit after tax</b>		<b>98,250</b>
Add: Depreciation		1,00,000
<b>Cash flow after tax</b>	$98,250 + 1,00,000$	<b>1,98,250</b>

**5. Option (b) ₹ 1,88,522**

**Reason:**

Year	Particulars	Cash flow	PVF@13.52%	PV
0	Initial investment	5,00,000	1	5,00,000
1 to 5	Savings	1,98,250	3.473	6,88,522
	<b>Net present value</b>			<b>1,88,522</b>

**CASE SCENARIO 5**

Small bus Company is into manufacturing mini buses. Since its establishment it has seen a phenomenal growth in both its market share and profitability. The financial statements (Statement of P&L and Balance Sheet) are shown below. The company enjoys the confidence of its shareholders who have been rewarded with growing dividends year after year. Last year too, the company had announced 20 per cent dividend, which was the highest in the automobile sector. The company has never defaulted on its loan payments and enjoys a favourable face with its lenders, which include financial institutions, commercial banks and other private debenture holders. The competition in the bus industry has increased in the past few years and the company foresees further intensification of competition with the entry of several foreign bus manufacturers; many of whom are market leaders in their respective countries. The mini bus segment especially, will witness entry of foreign majors in the near future, with latest technology being offered to the Indian customer. Small bus company's management realises the need for large scale investment in upgradation of technology and improvement of manufacturing facilities to beat competition.

While on one hand, the competition in the industry has been intensifying, on the other hand, there has been a slowdown in the Indian economy, which has not only reduced the demand for buses, but also led to adoption of price cutting strategies by various bus manufacturers.

The Company needs ₹ 3,12,50,000 for the investment in technology and improvement of manufacturing facilities. Company has three options for the funds:

- I. The Company may issue 31,25,000 equity shares at ₹ 10 per share.
- II. The Company may issue 15,62,500 equity shares at ₹ 10 per share and 1,56,250 debentures of ₹ 100 denomination bearing an 9% rate of interest.
- III. The Company may issue 15,62,500 equity shares at ₹ 10 per share and 1,56,250 preference shares at ₹ 100 per share bearing an 10% rate of dividend.

The company's earnings before interest and taxes after investment is ₹ 37,50,000. Income tax rate applicable to the company is 40%.

Based on the above facts, the management of the company asked you to answer the following questions (MCQs 1 to 5):



**MULTIPLE CHOICE QUESTIONS**

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1. What is the EPS under financial plan I?
  - (a) ₹ 0.50
  - (b) ₹ 0.62
  - (c) ₹ 0.72
  - (d) ₹ 0.44
2. What is the EPS under financial plan II?
  - (a) ₹ 0.70
  - (b) ₹ 0.90
  - (c) ₹ 0.42
  - (d) ₹ 1.10
3. What is the EPS under financial plan III?
  - (a) ₹ 0.44
  - (b) ₹ 0.70
  - (c) ₹ 0.85
  - (d) ₹ 1.20
4. What is the EBIT-EPS indifference points by formulae between Financing Plan I and Plan II?
  - (a) ₹ 28,12,500.00
  - (b) ₹ 29,00,000.00
  - (c) ₹ 32,50,666.66
  - (d) ₹ 45,15,253.56
5. What is the EBIT-EPS indifference points by formulae between Financing Plan I and Plan III?
  - (a) ₹ 36,36,666.66
  - (b) ₹ 45,25,000.00

(c) ₹ 28,56,256.25

(d) ₹ 52,08,333.33

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (c) ₹ 0.72

Reason:

**Computation of EPS under financial plan I: Equity Financing**

	(₹)
EBIT	37,50,000.00
Interest	-
EBT	37,50,000.00
Less: Taxes 40%	(15,00,000.00)
PAT	22,50,000.00
No. of equity shares	31,25,000.00
EPS	0.72

2. Option (b) ₹ 0.90

Reason:

**Computation of EPS under financial plan II: Debt – Equity Mix**

	(₹)
EBIT	37,50,000.00
Less: Interest	(14,06,250.00)
EBT	23,43,750.00
Less: Taxes 40%	(9,37,500.00)
PAT	14,06,250.00
No. of equity shares	15,62,500.00
EPS	0.90

3. Option (a) ₹ 0.44

Reason:

**Computation of EPS under financial plan III: Preference Shares – Equity Mix**

	(₹)
EBIT	37,50,000.00

Less: Interest	-
EBT	37,50,000.00
Less: Taxes (40%)	(15,00,000.00)
PAT	22,50,000.00
Less: Pref. dividend	(15,62,500.00)
PAT for equity shareholders	6,87,500.00
No. of Equity shares	15,62,500.00
EPS	0.44

**4. Option (a) ₹ 28,12,500**

**Reason:**

**EBIT – EPS Indifference Point- Plan I and Plan II:**

$$\frac{(\text{EBIT}) \times (1 - T_c)}{N_1} = \frac{(\text{EBIT} - \text{Interest}) \times (1 - T_c)}{N_2}$$

$$\frac{\text{EBIT}(1 - 0.40)}{31,25,000} = \frac{(\text{EBIT} - 14,06,250) \times (1 - 0.40)}{15,62,500}$$

$$0.6\text{EBIT} = 1.2\text{EBIT} - 16,87,500 = ₹ 28,12,500$$

**5. Option (d) ₹ 52,08,333.33**

**Reason:**

**EBIT – EPS Indifference Point: Plan I and Plan III**

$$\frac{\text{EBIT}(1 - T_c)}{N_1} = \frac{\text{EBIT}(1 - T_c) - \text{Pref. Div.}}{N_2}$$

$$\frac{\text{EBIT}(1 - 0.4)}{31,25,000} = \frac{\text{EBIT}(1 - 0.4) - 15,62,500}{15,62,500}$$

$$0.6\text{EBIT} = 1.2\text{EBIT} - 31,25,000$$

$$\text{EBIT} = ₹ 52,08,333.33$$

**CASE SCENARIO 6**

MNP Ltd. is a multinational company having its operations spread mostly in India and neighbouring countries of India. The promoters of the company believed that capital structure of a company must be kept flexible and balanced, where proper mix should always be maintained between debt and equity. Such mix of debt and equity should be reviewed from time to time keeping in mind the changing situation of India and the global scenario.

The capital structure of MNP Ltd. is as under:

9% Debentures ₹ 2,75,000

11% Preference shares ₹ 2,25,000

Equity shares (face value: ₹ 10 per share) ₹ 5,00,000

Total capital of the company ₹ 10,00,000

The following are some of the additional information provided by MNP Ltd. relating to the above mentioned capital structure.

- (i) ₹ 100 per debenture redeemable at par has 2% floatation cost and 10 years of maturity. The market price per debenture is ₹ 105.
- (ii) ₹ 100 per preference share redeemable at par has 3% floatation cost and 10 years of maturity. The market price per preference share is ₹ 106.
- (iii) Equity share has ₹ 4 floatation cost and market price per share of ₹ 24. The next year expected dividend is ₹ 2 per share with an annual growth of 5%. The firm has a practice of paying all earnings in the form of dividends.
- (iv) Corporate Income-tax rate is 35%.

Since the company is a multinational company market value weights are preferred over book value weights when calculating the Weighted Average Cost of Capital (WACC) for several reasons. The company believes that market values reflect the current market perception of a company's financial health and future prospects. This is more relevant for calculating the cost of capital today, as investors base their decisions on current market conditions. Book values, based

on historical accounting principles, may not accurately represent the true economic value of the company's capital components. Market values capture the actual cost that a company would incur if it were to raise new capital in the current market. Book values might not reflect the true cost of debt due to factors like changes in interest rates or creditworthiness. Similarly, book value of equity might not reflect the current investor expectations for future dividends and growth. Market values are readily available through stock prices and market interest rates. Obtaining accurate book values, especially for intangible assets, can be a complex and time-consuming process.

On the basis of this information provided above you are required to answer the following MCQs (1 to 5):

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**MULTIPLE CHOICE QUESTIONS**

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1. Calculate the cost of equity and choose the correct answer from the following?
  - (a) 14%
  - (b) 15%
  - (c) 16%
  - (d) 17%
2. Calculate the cost of debt and choose the correct answer from the following?
  - (a) 6.11%
  - (b) 5.48%
  - (c) 9%
  - (d) 10.55%
3. Calculate the cost of preference shares and choose the correct answer from the following?
  - (a) 10.57%
  - (b) 5.11%

- (c) 9%
  - (d) 10%
4. Calculate the WACC using market value weights and choose the correct answer from the following?
- (a) 12.80%
  - (b) 5.11%
  - (c) 9%
  - (d) 10.55%
5. What will be the current market price of MNP Ltd.'s equity shares if  $K_e = 10\%$ , expected dividend is ₹ 2 per share and annual growth rate is 5% from the following options:
- (a) 40 per share
  - (b) 20 per share
  - (c) 30 per share
  - (d) 45 per share

### ANSWERS TO MULTIPLE CHOICE QUESTIONS ---

1. **Option (b)** 15%

**Reason:**

$$K_e = \frac{D_1}{P_0} + g$$

$$= \frac{2}{20} + 0.05 = 15\%$$

2. **Option (b)** 5.48%

**Reason:**

$$K_d = \frac{I(1-t) + \frac{(RV-NP)}{n}}{\frac{(RV+NP)}{2}} = \frac{9(1-0.35) + \frac{(100-102.90)}{10}}{\frac{(100+102.90)}{2}} = 5.48\%$$

## 3. Option (a) 10.57%

Reason:

$$K_p = \frac{PD + \frac{(RV - NP)}{n}}{\frac{(RV + NP)}{2}}$$

$$K_p = \frac{11 + \left(\frac{100 - 102.82}{10}\right)}{\left(\frac{100 + 102.82}{2}\right)} = 10.57\%$$

## 4. Option (a) 12.80%

Reason:

Calculation of WACC using market value weights

Source of capital	Market Value	Weights	After tax cost of capital	WACC (K <sub>o</sub> )
	(₹)	(a)	(b)	(c) = (a) × (b)
Debentures (₹ 105 per debenture)	2,88,750	0.1672	0.0548	0.0092
Preference shares (₹ 106 per preference share)	2,38,500	0.1381	0.1057	0.0146
Equity shares (₹ 24)	12,00,000	0.6947	0.1500	0.1042
	17,27,250	1.00		0.1280

WACC (K<sub>o</sub>) = 12.80%

## 5. Option (a) 40 per share

Reason:

$$\text{Current Market Price} = \frac{D_1}{K_e - g}$$

$$= \frac{2}{0.10 - 0.05} = ₹ 40 \text{ per share}$$

**CASE SCENARIO 7**

ArMore LLP is a newly established startup dealing in manufacture of a revolutionary product HDHMR which is a substitute to conventional wood and plywood. It is an economical substitute for manufacture of furniture and home furnishing. It has been asked by a venture capitalist for an estimated amount of funds required for setting up plant and also the amount of circulating capital required. A consultant hired by the entity has advised that the cost of setting up the plant would be ₹ 5 Crores and it will require 1 year to make the plant operational. The anticipated revenue and associated cost numbers are as follows:

Units to be sold = 3 lakh sq metres p.a.

Sale Price of each sq mtr = ₹ 1000

Raw Material cost = ₹ 200 per sq mtr

Labour cost = ₹ 50 per hour

Labour hours per sq mtr = 3 hours

Cash Manufacturing Overheads = ₹ 75 per machine hour

Machine hours per sq mtr = 2 hours

Selling and credit administration Overheads = ₹ 250 per sq mtr

Being a new product in the industry, the firm will have to give a longer credit period of 3 months to its customers. It will maintain a stock of raw material equal to 15% of annual consumption. Based on negotiation with the creditors, the payment period has been agreed to be 1 month from the date of purchase. The entity will hold finished goods equal to 2 months of units to be sold. All other expenses are to be paid one month in arrears. Cash and Bank balance to the tune of ₹ 25,00,000 is required to be maintained.

The entity is also considering reducing the working capital requirement by either of the two options: a) reducing the credit period to customers by a month which will lead to reduction in sales by 5%. b) Engaging with a factor for managing the receivables, who will charge a commission of 2% of invoice value and will also advance 65% of receivables @ 12% p.a. This will lead to savings in



administration and bad debts cost to the extent of ₹ 20 lakhs and 16 lakhs respectively.

The entity is also considering funding a part of working capital by bank loan. For this purpose, bank has stipulated that it will grant 75% of net current assets as advance against working capital. The bank has quoted 16.5% rate of interest with a condition of opening a current account with it, which will require 10% of loan amount to be minimum average balance.

You being an finance manager, has been asked the following questions:

1. The anticipated profit before tax per annum after the plant is operational is .....
  - (a) ₹ 750 Lakhs
  - (b) ₹ 570 Lakhs
  - (c) ₹ 370 Lakhs
  - (d) ₹ 525 Lakhs
2. The estimated current assets requirement in the first year of operation (debtors calculated at cost) is .....
  - (a) ₹ 9,42,50,000
  - (b) ₹ 2,17,08,333
  - (c) ₹ 7,25,41,667
  - (d) ₹ 67,08,333
3. The net working capital requirement for the first year of operation is .....
  - (a) ₹ 9,42,50,000
  - (b) ₹ 2,17,08,333
  - (c) ₹ 7,25,41,667
  - (d) ₹ 67,08,333
4. The annualised % cost of two options for reducing the working capital is .....
  - (a) 18.18% and 16.92%
  - (b) 18.33% and 16.92%

- (c) 18.59% and 18.33%
- (d) 16.92% and 19.05%
5. What will be the Maximum Permissible Bank Finance by the bank and annualised % cost of the same?
- (a) ₹ 4,55,03,630 and 18.33%
- (b) ₹ 5,44,06,250 and 18.33%
- (c) ₹ 4,45,86,025 and 18.59%
- (d) ₹ 3,45,89,020 and 19.85%

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a)** 750 Lakhs

**Reason:**

	Units	Per unit (₹)	Amount (₹)
Raw Material consumption	3,50,000	200	7,00,00,000
labour cost	3,50,000	150	5,25,00,000
Production Overheads	3,50,000	150	5,25,00,000
Cost of Production	<b>3,50,000</b>	<b>500</b>	<b>17,50,00,000</b>
Less: Stock of FG	50,000	500	2,50,00,000
COGS	<b>3,00,000</b>	<b>500</b>	<b>15,00,00,000</b>
Selling and admin exp	3,00,000	250	7,50,00,000
Cost of Sales	<b>3,00,000</b>	<b>750</b>	<b>22,50,00,000</b>
Sales	3,00,000	1000	30,00,00,000
Profit	<b>3,00,000</b>	<b>250</b>	<b>7,50,00,000</b>

Stock of FG (sq. mtr.) =  $30,00,000 \times 2/12$  = 50,000

Units sold = 3,00,000

Raw material consumed (sq. mtr.) = 3,50,000

$$\begin{aligned}\text{Raw Material Purchases} &= \text{Consumption} + \text{RM stock (15\%)} \\ &= 7,00,00,000 + 1,05,00,000 = ₹ 8,05,00,000\end{aligned}$$

**2. Option (a) 9,42,50,000**

**Reason:**

Stock of Raw Material (15% of 7,00,00,000)	= 1,05,00,000
Stock of finished goods	= 2,50,00,000
Debtors (22,50,00,000 x 3/12)	= 5,62,50,000
Cash	= 25,00,000
Total Current Assets	= 9,42,50,000

**3. Option (c) 7,25,41,667**

**Reason:**

**Working Capital Statement**

	Amount (₹)
Stock of Raw Material (15% of 7,00,00,000)	1,05,00,000
Stock of finished goods	2,50,00,000
Debtors (22,50,00,000 x 3/12)	5,62,50,000
Cash	25,00,000
<b>Total Current Assets</b>	<b>9,42,50,000</b>
Creditors (8,05,00,000 x 1/12)	67,08,333
O/s Exp (18,00,00,000 x 1/12)	1,50,00,000
<b>Total Current Liabilities</b>	<b>2,17,08,333</b>
<b>Net Working Capital</b>	<b>7,25,41,667</b>

**4. Option (a) 18.18% and 16.92%**

**Reason:**

**Cost reducing debtors credit period**

Debtors credit period	= 2 months
Debtors balance	= 21,37,50,000 (2,85,000 units) x 2/12
	= ₹3,56,25,000

Debtors credit period = 3 months  
Debtors balance = 22,50,00,000 x 3/12 = ₹ 5,62,50,000  
Amount released from debtors = ₹ 2,06,25,000  
reduction in profit (15,000 units x ₹ 250) = ₹ 37,50,000  
% p.a. cost (37,50,000/2,06,25,000) = 18.18%

**Costs of factoring**

Commission (2% of 30 crores) = 60,00,000  
Interest = ₹ 58,50,000  
(30cr x 65% x 12% x 3/12)  
savings = ₹ 36,00,000  
Net cost of factoring  $\frac{82,50,000}{65\% \text{ of } 30\text{cr. i.e. } 19,50,00,000} \times \frac{12}{3} = ₹ 82,50,000$   
% p.a. cost = 16.92%

**5. Option (b) 5,44,06,250 and 18.33%****Reason:**

Maximum Permissible Bank Finance = 75% of 7,25,41,667  
= ₹ 5,44,06,250  
Annualised cost of bank loan = 16.5/90% = 18.33%

## CASE SCENARIO 8

Mr. Ronak, a doctor by profession, has his own private hospital at Goa having specialization in cardiac treatments. However, now-a-days, Goa not only being a place for the tourists, but is also a place for business delegates, cultural people, politicians, students and other classes of people. Gradually, Goa is opening new windows for businesses and getting recognition as an important tourist and leisure hub in South West India.

There are a number of hotels and resorts at Goa. However, the need still exists for more hotel services, in particular with the excellent service, and because of the large number of visitors from all over the country and all walks of life always favour Goa state for their recreation.

Mr. Ronak although being a doctor by profession is contemplating to establish a five-star hotel at Goa. The hotel will consist of 5 floors. The hotel will include 40 normal rooms and 8 deluxe suites, as well as a restaurant and couple of conference rooms with a small wedding hall on the ground floor. Following are the estimated occupancy rate including fare composition in the Table 1. Being a five-star hotel, breakfast would be complementary but lunch and dinner are on a-la-carte basis.

Table 1: Hotel accommodation, estimated occupancy rate and fare.

Types of Facility	Numbers	Occupancy Rate	Average Rent Per Room Per Day	Growth Rate in Rent
Normal Room	40	33% or 120 Days	₹ 8000	12%
Deluxe Suites	8	33% or 120 Days	₹ 25,000	9%
Conference with Wedding Hall	2	40 days	₹ 3,00,000	9%
Restaurant	1	All days	₹ 27,000 sales per day	8%

For the sake of simplicity in calculation, growth rate to be applied only once after completion of 10 years.

The estimated cost of land will be ₹ 250 million and the construction cost will be ₹ 100 million. The estimated salvage value at the end of 15<sup>th</sup> year will be 25% of the cost of construction. The cost of furniture will be of ₹ 1,50,000 for each normal room and ₹ 3,80,000 for each deluxe suite. The cost of the furniture for the conference room with wedding hall will be ₹ 7,00,000 each and for restaurant it will be 10,00,000. In addition, the hotel will require 4 elevators at different locations and will be costing around ₹ 35,00,000 each. The cost of buying and installing electronic appliances like TV sets, Air conditioners, Fridge etc. will be around ₹ 35 million. Elevators would be depreciated at a rate of 5% p.a. Electronic appliances will have a salvage value of 15% of its acquisition cost at the end of 15 years.

The hotel will be built by renowned builder named '**Harihar Infrastructure**'. The builder estimated that building will survive for 15 years. The required furniture will be supplied by the local reputed furniture company named **Veru Furnishings Ltd.** They ensured that furniture will go for 10 years very smoothly. At the end of tenth year, new furniture for normal rooms and deluxe suites will be bought and old furniture for the same will be sold by the hotel owner. The owner of the hotel estimates that he would be able to purchase the required furniture at 15% higher price than the previous purchase price. The salvage values of the furniture at the end of tenth year will be 5% of their purchase prices with no book value remaining. Furniture at restaurant, conference and wedding hall will not require any major changes as such except for minor renovation which will cost ₹ 20,00,000 in total at the end of 12<sup>th</sup> year. Any scrap generated on account of such renovation will be sold at ₹ 1,75,000.

In order to boost the tourism industry at Goa, the state govt will be granting subsidy of 15% on the initial capex incurred, it will be paid at the time of cost incurred and additional subsidy of 10% on annual revenue expenses for the first 3 years of operation, but will be credited directly in the bank account only at the end of 5<sup>th</sup> year and the same shall be non-taxable.

The total annual recurring expenses will be ₹ 1,80,00,000/-. It includes salaries to managers, staff and employees, utilities expenses, house keeping and security services' contract, AMC for electronic appliances, restaurant supplies and materials, other miscellaneous expenses, etc.

After the end of 10 years, annual recurring expenses will increase at a rate of 10% which is to be applied once. Furthermore, the hotel authority is determined to provide the best and professional hotel services to the clients by offering training to the employees. They decided to spend ₹ 5,00,000 per year for the purpose of training of the employees.

The hotel project will be entitled to enjoy tax holiday for the first five years after which the corporate tax rate of 25% will also be applied for the hotel. The Cost of equity for the company is 12% and the estimated hurdle rate by considering the structure of capital of the proposed hotel is fixed at 15%.

(Depreciation to be taken on SLM basis and assume 360 days in a year. Ignore depreciation on furniture used in restaurant, conference and wedding hall)

Based on above, please answer to the following MCQs.

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**MULTIPLE CHOICE QUESTIONS**

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1. The amount of net initial investment required is:
  - (a) ₹ 41.044 Crores
  - (b) ₹ 34.887 Crores
  - (c) ₹ 6.156 Crores
  - (d) ₹ 40.74 Crores
2. NPV of the project is:
  - (a) ₹ 7.0532 Cr
  - (b) ₹ 8.4029 Cr
  - (c) ₹ 8.4935 Cr
  - (d) ₹ 2.4700 Cr
3. Pay Back period of the project to recover the initial investment is:
  - (a) 5.12 years
  - (b) 12.02 years

- (c) 11.80 years
  - (d) 4.46 years
4. Estimated Recurring accounting profit/(loss) for first three years are:
- (a) ₹ 7.0928 Cr p.a
  - (b) ₹ 6.9078 Cr p.a
  - (c) ₹ 6.9937 Cr p.a
  - (d) ₹ 9.6120 Cr p.a
5. IRR of the project is:
- (a) 16.25%
  - (b) 19.39%
  - (c) 15%
  - (d) 12%

### ANSWERS TO MULTIPLE CHOICE QUESTIONS ---

1. **Option (b)** ₹ 34.887 Crores

**Reason:**

Amount Initial Investment required:

**(A) Cost of Land & Construction Cost** = 250 + 100 = 350 million  
i.e. 35,00,00,000

**(B) Furniture Cost**

Normal Rooms = 40 x 1,50,000 = 60,00,000

Suite rooms = 8 x 3,80,000 = 30,40,000

Conference and wedding halls = 2 x 7,00,000  
= 14,00,000

Restaurant = 10,00,000

**(C) Elevators** = 4 x 35,00,000 = 1,40,00,000

**(D) Electronic Appliances** = 3,50,00,000



**Gross Investment Required** = ₹ 41,04,40,000

**Less:** 15% Govt Subsidy on Capex = ₹ (6,15,66,000)

Net Initial Investment to be incurred by Hotel = ₹ 34,88,74,000

**2. Option (a) ₹ 7.0532 Cr**

**Reason:**

PV of Cash Inflow = ₹ 42.2317 Cr

**As per WN - 2**

(-) PV of Cash Outflow = ₹ 35.1785 Cr

**As per WN - 1**

NPV = 7.0532 CR

**Note:** Discounting Rate would be the hurdle rate and not cost of equity as hurdle rate means the overall cost of capital

**WN 1 - Calculation of PV of Cash Outflows**

		(₹)	DF @ 15%	PV (₹)
<b>Year 1</b>	Initial Net Investment	4,88,74,000	1.0000	34,88,74,000
<b>At the end of 10th Year</b>				
<b>Year 10</b>	Purchase of new furniture (At 15% higher price)			
	Normal Rooms	69,00,000	0.2472	17,05,680
	Suite Rooms	34,96,000	0.2472	8,64,211
<b>At the end of 12th Year</b>				
<b>Year 12</b>	Renovation at restaurant, conference and wedding halls (Net)	18,25,000	0.1869	3,41,093
				<b>35,17,84,983</b>

**WN – 2: Calculation of PV of Cash Inflows**

	Year 1 to 5 (₹)	Year 6 to 10 (₹)	Year 11 to 15 (₹)
<b>Sales</b>			<b>(Apply growth rate here)</b>
Normal Rooms	3,84,00,000	3,84,00,000	4,30,08,000

Suites	2,40,00,000	2,40,00,000	2,61,60,000
Conf & Hall	2,40,00,000	2,40,00,000	2,61,60,000
Restaurant	97,20,000	97,20,000	1,04,97,600
<b>Total Sales (A)</b>	<b>9,61,20,000</b>	<b>9,61,20,000</b>	<b>10,58,25,600</b>
<b>Less:</b>			
Annual Recurring Exp (Excl Depreciation)	1,80,00,000	1,80,00,000	1,98,00,000
Training Exp	5,00,000	5,00,000	5,00,000
<b>Depreciation</b>			
Building	50,00,000	50,00,000	50,00,000
Elevators	7,00,000	7,00,000	7,00,000
Electronic App	19,83,333	19,83,333	19,83,333
Furniture (Old)	8,58,800	8,58,800	
Furniture (New)			10,39,600
<b>TOTAL EXP (B)</b>	<b>2,70,42,133</b>	<b>2,70,42,133</b>	<b>2,90,22,933</b>
NPBT (A - B)	6,90,77,867	6,90,77,867	7,68,02,667
(-) Tax	Nil (Tax Holiday)	1,72,69,466	1,92,00,666
NPAT	6,90,77,867	5,18,08,400	5,76,02,000
(+) Depreciation	85,42,133	85,42,133	87,22,933
(+) Cash Inflows from Operation	7,76,20,000	6,03,50,533	6,63,24,933
PVAF@ 15%	3.3522	1.6666	0.8285
PV of Cash Inflows from Operations	26,01,97,764	10,05,80,199	5,49,50,207

#### (+) PV of Other Cash Inflows

In year 5 - Govt Subsidy on first 3 years of =  $55,50,000 \times 0.4972 = ₹ 27,59,460$

#### Annual Revenue Exp

In year 10 - Salvage Value of Old Furniture =  $4,52,000 \times 0.2472 = ₹ 1,11,734$

In year 15 - Salvage of building and electronic appliance  
 $= 3,02,50,000 \times 0.1229 = ₹ 37,17,725$

Therefore, Total PV of Cash Inflows = ₹ 42,23,17,089

### 3. Option (d) 4.46 years

**Reason:**

Total Net Initial Investment Incurred = ₹ 34,88,74,000

**Cumulative of Total Cash Inflows (not discounted cash inflows)**

Year	Total Cash Inflows (₹)	Cumulative of Cash Inflows (₹)
1.	7,76,20,000	7,76,20,000
2.	7,76,20,000	15,52,40,000
3.	7,76,20,000	23,28,60,000
4.	7,76,20,000	31,04,80,000
5.	8,31,70,000 (Govt Subsidy of 55,50,000 added here)	39,36,50,000
6.	6,03,50,533	45,40,00,533

From the above table, it can be seen that the initial net investment incurred is getting recovered after 4<sup>th</sup> year but before the end of 5<sup>th</sup> year i.e. somewhere between 4<sup>th</sup> & 5<sup>th</sup> Year.

$$\text{Payback period} = 4 + \frac{3,83,94,000}{8,31,70,000}$$

$$= 4 + 0.46 = 4.46 \text{ years}$$

### 4. Option (a) ₹ 7.0928 Cr p.a.

**Reason:**

$$\begin{aligned} \text{Accounting profit} &= \text{NPAT} + \text{Govt Subsidy on Revenue Expense} \\ &= 6,90,77,867 + (1,85,00,000 \times 10\%) \\ &= 6,90,77,867 + 18,50,000 \\ &= 7,09,27,867 \text{ per annum} \end{aligned}$$

### 5. Option (b) 19.39%

**Reason:**

$$\text{DF @ 15\%} \qquad \text{NPV} = ₹ 7.0532 \text{ Cr}$$

$$\begin{aligned}\text{DF @ 20\%} \quad \quad \quad \text{NPV} &= 34,10,68,926.17 - 35,07,57,719.00 \\ &= (\text{₹ } 0.9688 \text{ Cr})\end{aligned}$$

$$\text{IRR} = \text{Lower Rate \%} + \frac{\left\{ \text{NPV @ Lower rate \%} \times (\text{Higher Rate \%} - \text{Lower Rate \%}) \right\}}{\text{NPV @ Lower rate \%} - \text{NPV @ Higher Rate \%}}$$

$$\begin{aligned}\text{IRR} &= 15 + (7.0532 * 5 / 8.0220) \\ &= 15 + 4.396 \\ &= 19.396\%\end{aligned}$$

**CASE SCENARIO 9**

Samvar Ltd, a leading **FMCG** company having its current presence in more than 150 Tier I and Tier II cities in India. The stores are operating in the brand name of **GoMART** competing with Reliance fresh, Walmart, BigBazaar and other chains. Owing to the increase in demand from Tier III cities and rural areas, it is planning for massive expansion and is contemplating to open up additional 50 stores which will have variety of FMCG products.

The CFO and his team estimate that the funds needed for massive expansion would be ₹ 200 lakhs per store. Such funds would be utilized for buying out a space and setting up a store, buying the other required fixed assets, etc. Central government will provide a revenue subsidy of 15% on Gross profit if the overall cost of capital doesn't exceed 10%.

Apart from above, CFO and his team require an estimate on the additional capital needed based for the smooth running of fixed assets and its daily operations. Based on their market research, they have collected the other information for each store which is as follows-

Average Sales would be ₹ 120 lakhs p.a. with a GP margin of 18%. Customers pay through different digital modes and channels including POS systems (Debit and credit cards) which generally takes approx. 9 days for the funds to get credited in the bank account. 15% of the customers use debit and credit cards to make the payment. Installing a POS system comes with a fee of 2% of total sales through POS.

Being a FMCG outlet, inventories of multiple products need to be kept. Different products have different storage period. However primarily, products are classified into three broad categories, Durable, Semi Durable & Perishable. Perishable products comprise 60% of sales, whereas semi-durable is 25% and balance is for durable products. Inventory storage period for perishable, semi-durable & durable products are 10 days, 30 days & 60 days respectively. Suppliers of these products provide a credit period of average 30 days.

Each store will employ around 20 personnel of a different hierarchy and monthly average salaries to staff for each store is estimated at ₹ 4 lakhs per month. Company will pay employees' dues on the 1<sup>st</sup> of next month.

Samvar Ltd plans to keep optimum cash balance in hand as suggested by Baumol's model. Excess cash balance if any, will be invested in the marketable securities which will generate a return of 12% p.a. The total disbursement for the year is estimated at ₹ 1.50 lakhs per month with the transaction cost of ₹ 20 per transfer to the disbursement account.

The optimum capital structure with debt equity of 2:1 has been proven ideal for raising the finance and company wishes to follow the same pattern for the additional funds required for each store. Trade credit can also be utilized for financing the expansion needs.

The cost of raising debt and equity for each store is as per the slabs as under:

Project Cost *	Cost of Debt	Minimum rate expected by equity share holders
Upto 80 lakhs	10%	12.5%
Above 80 lakhs but upto 150 Lakhs	11.5%	13.5%
Above 150 lakhs & Upto 250 lakhs	12%	14%
Above 250 lakhs	13.5%	15%

\*It means that upto 80 lakhs of project cost company can raise debt at 10% and equity at 12.5% and so on.

Tax rate applicable to the corporate is 25%

Based on the above details, calculate the following for each store:

### MULTIPLE CHOICE QUESTIONS

- The optimum Cash balance is
  - ₹ 7,071
  - ₹ 26,500
  - ₹ 7,150
  - ₹ 24,495
- The Gross and Net Working Capital for the next year would be
  - ₹ 6.7730 L, (5.9396 L)

- (b) ₹ 6.7730 L, 12.7125 L
  - (c) ₹ 200 L, (5.9396L)
  - (d) ₹ (5.9396 L), 6.7730 L
3. The amount of total funds needed to setup a store is
- (a) ₹ 194.0605 L
  - (b) ₹ 200 L
  - (c) ₹ 6.7730 L
  - (d) ₹ 206.7730 L
4. The overall cost of capital for raising additional funds for setting up of each store is
- (a) 10.01%
  - (b) 10.65%
  - (c) 9.90%
  - (d) 8.91%
5. The amount of revenue subsidy granted by the central govt is
- (a) ₹ 3 L
  - (b) ₹ 3.24 L
  - (c) Nil
  - (d) ₹ 2.25 L

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (d)** ₹ 24,495

**Reason:**

As per William J Baumol,

$$\text{optimum cash balance} = \sqrt{\frac{2AT}{O}}$$

A = Annual Cash disbursement

T = Cost per transfer

O = Opportunity cost

$$= \sqrt{\frac{2 \times 18,00,000 \times 20}{0.12}} = ₹ 24,495/-$$

2. **Option (a)** ₹6.7730 L, (5.9396 L)

**Reason:**

Gross working capital is sum of total current assets and net working capital is Gross working capital less current liabilities.

**Estimation of Working Capital Statement**

	Amount (₹)	Amount (₹)
<b>A) CURRENT ASSETS / GROSS W.C</b>		
1. FG Inventory <b>WN - 1</b>	6,15,000	
2. Trade receivables <b>WN - 2</b>	37,800	
3. Cash/ bank balance <b>(Calculated in Solution 1)</b>	24,495	<b>6,77,295</b>
<b>B) CURRENT LIABILITIES</b>		
1. Trade payables <b>WN - 3</b>	8,71,250	
2. Outstanding salaries <b>WN - 4</b>	4,00,000	<b>12,71,250</b>
<b>NET WORKING CAPITAL (A) - (B)</b>		<b>(5,93,955)</b>

**WN – 1 Calculation of FG Inventory**

$$\text{FG Inventory} = \text{COGS} \times \frac{\text{FG STORAGE PERIOD (DAYS)}}{360}$$

$$\text{COGS} = 120 \text{ Lakhs} \times 82\% = 98.40 \text{ Lakhs}$$

$$\text{Perishable} = 98.40 \times 60\% \times 10 / 360 = 1.64 \text{ Lakhs}$$

$$\text{Semi Durable} = 98.40 \times 25\% \times 30 / 360 = 2.05 \text{ Lakhs}$$

$$\text{Durable} = 98.40 \times 15\% \times 60 / 360 = 2.46 \text{ Lakhs}$$

$$\text{Total} = ₹ 6.15 \text{ lakhs}$$



**WN – 2 Calculation of Trade Receivables**

Since, company is into FMCG industry, sales are always on cash basis as no credit is given to any of the customer. However, as mentioned in the case study, company will get the credit in the bank account only after 9 days for those customers that pay through POS (debit and credit cards). It means companies funds' get blocked for 9 days.

Company's trade receivable would only comprise of 15% of total sales as rest are through cash basis

Trade Receivables = Cost of Sales x Days Blocked / 360

$$= 15.12 \text{ L} \times 9 / 360$$

$$= 0.378 \text{ Lakhs}$$

Cost of Sales = COGS + POS Transaction fees

$$= (98.40 \text{ L} \times 0.15) + (120 \text{ L} \times 0.15 \times 2\%)$$

$$= 15.12 \text{ Lakhs}$$

**WN – 3 Calculation of Trade Payables**

Trade Payables = Purchases x Average Credit period in days/ 360

$$= 104.55 \times 30 / 360$$

$$= 8.7125 \text{ Lakhs}$$

Purchases = COGS (+) Closing Stock (-) Opening Stock

Since, company is planning to open up new store, its opening stock would be NIL but there would be definitely a closing FG stock which is calculated in WN -1

Therefore, Purchases =  $98.40 \text{ L} + 6.15 \text{ L} - 0 = 104.55 \text{ Lakhs}$

**WN – 4 Calculation of Outstanding salaries**

Salaries are paid on 1<sup>st</sup> of next month, thereby meaning it has been outstanding for a period of 30 days assuming salaries accruing evenly throughout.

$$\text{Outstanding salaries} = 48,00,000 \times 30 / 360 = 4,00,000$$

### 3. Option (a) ₹ 194.0605 L

#### Reason:

Total Capital needed = Total capital needs (Fixed assets) + Working Capital needs

$$= 200 \text{ L} + (5,93,955)$$

$$= ₹ 194.0605 \text{ L}$$

### 4. Option (c) 9.90%

#### Reason:

Samvar Ltd would require financing of ₹ 194.0605 lakhs from debt and equity and not ₹ 200 lakhs as trade credit is also considered to be a source of finance as mentioned in the case study.

Furthermore, the overall cost of raising this additional fund for each store of ₹ 194.0605 needs to be calculated slab wise

Project Cost	Weights (W)	Cost (K)	W X K	Total cost (₹)
Upto 80 Lakhs	Debt = 0.67 Equity = 0.33	Kd = 10 (1 - 0.25) = 7.5 Ke = 12.5	Ko = 9.167%	= 80L x 9.167% <b>= 7.334 Lakhs</b>
Above 80 L upto 150 L	Debt = 0.67 Equity = 0.33	Kd = 11.5 (1-0.25) = 8.625 Ke = 13.5	Ko = 10.25%	= 70L x 10.25% <b>= 7.175 Lakhs</b>
Above 150 L upto 250 L	Debt = 0.67 Equity = 0.33	K = 12 (1-0.25) = 9 Ke = 14	Ko = 10.667%	= 44.0605L x 10.667% <b>= 4.7Lakhs</b>

$$\text{Total Funds} = 194.0605 \text{ L}$$

$$\text{Total Cost (₹)} = 7.334 \text{ L} + 7.175 \text{ L} + 4.700 \text{ L} = 19.209 \text{ L}$$

$$\text{Ko} = \text{Total Cost (₹)} / \text{Total Funds}$$

$$= 19.209 / 194.0605$$

$$= 9.90\%$$

**5. Option (b) ₹ 3.24 L****Reason:**

Since the Overall Cost of Capital is below 10%, Samvar Ltd is eligible for revenue subsidy

$$\begin{aligned}\text{Revenue Subsidy} &= \text{GP} \times 15\% \\ &= 21.6 \text{ L} \times 15\% \\ &= ₹ 3.24 \text{ Lakhs}\end{aligned}$$

**CASE SCENARIO 10**

Twigato Ltd is an all equity financed company in the food delivery business and is considering an expansion into quick grocery delivery business segment. It is the market leader in the current food delivery business with a valuation of ₹ 5750 crores. From the discussion in the recent fund-raising meeting with the venture capitalists, it has been noted that the quick delivery business is expected to be run for 6 years, after which it will be sold to another entity for a target valuation of 2 times of the investment made in the business segment. The new segment will be funded by debt, preference and equity shares in the ratio of 3:2:5. The quick grocery delivery would require ₹ 30 crores of investment to start with and subsequently it will require additional infusion of ₹ 20 crores in start of year 2 and ₹ 25 crores of fund infusion in start of year 4. The operating financials of the business is expected to be on following lines for the 1<sup>st</sup> year of operation.

No of quick orders = 10,000 per day

No of overnight orders = 2,000 per day

Ticket sizes quick orders: 5,000 orders below ₹ 500, 3,000 orders between ₹ 500 and ₹ 1,000 and 2,000 orders above ₹ 1000 with average ticket size being ₹ 700 per order.

Delivery charges are applicable for orders below ₹ 500, which is flat ₹ 40 per order.

The company would charge 5% of invoice value from the seller of the quick delivery products and 7% in case of overnight delivery.

Overnight deliveries would be available to only subscription-based customers and subscription charges are ₹ 5,000 p.a. Each overnight order is expected to be having an average ticket size of ₹ 750 per order. Each subscription-based customer is expected to place order every alternate day on an average.

The quantity of orders is expected to be growing at a rate of 20%, 15%, 10%, 5% for 1<sup>st</sup> 4 years of operations. Beyond this it is expected to be remaining constant. The proportion of orders is expected to remain unchanged.

To attract the prospective customers, it is likely to spend heavily on advertising in initial years. The advertising and promotional activities would cost ₹ ₹ 7 crores, ₹ 8 crores and ₹ 10 crores in year 1,2 and 3 respectively.

Remuneration to delivery partners will be ₹ 15,000 p.m. fixed plus ₹ 20 per delivery. Each delivery partner can deliver an average of 30 orders per day. An additional provision of 50% of extra delivery partners to be made to consider the unexpected spike in orders on special occasions and holidays. The IT infrastructure and customer care expenses would amount to ₹ 8 crores each year.

Income Tax allows 20% p.a. depreciation on straight line basis for any fresh investments. Applicable tax rate can be taken as 25%. The after-tax cost of debt, preference share, and equity share would amount to 10%, 11% and 15% respectively.

Assume 365 days in a year.

### **MULTIPLE CHOICE QUESTIONS**

1. Which of the following is the best estimate of discounting rate for the project?
  - (a) 12.00%
  - (b) 11.55%
  - (c) 12.70%
  - (d) 13.75%
2. Which of the following is the best measure of delivery partners required in year 1?
  - (a) 600
  - (b) 720
  - (c) 828
  - (d) 911
3. Which of the following is the best measure of total revenue in year 3?
  - (a) 30 crores

- (b) 25.78 crores
  - (c) 33.66 crores
  - (d) 25.91crores
4. Which of the following years best represents the years of loss?
- (a) Year 1 only
  - (b) Year 1 and 2 only
  - (c) Year 1,2 and 3 only
  - (d) Year 1,2,3 and 4 only
5. Which of the following in the best measure of NPV of the project?
- (a) 39.35 crores
  - (b) (25.63) crores
  - (c) 23.76 cores
  - (d) (35.67) crores

### ANSWERS TO MULTIPLE CHOICE QUESTIONS ---

1. **Option (c)** 12.70%

**Reason:**

**Calculation of cost of capital**

Capital	Weight	Cost	Product
Debt	0.3	10%	3.00%
Preference	0.2	11%	2.20%
Equity	0.5	15%	7.50%
	<b>Ko=</b>		<b>12.70%</b>

2. **Option (a)** 600
3. **Option (c)** 33.66 crores
4. **Option (d)** Year 1,2,3 and 4 only
5. **Option (a)** 39.35 crores

**Reason:**

Year		1	2	3	4	5	6
A) No. of quick deliveries p.d.		10,000	12,000	13,800	15,180	15,939	15,939
B) No. of overnight deliveries p.d.		2,000	2,400	2,760	3,036	3,188	3,188
C) No. of quick deliveries p.a.		36,50,000	43,80,000	50,37,000	55,40,700	58,17,735	58,17,735
D) No. of overnight deliveries p.a.		7,30,000	8,76,000	10,07,400	11,08,140	11,63,547	11,63,547
E) Chargeable quick deliveries		18,25,000	21,90,000	25,18,500	27,70,350	29,08,868	29,08,868
F) No. of delivery partners	1.5x (A+B)/30	600	720	828	911	956	956

**Calculation of CFAT**

Revenue (in crores)							
From quick deliveries (QD)	(E x 40)	7.30	8.76	10.07	11.08	11.64	11.64
From QD seller commission	(C x 700 x 5%)	12.775	15.330	17.630	19.392	20.362	20.362
From Overnight delivery subscription	(B/2 x 5000)	0.500	0.600	0.690	0.759	0.797	0.797
From OD seller commission	(C x 750 x 7%)	3.83	4.60	5.29	5.82	6.11	6.11
Total Revenue		<b>24.41</b>	<b>29.29</b>	<b>33.68</b>	<b>37.05</b>	<b>38.90</b>	<b>38.90</b>
<b>Cost (in crores)</b>							
Advertising		7	8	10	0	0	0
IT and customer care		8	8	8	8	8	8

Delivery partner salary	(F x 15000)	0.90	1.08	1.24	1.37	1.43	1.43
Delivery partner commission	(C+D) x 20	8.76	10.51	12.09	13.30	13.96	13.96
Depreciation	on investment in year 0	6	6	6	6	6	
	on investment in year 2		4	4	4	4	4
	on investment in year 4				5	5	5
<b>Total Cost</b>		<b>30.66</b>	<b>37.59</b>	<b>41.33</b>	<b>37.66</b>	<b>38.40</b>	<b>32.40</b>
<b>PBT</b>		(6.25)	(8.30)	(7.65)	(0.61)	0.51	6.51
Less: Tax		1.56	2.08	1.91	0.15	(0.13)	(1.63)
<b>PAT</b>		(4.69)	(6.23)	(5.74)	(0.46)	0.38	4.88
Add: Depreciation		6.00	10.00	10.00	15.00	15.00	9.00
<b>CFAT</b>		<b>1.31</b>	<b>3.77</b>	<b>4.26</b>	<b>14.54</b>	<b>15.38</b>	<b>13.88</b>

### Computation of NPV

Year	Particulars		Cash Flows (in crores)	PVF @ 12.7%	PV (in crores)
0	Investment		(30.00)	1.00	(30.00)
1	Investment		(20.00)	0.89	(17.75)
3	Investment		(25.00)	0.70	(17.46)
1	Operating CFAT		1.31	0.887	1.16
2	Operating CFAT		3.77	0.787	2.97
3	Operating CFAT		4.26	0.699	2.98
4	Operating CFAT		14.54	0.620	9.01
5	Operating CFAT		15.38	0.550	8.46
6	Operating CFAT		13.88	0.488	6.77
6	Sale Proceeds	(30+20+25) x 2	150	0.488	73.21
	<b>NPV</b>				<b>39.35</b>



**CASE SCENARIO 11**

KGF Chemicals Ltd., a prominent player in the chemical industry, faces the challenge of determining its growth trajectory and dividend policy to maximize shareholder value. With expectations of significant growth in the near term and stabilization in the long run, the company must strategically manage its resources to align with investor expectations.

KGF Chemicals Ltd. is a leading manufacturer and supplier of specialty chemicals catering to diverse industries such as pharmaceuticals, agriculture, and manufacturing. Established with a commitment to innovation and quality, the company has garnered a strong market presence over the years.

The company is projected to experience robust growth at a rate of 14% per annum for the next four years. Subsequently, the growth rate is expected to stabilize at the national economy's rate of 7% indefinitely. This forecast reflects both the company's expansion plans and the broader economic landscape.

KGF Chemicals Ltd. paid a dividend of ₹ 2 per share last year ( $D_0 = 2$ ). The management faces the crucial decision of balancing dividend payouts with reinvestment opportunities to sustain growth and meet shareholders' expectations. The dividend policy must strike a delicate balance between rewarding shareholders and retaining earnings for future investments.

The required rate of return on equity shares is 12%, indicating investors' expected return given the company's risk profile and market conditions. Management must carefully assess investment opportunities to ensure they meet or exceed this threshold, thereby generating value for shareholders over the long term.

In navigating the dynamic landscape of the chemical industry, KGF Chemicals Ltd. must adopt a proactive approach to managing growth and dividend policy. By aligning strategic decisions with investor expectations and market dynamics, the company can position itself for sustainable success while maximizing shareholder value. Continual evaluation and adaptation will be essential to capitalize on growth opportunities and maintain competitiveness in the evolving marketplace.

You are required to answer the following on the basis of above information:

**MULTIPLE CHOICE QUESTIONS**

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1. What is the expected dividend at the end of 4th Year?
  - (a) ₹ 2.1097
  - (b) ₹ 2.1483
  - (c) ₹ 2.9631
  - (d) ₹ 3.3779
2. What is the present value of Expected Dividends to be received in next four years?
  - (a) ₹ 11.2202
  - (b) ₹ 8.3655
  - (c) ₹ 9.8423
  - (d) ₹ 6.2176
3. Determine the Market Price of shares at the end of 4th Year?
  - (a) ₹ 72.28
  - (b) ₹ 67.55
  - (c) ₹ 50.67
  - (d) ₹ 77.34
4. Determine the Present Value of Market Price of shares at the end of 4th Year?
  - (a) ₹ 49.18
  - (b) ₹ 32.22
  - (c) ₹ 45.79
  - (d) ₹ 42.96
5. Calculate today's market price of the share.
  - (a) ₹ 59.03
  - (b) ₹ 54.33
  - (c) ₹ 57.01
  - (d) ₹ 57.54

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** ₹ 3.3779
2. **Option (b)** ₹ 8.3655
3. **Option (a)** ₹ 72.28
4. **Option (c)** ₹ 45.79
5. **Option (b)** ₹ 54.33

**Reason:**

**As per Dividend discount model, the price of share is calculated as follows:**

P = Sum of PV of Expected Dividends + PV of Share Price at the end of the period

$$P = \frac{D_1}{(1+K_e)^1} + \frac{D_2}{(1+K_e)^2} + \frac{D_3}{(1+K_e)^3} + \frac{D_4}{(1+K_e)^4} + \frac{D_5}{(K_e-g)} \times \frac{1}{(1+K_e)^4}$$

Where,

P = Price per share

$K_e$  = Required rate of return on equity

g = Growth rate

Year	$D_1 = D_0(1+g)$	PV Discount Factor @ 12%	PV in ₹
1	$2(1+14\%) = 2.28$	0.893	2.0364
2	$2.28(1+14\%) = 2.5992$	0.797	2.0715
3	$2.5992(1+14\%) = 2.9631$	0.712	2.1097
4	$2.9631(1+14\%) = \mathbf{3.3779}$	0.636	2.1483
Total PV of Expected Dividend			<b>₹ 8.3655</b>

$$P_4 = \frac{D_5}{K_e - g} = \frac{D_4(1+g)}{K_e - g} = \frac{3.3779(1+7\%)}{12\% - 7\%} = ₹ 72.28$$

PV of share at the end of 4<sup>th</sup> Year = ₹ 72.28 x 0.636 = ₹ 45.97

Market Price of shares = ₹ 8.3655 + ₹ 45.97 = ₹ 54.33

### CASE SCENARIO 12

RNOC Ltd is a listed company and has been facing a cash crunch situation since a while. The CFO is of the opinion that excess stock maintained as per the instructions of management of the company is the reason for cash crunch. However, the management states that its product line requires larger amount of inventory due to greater variety of product line and customer may ask for any type of product. To maintain competitive advantage, the company should be able to cater to customer needs as and when required. The management is highly critical of the collection team as the management feels that they are not collecting the receivables within time as per industry standards.

You have been hired by the company as a financial consultant. Management has provided you the latest audited financial statements and also relevant industry statistics. You are required to advise the company to improve its liquidity position.

Statement of Profit and Loss		₹	₹
<b>Sales</b>			1,25,00,000
<b>Cost of goods sold</b>			
Opening Stock		23,00,000	
Add: Purchases		80,00,000	
Add: Direct expenses		12,00,000	
Less: Closing Stock		(38,60,000)	(76,40,000)
<b>Gross Profit</b>			48,60,000
Less: Operating Expenses			
Administrative Expenses		13,20,000	
Selling and Distribution Expenses		15,90,000	(29,10,000)
Operating Profit			19,50,000
Add: Non-Operating Income			3,28,000
Less: Non-Operating Expenses			(1,27,000)
Profit before Interest and taxes			21,51,000

Less: Interest			(4,39,000)
Profit before tax			17,12,000
Less: Taxes			(4,28,000)
Profit after Tax			12,84,000
<b>Balance Sheet</b>			
<b>Sources of Funds</b>		₹	₹
<b>Owned Funds</b>			
	Equity Share Capital	30,00,000	
	Reserves and Surplus	18,00,000	48,00,000
<b>Borrowed Funds</b>			
	Secured Loan	10,00,000	
	Unsecured Loan	4,30,000	14,30,000
<b>Total Funds Raised</b>			62,30,000
<b>Application of Funds</b>			
<b>Non-Current Assets</b>			
	Building	7,50,000	
	Machinery	2,30,000	
	Furniture	7,60,000	
	Intangible Assets	50,000	17,90,000
<b>Current Assets</b>			
	Inventory	38,60,000	
	Receivables	39,97,000	
	ST investments	3,00,000	
	Cash and Bank	2,30,000	83,87,000
<b>Less: Current Liabilities</b>			
	Creditors	25,67,000	
	ST loans	13,80,000	(39,47,000)
<b>Total Funds Employed</b>			
			62,30,000

**Industry Standards**

<b>Receivables Turnover</b>	<b>=</b>	<b>90 Days</b>
Inventory Turnover	=	100 Days
Payables turnover	=	90 Days
Net Asset Turnover	=	4 Times

The company has set certain standards for the upcoming year financial status.

All the ratios are based on closing figures in financial statements.

Equity SC to Reserves	=	1
Net Profit Ratio	=	15%
Gross Profit Ratio	=	50%
loan Term Debt to Equity	=	0.5
Debtor Turnover	=	100 Days
Creditor Turnover (based on COGS)	=	100 Days
Inventory	=	70% of Opening inventory

Cash Balance is assumed to remain same for next year.

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**MULTIPLE CHOICE QUESTIONS**

- What is the inventory turnover ratio in days and whether assertion of CFO is correct?
  - 120 days; Assertion of CFO is correct.
  - 100 days; Assertion of CFO is incorrect.
  - 185 days; Assertion of CFO is correct.
  - 150 days; Assertion of CFO is incorrect.
- What is the receivables turnover and whether assertion of management is correct?
  - 117 days; Assertion of management is correct.
  - 100 days; Assertion of management is correct.

- (c) 85 days; Assertion of management is correct.
  - (d) 85 days; Assertion of management is not correct.
3. What is the expense company needs to incur for earning ₹ 1 of revenue in the last year?
- (a) 0.844
  - (b) 0.754
  - (c) 0.962
  - (d) 0.824
4. What is the projected net working capital of the company?
- (a) 42,87,891
  - (b) 40,27,891
  - (c) 48,27,891
  - (d) 48,28,891
5. What is the projected Long-Term Debt of the company for the next year?
- (a) 60,00,000
  - (b) 30,00,000
  - (c) 14,30,000
  - (d) 28,60,000

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c)** 185 days; Assertion of CFO is correct.

**Reason:**

$$\text{Inventory Turnover} = \frac{\text{Inventory}}{\text{COGS}} \times 365 = \frac{38,60,000 \times 365}{76,40,000} = 184.41 \text{ days}$$
$$= 185 \text{ days (apx)}$$

Inventory holding period of 185 days is significantly higher as compared to industry standard of 100 days. This means a significant amount of working capital is tied in inventory, which may be leading to liquidity crunch.

2. **Option (a)** 117 days; Assertion of management is correct

**Reason:**

$$\text{Receivables Turnover} = \frac{\text{Receivables}}{\text{Sales}} \times 365 = \frac{39,97,000 \times 365}{1,25,00,000} = 116.71 = 117 \text{ days (apx)}$$

Receivables turnover of 117 days as compared to industry standard of 90 days is a further delay of 27 days. This will lead to good amount of money being tied up in debtors.

3. **Option (a)** 0.844

**Reason:**

Operating Ratio is the number which indicates cost incurred by company for earning each rupee of revenue.

Operating Ratio =

$$\frac{\text{COGS} + \text{Operating Expenses}}{\text{Sales}} \times 100 = \frac{76,40,000 + 29,10,000}{1,25,00,000} \times 100 = 0.844$$

4. **Option (b)** 40,27,891

**Reason:**

Equity to Reserves	= 1
Reserves	= 1 × 30,00,000 = 30,00,000
Projected profit	= 30,00,000 - 18,00,000 = 12,00,000
Net Profit Margin	= 15%
12,00,000 / Sales	= 0.15
Sales	= 80,00,000
Gross Profit	= 80,00,000 × 50% = 40,00,000
COGS	= 80,00,000 - 40,00,000 = 40,00,000
Projected Debtors Turnover	= 100 days = closing Receivables / Sales × 365
100	= Closing Receivables / 80,00,000 × 365
Closing Receivables	= 80,00,000 × 100 / 365 = 21,91,781



Projected Closing Inventory = 70% of opening inventory  
= 70% of 38,60,000 = 27,02,000  
Projected Creditor Turnover = 100 days=closing creditors/COGSx365  
Closing Creditors = COGSx100/365  
Closing Creditor = 40,00,000x100/365 =10,95,890  
Net Working Capital = Cash + Debtors + Inventory – Creditors  
= 2,30,000+21,91,781+27,02,000-10,95,890  
Net Working Capital = 40,27,891

**5. Option (b) 30,00,000**

**Reason:**

Equity Share Capital + Reserves = 30,00,000+30,00,000=60,00,000  
Long Term Debt to Equity = 0.5  
LTD/60,00,000 = 0.5  
Long Term Debt = 0.5 x 60,00,000  
Long Term Debt = 30,00,000

**CASE SCENARIO 13**

AHF Ltd. is a well-established organization known for its innovative products and services. With a strong financial standing and a commitment to growth, the company is exploring different financing options to fuel its expansion strategies. AHF Ltd. is considering issuing debentures to raise funds for expansion and investment opportunities. The company aims to determine the cost of debt after tax under various scenarios of issuance, considering factors such as issue price and brokerage expenses.

CA Aananda, Chief Financial Officer of AHF Ltd. plans to issue ₹12,00,000, 15% debentures of ₹100 each, redeemable after a fixed period of 10 years. The company operates in a 35% tax bracket, which will impact the cost of debentures after tax.

The cost of debt after tax is calculated by adjusting the coupon rate for tax savings on interest payments. Additionally, brokerage expenses, if applicable, are factored into the analysis to determine the overall cost of debentures.

By analysing the cost of debt under different issuance scenarios, CA Aananda can make informed decisions regarding its financing strategy. Understanding the impact of issue price and brokerage expenses on the cost of debentures enables the company to optimize its capital structure and enhance shareholder value. Continuous evaluation of financing options and market conditions will be essential for AHF Ltd. to maintain financial flexibility and support its long-term growth objectives.

**Calculate Cost of Debentures after tax and help CA Aananda, CFO of AHF Ltd. to understand the various scenarios.**

**MULTIPLE CHOICE QUESTIONS**

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1. What will be the cost of debenture if the debentures are issued at par?
  - (a) 9.25%
  - (b) 15%

- (c) 7.80%
  - (d) 9.75%
2. What will be the cost of debenture if the debentures are issued at 10% discount?
- (a) 10.95%
  - (b) 11.32%
  - (c) 8.33%
  - (d) 10%
3. What will be the cost of debenture if the debentures are issued at 10% premium?
- (a) 8.33%
  - (b) 8.66%
  - (c) 10.23%
  - (d) 11.32%
4. What will be the cost of debenture if the brokerage is paid at 2% and redeemed at par?
- (a) 8.33%
  - (b) 15.35%
  - (c) 10.05%
  - (d) 9.98%
5. What will be the cost of debenture if the debenture's current market price is ₹ 120 and are redeemed at par?
- (a) 7%
  - (b) 7.05%
  - (c) 7.68%
  - (d) 9.75%

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

---

$$\text{Cost of Debentures, } K_d = \frac{I(1-t) + \frac{(RV-NP)}{n}}{\frac{(RV+NP)}{2}} \times 100$$

I = Interest on debentures

t = Tax Rate

RV = Redemption Value

NP = Current Market Price or Net Proceed received

n = Period of debenture

**1. Option (d) 9.75%**

**Reason:**

cost of debenture if the debentures are issued at par.

$$\text{Cost of Debentures, } K_d = \frac{15(1-0.35) + \frac{(100-100)}{10}}{\frac{(100+100)}{2}} \times 100 = 9.75\%$$

**2. Option (b) 11.32%**

**Reason:**

cost of debenture if the debentures are issued at 10% discount.

$$\text{Cost of Debentures, } K_d = \frac{15(1-0.35) + \frac{(100-90)}{10}}{\frac{(100+90)}{2}} \times 100 = 11.32\%$$

**3. Option (a) 8.33%**

**Reason:**

cost of debenture if the debentures are issued at 10% premium.

$$\text{Cost of Debentures, } K_d = \frac{15(1-0.35) + \frac{(100-110)}{10}}{\frac{(100+110)}{2}} \times 100 = 8.33\%$$

**4. Option (c) 10.05%**

**Reason:**

cost of debenture if the brokerage is paid at 2% and redeemed at par.

$$\text{Cost of Debentures, } K_d = \frac{15(1-0.35) + \frac{(100-98)}{10}}{\frac{(100+98)}{2}} \times 100 = 10.05\%$$

**5. Option (b) 7.05%**

**Reason:**

cost of debenture if the debenture's current market price is ₹120 and are redeemed at par.

$$\text{Cost of Debentures, } K_d = \frac{15(1-0.35) + \frac{(100-120)}{10}}{\frac{(100+120)}{2}} \times 100 = 7.05\%$$

**CASE SCENARIO 14**

M/s ARC Ltd is an established entity in the telecommunication industry with 49.95% market share. Most of its telecommunication lines are based on 2G, 3G and 4G spectrum. However now the market is foreseeing a technological disruption in the form of 5G technology. To maintain a competitive advantage, it needs to heavily invest in 5G equipments and deploy the same for users latest by the end of year 3 from now. The entire project is going to cost 9,000 crores. The management is wondering how such a huge amount is going to be raised.

A financial consultant has recently been hired by ARC to evaluate the various ways to raise capital. On the basis of his experience and knowledge, the consultant is of the view that telecom industry should not deploy fixed cost funds in excess of 40% of total capital. Also, preference share capital should not exceed 10% of total capital. ARC currently has 2000 crores in the form of reserves represented by short term money market instruments. It can raise money by way of debentures by issuing them at a premium of 5% with redemption value of ₹ 110 after 5 years. The debentures would require an annual interest payment of ₹ 8 p.a. The preference shares will be issued at a discount of 10% and redeemed at premium of 10% after 10 years requiring an annual dividend of 10%. The company is sceptical of cash flows in near term after deployment of 5G and therefore would issue the above stated debentures only to the extent of 50% of total debt funds and balance will be raised by zero coupon bonds, which will be issued at a discount of 40% and redeemed at par after 5 years. Current price of share of ARC stands at an average of ₹ 147. The company has recently paid dividend of ₹ 11 per share and considering the 5G deployment and other technological requirements in long run, it is likely to continue retaining 56% of its earnings. The reinvested retained earnings are likely to offer a return of 15% to the shareholders. It is planning to raise a part of additional equity by way of rights offering to its shareholders. The rights entitle the existing shareholders to buy shares at a discount of 15% to current average market price. However only 40% of the required fresh equity can be raised by way of right issue. The balance equity portion will be raised by way of new series of equity shares with differential voting rights. They will be promised a dividend of 1.25x of ordinary equity shareholder and due to lower voting rights their cost of capital will require a premium of 50% over ordinary equity shares.

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**MULTIPLE CHOICE QUESTIONS**

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1. What will be the amount (in ₹ Crores) of differential voting rights shares to be issued assuming that maximum limits are to be adhered to
  - (a) 2040
  - (b) 1360
  - (c) 2000
  - (d) 900
2. Calculate the cost of debenture using YTM method
  - (a) 10.76%
  - (b) 8.43%
  - (c) 12.37%
  - (d) 16.51%
3. Calculate the cost of preference shares using YTM method
  - (a) 10.76%
  - (b) 8.43%
  - (c) 12.37%
  - (d) 16.51%
4. What will be the share price of shares with differential voting rights?
  - (a) 91.07
  - (b) 100
  - (c) 124.95
  - (d) 147
5. What will be the minimum required return from 5G deployment to breakeven the cost of capital?
  - (a) 10.76%
  - (b) 8.43%

(c) 16.11%

(d) 16.51%

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

#### 1. Option (a) 2040

Reason:

Capital Structure		Amount (₹)
Rights issue	4:6	1,360
DVR Equity Issue		2,040
Retained earnings	Fixed	2,000
Preference Shares	10%	900
Debentures	30% (1:1)	1,350
Zero Coupon Bonds		1,350
Total		9,000

#### 2. Option (b) 8.43%

Reason:

Calculation of Kd of debentures

$$\text{Approx Kd} = \frac{8 + \frac{(110 - 105)}{5}}{\frac{(110 + 105)}{2}} = 8.37\%$$

Year	Cashflows	PVF @ 8%	PV @ 8%	PVF @ 9%	PV @ 9%
1 to 5	8	3.9927	31.94	3.8897	31.12
5	110	0.6806	74.87	0.6499	71.49
Cash outflow			106.81		102.61
Cash inflow	90	1	105		105
NPV			<b>-1.81</b>		<b>2.39</b>

$$\text{Kd} = \frac{8\% + (9\% - 8\%)}{(106.81 - 102.61)} \times 1.81 = 8.43\%$$



**3. Option (c) 12.37%****Reason:****Calculation of Kp of Preference Shares**

$$\text{Approx Kp} = \frac{10 + \frac{(110 - 90)}{108}}{\frac{(110 + 90)}{2}} = 12\%$$

Year	Cashflows	PVF @ 12%	PV @ 12%	PVF @ 13%	PV @ 13%
1 to 10	10	5.6502	56.5	5.4262	54.26
10	110	0.322	35.42	0.2946	32.4
Cash outflow			91.92		86.67
Cash inflow	90	1	90		90
NPV			<b>-1.92</b>		<b>3.33</b>

$$\begin{aligned} \text{Kp} &= \frac{12\% + (13\% - 12\%)}{(91.92 - 86.67)} \times 1.92 \\ &= 12.37\% \end{aligned}$$

**4. Option (a) 91.07****Reason:****Calculation of Cost of Equity****Existing Shareholders**

$$P_o = 147$$

$$D_o = 11$$

$$b = 56\%$$

$$r = 15\%$$

$$\text{Growth rate (g)} = b \times r = 8.40\%$$

$$D_1 = 11 \times (1 + 8.4\%) = 11.924$$

$$K_e = \frac{11.924}{147} + 8.4\% = 16.51\%$$

**Rights Shares**

$$P_o = 147 \times 85\% = 124.95$$

$$D_o = 11$$

$$b = 56\%$$

$$r = 15\%$$

$$\text{Growth rate (g)} = b \times r = 8.40\%$$

$$D_1 = 11 \times (1 + 8.4\%) = 11.924$$

$$K_e = \frac{11.924}{124.95} + 8.4\%$$

$$17.94\%$$

**Differential Voting rights**

$$K_e = 16.51\% \times 1.5 = 24.77\%$$

$$D_1 = 11.924 \times 1.25 = 14.905$$

$$G = 8.40\%$$

$$P_o = \frac{14.905}{24.77\% - 8.40\%}$$

$$P_o = 91.07$$

**5. Option (c) 16.11%****Reason:**

Capital Structure		Amount (₹)	Weight	Cost	W x C
Rights issue	4:6	1360	0.1511	17.94%	0.0271
DVR Equity Issue		2040	0.2267	24.77%	0.0561
Retained earnings	Fixed	2000	0.2222	16.51%	0.0367
Preference Shares	10%	900	0.1	12.37%	0.0124
Debentures	30% (1:1)	1350	0.15	8.43%	0.0126
Zero Coupon Bonds		1350	0.15	10.76%	0.0161
Total		9000	1		16.11%

**CASE SCENARIO 15**

If the combined leverage and operating leverage figures of a company are 2.5 and 1.25 respectively, find the financial leverage and P / V ratio, given that the equity dividend per share is ₹ 2, interest payable per year is ₹ 1 lakh, total fixed cost ₹ 0.5 lakh and sales ₹ 10 lakhs.

**MULTIPLE CHOICE QUESTION**

1. find the financial leverage and P / V ratio
  - (a) 3.125; 25%
  - (b) 2.00; 40%
  - (c) 2.00; 25%
  - (d) 3.00; 40%

**ANSWER TO MULTIPLE CHOICE QUESTION**

1. **Option (c)** 2.00; 25%

**Reason:**

CL = OL × FL, Hence  $FL = CL / OL = 2.5 / 1.25 = 2$  times.

OL = Contribution / EBIT = Contribution / (Contribution - FC) =  $C / (C - 50000) = 1.25$ ,

C = 2,50,000.

PVR =  $2,50,000 / 10,00,000 = 25\%$

**CASE SCENARIO 16**

Mr. Dashan recently came back from a conference titled Capital Structure Theory and was extremely excited about what he learned concerning Modigliani and Miller's capital structure propositions. He has been trying to choose between three potential capital structures for his firm, Dashmart Corporation, and believes that Modigliani and Miller's work may guide him in the right direction. The capital structures Munn is considering are:

CS I: 100% equity.

CS II: 50% equity and 50% debt.

CS III: 100% debt.

If he uses Modigliani and Miller's propositions and includes all of their assumptions including the assumption of no taxes, which capital structure is he most likely to choose?

**MULTIPLE CHOICE QUESTION**

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1. Which capital structure would be chosen in case of tax regime?
  - (a) CS I and CS II
  - (b) CS I and CS III
  - (c) CS II and CS III
  - (d) Any CS and CS III

**ANSWER TO MULTIPLE CHOICE QUESTION**

---

1. **Option (d)** Any CS and CS III

**Reason:**

Modigliani and Miller's original study was based on the assumption of perfect markets with no taxes and no costs of financial distress. Their conclusion was that under such assumptions, capital structure has no impact on firm value. MM Proposition with taxes concludes that the optimal capital structure is 100% debt. This is because the tax deductibility of interest payments provides a tax shield that adds value to the firm, and the value of the tax shield is maximized with 100% debt.

**CASE SCENARIO 17**

Anna Ltd. is a company engaged in toy manufacturing. While growing through the financial statements of the company, the CEO is the view that company should start preparing the projected financial statements so that decision can made on timely basis to maintain the growth and liquidity of the Anna Ltd. Following financial information is available in respect of the company:

- (a) Issued share capital 15,00,000
  - 7.5% Debentures 10,00,000
  - Fixed Assets at cost 12,50,000
- (b) The expected ratios to selling price are
  - Raw materials 50%
  - Labour 15%
  - Overheads 20%
  - Profit 15%
- (c) Raw materials are kept in store for an average of 2 months.
- (d) Finished goods remain in stock for an average period of 2 months.
- (e) Production during the previous year was 3,00,000 units and it is planned to maintain the rate in the current year also.
- (f) Each unit of production is expected to remain in process for a month.
- (g) Credit allowed to customers is one month and given by suppliers is two months.
- (h) Selling price is ₹ 15 per unit.
- (i) Production and sales cycle of the company remains constant throughout the year

Being a finance manager of the company, you are being asked to answer the following requirements of the CEO:

**MULTIPLE CHOICE QUESTIONS**

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1. Calculate the amount blocked in inventories of raw material and finished goods.
  - (a) ₹ 3,18,750 and ₹ 3,75,000
  - (b) ₹ 3,75,000 and ₹ 6,37,500
  - (c) ₹ 3,75,000 and ₹ 3,75,000
  - (d) ₹ 4,25,000 and ₹ 6,75,000
2. Calculate the amount blocked in work in progress stock.
  - (a) ₹ 3,75,000
  - (b) ₹ 4,75,000
  - (c) ₹ 3,18,750
  - (d) ₹ 5,25,750
3. Calculate the amount blocked in debtors at sales price and amount of creditors.
  - (a) ₹ 3,18,000 and ₹ 3,18,000
  - (b) ₹ 3,75,000 and ₹ 3,75,000
  - (c) ₹ 6,00,000 and ₹ 3,75,000
  - (d) ₹ 6,75,000 and 4,25,000
4. Calculate the net working capital requirement.
  - (a) ₹ 13,75,000
  - (b) ₹ 10,75,650
  - (c) ₹ 6,75,000
  - (d) ₹ 13,31,250
5. Calculate the amount of projected net profit.
  - (a) ₹ 5,00,000
  - (b) ₹ 6,75,000

(c) ₹ 6,00,000

(d) ₹ 4,75,000

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ₹ 3,75,000 and ₹ 6,37,500

2. **Option (c)** ₹ 3,18,750

3. **Option (b)** ₹ 3,75,000 and ₹ 3,75,000

4. **Option (d)** ₹ 13,31,250

5. **Option (c)** ₹ 6,00,000

**Reason:**

**Working Note:**

Sales = 3,00,000 x ₹ 15 = ₹ 45,00,000

Gross profit = ₹ 45,00,000 x 15% = ₹ 6,75,000

Net Profit = Gross profit – Interest

= ₹ 6,75,000 – ₹ 75,000 = ₹ 6,00,000

#### Statement showing the requirements of Working Capital

Particulars	(₹)	(₹)
<b>A. Current Assets:</b>		
Inventory:		
Stock of Raw material (₹ 45,00,000 x 50% x 2/12)	3,75,000	
Stock of Work-in-progress (₹ 45,00,000 x 85% x 1/12)	3,18,750	
Stock of Finished goods (₹ 45,00,000 x 85% x 2/12)	6,37,500	
Receivables (Debtors) (₹ 45,00,000 x 1/12)	3,75,000	
Gross Working Capital	17,06,250	17,06,250

<b>B. Current Liabilities:</b>		
Payables for Raw materials ( $\text{₹}45,00,000 \times 50\% \times 2/12$ )	3,75,000	
Total Current Liabilities	3,75,000	3,75,000
<b>Net Working Capital requirements</b>		13,31,250



**CASE SCENARIO 18**

Gearhead Ltd. is a rapidly growing manufacturer of high-end bicycles. They are considering expanding their production capacity to meet rising demand. However, this expansion requires significant investment, and the company's leadership wants to understand the potential impact on profitability. Here's where leverage analysis comes in. Leverage refers to the use of fixed costs to magnify changes in sales. Gearhead Ltd. has two main types of leverage to consider- Degree of Operating Leverage (DOL)- this measures how much a change in sales translates to a change in operating income and Degree of Financial Leverage (DFL)- this measures the impact of debt financing on earnings per share (EPS). The combined effect of DOL and DFL on EPS is considered in Combined Leverage. It reflects the overall risk and potential reward associated with a company's capital structure. The following are some of the information provided by Gearhead Ltd. on the basis of which leverage calculations and analysis can be done:

1. Output (Units) 60,000
2. Fixed costs (₹) 7,000
3. Variable cost per unit (₹) 0.20
4. Interest on borrowed funds (₹) 4,000
5. Selling price per unit (₹) 0.60

The tax rate under which Gearhead Ltd. is presently operating is 35%. With these leverage calculations company can understand that even a small sales changes can significantly boost or drop operating income. Debt financing and its impact can also be understood and how it amplifies both profits and losses. Leverage analysis helps Gearhead Ltd. understand the potential risk associated with increased or reduced debt. Sometimes holistic view of the combined impact of operating and financial leverage on EPS serves an important purpose as well. A high DCL indicates amplified volatility in EPS, meaning small changes in sales or operating income can have a significant effect on shareholder returns. Based on the leverage analysis, Gearhead Ltd. can make informed decisions about their expansion plans. On the basis of DOL, they should be cautious about the

potential for profit declines during economic downturns. This might suggest a more conservative expansion strategy. DFL indicates increased risk associated with debt. Gearhead Ltd. needs to weigh the potential benefits of debt financing (lower cost of capital) against the risk of magnified profit fluctuations. Leverage analysis is a powerful tool for businesses like Gearhead Ltd. By understanding the impact of operating and financial leverage, companies can make informed decisions about financing, expansion, and risk management, ultimately aiming for sustainable growth with a healthy balance between profitability and risk. You are required to answer the following MCQs:

### **MULTIPLE CHOICE QUESTIONS**

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1. What will be the total contribution and contribution per unit from the following?
  - (a) ₹ 34000 and 0.50
  - (b) ₹ 24000 and 0.40
  - (c) ₹ 54000 and 0.60
  - (d) ₹ 84000 and 0.80
2. What will be the Profit before tax (PBT) from the following?
  - (a) ₹ 13000
  - (b) ₹ 14000
  - (c) ₹ 15000
  - (d) ₹ 16000
3. What will be the Degree of Operating Leverage (DOL) from the following?
  - (a) 1.41
  - (b) 1.49
  - (c) 1.21
  - (d) 1.30
4. What will be the Degree of Financial Leverage (DFL) from the following?
  - (a) 1.67
  - (b) 1.31

- (c) 1.21  
(d) 1.30
5. What will be the Degree of Combined Leverage (DCL) from the following?
- (a) 1.85  
(b) 1.49  
(c) 1.21  
(d) 1.30

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** ₹ 24000 and 0.40  
2. **Option (a)** ₹ 13000  
3. **Option (a)** 1.41  
4. **Option (b)** 1.31  
5. **Option (a)** 1.85

**Reason:**

Particulars	Amount ₹
Selling price p.u.	0.60
Less: Variable cost p.u.	0.20
Contribution p.u.	0.40
Total contribution (0.40 x 60,000)	24,000
Less: FC	7,000
EBIT	17,000
Less: Interest	4,000
Profit before tax	13,000
DOL (24,000/17,000)	1.41
DFL	1.31
DCL	1.85

### CASE SCENARIO 19

PetroChem Ltd. is a leading manufacturer of industrial chemicals. The business in the last five years is doing quite well and therefore to maximize the wealth of the shareholders further growth is the need of the hour. The company is considering a significant expansion project to increase production capacity. Investors and creditors are interested in PetroChem's financial health before making investment or loan decisions. The financial analyst of the company believes that ratio analysis can provide valuable insights into this financial health of the company. The following are some information on financial statements and Profit Loss Statements:

**Some Financial Statements Informations (in Crore Rupees):**

Items	2022-2023	2021-2022
<b>Balance Sheet:</b>		
Current Assets	40	35
Non-Current Assets	100	80
Total Assets	140	115
Current Liabilities	25	20
Long-Term Liabilities	40	30
Total Shareholders' Equity	75	65
<b>Some Income Statement Informations:</b>		
Sales Revenue	120	100
Cost of Goods Sold	60	50
Gross Profit	60	50
Operating Expenses	30	25
Net Income	30	25

The analyst believes that if his team focusses on the following ratios for PetroChem Ltd. for 2022-2023 then the performance can be monitored properly and improvements can be made thus providing confidence for the stakeholders:

- Current Ratio
- Debt-to-Equity Ratio

- Gross Profit Margin
- Operating Profit Margin

Further the company's analyst also believes that based on the ratios, the team can analyze PetroChem Ltd.'s financial health and its ability to handle additional debt for the expansion project.

On the basis of this information provided above you are required to answer the following MCQs:

### **MULTIPLE CHOICE QUESTIONS**

1. What is the current ratio of 2021- 2022 and 2022- 2023 respectively of PetroChem Ltd. from the following information:
  - (a) 1.75 and 1.4
  - (b) 1.75 and 1.6
  - (c) 1.6 and 1.5
  - (d) 1.6 and 2
2. What is the position of working capital of PetroChem Ltd. in both the years? What does it indicate?
  - (a)  $WC = ₹ 25$  Crores for both years shows that changes in current assets was balanced with changes in current liabilities
  - (b)  $WC = ₹ 15$  Crores for both years shows that changes in current assets was balanced with changes in current liabilities
  - (c)  $WC (21-22) = ₹ 18$  Crores and  $WC (22-23) = ₹ 21$  Crores shows better WC position
  - (d)  $WC = 31$  for both years shows reduction in its inventory levels.
3. What is the Gross Profit ratio of 2021- 2022 and 2022- 2023 respectively of PetroChem Ltd. from the following information:
  - (a) 50% and NIL
  - (b) 80% and 60%
  - (c) 50% and 50%
  - (d) 60% and 55%

4. What is the debt equity ratio of 2021- 2022 and 2022- 2023 respectively of Petro Chem Ltd. from the following information:
- (a) 0.769 and 0.867  
 (b) 0.666 and 0.888  
 (c) 0.678 and 0.901  
 (d) 0.456 and 0.234
5. What is the Net Profit ratio of 2021- 2022 and 2022- 2023 respectively of PetroChem Ltd. from the following information:
- (a) 50% and NIL  
 (b) 80% and 60%  
 (c) 25% and 25%  
 (d) 80% and 55%

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b)** 1.75 and 1.6
2. **Option (b)** WC = ₹ 15 Crores for both years shows that changes in current assets was balanced with changes in current liabilities
3. **Option (c)** 50% and 50%
4. **Option (a)** 0.769 and 0.867
5. **Option (c)** 25% and 25%

**Reason:**

Ratio	22-23	21-22
Current Ratio $\frac{\text{Current Asset}}{\text{Current Liability}}$	40/25 = 1.6	35/20 = 1.75
Working Capital = CA- CL	40-25 = 15	35-20 = 15
Debt Equity	65/75 = 0.867	50/65 = 0.769
GP Ratio	60/120 x100 = 50%	50/100x100 = 50%
NP Ratio	30/120x100 = 25%	25/100x100 = 25%

**CASE SCENARIO 20**

RamVerse Ltd is an all equity financed company. It is considering replacing ₹ 275 lakhs equity shares with 15% debentures of the same amount. Current Market value of the company is 1750 lakhs with cost of capital at 20%. Future EBITs are going to be constant and entire earnings are going to be distributed. Corporate Tax Rate can be assumed to be 30%.

**MULTIPLE CHOICE QUESTION**

1. What will be the new cost of equity of the firm?
  - (a) 19.11%
  - (b) 17.53%
  - (c) 10.50%
  - (d) 20.62%

**ANSWER TO MULTIPLE CHOICE QUESTION**

1. **Option (d) 20.62%**

**Reason:**

Current PAT =  $1750 \times 20\% = 350$ .

Current PBT = Future EBIT =  $350/0.7 = 500$ .

Future PBT =  $500 - 275 \times 15\% = 458.75$ .

Future PAT =  $458.75 \times 70\% = 321.125$ .

Value (L) = Value (UL) + Debt  $\times t = 1750 + 275 \times 30\% = 1832.5$ .

Value of Equity =  $1832.5 - 275 = 1557.5$ .

Ke =  $321.125/1557.5 = 20.62\%$

**CASE SCENARIO 21**

A company has a cost of equity of 10% and interest rate of 6%. The company's debt-to-equity ratio is 1.5, and the corporate tax rate is 40%.

**MULTIPLE CHOICE QUESTION**

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1. What is the company's weighted average cost of capital?
  - (a) 7.20%
  - (b) 6.16%
  - (c) 7.60%
  - (d) 8.40%

**ANSWER TO MULTIPLE CHOICE QUESTION**

---

1. **Option (b)** 6.16%

**Reason:**

To calculate WACC, we use the formula:

$$\text{WACC} = (E/V) \times R_e + (D/V) \times R_d \times (1 - T_c)$$

Let V be the total value of the firm, then Debt is equal to  $1.5/(1+1.5)$  times the value of the firm and Equity is equal to  $1/(1+1.5)$  times the value of the firm.

$$\text{So, } D/V = 1.5/(1+1.5) = 0.6 \text{ and } E/V = 1/(1+1.5) = 0.4$$

$$\text{WACC} = 0.4 \times 10\% + 0.6 \times 6\% \times (1 - 40\%) = 4\% + 2.16\% = 6.16\%$$

Therefore, the company's weighted average cost of capital is 6.16%.



**CASE SCENARIO 22**

Output (units) = 3,00,000 Fixed cost = ₹ 3,50,000 Unit variable cost = ₹ 1.00  
Interest expenses = ₹ 25,000 Unit selling price = ₹ 3.00 Applicable tax rate is 35%.

**MULTIPLE CHOICE QUESTIONS**

1. Calculate Financial Leverage.
  - (a) 1.11
  - (b) 2.40
  - (c) 2.67
  - (d) 1.07

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

1. **Option (a)** 1.11

**Reason:**

$$\text{EBIT} = 300000 \times (3 - 1) - 350000 = 250000,$$

$$\text{PBT} = 250000 - 25000 = 225000$$

$$\text{FL} = 250000 / 225000 = 1.11$$

**CASE SCENARIO 23**

The cost of capital of a firm is 12% & its expected earning per share at the end of the year is ₹ 20. its existing payout ratio is 25%. the company is planning to increase its payout ratio to 50%.

**MULTIPLE CHOICE QUESTION**

---

1. What will be the effect of this change on the market price of equity share (MPS) of the company as per Gordon model, if the reinvestment rate of the company is 15%?
- (a) It will increase by ₹ 444.45
  - (b) It will decrease by ₹ 444.45
  - (c) It will increase by ₹ 222.22
  - (d) It will decrease by ₹ 222.22

**ANSWER TO MULTIPLE CHOICE QUESTION**

---

1. **Option (b)** It will decrease by ₹ 444.45

**Reason:**

$$\text{Current D1} = 20 \times 25\% = 5$$

$$\text{Current } g = 0.75 \times 0.15 = 11.25\%$$

$$\text{Current MPS} = 5 / (0.12 - 0.1125) = 666.67$$

$$\text{Proposed D1} = 20 \times 50\% = 10$$

$$\text{proposed } g = 0.5 \times 0.15 = 0.075,$$

$$\text{Proposed MPS} = 10 / (0.12 - 0.075) = 222.22$$

$$\text{Change in MPS} = 666.67 - 222.22 = \text{₹}444.45$$

**CASE SCENARIO 24**

The capital structure of KPS Limited includes 5,00,000 equity shares of ₹ 10 each. The market price of equity share (cum-dividend) is ₹ 75 per share. The company has declared to pay dividend on equity shares @ ₹ 6 per share which will be paid within next three days. The company has a history of consistent growth in its dividends. It has been predicted that in the next year KPS Limited will pay dividend on its equity shares @ ₹ 7.59 per share. The rate of dividend growth will be maintained in foreseeable future.

**MULTIPLE CHOICE QUESTION**

1. The cost of equity is calculated as:
- (a) 36.5%
  - (b) 34.5%
  - (c) 37.5%
  - (d) 38.5%

**ANSWER TO MULTIPLE CHOICE QUESTION**

1. **Option (c)** 37.5%

$$\text{Growth rate} = \frac{7.59 - 6}{6} \times 100 = 26.5\%$$

$$\begin{aligned} K_e &= \frac{D_1}{P_0} + g \\ &= \frac{7.59}{75 - 6} + 0.265 \\ &= 37.5\% \end{aligned}$$

**CASE SCENARIO 25**

KT Ltd.'s opening stock was ₹ 2,50,000 and the closing stock was ₹ 3,75,000. Sales during the year were ₹ 13,00,000 and the gross profit ratio was 25% on sales. Average accounts payable are ₹ 80,000.

**MULTIPLE CHOICE QUESTIONS**

---

1. What will be the Creditors Turnover Ratio ?
- (a) 13.33
  - (b) 14.33
  - (c) 14.44
  - (d) 13.75

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

---

1. **Option (d)** 13.75

**Reason:**

Creditors Turnover Ratio	= Purchases / Average Accounts Payable
Cost of Goods Sold	= Opening Stock+ Purchases - Closing Stock
Purchases	= Cost of Goods Sold + Closing Stock - Opening Stock
Purchases	= ₹ 9,75,000 + ₹ 3,75,000 - ₹ 2,50,000
Purchases	= ₹ 11,00,000
Average Accounts Payable	= ₹ 80,000
Creditors Turnover Ratio	= Purchases/Average Accounts Payable
Creditors Turnover Ratio	= ₹ 11,00,000 / ₹ 80,000
Creditors Turnover Ratio	= 13.75

Therefore, the Creditors Turnover Ratio is 13.75.

**CASE SCENARIO 26**

A company has a degree of operating leverage is 2 and degree of financial leverage is 3. If the sales of the company increase by 5% during the next quarter,

**MULTIPLE CHOICE QUESTION**

1. The Earning Per Share (EPS) will increase by?
  - (a) 20%
  - (b) 30%
  - (c) 50%
  - (d) 60%

**ANSWER TO MULTIPLE CHOICE QUESTION**

1. **Option (b)** 30%

**Reason:**

The formula for Degree of Combined Leverage (DCL) is:

$$DCL = DOL \times DFL$$

$$DCL = 2 \times 3 = 6$$

The percentage change in EPS is:

$$\% \Delta \text{EPS} = DCL \times \% \Delta \text{Sales}$$

$$\% \Delta \text{EPS} = 6 \times 5\% = 30\%$$

**CASE SCENARIO 27**

Following are the data on a capital project being evaluated by the management of Aman Ltd.

Particulars	Project A
Annual cost saving	₹ 1,80,000
Useful life	5 years
Internal rate of return	10%
Salvage value	0
PVAF (10,5 years)	3.79

**MULTIPLE CHOICE QUESTION**

1. Based upon the information, the payback period of the project will be
- (a) 2.652
  - (b) 2.850
  - (c) 3.790
  - (d) 3.855

**ANSWER TO MULTIPLE CHOICE QUESTION**

1. **Option (c)** 3.79

**Reason:**

$$\begin{aligned}\text{Initial Investment} &= \text{Annual Cost Savings} \times \text{PVAF} \\ \text{Annual cost savings} &= ₹ 1,80,000 \\ \text{PVAF (10\%, 5 years)} &= 3.79 \\ \text{Initial Investment} &= 1,80,000 \times 3.79 = 6,82,200 \\ \text{Payback Period} &= \text{Initial Investment} / \text{Annual Cost Savings} \\ &= 6,82,200 / 1,80,000 \\ &= 3.79 \text{ years}\end{aligned}$$

**CASE SCENARIO 28**

Total Assets & Current liabilities of the Vitrag Limited are 50 lakhs & 10 lakhs respectively. ROCE is 15%, measure of business operating risk is at 3.5 & P/V ratio is 70%.

**MULTIPLE CHOICE QUESTIONS**

1. Calculate Sales.
  - (a) 21 lakhs
  - (b) 30 lakhs
  - (c) 37.50 lakhs
  - (d) 40 lakhs

**ANSWER TO MULTIPLE CHOICE QUESTION**

1. **Option (b)** 30 lakhs

**Reason:**

ROCE = EBIT / Total Capital Employed

Total Capital Employed = Total Assets – Current Liabilities  
= 50 lakhs – 10 lakhs  
= 40 lakhs

EBIT = 40 lakhs x 15% = 6 lakhs

Now, OL of 3.5 = Contribution / EBIT

Therefore Contribution = 6 Lakhs X 3.5 = 21 lakhs

Sales = Contribution / PV Ratio = 21 lakhs / 0.7 = 30 lakhs

**CASE SCENARIO 29**

A company has issued bonds with a face value of ₹ 100,000 at an annual coupon rate of 8%. The bonds are currently trading at 95% of their face value.

**MULTIPLE CHOICE QUESTION**

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1. What is the approximate cost of debt for the company before taxes.
- (a) 9.00%
  - (b) 7.65%
  - (c) 8.00%
  - (d) 8.42%

**ANSWER TO MULTIPLE CHOICE QUESTION**

---

1. **Option (d) 8.42%**

**Reason:**

$$\begin{aligned}\text{Cost of Debt} &= (\text{Interest Payment} / \text{Market Price of Bond}) \\ &= (8,000 / 95,000) = 8.42\%\end{aligned}$$



**CASE SCENARIO 30**

X Ltd has actual Sales of ₹ 20 lakhs and its Break-even sales are at ₹ 15 lakhs. The degree of total risk involved in the company is 6.5.

**MULTIPLE CHOICE QUESTION**

1. Calculate the % impact on EPS, if EBIT is affected by 12%.
- (a) 40%
  - (b) 78%
  - (c) 312%
  - (d) 19.5%

**ANSWER TO MULTIPLE CHOICE QUESTION**

1. **Option (d)** 19.5%

**Reason:**

Financial Leverage (FL) indicates % impact in EPS, if EBIT is affected by 12%

$FL = \text{Combined Leverage (CL)} / \text{Operating Leverage (OL)}$

$CL = 6.5$  (Measure of total risk)

$OL = 1 / \text{Margin of Safety}$

$\text{Margin of Safety (MOS)} = \frac{\text{Actual Sales} - \text{B.E Sales}}{\text{Actual Sales}}$

$MOS = 20 \text{ lakhs} - 15 \text{ lakhs} / 20 \text{ lakhs} = 0.25$

Therefore,  $OL = 1 / 0.25 = 4$

So,  $FL = 6.5 / 4 = 1.625$

So % Change in EPS =  $12 \times 1.625 = 19.5\%$

**CASE SCENARIO 31**

Ranu & Co. has issued 10% debenture of face value 100 for ₹ 10 lakh. The debenture is expected to be sold at 5% discount. It will also involve floatation costs of ₹ 10 per debenture. The debentures are redeemable at a premium of 10% after 10 years.

**MULTIPLE CHOICE QUESTION**

---

1. Calculate the cost of debenture if the tax rate is 30%.
- (a) 8.97%
  - (b) 9.56%
  - (c) 8.25%
  - (d) 10.12%

**ANSWER TO MULTIPLE CHOICE QUESTION**

---

1. **Option (a)** 8.97%

$$K_d = \frac{[1 + \frac{1}{n}(RP - NP)](1 - t)}{1/2(RP + NP)}$$
$$K_d = \frac{[10 + \frac{1}{10}(110 - 85)](1 - 0.30)}{1/2(110 + 85)}$$
$$= 8.75/97.5 = 8.97\%$$

### CASE SCENARIO 32

Ramu Ltd. wants to implement a project for which ₹ 25 lakhs is required. Following financing options are at hand:

Option 1:

Equity Shares	25,000 @ ₹ 100
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Option 2:

Equity Shares	10,000 @ ₹ 100
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12% Preference Shares	5,000 @ ₹ 100
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10% Debentures	10,000 @ ₹ 100
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#### MULTIPLE CHOICE QUESTION

- What is the indifference point & EPS at that level of EBIT assuming corporate tax to be 35%.
  - ₹ 2,94,872; ₹ 11.80
  - ₹ 3,20,513; ₹ 8.33
  - ₹ 2,94,872; ₹ 7.67
  - ₹ 3,20,513; ₹ 12.82

#### ANSWER TO MULTIPLE CHOICE QUESTION

- Option (b)** ₹ 3,20,513; ₹ 8.33

**Reason:**

$$\frac{(\text{EBIT} - I)(1 - t) - D_p}{N_1} = \frac{(\text{EBIT} - I)(1 - t) - D_p}{N_2}$$

$$\frac{(x - 0)(1 - 0.35)}{25,000} = \frac{(x - 1,00,000)(1 - 0.35) - 60,000}{10,000}$$

$$x = \text{EBIT} = ₹ 3,20,513$$

At EBIT of ₹ 3,20,513, EPS under both options will be the same i.e., ₹ 8.33 per share.

**CASE SCENARIO 33**

XYZ Ltd. plans to raise funds through a mix of debt and equity. The details are as follows:

- Equity share capital: ₹ 50,00,000
- Debt: ₹ 30,00,000 at 10% interest
- Cost of equity: 15%
- Corporate tax rate: 30%

**MULTIPLE CHOICE QUESTION**

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1. What is the Weighted Average Cost of Capital (WACC)?
- (a) 10.5%
  - (b) 12.0%
  - (c) 12.8%
  - (d) 14.2%

**ANSWER TO MULTIPLE CHOICE QUESTION**

---

1. **Option (b)** 12.0%

**Reason:**

$$\text{WACC} = (E/V \times K_e) + (D/V \times K_d \times (1 - T))$$

- $E/V = 50,00,000 / 80,00,000 = 0.625$
- $D/V = 30,00,000 / 80,00,000 = 0.375$
- $K_d = 10\%, T = 30\%$   
 $K_d(1 - T) = 10\% (1 - 0.3) = 7$

**CASE SCENARIO 34**

XYZ Industries Ltd., a renowned player in the manufacturing sector, has been contemplating an ambitious expansion program. To finance this growth, the company scrutinizes its current capital structure, which is a blend of equity, retained earnings, preference shares, and debentures.

The equity base of XYZ Industries Ltd., is robust with 40,000 equity shares valued at ₹ 100 each, amounting to a substantial ₹ 40,00,000. This equity foundation is bolstered by retained earnings of ₹ 10,00,000, reflecting the company's prudent profit reinvestment strategy.

In addition to equity, XYZ Industries Ltd., has diversified its financing through 9% preference shares and 7% debentures, each contributing ₹ 25,00,000 to the capital pool. This strategic mix of debt and equity showcases the company's balanced approach to leveraging and risk management.

The company's capital yields a healthy return rate of 12% on capital employed, indicative of its operational efficiency and market competitiveness. However, it operates in a high-tax environment with an income-tax rate of 50%, which significantly impacts its net earnings and available reinvestment capital.

Faced with the need to raise an additional ₹ 25,00,000 for its expansion program, XYZ Industries Ltd., stands at a crossroads. The decision to fund this venture will require careful consideration of the cost of capital, tax implications, and the impact on shareholder value.

The management must evaluate whether to issue more equity shares, preference shares or debentures. Issuing equity could dilute current shareholders' value but would not increase the company's debt burden. Preference shares offer a fixed return to investors and have priority over equity in profit distribution but come at a higher cost than debt. Debentures are less expensive due to tax-deductible interest expenses but increase financial risk. XYZ Industries Ltd.'s journey towards expansion is not just about raising funds but also about maintaining a delicate balance between growth aspirations and financial stability. The company's choice will set a precedent for its future financial strategies and market reputation.

Faced with the challenge of capital structure decision making to finance the expansion programme the finance manager is considering the following alternatives:

- (i) Issue of 20,000 equity shares at a premium of ₹ 25 per share.
- (ii) Issue of 10% preference shares.
- (iii) Issue of 8% debentures

The manufacturing company has estimated that the PE ratios in the cases of equity preference and debenture financing would be 20, 17 and 16 respectively. You are required to evaluate the various financial alternatives considering three plans proposed i.e. Plan I (Equity), Plan II (Preference Shares) and Plan III (Debentures).

Based on the information provided above you are required to answer the following MCQ's:

#### **MULTIPLE CHOICE QUESTIONS**

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1. What will be the amount of PAT under the three plans i.e. Plan I (Equity), Plan II (Preference Shares) and Plan III (Debentures) respectively from the following?
  - (a) ₹ 13,25,000, ₹ 13,25,000 and ₹ 11,25,000
  - (b) ₹ 8,62,500, ₹ 9,62,500 and ₹ 10,62,500
  - (c) ₹ 15,00,000, ₹ 15,00,000 and ₹ 15,00,000
  - (d) ₹ 6,62,500, ₹ 6,62,500 and ₹ 5,62,500
2. What will be the amount of total preference dividend under the three plans i.e. Plan I (Equity), Plan II (Preference Shares) and Plan III (Debentures) respectively from the following?
  - (a) ₹ 3,25,000, ₹ 3,25,000 and ₹ 5,25,000
  - (b) ₹ 8,62,500, ₹ 9,62,500 and ₹ 10,62,500
  - (c) ₹ 2,25,000, ₹ 4,75,000 and ₹ 2,25,000
  - (d) ₹ 2,25,000, ₹ 2,25,000 and ₹ 2,25,000

- 
3. What will be the amount of earnings available for equity shareholders under the three plans i.e. Plan I (Equity), Plan II (Preference Shares) and Plan III (Debentures) respectively from the following?
- (a) ₹ 3,47,500, ₹ 5,77,500 and ₹ 3,98,000  
(b) ₹ 9,37,500, ₹ 8,87,500 and ₹ 7,37,500  
(c) ₹ 4,37,500, ₹ 1,87,500 and ₹ 3,37,500  
(d) ₹ 5,37,500, ₹ 2,87,500 and ₹ 4,37,500
4. What will be the EPS under the three plans i.e. Plan I (Equity), Plan II (Preference Shares) and Plan III (Debentures) respectively from the following?
- (a) 4.44, 7.66 and 7.29  
(b) 7.00, 6.88 and 7.29  
(c) 7.29, 4.69 and 8.44  
(d) 8.44, 9.88 and 6.78
5. What will be the market price per share under the three plans i.e. Plan I (Equity), Plan II (Preference Shares) and Plan III (Debentures) respectively from the following?
- (a) 134.50, 123.45 and 78.98  
(b) 145.80, 79.73 and 135.04  
(c) 148.8, 187.96 and 118.48  
(d) 168.8, 167.96 and 108.48

---

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d)** ₹ 6,62,500, ₹ 6,62,500 and ₹ 5,62,500  
2. **Option (c)** ₹ 2,25,000, ₹ 4,75,000 and ₹ 2,25,000  
3. **Option (c)** ₹ 4,37,500, ₹ 1,87,500 and ₹ 3,37,500  
4. **Option (c)** 7.29, 4.69 and 8.44  
5. **Option (b)** 145.80, 79.73 and 135.04

Reason:

Evaluation of various financial alternatives	Plan I (Equity) (₹)	Plan II (Preference Shares) (₹)	Plan III (Debentures) (₹)
1. EBIT**	15,00,000	15,00,000	15,00,000
2. Interest:			
Existing	1,75,000	1,75,000	1,75,000
Additional	-	-	2,00,000
Total Interest	1,75,000	1,75,000	3,75,000
3. PBT (1-2)	13,25,000	13,25,000	11,25,000
4. TAX 50%	6,62,500	6,62,500	5,62,500
5. PAT (3-4)	6,62,500	6,62,500	5,62,500
6. Preference dividend			
Existing	2,25,000	2,25,000	2,25,000
Additional	-	2,50,000	-
Total Preference Dividend	2,25,000	4,75,000	2,25,000
7. Equity earnings (5-6)	4,37,500	1,87,500	3,37,500
8. No. of equity shares	*60,000	40,000	40,000
9. EPS [7/8]	7.29	4.69	8.44
10. P/E Ratio (Given)	20	17	16
11. Market Price per share	145.80	79.73	135.04

\*40,000 + 20,000 new shares = 60,000 shares

\*\*EBIT = 12% of (100 lakhs existing + new 25 lakhs) = ₹ 15,00,000



**CASE SCENARIO 35**

BEST Limited, a prominent company in semi-conductors' industry, aims to understand the impact of operating and combined leverage on its financial performance for the year ended 31st March 2024. By examining the provided financial details, the company seeks to make informed decisions regarding its cost structure and financing mix.

BEST Limited is a well-established firm known for its products in the market. With a focus on innovation and customer satisfaction, the company has achieved significant growth and success over the years.

Financial Analysis: For the financial year ending 31st March 2024, BEST Limited provides the following financial details:

- ◆ Fixed Cost (Excluding interest): ₹2,040 Lakhs
- ◆ Sales: ₹30,000 Lakhs
- ◆ 12% Debentures of ₹100 each: ₹21,250 Lakhs
- ◆ Equity Share Capital of ₹10 each: ₹17,000 Lakhs
- ◆ Income tax rate: 30%

Mr. Pallav Kumar, an Executive Director from engineering background discussed following analysis with CA Nagarjuna, Additional Director - Finance of the company:

1. Operating Leverage: Operating leverage, which is currently at 1.4, measures the impact of fixed costs on the company's operating income.
2. Combined Leverage: Combined leverage considers both operating and financial leverage. It is calculated as the product of operating leverage and financial leverage. And company's combined leverage is 2.8.

CA Nagarjuna explained to Mr. Pallav that the Finance department is already analysing the various leverages like Operating Leverage, Financial Leverage and Combined Leverage. Due to these, BEST Limited gains insights into its cost structure and financial risk. These information enables the company to make strategic decisions regarding its operating expenses, financing options, and

overall business strategy. Continuous monitoring and evaluation of leverage ratios will be essential for BEST Limited to maintain financial stability and drive sustainable growth in the competitive market landscape.

Calculate the ratios to understand the financial health of BEST Ltd and CA Nagarjuna can submit his report to Mr. Pallav Kumar.

### **MULTIPLE CHOICE QUESTIONS**

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1. Calculate the Financial Leverage.
  - (a) 0.5
  - (b) 2
  - (c) 3.92
  - (d) 4
2. Calculate the Profit Volume Ratio.
  - (a) 47.60%
  - (b) 15.86%
  - (c) 23.8%
  - (d) 17.43%
3. Calculate the Earnings Per Share.
  - (a) ₹ 1.5
  - (b) ₹ 1.05
  - (c) ₹ 4.2
  - (d) ₹ 2.1
4. Calculate the Asset Turnover ratio of BEST Ltd.
  - (a) 1
  - (b) 0.5
  - (c) 0.784
  - (d) 1.41

5. Calculate the minimum level of Sales which must be attained to at least pay finance cost of BEST Ltd.
- (a) ₹ 19,286 Lakhs  
 (b) ₹ 8,574 Lakhs  
 (c) ₹ 24,000 Lakhs  
 (d) ₹ 27,000 Lakhs

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

**1. Option (b) 2**

**Reason:**

Combined Leverage = Operating Leverage (OL) × Financial Leverage (FL)

$$2.8 = 1.4 \times \text{FL}$$

$$\text{FL} = 2$$

$$\text{Financial Leverage} = 2$$

**2. Option (c) 23.8%**

**Reason:**

$$\text{P/V ratio} = \frac{\text{Contribution (C)}}{\text{Sales (S)}} \times 100$$

$$\text{Operating leverage} = \frac{C}{C - \text{Fixed Cost (FC)}}$$

$$1.4 = \frac{C}{C - 2,040}$$

$$1.4 (C - 2,040) = C$$

$$1.4 C - 2,856 = C$$

$$C = \frac{2,856}{0.4}$$

$$C = ₹ 7,140 \text{ Lakhs}$$

$$\text{P/V} = \frac{7,140}{30,000} \times 100 = 23.8\%$$

Therefore, P/V Ratio = 23.8%

**3. Option (b) ₹ 1.05****Reason:**

$$\text{EPS} = \frac{\text{Profit after tax}}{\text{No. of equity shares}}$$

$$\begin{aligned}\text{EBT} &= C - FC - \text{Interest} \\ &= 7140 - 2,040 - 2,550 \\ &= ₹ 2,550 \text{ Lakhs}\end{aligned}$$

$$\begin{aligned}\text{PAT} &= \text{EBT} - \text{Tax} \\ &= 2,550 - 765 = ₹ 1,785 \text{ Lakhs}\end{aligned}$$

$$\text{EPS} = \frac{1,785}{1,700} = 1.05$$

**4. Option (c) 0.784****Reason:**

$$\text{Assets turnover} = \frac{\text{Sales}}{\text{Total Assets}} = \frac{30,000}{38,250} = 0.784$$

$$\begin{aligned}\text{Total Assets} &= \text{Debt} + \text{Equity} = ₹ 21,250 \text{ Lakhs} + ₹ 17,000 \text{ Lakhs} \\ &= ₹ 38,250 \text{ Lakhs}\end{aligned}$$

**5. Option (a) ₹ 19,286 Lakhs****Reason:**

The minimum level of Sales which must be attained to at least pay finance cost of BEST Ltd. EBT zero means 100% reduction in EBT. Since the combined leverage is 2.8, sales will be dropped by  $100/2.8=35.714\%$ . Hence new sales will be;

$$₹ 30,000 \text{ Lakhs} \times (100 - 35.714) = ₹ 19,286 \text{ Lakhs}.$$

Therefore, at ₹ 19,286 Lakhs level of sales, the Earnings before Tax of the company will be equal to zero.

## CASE SCENARIO 1

Connect Innovations Pvt. Ltd., a Mumbai-based technology company, is entering the competitive landscape of the Indian smartphone market under its brand name "Poppy." The company is well aware of the influx of Chinese manufacturers dominating the smartphone industry. Given the recent global sentiment shift due to the COVID-19 pandemic, Connect Innovations plans to position Poppy as a patriotic choice, proudly promoting it as the "Desi" smartphone of India.

The company's strategic arm conducted a thorough industry analysis, revealing that Chinese brands had completely captured the budget phone segment. However, there was still an untapped opportunity in the lower segment of smartphones. To address this, Connect Innovations is introducing two models: Poppy A and Poppy B, priced at Rs. 4,499 and Rs. 5,499, respectively.

Recognizing the risk of imitation by competitors, Connect Innovations has assembled a team of marketing professionals to devise a strategy. Their proposed solution is to capitalize on the first-mover advantage by investing significant sums in advertising and promotions.

Additionally, to safeguard their business from potential disruption, Connect Innovations decided to expand their product line to include "desi" themed smartphone covers and accessories alongside Poppy smartphones. They made substantial investments in the manufacturing of these accessories. The company's investors set a target of achieving annual sales volumes of 15,000 handsets and 70,000 pieces of accessories.

While the accessory sales exceeded expectations, Poppy A and Poppy B did not receive the anticipated response. As a result, the leadership has decided to shift their focus, scaling back on smartphone production and concentrating primarily on the accessories business.

With this new direction, the "Desi" tag remains vital for success. Connect Innovations aims to establish strong barriers to entry for other domestic players. They plan to ramp up production significantly, driving down unit costs and enabling cost leadership through volume.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. Connect Innovations Pvt. Ltd. entered a saturated market for smartphones, after a due market study of understanding the competitive landscape. Put the below steps in correct sequence of understanding the competitive landscape.
  - (I) Understanding the competitors
  - (II) Determining strengths and weaknesses of the competitors
  - (III) Identify the competitors
  - (IV) Put all information gathered together
  - (a) (I),(III),(II),(IV)
  - (b) (III),(I),(II),(IV)
  - (c) (II),(III),(IV),(I)
  - (d) (I),(III),(II),(IV)
2. In which stage of strategic management are such annual objectives especially important?
  - (a) Formulation
  - (b) Control
  - (c) Evaluation
  - (d) Implementation
3. The decision of Connect Innovations to shift to a new core business with a focus on more profitable ventures falls under which category of business strategy?
  - (a) Retrenchment strategy
  - (b) Strategic alliance
  - (c) Diversification strategy
  - (d) Market development

- 
4. Considering the results from the market, which category of BCG's growth share matrix does the accessories business of Connect Innovations fall into?
    - (a) Star
    - (b) Question mark
    - (c) Cash cow
    - (d) Dog
  5. In phase two of shifting the business focus to peripheral accessories production, Connect Innovations has planned to implement which barrier to discourage potential competitors?
    - (a) Capital requirement
    - (b) Product differentiation
    - (c) Access to distribution channels
    - (d) Economies of scale

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (b) Correct Sequence is (III), (I), (II), (IV)**

**Reason:**

To understand the competitive landscape, businesses typically:

- (i) **Identify the competitors** to recognize whom they are competing against.
- (ii) **Understand the competitors** by analyzing their strategies, strengths, and weaknesses.
- (iii) **Determine the strengths and weaknesses** to identify opportunities for competitive advantage.
- (iv) **Put all information gathered together** for strategic decision-making.

**2. Option (d) Implementation****Reason:**

Implementation is an operations-oriented activity aimed at shaping the performance of the core businesses of a company. Thus, short term and long-term objectives are a majorly crucial part of the Implementation Phase.

**3. Option (a) Retrenchment strategy,****Reason:**

Retrenchment strategy is where the organisation reduces the scope of activity to focus on more profitable/suitable businesses.

**4. Option (c) Cash cow****Reason:**

As accessories, the business has a low market growth rate but a greater market share. Also, the investment required is low, but it generates cash for the company.

**5. Option (d) Economies of scale****Reason:**

As they plan to reduce their per unit cost of production.



**CASE SCENARIO 2**

KingLike WLL, a renowned Dubai-based construction company, has carved a niche for itself in the real estate market by specializing in residential complexes. It's now poised to introduce a groundbreaking concept called "Vilartment" – a unique blend of private villas and apartments tailored to meet the growing demand of married couples seeking to cohabit with their parents, offering spacious living within a single residential unit.

The company's impressive competitive advantage lies in its substantial land purchasing power, setting it apart from its rivals. Furthermore, KingLike engages top-tier Italian designers, whose exceptional work is safeguarded by patents, making the replication of KingLike's properties a formidable challenge.

Recognizing the potential of this innovative concept, KingLike positions the Vilartment project as a distinct business unit within its operations. A talented workforce, strategically placed at various levels, is dedicated to overseeing the unit's functions. The ambitious plan aims to construct approximately 15,000 Vilartments over the next three years, with 50% of them immediately ready for occupancy upon completion.

The marketing team has taken an ingenious approach, enlisting major Bollywood and Hollywood celebrities to grace the foundation stone ceremony of the Vilartment, scheduled for next month. This event will receive extensive coverage from global media outlets, including print and social media platforms, a move aimed at attracting potential buyers worldwide.

With meticulous planning and efficient teams prepared for execution, the management exudes confidence in the project's success. The Vilartment initiative aspires to solidify KingLike WLL's position as a leading global real estate company.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. Igor Ansoff gave a framework which describes the intensification options available to a firm. Which of them did KingLike use for its intensification strategy?
  - (a) Market penetration
  - (b) Product development
  - (c) Market development
  - (d) Diversification into new products
2. Core competency is built on multiple know-hows and is an integration of many resources. As per C.K. Prahalad and Gary Hamel. KingLike has expert teams and huge buying capacity. Which amongst the following is not an area where core competency is identified?
  - (a) Customer value
  - (b) Application of competencies
  - (c) Market development
  - (d) Competitor differentiation
3. Different personnel have been deployed at respective levels in the project working as a business unit. Answer, Divisional managers and staff are a part of which of the following strategic levels in the organization?
  - (a) Corporate level
  - (b) Functional level
  - (c) Business level
  - (d) Consultant level

4. \_\_\_\_\_ is the answer to basic question "what business we are and what we do". Many businesses fail to conceptualize this, and it requires clarity. The company, however, has clarity on the same. Fill in the blank with the correct option.
- (a) Vision
  - (b) Mission
  - (c) Strategy
  - (d) Planning
5. Vilartment shall function as a strategic business unit (SBU), being one of the key businesses of the company. Which of the following is not a characteristic of a strategic business unit?
- (a) It is a combination of two or more independent businesses.
  - (b) The planning for the business is done separately.
  - (c) It has its own set of competitors.
  - (d) It has its own manager responsible for strategy and profits.

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (b) Product development**

**Reason:**

Vilartment is a new product in the existing market.

**2. Option (c) Market development**

**Reason:**

Market development is not an area where core competency is identified.

**3. Option (c) Business level**

**Reason:**

Divisional managers and staff are a part of business level of an organization

**4. Option (b) Mission****Reason:**

A company's mission statement answers the fundamental question of what the business does and why it exists. For KingLike, having clarity on its mission ensures alignment of all projects and strategic objectives.

**5. Option (a) It is a combination of two or more independent businesses.****Reason:**

A strategic business unit (SBU) is typically a single business entity with its own strategy, objectives, and competition. It does not represent a combination of independent businesses, which would better describe a conglomerate or holding company structure.

**CASE SCENARIO 3**

Hareeyali Pvt. Ltd. is a pioneering company dedicated to transforming corporate spaces into greener environments through innovative infrastructural designs and products. Established recently, it boasts six visionary founders. While the company's middle management team consists of just four individuals, over fifty dedicated professionals operate on the ground, specializing in client relationship management and delivery coordination.

In this emerging industry, GreenZone Pvt. Ltd. is currently at the forefront. With an impressive portfolio of 800 designs catering to fifty clients, GreenZone's production facility churns out an astounding 3000 units per day. While GreenZone has enjoyed a monopoly for some years, the industry anticipates significant growth as more corporations adopt eco-friendly initiatives.

Hareeyali has made commendable strides in its operations but faces a challenge in securing a suitable production facility. The key to unlocking its potential lies in formulating a strategic approach that addresses industry gaps and explores untapped opportunities. The founders are resolutely committed to making their mark in every corporate entity across India.

The expansion plan is divided into three phases, beginning with the targeted markets of Delhi NCR and Mumbai. Recognizing the unique needs of the working class in these cities, the strategy team has identified a crucial aspect—personalization. This insight has led Hareeyali to focus on tailor-made designs for companies, setting them apart from standardized offerings provided by competitors.

Additionally, Hareeyali has introduced the Green Card Points System, an innovative initiative where employees who choose to incorporate their products into their workspaces accumulate points. These points can be redeemed for purchases of herbal and organic products from leading online platforms.

The company has experienced robust growth in the past year and now aims to expand its reach through both online and offline channels. This multifaceted approach positions Hareeyali for even greater success in the coming years.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. GreenZone has been the leader in the industry and has deployed some barriers to entry on new players wanting to tap into this new growing industry. Apparently, Hareeyali has been struggling on the very same front and thus, the barrier's magnitude increases. Which of the following barriers to entry is used by GreenZone?
  - (a) Product differentiation
  - (b) Switching costs
  - (c) Economies of scale
  - (d) Brand identity
2. Hareeyali's Green points system falls under which strategic marketing technique?
  - (a) Service marketing
  - (b) Person marketing
  - (c) Direct marketing
  - (d) Augmented marketing
3. What demonstrates the strategic intent of Hareeyali's founders in their commitment to make their mark in every corporate entity across India?
  - (a) Setting specific financial goals
  - (b) Focusing on tailored designs for companies
  - (c) Formulating a strategic approach to address industry gaps
  - (d) The vision to reach every corporate entity
4. The management structure of Hareeyali is apparently like any other company with a lot of founders/top management, as the middle office work is undertaken by business automation. It does reduce costs, but the lower management has less opportunities to grow. Based on that, which if the following is the organizational structure of Hareeyali?

- (a) Network structure
  - (b) Matrix structure
  - (c) Divisional structure
  - (d) Hourglass structure
5. Intensity of rivalry determines attractiveness and profitability of an Industry. The rivalry between the two companies is furious and the profitability shall be low because of all the below factors, except:
- (a) Variable costs of business
  - (b) GreenZone is currently the industry leader
  - (c) The industry's growth is slow
  - (d) Companies are planning product differentiation

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (c) Economies of scale**

**Reason:**

By producing a massive number of items from its production facility.

**2. Option (d) Augmented marketing**

**Reason:**

The Green Card Points System offers additional value to customers by rewarding eco-friendly behavior with redeemable points for purchases. This falls under augmented marketing, which involves adding benefits to enhance the customer experience beyond the core product.

**3. Option (d) The vision to reach every corporate entity.**

**Reason:**

The founders' commitment to making their mark in every corporate entity across India reflects their long-term strategic vision, which defines their overarching intent and aspirations for the company.

**4. Option (d) Hourglass structure****Reason:**

The case mentions a large top management (founders), a lean middle management team of four individuals supported by business automation, and a larger ground-level workforce of over 50 professionals. This arrangement is typical of an hourglass structure, where the middle layer is minimized to reduce costs.

**5. Option (a) Variable costs of business****Reason:**

Variable costs of business are not the determinant if Intensity of Rivalry, rather fixed costs are, wherein the company can drop prices by increasing capacity.



**CASE SCENARIO 4**

LUXHEAL is a cutting-edge healthcare equipment design and manufacturing company founded by esteemed Indian medical academicians. The company secured a substantial investment of approximately 115 crores from a Pune-based venture capital firm to meet its capital requirements.

Recently, LUXHEAL unveiled its groundbreaking automated mind-mapped wheelchair, WHEELIX, which garnered recognition and accolades worldwide. The product earned the prestigious Industry Differentiator Award at an international conclave, solidifying its position as an industry innovator.

Dr. Budhiraja assumed the role of CEO last year, steering the company from a challenging position to a leadership position in innovation. His transformative leadership style fostered a culture of unity and inspiration among employees. Notably, he initiated a company-wide competition to encourage and recognize exceptional innovations.

One of the company's key strategic strengths lies in its advanced benchmarking processes. However, in their eagerness to enter the market and showcase their product range, LUXHEAL overlooked implementing some of the valuable insights and conclusions derived from these processes.

WHEELIX is poised to establish LUXHEAL as a specialized player in the market catering to affluent elderly individuals. The company has received interest from WeGO, a global leader in wheelchair production, proposing a partnership involving shared branding and facilities. The Board is inclined towards accepting this offer.

Nevertheless, WeGO is entangled in a legal dispute with its distribution partners, necessitating LUXHEAL invests considerable effort into building its own distribution channels.

Given the rising population of affluent elderly individuals and the escalating demand for high-end medical equipment, LUXHEAL is well-positioned to realize its visionary goals. The company's success hinges on effectively executing its innovative ideas.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. LUXHEAL is envisaged and is the most admired and responsible healthcare equipment company with an international footprint. Is this a vision or a mission? If this is LUXHEAL's vision, then which of the following is not essential while drafting the strategic vision?
  - (a) It should clearly illuminate the direction in which the organisation is headed.
  - (b) It should create enthusiasm among members of the organization.
  - (c) It should be rigidly defined to prepare the organisation for the future.
  - (d) This is a mission statement and not a vision statement
2. Considering the need for LUXHEAL to build its own distribution channels due to WeGO's legal dispute, which category in the BCG matrix might be relevant for this effort?
  - (a) Star
  - (b) Dogs
  - (c) Cash Cows
  - (d) Question Mark
3. Dr. Budhiraja has been instrumental in bringing about monumental changes in the company's structure and working culture. He has been very approachable yet feared by employees at all levels. What kind of leadership style can his style be termed as?
  - (a) Transactional leadership style
  - (b) Autocratic leadership style
  - (c) Diplomatic leadership style
  - (d) Transformational leadership style

- 
4. The recent international recognition that the company has got for WHEELIX, has turned around its strategy all together. Which of the following Michael Porter's generic strategies should LUXHEAL follow?
- (a) Cost leadership
  - (b) Focused differentiation
  - (c) Differentiation
  - (d) Focused cost leadership
5. Which of the following is a key entry barrier for LUXHEAL?
- (a) Brand identity
  - (b) Capital requirement
  - (c) Access to distribution channels
  - (d) Product differentiation

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (c) It should be rigidly defined to prepare the organisation for the future.**

**Reason:**

This is LUXHEAL's vision, and a vision should be creatively defined to prepare the organisation for the future. Hence, defining rigidly is not essential for drafting the vision.

2. **Option (d) Question Mark**

**Reason:**

Building a distribution channel is a resource-intensive process and represents a strategic move in a segment where success is uncertain. The company has potential but requires investment to grow and establish itself in this new domain.

**3. Option (d) Transformational leadership style****Reason:**

Transformational style, he inspires people and has been instrumental in the early stages of the company during its turbulent times.

**4. Option (b) Focused differentiation**

Focused differentiation, as it aims to fulfill the demands of a narrow market with its differentiated product.

**5. Option (c) Access to distribution channels****Reason:**

The rest all are amply covered for LUXHEAL except access to distribution channels.

**CASE SCENARIO 5**

Introducing Strong Girls Private Limited, a pioneering early-stage health beverage company headquartered in Bangalore, led exclusively by a dynamic team of women. Recognizing two crucial facets of their industry, the company understood the heightened health consciousness among the youth and the abundance of options available in the market to meet their demands.

With these insights in mind, they unveiled their flagship product, Avajuice, a health drink made from Amla, Papaya, Aloe Vera, and Neem, meticulously designed to bolster the immunity of young teenage girls. What sets Avajuice apart is its unique value proposition of delivering both health benefits and delectable flavors through organic ingredients.

To gain a competitive edge in their market segment, the company implemented a standardized production process. This strategic move translated into augmented profit margins and increased bargaining power. Avajuice has been strategically classified as a "Star" in BCG's growth matrix due to its rapid growth trajectory and substantial funding requirements.

The marketing team has played a pivotal role in charting the success of Avajuice. Recognizing the historically low customer loyalty and retention rates in the health beverage industry, the company took proactive steps to address this challenge. They established collaborations with prominent schools in Karnataka and forged an agreement with the State Government of Karnataka to offer Avajuice to girls in government schools at a highly subsidized rate of just one rupee each.

This strategic move not only garnered invaluable free publicity from both local and national media outlets but also allowed the company to introduce their compelling tagline, 'We Offer Tasty Health for our Teens.' This tagline was strategically propagated as a trending topic on social media, significantly amplifying brand awareness.

Effectively, the company has carved out a distinctive position in the niche market segment, yielding impressive profit margins as a result. Strong Girls Private Limited stands as a beacon of innovation and empowerment in the

health beverage industry, setting a new standard for quality and purpose-driven products.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. As per Peter Drucker, it is important to have a meaningful answer to the question, 'what business are we in?'. Through Avajuice, the company answered the following as 'We Offer Tasty Health for our Teens'. Among which of the following does this statement fall?
  - (a) Vision
  - (b) Mission
  - (c) Business definition
  - (d) Action plan
2. The processes have been standardised as a strategy to improve margins and gain more negotiation power in the market. Which of the generic strategies by Michael Porter has the company deployed to create a favourable scenario for itself?
  - (a) Differentiation
  - (b) Focussed differentiation
  - (c) Cost leadership
  - (d) Focussed cost leadership
3. Igor Ansoff developed a framework which describes the intensification options available to a firm. Which of the following did Strong Girls Private Ltd. use for intensifying Avajuice?
  - (a) Market penetration
  - (b) Product development
  - (c) Market development
  - (d) Diversification strategy

- 
4. Which factor from the PESTLE analysis played a crucial role in the company's decision to focus exclusively on the health beverage market for teenage girls?
    - (a) Social
    - (b) Technological
    - (c) Economic
    - (d) Legal
  5. Avajuice can be identified as a Star as per BCG's Growth Matrix, based on the rapid growth it has shown and the enormous funds it demanded to maintain the market and fuel the growth potential. What would Avajuice turn into, as per the matrix, when its growth slows down?
    - (a) Dog
    - (b) Question mark
    - (c) Will remain a star
    - (d) Cash cow

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (b) Mission**

**Reason:**

Mission, as per Peter Drucker, when we have to answer what business are we in, the answer should be marketing oriented and should cater to external perspective, and that forms part of mission statement.

**2. Option (d) Focussed cost leadership**

**Reason:**

Focussed cost leadership, as standardisation ensures low cost of production thus making the business more profitable and awarding more negotiation power to the producer/seller, and the market for Avajuice is niche, this focussed cost leadership.

**3. Option (c) Market development****Reason:**

Market development, as Avajoice is an existing product that is targeted to be sold in a new market for young girls.

**4. Option (a) Social****Reason:**

The focus on health beverages for teenage girls is driven by social factors, including the increasing health consciousness among youth. This reflects societal trends influencing consumer preferences and product focus.

**5. Option (d) Cash cow****Reason:**

Cash cow, as per BCG's growth matrix, a star turns into a cash cow when the growth slows down.



**CASE SCENARIO 6**

MidoriTech, a Japanese information technology giant recently got into a multi-million dollar deal with Dezyner Pvt. Ltd. of Bangalore, a user interface designing company. MidoriTech is a leader in developing firewall for cloud security services and this deal would help it leverage the latest user-friendly designs of Dezyner Pvt. Ltd. to be incorporated in its own systems. The major motive of both the companies is to capture the budding segments of the market, which is very difficult to do given one's own isolated operations.

The second important aspect of the deal is a shared Research and Development Centre in Bangalore with a 70:30 investment in R&D over the period of the next five years. The advancements in cloud computing are to be matched with other global giants, and this Centre will provide world class excellence for the requisite. Mr. B. K. Suman, the erstwhile head of Dezyner Pvt. Ltd., has been appointed as the General Manager of the R&D Centre, and will report directly to the CEO of MidoriTech.

MidoriTech has been in the industry for over thirty years and has over five hundred clients. For better control and ease of business, it has divided its business segments as per the clients' industry. Thus, it has four major segments: Robotics, E-Commerce, Energy and Others.

The company had been eyeing five probable Indian companies for a design-oriented deal. Over the course of one year, they ran multiple financial models to find the most suitable synergy and finally zeroed in with Dezyner Pvt. Ltd. This was covered by all major media houses, as this is one of the biggest Indo-Japan Deal in the last decade.

The future is uncertain, but the companies, through combined synergies have a stable market standing and growth-oriented future in purview.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. Robotics, E-Commerce, Energy and Others, are separate units of MidoriTech, that have been devised for ease of control. Which of the following is not a characteristic that would have helped them identify and separate units for better strategic management?
  - (a) Distinct markets
  - (b) Customer's preference
  - (c) Similar technologies
  - (d) Identical competitive advantage
2. Dezyner Pvt. Ltd. and MidoriTech's deal fall under which type of Expansion Strategy?
  - (a) Conglomerate merger
  - (b) Concentric diversification
  - (c) Horizontal merger
  - (d) Strategic alliance
3. The R&D centre at Bangalore will be a game changer for both the companies. Which of the following is not an approach for implementation that Mr. Suman can deploy?
  - (a) First firm to market new technology
  - (b) Innovative imitator of successful products
  - (c) Being a mediator in trading of new technology
  - (d) Low-cost mass producer of tested products
4. Mr. B. K. Suman shall work as general manager of the R&D centre for the two companies. At which strategic level will he be working as a General Manager?
  - (a) Corporate level

- (b) Corporate and business level
  - (c) Functional and business level
  - (d) Functional level
5. MidoriTech's division of its business segments into Robotics, E-Commerce, Energy, and Others aligns with which element of the 7S McKinsey model?
- (a) Strategy
  - (b) Structure
  - (c) Systems
  - (d) Style

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (b) Customer's preference**

**Reason:**

The four segments of MidoriTech work as SBUs. Customer preference is not a characteristic of division as the matter is based on internal strategic decisions and does not relate to customer influence.

**2. Option (d) Strategic alliance**

**Reason:**

Strategic alliance is the right answer, as the companies would maintain independent status and they plan to benefit from each other what they could not get in isolated operations

**3. Option (c) Being a mediator in trading of new technology**

**Reason:**

Being a mediator for trading of new technology does not qualify as an implementation strategy of R&D. It is a business strategy not R&D strategy

**4. Option (b) Corporate and business level****Reason:**

General Managers deliver their responsibilities at both corporate and business levels, however, their responsibilities depend on size of organisation

**5. Option (b) Structure****Reason:**

MidoriTech's division of its business segments into Robotics, E-Commerce, Energy, and Others aligns with the "Structure" element of the 7S McKinsey model. The "Structure" element refers to the organization's arrangement of roles, responsibilities, and reporting lines. By organizing its business segments in this way, MidoriTech is structuring its operations based on different market segments, which is a structural aspect of its strategic approach.

**CASE SCENARIO 7**

Sukh Pvt. Ltd. has been importing Italian crockery under the brand name of 'Facile' since 2017. The company was amongst the first ones in India to introduce the innovative unbreakable crockery. Their affiliate, an Italian company, which owns Facile, had entered into a progressive deal, wherein, products would be sourced to India via their logistics and all marketing spend would be covered by them. However, customer management and nationwide distribution would be taken care of by Sukh Pvt. Ltd. This required English speaking skilled workforce, which has been a constant challenge for the company in India.

The owners of Sukh Pvt. Ltd. have been regular at attending industry relevant conclaves, both national and international. Leaders of the company are avid readers of business magazines. Following that, it was observed that the recent sentiment of the country towards 'Vocal for Local' could disrupt their Italian brand's marketability. An extraordinary meeting was set up and the steps ahead were planned.

The outcome of the meeting was to partner with local producers of earthen utensils in phase one of the change strategy. For this, seven state governments were approached. The team was successful in bagging contracts from all the government departments of these seven states and could position themselves fairly in the market. To fund this new investment, they have planned to slowly sell off their Italian business assets as well as the brand, to probable buyers.

This timely shift is proving to be a game changer for the company and the leadership is quite happy with better than before earnings and a much greater response from the customers. They find it easier to operate with domestic producers and vendors, and a sense of patriotism is instilled in the consumers' mind.

**Based on the above case scenario, answer the multiple-choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. Which of the following best represents an opportunity for Sukh Pvt. Ltd. in the current scenario?
  - (a) Increasing competition from local producers
  - (b) Growing sentiment for imported goods
  - (c) Partnership with local producers of earthen utensils
  - (d) Decline in customer sentiment towards 'Vocal for Local'
2. Which of the following types of strategic control did the owners and leadership of Sukh Pvt. Ltd. Deploy, that eventually turned out to be one of the most effective strategic decisions for the company?
  - (a) Premise control
  - (b) Special alert control
  - (c) Implementation control
  - (d) Strategic surveillance
3. 'Vocal for Local' is a market sentiment that changed customer's preferences for the majority of products of all industries. Based on that, Sukh Pvt. Ltd. gauged the competition it might face in the coming months and agreed to change its own product. Which of the following forces, as per Michael Porter's five forces of competitive analysis, is most relevant in this case?
  - (a) Threat of new entrants
  - (b) Nature of rivalry in the industry
  - (c) Threat of substitutes
  - (d) Bargaining power of the buyer
4. Which of the following aspects of value chain analysis was the most challenging for Sukh Pvt. Ltd. at the time of selling Facile brand crockery?
  - (a) Manufacturing

- (b) Outsourcing
  - (c) Customer service
  - (d) Procurement
5. To strategically revamp their business, partnerships were done with Indian local producers from seven states and to fund it, the existing arm of business was to be sold off. Which of the following strategies has Sukh Pvt. Ltd. opted for?
- (a) Turnaround strategy
  - (b) Divestment strategy
  - (c) Liquidation strategy
  - (d) Intensification strategy

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (c) Partnership with local producers of earthen utensils**

**Reason:**

Partnership with local producers of earthen utensils. The opportunity to partner with local producers aligns with the current market trend towards 'Vocal for Local.'

**2. Option (c) Implementation control**

**Reason:**

Implementation control involves ensuring that plans are being implemented effectively and achieving the desired results. In the case of Sukh Pvt. Ltd., their decision to partner with local producers of earthen utensils and the subsequent success of this strategy indicates effective implementation. This strategic decision was crucial in shifting their business model to align with the 'Vocal for Local' sentiment, leading to better earnings and a greater customer response. Therefore, implementation control was likely a key factor in the company's success in executing this strategic shift.

**3. Option (c) Threat of substitutes****Reason:**

The threat of substitutes is the most relevant for Sukh Pvt. Ltd., as they were dealing in Italian crockery and the same is hit by locally produced earthen utensil, thus a substitute of their product

**4. Option (b) Outsourcing****Reason:**

The most challenging aspect of value chain analysis for Sukh Pvt. Ltd. at the time of selling Facile brand crockery was likely (b) Outsourcing.

Outsourcing involves sourcing components or finished goods from external suppliers, which can be a critical part of the value chain, especially for a company like Sukh Pvt. Ltd. that was importing Italian crockery. The decision to sell off their Italian business assets and brand indicates a shift away from outsourcing from the Italian company, which could have been a complex process involving finding new suppliers, negotiating contracts, and ensuring a smooth transition.

**5. Option (b) Divestment strategy****Reason:**

Divestment strategy, as a major part of business, and SBU is sold off in divestment. Here Facile was sold off to fund the new business



**CASE SCENARIO 8**

Dr. Mikeshe Gupta, Agriculture Management Guru at a leading management school in Patna, has been driving the business of E-Bandhu with seven of his students since 2017. This business has two core objectives: first, sustainable farming awareness and second, seasonal availability of agricultural inputs. It is a technology driven business wherein they have a one stop shop for all agricultural products available to farmers at competitive prices. Business is quite challenging, given the fact that farmers in the region are not well aware of the use of technology.

In the summer of 2019, the team decided to redefine their business strategy to succeed in the agricultural sector. They formulated a new definition and made strategic decisions to leverage their core competencies.

Firstly, they shifted their target market from directly serving farmers to onboarding wholesalers and retailers into the system and selling products to them. This strategic move was based on the understanding that wholesalers and retailers could influence technology adoption among farmers.

Secondly, they outsourced logistics to MaalGaadi, a rural supply chain management company. This decision helped E-Bandhu reduce asset procurement costs and corresponding debt, thus strengthening their position in the market.

Thirdly, they introduced a new service-based product, ChaaraVidya, in their application. ChaaraVidya aims to educate farmers about the latest sustainable farming practices being implemented around the world. This addition could potentially be a game-changer for E-Bandhu in the agro startup circle, further enhancing their core competency in promoting sustainable farming practices and technology adoption.

The team is enthusiastic about the strategic changes brought in by Dr. Mikeshe and anticipates a more sustainable future for their idea.

**Based on the above case scenario, answer the multiple-choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. Switching from direct selling to marketing through wholesalers and retailers was a strategic decision taken by the management. Such decisions help an organization to be more of which of the following?
  - (a) Authoritative
  - (b) Futuristic
  - (c) Proactive
  - (d) Regularised
2. ChaaraVidya was brought into the market to increase farmer awareness of soil quality and the latest sustainable farm practices from around the world? What kind of growth strategy will it fall under?
  - (a) Market penetration
  - (b) Market development
  - (c) Product development
  - (d) Diversification of business
3. One of the most strategically advantageous decisions for E-Bandhu was to get into a contract with MaalGaadi. Which of the following could not be an advantage for E-Bandhu from this alliance?
  - (a) Cost savings
  - (b) Reduced delivery time
  - (c) Improved customer satisfaction
  - (d) Increased inventory of products
4. How does E-Bandhu utilize Michael Porter's Five Forces model in its strategic decision-making process?
  - (a) By focusing on industry rivalry and competitive pricing
  - (b) By analyzing the bargaining power of suppliers and buyers
  - (c) By assessing the threat of new entrants and substitutes

- (d) All of the above
- 5. What are the core objectives of E-Bandhu, as mentioned in the case study?
  - (a) Sustainable farming awareness and seasonal availability of agricultural inputs
  - (b) Technology-driven solutions and competitive pricing
  - (c) Onboarding wholesalers and retailers into the system
  - (d) All of the above

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (c) Proactive**

**Reason:**

Strategic management decisions make an organisation more proactive.

**2. Option (c) Product development**

**Reason:**

Product development as a new product is developed for the existing consumers of the company with added features.

**3. Option (d) Increased inventory of products**

**Reason:**

MaalGaadi is a rural logistics solutions company that would ease off E-Bandhu's supply chain management. Inventory would thus reduce and not increase

**4. Option (b) By analyzing the bargaining power of suppliers and buyers**

**Reason:**

Michael Porter's Five Forces model helps E-Bandhu analyze the bargaining power of suppliers and buyers in the agricultural market. This analysis enables E-Bandhu to make informed decisions regarding pricing, sourcing, and partnerships, ultimately strengthening its competitive position.

**5. Option (a) Sustainable farming awareness and seasonal availability of agricultural inputs**

**Reason:**

The core objectives of E-Bandhu, as mentioned in the case study, are sustainable farming awareness and seasonal availability of agricultural inputs. These objectives reflect the company's mission and vision to promote sustainable farming practices and address the challenges faced by farmers in accessing agricultural inputs.

**CASE SCENARIO 9**

LactoQalci is a family run company engaged in the business of manufacturing packaged sweetened pro-biotic milk beverage. The management envisions a potential future in the health and fitness industry. It thereby adopted a new statement "Ensuring Health for Everyone" to uplift the company's business makeup and market position.

LactoQalci introduced a new product for its existing customers, a range of sugar-free milkshakes. The company initiated an advertisement campaign with the tag line "Now enjoy the goodness of LactoQalci in sugar-free milkshakes". It is anticipated to become the most selling product of the company.

Further, to make the product unique, they adopted a distinctive product packaging design. The milkshake tetra packs came with a 'calories saved' scale printed on them. It was designed to motivate the consumers to a healthier life. As a result, the company was able to sell these milkshakes at a higher price.

The company saw a decent response from the market and were planning to scale up operations, when suddenly, political disturbance in the state pulled their sales to rock bottom. Several warehouses of the company had to be temporarily shut down.

However, Mr. Rohatgi, the passionate operations head of the company, responded swiftly, and reengineered the business processes. He automated inventory management and outsourced logistical support. Small investments in IT infrastructure in troubled times reaped higher returns. The company was able to achieve better than before efficiency at all levels of operations and ensured regular sales.

**Based on the above case scenario, answer the multiple-choice questions.**

**MULTIPLE CHOICE QUESTIONS**

1. Introducing Sugar-Free milkshakes by LactoQalci, falls under which Product-Market strategy as given by Ansoff?
  - (a) Product development

- (b) Market penetration
  - (c) Market development
  - (d) Diversification
2. Which of Michael Porter's Generic Strategies was adopted by LactoQalci to gain competitive advantage?
- (a) Cost leadership strategy
  - (b) Differentiation strategy
  - (c) Focussed cost leadership strategy
  - (d) Focussed differentiation strategy
3. Which strategic intent is expressed in the statement "Ensuring Health for Everyone" by LactoQalci?
- (a) Vision
  - (b) Mission
  - (c) Goals and Objectives
  - (d) Business definition
4. What kind of leadership did Mr. Rohatgi portray to pull out LactoQalci from the sudden disruption?
- (a) Transactional leadership
  - (b) Transformational leadership
  - (c) Transparent leadership
  - (d) Translational leadership
5. LactoQalci's introduction of a new product, sugar-free milkshakes, aligns with which element of the 7S McKinsey Framework?
- (a) Skills
  - (b) Staff
  - (c) Strategy
  - (d) Style

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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**1. Option (a) Product development****Reason:**

The company desires to introduce new products into existing markets which are covered under Product development.

**2. Option (b) Differentiation strategy****Reason:**

To make the product unique the company also adopted a distinctive product packaging design. As a result of which, the company was able to charge a premium for its product. Thus, Differentiation strategy.

**3. Option (a) Vision****Reason:**

Strategic vision points out management's aspirations for the business and implies the blueprint of the company's future position.

**4. Option (b) Transformational leadership****Reason:**

Transformational leadership is most suitable in turbulent environments, in industries at the very start or end of life cycles. Mr. Rohatgi portrayed Transformational leadership.

**5. Option (c) Strategy****Reason:**

Strategy - Introducing a new product like sugar-free milkshakes aligns with the strategic direction of the company, making it part of the Strategy element.

**CASE SCENARIO 10**

After graduating from IIT in computer science, sisters, Shakti and Stuti, following their passion for computers, started "Code Consulting". They faced innumerable survival challenges in a highly dynamic IT market. But with the combined efforts of a highly dedicated team of data scientists, their core business of big data analytics gained a prominent market presence.

From inception, Code Consulting has been a women-centric organization. The sisters ensured that women were provided with ample opportunities in the organization. Given the option of Work From Home (WFH) as mandated by recent legal regulations, majority of the female workforce availed the option. To avoid a drop in sales, the sisters expeditiously lead a crisis management team to accommodate adoption of the required technology to meet the changes of time.

Code Consulting, having reached a reputable market standing, was now observing cut-throat competition from foreign giants in its niche. The sisters resolved to make an effort into their long aspired dream to diversify into the innovative market space of 3D printing. Code Consulting, lacking the requisite experience, went for a merger with a startup named "CreatyVT" known for its technical know-how. They have a strong skill-based team, but the long-standing startup had a relatively small market share in the 3D printing arena.

Early on, the management observed that the businesses of big data analytics and 3D printing had distinct markets. So, they split the company into different business units to independently identify their performance. Separation into business units helped in simplifying the control-related problems too. Whereas the challenge to increase the company's market share was successfully met by introducing ingenious 3D printers with easily refillable cartridges. The new product was supported by an aggressive online advertising campaign. The customers pleased by the products helped reach the desired sales targets in no time.

Having shown a never giving up attitude coupled with wise leadership skills, the business of Code Consulting sustained a turbulent patch and placed itself as a renowned brand in the Indian IT.



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**Based on the above case scenario, answer the multiple-choice questions.**

**MULTIPLE CHOICE QUESTIONS**

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1. Applying BCG matrix, identify the correct investment category for the new "3D printing" business of Code Consulting, at the time of merger?
  - (a) Star
  - (b) Cash cow
  - (c) Dog
  - (d) Question mark
2. Which strategy has been adopted by Code Consulting to overcome the difficulties of low market share for its "3D printing" business?
  - (a) Dynamic strategy
  - (b) Adaptive strategy
  - (c) Intended strategy
  - (d) Sound strategy
3. Mark the correct growth and expansion strategy employed by Code Consulting in merging with the startup named "CreatyVT"?
  - (a) Horizontal merger
  - (b) Vertical merger
  - (c) Co-generic merger
  - (d) Conglomerate merger
4. What has been the rationale behind Code Consulting's management for treating big data business and 3D printing business amenable to separate strategic treatment?
  - (a) The businesses were unrelated
  - (b) The businesses were unmanageable
  - (c) The businesses were related
  - (d) The businesses were identical

5. Which type of strategic control was adopted by Code Consulting when a new legal regulation proposed that women workers shall have the option to work from home?
- (a) Premise control
  - (b) Special alert control
  - (c) Strategic surveillance
  - (d) Implementation control

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

**1. Option (d) Question mark**

**Reason:**

The 3D printing business had a small market share in a high-growth market at the time of the merger, placing it in the "Question mark" category of the BCG matrix. This indicates that while the business has potential, it requires significant investment to increase its market share.

**2. Option (c) Intended strategy**

**Reason:**

An intended strategy refers to a deliberate course of action planned by management to achieve specific goals. Code Consulting's decision to merge with CreatyVT reflects a pre-planned and deliberate strategy to leverage technical expertise and address the challenge of low market share in the 3D printing business. This was not merely reactive or adaptive but a carefully thought-out step aligning with their aspirations to diversify.

**3. Option (c) Co-generic merger**

**Reason:**

A co-generic merger involves two companies operating in related industries that combine to create synergies. Code Consulting (big data analytics) and CreatyVT (3D printing) share a technological and innovation-oriented focus, making this a co-generic merger. It is not a

horizontal merger as they do not compete directly, nor is it a conglomerate merger as they are not unrelated businesses.

**4. Option (a) Unrelated business**

**Reason:**

The businesses of big data analytics and 3D printing cater to distinct markets, indicating they are unrelated in terms of their customer base, offerings, and market dynamics. This separation into distinct business units allows for focused strategic planning and performance tracking.

**5. Option (b) Special alert control**

**Reason:**

Special alert control is used when an organization responds to sudden and significant external changes or crises, such as the introduction of new legal regulations mandating work-from-home options. Code Consulting quickly adapted by forming a crisis management team and implementing the necessary technological changes, demonstrating a special alert control approach.

**CASE SCENARIO 11**

Swasthya, a rising star in India's dynamic healthcare sector, stands out as a prime example of smart strategic management.

At Swasthya, the compass guiding their endeavors is a compelling thought: to emerge as the finest healthcare provider renowned for delivering accessible, top-notch healthcare services. This overarching goal is not an isolated vision, but a thread woven into the very fabric of the organization, driving every facet of their operations. The people of the organization play a pivotal role in this journey. They are entrusted with translating this vision into tangible outcomes at the grassroots level, ensuring that local operations are aligned with the grand aspiration of becoming a healthcare leader.

Swasthya works meticulously towards optimizing each link of the patient experience. From streamlining appointment scheduling to expediting test result delivery, every facet of the healthcare journey is scrutinized. Swasthya's strategy is not merely about being a player in the market but about strategically positioning themselves as leaders. They proactively recognize the constant innovations that could disrupt their areas of expertise. To counter this, they introduced value-added offerings such as telemedicine and wellness programs. This addition not only mitigates the risk but also fortifies their long-term viability.

Beyond competition, ensuring the quality and safety of patient care is paramount at Swasthya. Stringent hygiene protocols, equipment maintenance regimens, and adherence to healthcare regulations form the cornerstone of their business. In parallel, the organization meticulously undertakes regular assessment as a central element of its decision-making apparatus. This forward-looking exercise encompasses identifying and assessing potential risks such as regulatory changes, medical malpractice vulnerabilities, or shifts in market dynamics, all of which could have far-reaching consequences for their long-term objectives.

The implementation of Swasthya's strategy is steered by the McKinsey 7S model, which ensures a harmonious alignment of seven critical elements: strategy, structure, systems, shared values, skills, style, and staff. It emphasizes

that the success of a long-term objective is contingent on the synchronization of these seven elements, reinforcing the idea that strategic management is not a compartmentalized process but a comprehensive activity.

Swasthya's strategic journey through India's healthcare landscape is a testament to the seamless integration of core management concepts, guiding its actions and strategies, while keeping the vision and intent at the core.

**Based on the above case scenario, answer the multiple choice questions.**

### MULTIPLE CHOICE QUESTIONS

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1. How does Swasthya's approach to premise control, including stringent hygiene protocols and equipment maintenance, contribute to their long-term objectives and which concept does it align with?
  - (a) It reduces immediate costs and aligns with strategic risk assessment.
  - (b) It safeguards quality and aligns with strategic risk assessment.
  - (c) It enhances immediate profitability and aligns with shared values.
  - (d) It streamlines administrative processes and aligns with value chain analysis.
2. How does Swasthya counter the risk posed by constant innovations and disruptions in their areas of expertise?
  - (a) By aggressively acquiring innovative startups.
  - (b) By introducing value-added services like telemedicine and wellness programs.
  - (c) By downsizing their operations.
  - (d) By focusing exclusively on urban healthcare markets.
3. Why is the McKinsey 7S model significant in Swasthya's strategic management approach, and which elements of the model ensure a holistic alignment of their strategy?
  - (a) It facilitates short-term profit maximization, with a focus on structure and style.
  - (b) It emphasizes a compartmentalized approach to strategy, focusing on shared values and skills.

- (c) It ensures a comprehensive alignment of strategy, structure, systems, shared values, skills, style, and staff.
  - (d) It prioritizes immediate cost reduction by aligning systems and strategy.
- 4. Why is the focus on local operations essential for Swasthya in the context of their long-term objective, and how does it contribute to their overall strategy?
  - (a) It reduces strategic risk by minimizing the need for strategic risk assessment.
  - (b) It aligns with their commitment to immediate profitability.
  - (c) It translates the organization's vision into tangible outcomes and aligns with their long-term objective.
  - (d) It diversifies their portfolio and aligns with competitive landscape analysis.
- 5. The case talks about scrutiny of every facet of the healthcare journey and emphasizes the fact that people of the organization play a pivotal role in this journey. Based on your reading, which level of management has the most crucial part to play here to ensure the sense of customer-first is imbibed in the organization?
  - (a) Top Management (C-Suite) which sets the tone and strategy of the organization.
  - (b) Middle Management (Divisional Managers) who have the responsibility of translating strategy to real-time objectives.
  - (c) Functional Managers who actually do the work in the field.
  - (d) Board of Directors who are responsible for wealth creation of the shareholders.

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (b) It safeguards quality and aligns with strategic risk assessment.**

**Reason:**

Premise Control is one of the most used tools of strategic risk assessment which helps safeguard against probable external risks.

2. **Option (b) By introducing value-added services like telemedicine and wellness programs.**

**Reason:**

Value added services create a competitive advantage thus countering the risks of substitutes.

3. **Option (c) It ensures a comprehensive alignment of strategy, structure, systems, shared values, skills, style, and staff.**

**Reason:**

The McKinsey 7S model, as mentioned in the case, ensures a comprehensive alignment of all seven elements, reinforcing the idea that strategic management is a holistic and integrated process.

4. **Option (c) It translates the organization's vision into tangible outcomes and aligns with their long-term objective.**

**Reason:**

The focus on local operations, as mentioned in the case, plays a pivotal role in translating Swasthya's vision into tangible outcomes at the grassroots level, which aligns with their long-term objective of becoming a healthcare leader.

5. **Option (b) Middle Management (Divisional Managers) who have the responsibility of translating strategy to real-time objectives.**

**Reason:**

Middle Management as they translate the long-term objective to real actionable and thus ensure the organisation's sense of customer-first is translated to each and every objective.



**CASE SCENARIO 12**

In the fiercely competitive automotive industry, Zing, a promising newcomer, set out on a strategic journey with ambitions of making a substantial impact. Recognizing the significance of a robust distribution network early on, Zing forged partnerships with established dealerships, offering them attractive margins. This strategic move significantly enhanced Zing's reach, with a presence in 80% of the nation's dealerships by 2022, expanding its coverage significantly.

To differentiate themselves from competitors, Zing adopted two key strategies. Firstly, they prioritized product design, investing heavily in aesthetics and incorporating innovative features and environmentally friendly technologies. This focus on design led to their vehicles receiving excellent reviews and achieving an impressive 15% year-on-year growth in sales.

Secondly, Zing implemented switching costs to discourage customers from switching to other brands. Their vehicles featured branded software, making it both expensive and cumbersome for customers to transition to alternative brands. This strategic move effectively protected Zing's market share.

Zing's overarching goal was to position itself as a premium automotive brand, blending luxury with sustainability. However, their execution fell down as they challenged with maintaining consistent quality and service levels, resulting in mixed customer reviews.

Despite their best efforts, Zing's differentiation strategy fell short due to issues with inconsistent quality and service. Negative word-of-mouth and declining customer satisfaction scores tarnished their brand image, leading to stagnating sales. This failure to deliver on their brand promise proved to be a significant setback.

As Zing's reputation suffered from execution failures, securing additional funds for international expansion became challenging. Consequently, they made the difficult decision to postpone their global ambitions for the next five years, focusing instead on stabilizing their finances and rebuilding their brand image.

In summary, Zing's strategic journey illustrates the importance of not only crafting a compelling differentiation strategy but also executing it flawlessly. In the competitive automotive landscape, maintaining consistent quality and service is paramount to sustaining brand loyalty and achieving long-term success.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. What key strategic approach did Zing use to expand its market presence in the automotive industry?
  - (a) Product innovation and design
  - (b) Cost leadership strategy
  - (c) Entering new international markets
  - (d) Vertical integration
2. How did Zing protect its market share from potential competitors?
  - (a) Price-cutting strategy
  - (b) Branded software and switching costs
  - (c) Aggressive marketing campaigns
  - (d) International expansion
3. Why did Zing's differentiation strategy fall short in the market?
  - (a) Intense price competition
  - (b) Poor marketing strategy
  - (c) Inconsistent quality and service
  - (d) Lack of international expansion
4. Forging partnerships with established dealerships to enhance its distribution network falls under which level of strategy?
  - (a) Corporate level strategy
  - (b) Business level strategy

- (c) Functional level strategy
  - (d) Competitive level strategy
5. How did Zing initially expand its market presence across the nation?
- (a) Aggressive marketing campaigns
  - (b) Developing low-cost vehicles
  - (c) Partnering with established dealerships
  - (d) Launching a luxury brand

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (a) Product innovation and design**

**Reason:**

Zing expanded its market presence through a focus on product design and innovation, as mentioned in the case. They invested in aesthetics and incorporated innovative features to achieve year-on-year growth in sales.

**2. Option (b) Branded software and switching costs**

**Reason:**

Zing protected its market share by implementing proprietary software in their vehicles, making it costly and cumbersome for customers to switch to other brands. This strategic move deterred potential competitors.

**3. Option (c) Inconsistent quality and service**

**Reason:**

Zing's differentiation strategy fell short due to inconsistent quality and service, which led to negative customer reviews and tarnished their brand image.

**4. Option (b) Business level strategy**

**Reason:**

Forging partnerships with dealerships is a Business-Level Strategy because it is a strategic action aimed at achieving competitive advantage

in a specific market, contributing to the company's broader competitive goals.

**5. Option (c) Partnering with established dealerships**

**Reason:**

Zing expanded its market presence by partnering with established dealerships, offering them attractive margins. This strategy significantly increased their coverage across the nation, as stated in the case.

**CASE SCENARIO 13**

Café Delight, a thriving restaurant chain known for its unique blend of Australian and Indian culinary experiences, embarked on a remarkable journey from its humble beginnings as a small café in Australia to becoming a renowned player in the Indian restaurant industry. This case study digs into the strategic decisions and market dynamics that fueled Café Delight's growth, highlighting its transition from a single café in Powai, Mumbai, to a flourishing chain with a presence in five cities and over 25 stores. It explores how Café Delight effectively leveraged social media and adapted its pricing strategy to compete with global brands while maintaining a healthy profit margin.

In 2005, Café Delight was founded in Melbourne, Australia, by a passionate entrepreneur with a vision to bring the flavors of Australia and India together. The first café established in Powai, Mumbai, received accolades for its unique menu, blending Australian coffee culture with Indian culinary traditions. Over the course of five years, Café Delight expanded to three stores in Mumbai, driven by exceptional mouth publicity, customer loyalty, and consistent quality.

As the social media landscape evolved, Café Delight recognized the power of online platforms in reaching a wider audience. By effectively utilizing social media and online marketing, Café Delight expanded its presence to five cities across India and established over 25 stores. Customer engagement through social media platforms enabled the brand to create a strong and vibrant community, driving organic growth.

Café Delight's customer-centric approach involved continuously evolving its menu to cater to the changing tastes and dietary preferences of its patrons. By understanding the evolving needs of its customers, Café Delight could offer personalized menu items, seasonal specials, and dietary alternatives. This approach created a sense of loyalty and engagement among customers, strengthening the brand's appeal. Not just customers but High-power, low-interest stakeholders, including regulatory authorities, were addressed with careful compliance and adherence to industry standards. Low-power, high-interest stakeholders, like potential customers and local communities, were engaged through targeted marketing campaigns and community involvement.

initiatives. This meticulous stakeholder analysis allowed Café Delight to build and maintain strong relationships with each group, effectively managing their influence and impact on the brand.

With its expanding presence and increasing popularity, Café Delight underwent a shift in its pricing strategy. It transitioned from a pocket-friendly pricing model to a skimming strategy, capitalizing on its unique blend of Australian and Indian flavors to position itself as a premium restaurant. Café Delight faced stiff competition from global brands entering the Indian market but maintained a profit margin of approximately 30% through menu engineering and targeted pricing.

In one of its kind, using strategic tools enabled Café Delight to identify and act on opportunities while mitigating threats, contributing to its long-term success in the highly competitive restaurant industry.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. Café Delight effectively leveraged social media and adapted its pricing strategy as it stepped into which phase of business life cycle of operations?
  - (a) Introduction Stage
  - (b) Growth Stage
  - (c) Maturity Stage
  - (d) Decline Stage
2. What stakeholder group did Café Delight engage through targeted marketing campaigns and community involvement initiatives?
  - (a) High-power, high-interest stakeholders
  - (b) Low-power, low-interest stakeholders
  - (c) Low-power, high-interest stakeholders
  - (d) High-power, low-interest stakeholders

3. What best describes Café Delight's initial expansion strategy when it expanded from one café to three in Mumbai?
  - (a) Aggressive price reduction
  - (b) Leveraging customer loyalty and word-of-mouth publicity
  - (c) Extensive online marketing
  - (d) Embracing global branding strategies
4. At which level of strategic management does Café Delight's transition from a pocket-friendly pricing model to a skimming strategy fit?
  - (a) Corporate level
  - (b) Business level
  - (c) Functional level
  - (d) Operational level
5. What type of strategy did Café Delight use to differentiate itself from competitors in the Indian restaurant industry?
  - (a) Cost leadership strategy
  - (b) Focused differentiation strategy
  - (c) Cost focus strategy
  - (d) Hybrid strategy

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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#### 1. Option (b) Growth Stage

**Reason:**

The case describes Café Delight's expansion from a single café to over 25 stores across five cities, driven by social media and targeted marketing. This reflects the growth stage, where businesses focus on increasing market presence, scaling operations, and capturing new customers. The shift in pricing strategy further supports their transition to a broader market.

**2. Option (c) Low-power, high-interest stakeholders****Reason:**

The case mentions Café Delight engaging with potential customers and local communities through marketing and community involvement. These groups are classified as low-power, high-interest stakeholders because they don't directly influence decision-making but are deeply invested in the brand's offerings and reputation.

**3. Option (b) Leveraging customer loyalty and word-of-mouth publicity****Reason:**

The case explicitly states that Café Delight's initial expansion was driven by exceptional word publicity, customer loyalty, and consistent quality, which played a critical role in growing from one café to three stores in Mumbai.

**4. Option (b) Business level****Reason:**

The shift in pricing strategy is a business-level decision as it involves competing within the restaurant industry by repositioning the brand as a premium offering. This aligns with the focus on achieving competitive advantage through differentiation and pricing.

**5. Option (b) Focused differentiation strategy****Reason:**

Café Delight offered a unique blend of Australian and Indian flavors, personalized menu items, and premium pricing to cater to a specific segment of customers looking for distinctive culinary experiences. This reflects a focused differentiation strategy, targeting a niche market with unique offerings.



**CASE SCENARIO 14**

Sneha Rao, founder and CEO of DEF Technologies, is renowned for her technological insight and visionary leadership style. She cultivates a culture of collaboration, continuous learning, and innovative problem-solving, encouraging her employees to think outside the box and embrace new challenges. Her exceptional ability to foresee technological trends and navigate complex market dynamics has propelled DEF Technologies to impressive growth over the past decade.

Sneha started DEF Technologies in 2010 as a small software development firm. With a vision to transform DEF Technologies into a leading tech company, she initially focused on developing custom software solutions for local businesses. However, intense competition and limited market demand led to financial difficulties. Undeterred, Sneha pivoted the business towards developing cloud-based solutions, leveraging the growing trend of digital transformation. This strategic shift, along with aggressive marketing, helped DEF Technologies capture a significant market share and become a leader in cloud services, setting new industry standards.

In 2015, Sneha's brother, Raj, joined the company, and together they crafted an ambitious expansion strategy. DEF Technologies entered the global market, partnering with international tech firms to launch a new line of AI-driven cybersecurity solutions. This venture was highly successful, establishing DEF Technologies as a global brand and a key player in the cybersecurity industry.

Raj then led the company's diversification into the healthcare sector with a new brand, MedTech Solutions. Recognizing the potential for technology to revolutionize healthcare, Sneha and Raj focused on developing affordable telemedicine platforms and AI-driven diagnostic tools. Their approach disrupted the market, providing high-quality healthcare solutions at lower costs and gaining widespread trust from healthcare providers and patients alike. MedTech Solutions experienced rapid growth, especially during the COVID-19 pandemic, as demand for remote healthcare services surged.

At the beginning of 2023, DEF Technologies launched another new business, GreenTech Innovations, to address environmental challenges through

technology. DEF Technologies continues to explore new opportunities and ventures to stay at the forefront of the tech industry.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. Sneha Rao's vision to transform DEF Technologies into a leading tech company illustrates which type of strategic intent?
  - (a) Goal
  - (b) Mission
  - (c) Vision
  - (d) Objective
2. Sneha's leadership style, which promotes collaboration, continuous learning, and innovative problem-solving, can best be described as:
  - (a) Transactional leadership
  - (b) Transformational leadership
  - (c) Autocratic leadership
  - (d) Laissez-faire leadership
3. When DEF Technologies expanded into the global market with AI-driven cybersecurity solutions, which of Porter's Five Forces was most likely mitigated by forming partnerships with international tech firms?
  - (a) Threat of Substitute Products or Services
  - (b) Bargaining Power of Suppliers
  - (c) Threat of New Entrants
  - (d) Intense Rivalry Among Existing Competitors
4. By entering the global market and launching AI-driven cybersecurity solutions, DEF Technologies pursued which expansion strategy from Ansoff's Product-Market Growth Matrix?
  - (a) Diversification
  - (b) Market Penetration

- (c) Product Development
  - (d) Market Development
5. MedTech Solutions' focus on developing affordable telemedicine platforms and AI-driven diagnostic tools reflects which of the following competitive strategies?
- (a) Differentiation strategy
  - (b) Cost leadership strategy
  - (c) Best-cost provider strategy
  - (d) Focus Strategy

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (c) Vision**

**Reason:**

Vision refers to the aspirational future state that an organization aims to achieve. Sneha's vision of transforming DEF Technologies into a leading tech company represents a long-term aspiration and an ultimate goal, aligning with the concept of vision.

**2. Option (b) Transformational leadership**

**Reason:**

Transformational leadership is characterized by inspiring and motivating employees to innovate and take on new challenges to create positive change and achieve future success. Sneha's approach fits well with transformational leadership.

**3. Option (c) Threat of New Entrants**

**Reason:**

By forming partnerships with international tech firms, DEF Technologies strengthened its market position, creating barriers to entry for new competitors. These partnerships provide access to resources and technologies that are difficult for new entrants to replicate, thus reducing the threat they pose.

**4. Option (a) Diversification****Reason:**

Diversification involves entering new markets with new products. In the scenario, DEF Technologies is entering the global market and offering a new line of AI-driven cybersecurity solutions. This expansion into new product categories in new markets aligns with the diversification strategy.

**5. Option (c) Best cost-provider strategy****Reason:**

The best-cost provider strategy involves offering products or services that provide superior value by combining low cost with differentiation. MedTech Solutions' approach of providing high-quality healthcare solutions at lower costs aligns with the best-cost provider strategy.

**CASE SCENARIO 15**

Kriti Pvt. Ltd. has been importing French gourmet cheeses under the brand name of 'Fromage' since 2017. The company was amongst the first in India to introduce innovative unbreakable cheese packaging. Their affiliate, a French company owning Fromage, had entered into a progressive deal, wherein products would be sourced to India via their logistics, and all marketing expenditures would be covered by them. However, customer management and nationwide distribution would be taken care of by Kriti Pvt. Ltd. This required an English-speaking skilled workforce, which has been a constant challenge for the company in India.

The owners of Kriti Pvt. Ltd. have been regular attendees at industry-relevant conclaves, both national and international. Leaders of the company are passionate readers of business magazines. Following that, it was observed that the recent sentiment of the country towards 'Vocal for Local' could disrupt their French brand's marketability. An extraordinary meeting was set up, and the steps ahead were planned.

The outcome of the meeting was to partner with local producers of traditional Indian cheeses in phase one of the change strategy. For this, seven state governments were approached. The team was successful in taking contracts from all the government departments of these seven states and could position themselves fairly in the market. To fund this new investment, they have planned to slowly sell off their French business assets as well as the brand, to probable buyers.

This timely shift is proving to be a game-changer for the company, and the leadership is quite happy with better than before earnings and a much greater response from the customers. They find it easier to operate with domestic producers and vendors, and a sense of patriotism is instilled in the consumers' minds.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. Which of the following actions taken by Kriti Pvt. Ltd. is an example of a proactive strategy?
  - (a) Selling off their French business assets.
  - (b) Responding to the 'Vocal for Local' sentiment by partnering with local cheese producers.
  - (c) Managing customer relations and nationwide distribution.
  - (d) Covering all marketing expenditures for 'Fromage' in India.
2. Which of the following types of strategic control did the owners and leadership of Kriti Pvt. Ltd. deploy that eventually turned out to be one of the most effective strategic decisions for the company?
  - (a) Premise control
  - (b) Special alert control
  - (c) Implementation control
  - (d) Strategic surveillance
3. 'Vocal for Local' is a market sentiment that changed customers' preferences for the majority of products across all industries. Based on that, Kriti Pvt. Ltd. gauged the competition it might face in the coming months and agreed to change its own product. Which of the following forces, as per Michael Porter's five forces of competitive analysis, is most relevant in this case?
  - (a) Threat of new entrants
  - (b) Nature of rivalry in the industry
  - (c) Threat of substitutes
  - (d) Bargaining power of the buyer
4. Which of the following aspects of value chain analysis was the most challenging for Kriti Pvt. Ltd. at the time of selling the Fromage brand?
  - (a) Manufacturing

- (b) Outsourcing
  - (c) Customer service
  - (d) Procurement
5. To strategically revamp their business, partnerships were done with Indian local producers from seven states, and to fund it, the existing arm of the business was to be sold off. Which of the following strategies has Kriti Pvt. Ltd. opted for?
- (a) Turnaround strategy
  - (b) Divestment strategy
  - (c) Liquidation strategy
  - (d) Intensification strategy

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (b) Responding to the 'Vocal for Local' sentiment by partnering with local cheese producers.**

**Reason:**

This is a proactive strategy because it anticipates shifts in consumer preferences toward local products. By partnering with local cheese producers, Kriti Pvt. Ltd. aligns its offerings with current market sentiment, rather than merely reacting to it after the fact.

2. **Option (d) Strategic surveillance**

**Reason:**

Strategic surveillance involves continuously monitoring the external environment for changes that could impact the organization. In this case, the leadership of Kriti Pvt. Ltd. recognized the shift in market sentiment and took proactive steps to adjust their strategy, showcasing effective strategic surveillance.

**3. Option (c) Threat of substitutes****Reason:**

The 'Vocal for Local' sentiment may increase the appeal of local alternatives to French gourmet cheeses, thereby posing a threat of substitutes. Kriti Pvt. Ltd. acknowledged this shift and adapted its product offerings to mitigate the risk of losing customers to local cheese producers.

**4. Option (c) Customer service****Reason:**

The transition from managing a French brand to focusing on local partnerships may have created challenges in customer service. Maintaining high-quality customer service and relationships during this transition is crucial, and any difficulties in doing so could impact customer satisfaction and loyalty.

**5. Option (b) Divestment strategy****Reason:**

By selling off their French business assets to fund partnerships with local producers, Kriti Pvt. Ltd. is executing a divestment strategy. This strategic move allows the company to reallocate resources toward a new focus on local production and meet changing consumer demands.



**CASE SCENARIO 16**

EcoForge, a startup specializing in eco-friendly building materials crafted from agricultural waste, entered the highly competitive manufacturing industry with a vision of promoting sustainability. Despite its innovative approach, the company faced significant challenges as a new entrant, including high production costs, limited market visibility, regulatory hurdles, and fierce competition from established players. However, through strategic planning and effective execution, EcoForge successfully navigated these obstacles and positioned itself for sustainable growth.

The company's leadership recognized the importance of understanding its internal strengths and weaknesses, along with external opportunities and threats. This analysis revealed EcoForge's core advantage in sustainability and innovation, contrasted with scalability issues and market pressure from cheaper alternatives. Additionally, market analysis uncovered the potential of urban housing projects as an opportunity, while intense competition posed a significant threat.

EcoForge's leadership focused on creating unique value propositions by emphasizing its eco-friendly materials. This differentiation helped the company appeal to environmentally conscious builders and developers. To expand its market reach, EcoForge adopted strategies to deepen its presence in existing markets and explore new ones. Concurrently, it analyzed the industry landscape and identified the critical influence of regulatory policies and socio-cultural factors shaping consumer preferences.

Internally, EcoForge implemented structural and cultural changes to enhance its operational efficiency and responsiveness. By adopting a Strategic Business Unit (SBU) model, the company streamlined its decision-making process, allowing each product line to adapt quickly to market demands.

Recognizing the need for collaborative leadership, EcoForge's CEO, Ms. Aarti Mehra, invested in leadership training programs for senior managers. This shifted the company's culture from hierarchical to team-driven, encouraging innovation and cross-functional collaboration.

To enhance its competitiveness, EcoForge optimized its production and supply chain processes by addressing inefficiencies and partnering with technology providers. These efforts significantly reduced costs and improved product quality. Simultaneously, the company pursued green certifications and localized marketing efforts to build brand recognition, attracting environmentally conscious clients. Over three years, these initiatives enabled EcoForge to expand into new markets, secure partnerships with leading developers, and increase its revenue by 40%.

By integrating market analysis, operational improvements, and a focus on cost efficiency, EcoForge transitioned from a struggling startup to a leader in sustainable building materials, setting a benchmark for innovation and environmental stewardship in the industry.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. The SBU model adopted by EcoForge is an example of strategic decision-making at which level?
  - (a) Corporate Level
  - (b) Business Level
  - (c) Functional Level
  - (d) Operational Level
2. EcoForge's strategy of appealing to environmentally conscious builders and developers by emphasizing its eco-friendly materials is an example of which type of generic strategy by Michael Porter.
  - (a) Cost Leadership
  - (b) Differentiation
  - (c) Focussed Cost Leadership
  - (d) Focussed Differentiation

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3. The case mentions EcoForge identifying “critical influence of regulatory policies and socio-cultural factors shaping consumer preferences.” Which strategic analysis framework is most relevant here?
    - (a) SWOT Analysis
    - (b) Value Chain Analysis
    - (c) PESTLE Analysis
    - (d) Ansoff’s Matrix
  4. EcoForge’s strategy to deepen its presence in existing markets and explore new ones corresponds to which growth strategy in Ansoff’s Matrix?
    - (a) Market Penetration
    - (b) Market Development
    - (c) Product Development
    - (d) Diversification
  5. Which key industry force, as per Porter’s Five Forces, is reflected in EcoForge’s challenges from cheaper alternatives and intense competition?
    - (a) Threat of New Entrants
    - (b) Bargaining Power of Suppliers
    - (c) Bargaining Power of Buyers
    - (d) Threat of Substitutes

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (a) Corporate Level**

**Reason:**

The SBU model is a corporate-level strategy that allows the organization to allocate resources and manage product lines as distinct units, focusing on market adaptation and streamlined decision-making.

2. **Option (b) Differentiation**

**Reason:**

The emphasis on eco-friendly materials highlights differentiation, as EcoForge offers unique value through sustainability, setting itself apart from competitors.

3. **Option (c) PESTLE Analysis**

**Reason:**

Regulatory policies and socio-cultural factors are external environmental elements analyzed through the PESTLE framework.

4. **Option (b) Market Development**

**Reason:**

Expanding into new markets while maintaining existing ones aligns with market development strategies.

5. **Option (d) Threat of Substitutes**

**Reason:**

Competition from cheaper alternatives represents a substitute threat, as customers may choose more affordable options over EcoForge's products.

**CASE SCENARIO 17**

Galaxy Enterprises Limited (GEL) operates as a diversified conglomerate with a significant presence in various industries, including electronics, packaged foods, textiles, heavy machinery, and renewable energy. Leveraging its substantial free reserves of ₹85,000 crores, GEL has built a strong brand reputation, largely driven by its market leadership across multiple sectors.

In the renewable energy sector, GEL has been the industry leader for over 15 years. The division's recent performance has been exceptional. A significant market development occurred when two competitors, Nova Green Energy Limited and Zenith Solar Limited – previously ranked second and third in market share, respectively – merged to create a new entity, Synergy Renewables Ltd (SRL). Following the merger, SRL has claimed the top spot in market share, intensifying competition.

Against this backdrop, the Chairman of GEL convened a strategic meeting with the Board of Directors, divisional heads, marketing executives, and the Group CFO. The meeting focused on formulating growth strategies for the renewable energy division, identifying opportunities for diversification, and announcing an interim dividend in honour of GEL's platinum jubilee celebrations.

Mr. Arvind Malhotra, CEO of the renewable energy division, emphasized the industry's slow pace of modernization compared to global standards. He highlighted the potential in emerging product categories, such as next-generation solar panels, energy storage systems, and advanced wind turbines. He proposed a modernization initiative requiring an investment of ₹7,000 crores. This transformation is projected to reduce operational costs by 20% and minimize wastage by 12%.

The CFO presented an analysis revealing that competitors are unlikely to invest in significant upgrades or expansions for the next 6–8 years due to financial constraints. In response, the Board approved the modernization initiative and allocated an additional ₹1,500 crores to strengthen the division's supply chain.

Another proposal discussed was GEL's entry into the electric vehicle (EV) segment. The Board approved this diversification strategy, allocating ₹8,000 crores to establish a foothold in this rapidly growing market. Additionally, the

Board authorized the distribution of an interim dividend of ₹75 per share to commemorate GEL's platinum jubilee.

In preparing for these strategic initiatives, the Board also evaluated key stakeholders to determine their influence and interest. Shareholders and the Board of Directors emerged as primary stakeholders with both high influence and interest, necessitating active engagement to secure their support. Regulatory authorities were recognized as influential but less interested in the immediate plans, requiring regular updates to ensure compliance. Customers and employees, while not as powerful, were identified as highly interested stakeholders, particularly concerning the renewable energy division's modernization and its entry into the EV market.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. GEL has approved significant investments in modernizing its renewable energy division and entering the electric vehicle segment. Analyze the level of strategy these decisions represent and identify the correct justification for your answer.
  - (a) Functional level, as these are related to operational improvements within the renewable energy division.
  - (b) Business level, as these initiatives align with the goals of a single division to gain a competitive edge.
  - (c) Corporate level, as they involve decisions impacting the overall portfolio and diversification of GEL.
  - (d) Operational level, as these focus on day-to-day activities within the divisions.
2. With the merger of Nova Green Energy Limited and Zenith Solar Limited into Synergy Renewables Ltd (SRL), how does this development influence GEL's strategic priorities in the renewable energy sector under Porter's Five Forces framework?
  - (a) The merger reduces the threat of substitutes by consolidating competing technologies.

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- (b) It increases the bargaining power of buyers by providing them with a stronger alternative supplier.
  - (c) It heightens the intensity of industry rivalry by creating a stronger competitor with greater market share.
  - (d) The merger strengthens the bargaining power of suppliers due to greater reliance on key inputs.
3. GEL's decision to enter the EV market represents a diversification strategy. Evaluate which type of diversification strategy is being pursued and the reasoning behind this classification.
- (a) Concentric diversification, as the EV market shares synergies with renewable energy technologies.
  - (b) Vertical integration, as GEL seeks to integrate upstream or downstream activities in the automotive value chain.
  - (c) Horizontal diversification, as GEL expands into a market unrelated to its existing renewable energy operations.
  - (d) Conglomerate diversification, as GEL enters an entirely unrelated and independent business segment.
4. GEL identified shareholders and the Board of Directors as key stakeholders. Analyze the rationale for classifying them as both high influence and high interest and how this influences strategic communication.
- (a) They directly impact compliance with regulatory standards, necessitating regular updates.
  - (b) Their vested interest in dividends and long-term value creation makes their engagement essential for approval of key initiatives.
  - (c) They represent the end consumers whose perceptions directly influence GEL's market reputation.
  - (d) Their role in operational execution requires constant communication and support for strategy implementation.

5. By approving modernization in renewable energy and diversification into EVs, what corporate strategy is GEL pursuing, and how does it position the company as per Ansoff's product market growth matrix?
- (a) Cost leadership, to lower operational expenses and offer competitive pricing.
  - (b) Product differentiation, by leveraging innovation in both existing and new markets.
  - (c) Market penetration, through deeper investments in existing product lines.
  - (d) Market expansion and diversification, to capture growth opportunities across unrelated industries.

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (c) Corporate level, as they involve decisions impacting the overall portfolio and diversification of GEL.**

**Reason:**

Corporate-level strategies focus on decisions that affect the entire organization, including diversification into new markets (e.g., EVs) and significant investments in existing divisions (e.g., modernization of renewable energy). These decisions are overarching and affect GEL's portfolio.

2. **Option (c) It heightens the intensity of industry rivalry by creating a stronger competitor with greater market share.**

**Reason:**

The merger consolidates two significant competitors into one dominant entity, intensifying rivalry within the industry. This increases the competitive pressure on GEL to innovate and maintain its market position.



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3. **Option (d) Conglomerate diversification, as GEL enters an entirely unrelated and independent business segment**

**Reason:**

Conglomerate diversification involves entering a new, unrelated business segment. In this case, GEL is entering the electric vehicle market, which is distinct from its existing renewable energy business. This move aims to spread risk and create new growth opportunities.

4. **Option (b) Their vested interest in dividends and long-term value creation makes their engagement essential for approval of key initiatives.**

**Reason:**

Shareholders and the Board play a critical role in approving significant financial decisions and have a direct interest in the company's financial performance and strategic direction, necessitating active engagement.

5. **Option (d) Market expansion and diversification, to capture growth opportunities across unrelated industries.**

**Reason:**

GEL's decision to invest in modernization and enter the EV market reflect a dual focus on expanding its existing market and diversifying into a new, unrelated industry, aligning with its overall corporate growth strategy.

**CASE SCENARIO 18**

In the ever-growing consumer electronics industry, Horizon Technologies found itself at a crossroads in 2018. The company, founded a decade earlier, had established itself as a key player in the global market for smartphones and other electronics. However, the pressure to stay relevant, meet customer demands, and fend off competitors was mounting. This is the story of how Horizon Technologies navigated its challenges, leveraging key business strategies and analyses to achieve remarkable success.

Horizon Technologies recognized the need to divide its operations to find areas for improvement. They conducted a comprehensive value chain analysis, identifying both primary and support activities. By streamlining processes and eliminating redundancies, the company reduced production costs and enhanced product quality. This allowed them to offer more competitive prices, thus gaining a strategic edge in the market.

The company's CEO, Mr. Jonathan Mercer, was known for his authoritative management style. His challenge was to transform his leadership approach to one that encouraged creativity and teamwork within the SBUs. Mr. Mercer invested in leadership development programs for middle and senior managers to enhance their interpersonal and communication skills. The transition wasn't easy, but it fostered a more collaborative and dynamic work environment.

They did not stop there, Horizon Technologies adopted a Strategic Business Unit (SBU) structure, dividing the company into smaller, more manageable units. Each SBU was tasked with focusing on specific product lines. This decentralization empowered individual units to make strategic decisions autonomously, leading to quicker market response and a deeper understanding of customer needs. It was the catalyst for innovation and improved customer satisfaction.

Post organizational changes, Horizon Technologies strategized to embrace a cost leadership strategy, positioning itself as the go-to brand for affordable yet high-quality electronics. By optimizing production processes and supply chain management, the company achieved cost efficiencies that competitors

struggled to match. This not only attracted cost-conscious consumers but also enabled the company to maintain healthy profit margins.

As Horizon Technologies expanded into new international markets, the management recognized the importance of adapting to the local environment. Conducting a thorough PESTLE analysis (Political, Economic, Social, Technological, Legal, and Environmental) proved pivotal for navigating complex market dynamics. This analysis highlighted specific challenges, especially in understanding socio-cultural trends and regulatory differences across regions. By leveraging these insights, Horizon Technologies was able to overcome these obstacles, customizing its products, marketing strategies, and operations to align more effectively with local preferences and regulations, ultimately contributing to their success.

Through these strategic moves, Horizon Technologies experienced a remarkable transformation. Within two years, their market share had significantly grown in local markets, whereas the cost leadership strategy resonated strongly. Their annual revenue skyrocketed by 35%, and the company saw a 20% increase in its stock price. The business case for Horizon Technologies serves as an inspiration for companies navigating competitive and dynamic industries.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. In Horizon Technologies' journey towards globalization, PESTLE analysis played a pivotal role in navigating diverse international markets. Which aspect of PESTLE analysis proved to be the most challenging for Horizon Technologies?
  - (a) Socio-cultural factors, as they struggled to keep up with changing trends and cultural preferences.
  - (b) Legal factors, given the complex regulatory landscape in foreign markets.

- (c) Environmental factors, with the need to adhere to varying sustainability standards.
  - (d) Technological factors, due to rapid changes in local technology preferences.
2. Horizon Technologies implemented a Strategic Business Unit (SBU) structure to improve its responsiveness and innovation. How did the SBU structure differ from the company's previous organizational model, and what benefits did this new structure bring?
- (a) The SBU structure replaced a functional structure and empowered units to make strategic decisions. It led to quicker market response and enhanced customer satisfaction.
  - (b) The SBU structure replaced a matrix structure, improving vertical communication and reducing operational silos.
  - (c) The SBU structure maintained the existing functional structure but focused solely on cost-cutting measures.
  - (d) The SBU structure introduced a more centralized approach, ensuring consistent decision-making across units.
3. Horizon Technologies faced internal challenges, including leadership struggles with an authoritative CEO. How did Mr. Jonathan Mercer transform his leadership style to foster a more collaborative work environment, and what were the key outcomes of this transformation?
- (a) Mr. Mercer increased his authoritative approach to drive quicker decision-making and efficiency.
  - (b) He introduced a strict top-down hierarchy to enhance discipline and order within the organization.
  - (c) Mr. Mercer invested in leadership development programs, enhancing interpersonal and communication skills, which resulted in a more collaborative and dynamic work environment.
  - (d) He delegated most of his responsibilities to middle managers, reducing his involvement in the company's daily operations.

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4. While implementing a cost leadership strategy, Horizon Technologies went beyond just streamlining their production processes. What other factors did they consider achieving cost efficiencies, and how did this contribute to their success?
    - (a) They solely focused on reducing labor costs, resulting in job cuts and employee dissatisfaction.
    - (b) Horizon Technologies invested heavily in extravagant marketing campaigns to attract a premium customer base.
    - (c) They optimized supply chain management and invested in research and development, leading to enhanced product quality and reduced production costs.
    - (d) The company acquired competitors to eliminate competition and establish a monopoly in the market.
  5. The primary factor contributing to Horizon Technologies' remarkable transformation was their commitment to systematic analysis. What role did value chain analysis play in this transformation, and how did it drive their success in both local and global markets?
    - (a) Value chain analysis revealed opportunities for diversification, enabling them to cater to various market segments.
    - (b) It allowed the company to identify and eliminate inefficiencies in their operations, resulting in cost reductions and improved product quality.
    - (c) Value chain analysis highlighted the need for excessive vertical integration, helping them control the entire supply chain.
    - (d) Horizon Technologies used value chain analysis primarily for financial forecasting and budgeting.

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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1. **Option (a) Socio-cultural factors, as they struggled to keep up with changing trends and cultural preferences.**

**Reason:**

The case highlights that Horizon Technologies faced challenges understanding socio-cultural trends and preferences in international markets. Adapting to diverse cultural norms and customer expectations required significant effort, making this aspect of PESTLE analysis the most challenging.

2. **Option (a) The SBU structure replaced a functional structure and empowered units to make strategic decisions. It led to quicker market response and enhanced customer satisfaction.**

**Reason:**

The case mentions that the SBU structure decentralized operations, allowing each unit to focus on specific product lines and make autonomous strategic decisions. This shift from a functional structure led to better responsiveness, innovation, and customer satisfaction.

3. **Option (c) Mr. Mercer invested in leadership development programs, enhancing interpersonal and communication skills, which resulted in a more collaborative and dynamic work environment.**

**Reason:**

The case study mentions Mr. Mercer's transition and its impact on the work environment.

4. **Option (c) They optimized supply chain management and invested in research and development, leading to enhanced product quality and reduced production costs.**

**Reason:**

The case study highlights the multifaceted approach to achieving cost efficiencies.

5. **Option (b) It allowed the company to identify and eliminate inefficiencies in their operations, resulting in cost reductions and improved product quality.**

**Reason:**

The case study emphasizes the role of value chain analysis in cost reduction and product quality improvement.

**CASE SCENARIO 19**

Once upon a time in the land of sun, sand, and vibrant cultures, there existed a company named "MuseoGoa" - a company that managed museums in the beautiful state of Goa. MuseoGoa had a vision to celebrate the rich history and culture of Goa, but their journey was not without its fair share of challenges.

MuseoGoa had chosen a picturesque location in a quaint village to build their first museum. However, this initial enthusiasm was met with an uproar from the local communities. The villagers were concerned about the impact on their way of life and traditions. They worried that the influx of tourists might disrupt their peaceful existence.

To address this challenge, MuseoGoa applied Mendelow's matrix, identifying the local communities as key stakeholders. They decided to engage in open dialogues, understanding and respecting the villagers' concerns. MuseoGoa initiated community-building activities, such as involving locals in museum operations, supporting local artisans, and organizing cultural events that showcased the village's heritage. Slowly but steadily, the company transformed from being perceived as a threat to a valued partner within the community.

While MuseoGoa had successfully resolved their initial issues with the local community, they faced another challenge. Their location, although idyllic, was a bit off the beaten path. Tourists typically preferred the bustling beaches closer to the city, and this posed a real challenge. MuseoGoa decided to employ a pricing strategy. They priced their tickets affordably, significantly cheaper than the city's attractions. This strategy attracted budget-conscious tourists who were looking for unique experiences in Goa without burning a hole in their pockets. As word spread about the cultural gem tucked away in the village, visitors started flocking in, drawn not just by the museum's charm but also the economical ticket prices.

In the age of social media, MuseoGoa knew that word-of-mouth was no longer limited to whispers. They tapped into the power of social media to promote their unique museum experience. MuseoGoa ran interactive campaigns, encouraging visitors to share their experiences on various platforms. One particular Instagram post featuring a vibrant Goan mural in the museum went



viral. This was the turning point. The picture-perfect aesthetics of the museum attracted influencers, bloggers, and travel enthusiasts, making MuseoGoa a social media sensation. Visitors came pouring in, not just from India but from across the globe, eager to capture their own moments at the "Instagrammable Museum of Goa."

With success came ambition. MuseoGoa decided to expand its footprint beyond Goa. To guide this expansion, they conducted a strategy audit and trend analysis. They identified emerging cultural and tourism trends and found potential markets in Pune and Trivandrum.

In Pune, MuseoGoa curated a special exhibition that celebrated the fusion of Goan and Maharashtrian cultures. They strategically partnered with local influencers and travel agencies to market the new experience. The expansion into Pune was met with resounding success.

For Trivandrum, MuseoGoa recognized the importance of local traditions and the distinct flavor of Kerala. They tailored their offerings to harmonize with the regional culture. MuseoGoa became the gateway for tourists to explore Kerala's rich heritage, with the museum acting as a bridge between Goa and Kerala's cultural tapestry.

MuseoGoa's journey from initial uproar to expansion was a testament to their commitment to community building, strategic pricing, social media savvy, and a keen eye for trends. The company continued to flourish, celebrating the diverse cultural tapestry of India and making history come alive in every location they touched.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. Which strategic management concept did MuseoGoa use to address the initial concerns of the local community?
  - (a) SWOT analysis
  - (b) Mendelow's matrix
  - (c) Cost leadership strategy
  - (d) Porter's Five Forces model

2. MuseoGoa's idyllic location in a quaint village posed a challenge as tourists preferred beaches closer to the city. To attract visitors, MuseoGoa priced their tickets affordably, cheaper than city attractions, drawing budget-conscious tourists looking for unique experiences. What business strategy did MuseoGoa employ to attract more tourists?
  - (a) Cost leadership strategy
  - (b) Differentiation strategy
  - (c) Focus strategy
  - (d) Diversification strategy
3. How did MuseoGoa approach its expansion into new markets such as Pune and Trivandrum?
  - (a) Outsourcing strategy
  - (b) Franchising strategy
  - (c) Product diversification strategy
  - (d) Market development strategy
4. Which element of the 7S McKinsey model is demonstrated by MuseoGoa's strategic use of social media and pricing strategies to attract visitors?
  - (a) Style
  - (b) Strategy
  - (c) Shared Values
  - (d) Skills
5. What played a crucial role in MuseoGoa's success in Pune and Trivandrum?
  - (a) Strategic partnerships
  - (b) Aggressive advertising
  - (c) Product differentiation
  - (d) Vertical integration

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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**1. Option (b) Mendelow's matrix****Reason:**

MuseoGoa used Mendelow's matrix to identify the local communities as key stakeholders and engage in open dialogues to understand and address their concerns, ultimately transforming from a perceived threat to a valued partner within the community.

**2. Option (a) Cost leadership strategy****Reason:**

MuseoGoa used a Cost Leadership Strategy by offering cheaper tickets than city attractions to attract budget-conscious tourists. This approach increased foot traffic, differentiated them from pricier competitors, and boosted attendance through word-of-mouth, ensuring a steady flow of visitors despite their less popular location.

**3. Option (d) Market development strategy****Reason:**

MuseoGoa approached its expansion into new markets through a market development strategy, as evident from the case where they curated special exhibitions and tailored offerings for Pune and Trivandrum.

**4. Option (b) Strategy****Reason:**

MuseoGoa's use of social media campaigns and pricing strategies represents the strategy element of the 7S McKinsey model, as these initiatives were key to achieving their objectives and attracting visitors.

**5. Option (a) Strategic partnerships****Reason:**

MuseoGoa's success in Pune and Trivandrum was attributed to strategic partnerships with local influencers and travel agencies to market the unique experiences in those locations, as mentioned in the case.

**CASE SCENARIO 20**

Quick N Safe Logistics has been one of the prominent transporters of goods for more than two decades. It has its own fleets and also has business arrangements with Railways.

Competition with existing players and the threat from new entrants are increasing regularly. Customer preferences and expectations are also changing. The need to consider new and improved means of transportation seems inevitable.

The current philosophy of the company is 'to bring the best user experience to its customers through timely and safe delivery of goods'. While keeping this philosophy in mind, it desires to keep ahead and reap the benefits of first mover advantages in the industry. In order to achieve its growth target, the company is exploring available other options so as to have a strong presence in supply chain management.

The company is of a considered view that 'we learn as we grow'. It is known that the overall per mile operating cost decreases due to an increase in efficiency and cumulative volume of services. Since the company will have a cost advantage over the competitors due to the reduced cost of services, it can develop and adopt a penetrative pricing strategy by setting a low price to attract more customers.

It is also observed that arrangement of transportation through railways is becoming a concern. Growth rate is slow and market for areas being covered by this means of transport is by and large stabilized. The profit margin is coming down due to stiff competition. The company has to work out an action plan to maintain stability.

On the other side, one of the customer segments is looking for fast delivery of its goods in major cities all across the country. The prime consideration of such customers is quick and safe delivery of their products, irrespective of cost for the same. The target market for such services is very large and also increasing very fast. In view of the same, the company wants to reform its operation by

engaging a dedicated team to perform a niche marketing strategy for transporting such goods through airways on an assurance of 'delivery by next day'.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. The strategy in which the company wants to keep ahead and reap the first mover advantages in the industry, is known as:
  - (a) Adaptive strategy
  - (b) Reactive strategy
  - (c) Proactive strategy
  - (d) Responsive strategy
2. In context to service in transportation through railways, the company is analyzing a relationship between volume of business on one axis with respect to time on another axis. As per Product Life Cycle (PLC), which stage this service is passing through:
  - (a) Introduction
  - (b) Maturity
  - (c) Growth
  - (d) Decline
3. In Strategic Management, the concept of decrease in the overall per mile operating cost due to increase in efficiency and cumulative volume of services is depicted as:
  - (a) Experience curve
  - (b) Ansoff's growth matrix
  - (c) Strategic surveillance
  - (d) Value chain analysis

4. As per strategies propagated by Michael Porter, niche marketing strategy for transporting goods through airways for a large customer segment on an assurance of 'delivery by next day', is known as:
  - (a) Cost leadership strategy
  - (b) Differentiation strategy
  - (c) Focus differentiation strategy
  - (d) Focus cost leadership strategy
5. The philosophy of the company stated as, 'to bring the best user experience to its customers through timely and safe delivery of goods', is indicating towards:
  - (a) Vision statement
  - (b) Mission statement
  - (c) Goals of the company
  - (d) Objectives of the company

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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#### 1. **Option (c) Proactive strategy**

**Reason:**

A proactive strategy refers to anticipating changes or opportunities in the environment and taking early action to gain a competitive edge. In this case, the company wants to maintain its leadership by exploring new transportation methods and benefiting from first-mover advantages, which fits the proactive strategy.

#### 2. **Option (b) Maturity**

**Reason:**

The case mentions that the market for areas covered by rail transport is "stabilized", and growth is slow, which indicates the maturity stage of the Product Life Cycle. In this phase, the market has reached saturation, and growth slows down while competition intensifies, affecting profit margins.

**3. Option (a) Strategic surveillance****Reason:**

The experience curve suggests that as a company gains more experience producing or delivering services, costs per unit decrease due to efficiencies and learning over time. The company's belief that operating costs decrease as volume increases reflects the experience curve concept.

**4. Option (c) Focus differentiation strategy****Reason:**

Focus differentiation strategy involves targeting a specific niche market and offering unique services that differentiate from competitors. In this case, the company is offering specialized services (air transport with next-day delivery) to a specific customer segment that values speed over cost, which aligns with focus differentiation.

**5. Option (b) Mission statement****Reason:**

A mission statement defines the purpose of the company and its primary objectives, focusing on customer experience and service delivery. The stated philosophy of delivering timely and safe goods reflects the company's mission.

**CASE SCENARIO 21**

In the seventh decade of last century the *Banerjee Tasty Teas Ltd (BTTL)*, engaged in tea plantations in Assam and Darjeeling for more than two decades, began selling packaged tea under the brand name "Mitra" and "Dost". At the time they had around 32 per cent of the market share in the packaged tea segment that was growing rapidly. Their next competitor had 18 per cent share. In the middle of eighth decade the company launched a chain of eateries selling teas and branded it as "Prakriti". They brewed tea in these eateries by adding goodness of adrak, tulsi and other natural ingredients. Their products were positioned as natural Indian tea with ayurvedic ingredients having health benefit. They positioned it as *masala chai* clinically proven to enhance immunity and gave a tag line, "Dadi Maa Ke Gharelu Nuskhe". It soon became the favourite chain of eateries, selling India's popular beverage, tea.

In early nineties when liberalization favoured entry of Multinationals in diverse sectors, two companies with their headquarters in USA - Galaxly and Foodtle, leading consumer goods company entered Indian market. The two companies respectively held two major global brands of teas Krypton Breakfast Tea and Argon Grey Tea. Both the global players with their vast pool of financial and other resources, knowledge of multiple markets and experienced professionals were expected to rewrite the history of the Indian Tea business.

BTTL concerned about their future engaged a leading management consultant to take advice on the future course of action. The management consultants, after a thorough study and survey in four largest metropolitan cities advised BTTL to exit the market and encash their goodwill. The consultants felt that it would be difficult for BTTL to survive in the tea business in India with the might of new competitors having abundant resources. The BTTL engaged with the two global companies and sold their packaged tea business to Galaxly in the year 1995 with a non-compete clause for 20 years. The brands "Mitra" and "Dost" became property of Galaxly. BTTL retained the eateries and "Prakriti" brand. Galaxly got an edge over Foodtle in Indian Market with instant access to the distribution network. In late 1990's Galaxly reduced production of "Mitra" and "Dost" and focussed to sell their own brands. However, both the new entrants struggled to sell their products in India. Galaxly changed back its focus to



“Mitra” and “Dost” in the middle of last decade of the previous century and started gaining edge over Foodtle. In the beginning of new century Galaxly had a market share of 21 per cent and Foodtle had a market share of 13 per cent. There were many other big and small brands that controlled the remaining share.

When the Indian tea market was witnessing a high-profile tussle between the global giants, Prakriti gained popularity among domestic consumers and increased the number of outlets to 163 located in 78 cities. BTTL riding high on the success of their Prakriti outlets, diversified into the fruit-flavoured beverages segment, with aims to garner significant share in the Indian fruit beverages market. The company launched the brand 'Asli Bursts' and started selling packaged juices in three flavours – mixed fruit, green apple and tangy orange. In the year 2010 the business expanded with the launch of 100% natural Tender Coconut Water. As a result, it became the country's largest health and nutritious drink brand with a variety of products under its umbrella. Over time the management of BTTL also changed and is now controlled by the next generation. The new generation, nostalgic about their first product re-entered packaged tea business in the year 2015 with the brand 'swad'. They pursued catering to broad markets by reducing costs in the areas of procurement, storage and distribution of teas and selling it at attractive prices. However, five years have passed; the brand 'swad' is not able to garner any significant foothold in Indian packaged Tea Market.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. In the 1970's what was the position of BTTL in BCG matrix?
  - (a) Stars
  - (b) Cash Cows
  - (c) Question Marks
  - (d) Dogs

2. Which of the following are not strength of Galaxly in India in the year 1994?
- i. Financial Resources
  - ii. Krypton Breakfast Tea Brand
  - iii. Strong distribution channel
- (a) ii
- (b) iii
- (c) ii and iii
- (d) i, ii and iii
3. What is the Micheal Porter business level strategy for the brand 'Swad'?
- (a) Cost leadership
- (b) Differentiation
- (c) Focussed cost leadership
- (d) Focussed differentiation
4. Entry of BTTL in coconut water is:
- (a) Market entry
- (b) Market development
- (c) Market penetration
- (d) Product development
5. Entry of BTTL in eateries with brand name Prakriti is:
- (a) Vertically integrated diversification
- (b) Horizontally integrated diversification
- (c) Concentric diversification
- (d) Conglomerate diversification

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**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

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**1. Option (a) Stars****Reason:**

During the 1970s, BTTL held a 32% market share in the rapidly growing packaged tea segment, making it a leader in a high-growth market. This aligns with the Stars quadrant in the BCG matrix, representing high market growth and a strong market share.

**2. Option (c) ii and iii****Reason:**

- ii. Krypton Breakfast Tea Brand: While this was a global brand, it was not yet established in the Indian market in 1994.
- iii. Strong distribution channel: Galaxly lacked a robust distribution network in India, which they only acquired after purchasing BTTL's packaged tea business.

Therefore, ii and iii were not strengths of Galaxly in India at the time.

**3. Option (a) Cost leadership****Reason:**

The strategy for the brand 'Swad' involved reducing costs in procurement, storage, and distribution to offer tea at attractive prices. This is a classic example of the cost leadership strategy, which aims to achieve competitive advantage by minimizing costs.

**4. Option (d) Product development****Reason:**

The launch of tender coconut water represents product development because BTTL introduced a new product (natural coconut water) in their existing market of health and nutritious drinks, expanding their product portfolio.

**5. Option (a) Vertically integrated diversification****Reason:**

By launching the "Prakriti" chain of eateries, BTTL moved forward in the value chain to directly serve brewed tea to customers. This represents forward vertical integration, where a company takes over activities closer to the customer in the supply chain.

**CASE SCENARIO 22**

With rising incomes of salaried class individuals and the percentage of second-generation kids pushing the economic consumption to an all-time high, Anant Khanna, a 23 year old graduate of IIT Mumbai, betting on this new market segment, started a digital credit payback platform under the name of Money Mox.

The company began its operations last year and has already accumulated a customer base of around two million active users. One of the reasons to enter this market was the disruptive technology already in place because of earlier FinTech startups. It was easy to mold the available infrastructure and build a platform. The idea of the company is simple; make a gated community of high income - high spending individuals and reward them for their purchases via credit and debit cards.

The company made news recently with global investors finding it attractive to bet on. Following which, Josh Kattings, an early investor, met with the team and advised them to not just copy what Batuya, the key competitor with a different business model was doing, but to learn, improve and better the process for customers.

Surprisingly, Josh also offered Batuya to work along with Money Mox for better penetration, but Anant and team did not agree to the same so early on. They had issues with their current infrastructure and rather wanted to outshine the competition, than to shake hands and grow together.

The company last month shared their revenue projections publicly and it attracted a lot of old players in banking to take note of the new technology. The leader in this sentiment was CBZ Bank which offered to buy Money Mox for 50 crores against a 100% equity deal.

Anant and team are yet to respond to the enormous offer from a well-established bank, but this surely speaks volume about how unique ideas are valued in the developing economies like India.

**Based on the above case scenario, answer the multiple choice questions.**

**MULTIPLE CHOICE QUESTIONS**

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1. Which model has been thoughtfully considered while taking the decision to dive into FinTech market?
  - (a) BCG Growth Share Matrix
  - (b) ADL Matrix
  - (c) Stop-Light Strategy Model
  - (d) SWOT Analysis
2. Money Mox's market strategy falls under which of Michael Porter's generic strategies?
  - (a) Cost Leadership Strategy
  - (b) Focused Differentiation Strategy
  - (c) Focused Cost Leadership
  - (d) Differentiation Strategy
3. Which of the following may be true about the downsides of the plan to work along with Batuya, that Anant and team might have considered?
  - (a) Trade Secrets can be spilled out
  - (b) Ally may become a competitor
  - (c) There may be good sharing of skills and technology and thus the costs will rise
  - (d) Only A and B
4. Considering the advice given by Josh Kattings about improving processes and bettering customer experiences, under Mendelow's Matrix, where does Josh Kattings likely fall?
  - (a) High Power, High Interest (Key Players)
  - (b) High Power, Low Interest (Keep Satisfied)
  - (c) Low Power, High Interest (Keep Informed)
  - (d) Low Power, Low Interest (Minimal Effort)

5. CBZ Bank's offer to buy 100% equity of Money Mox is an example of?
- (a) Horizontal Merger
  - (b) Concentric Diversification
  - (c) Strategic Alliance
  - (d) Co-generic Merger

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (c) Stop-Light Strategy Model**

The Stop-Light Strategy Model (also associated with the GE Matrix) evaluates business units or industries based on market attractiveness (e.g., disruptive technology, rising market potential) and business strength (e.g., rapid growth of the user base and customer acquisition rate). Money Mox entered the FinTech market based on these two key factors, aligning with the Stop-Light Model rather than SWOT Analysis.

**2. Option (b) Focused Differentiation Strategy**

**Reason:**

Money Mox targets a niche market (high-income, high-spending individuals) by offering a unique service (credit payback rewards for card purchases). This is a clear example of focused differentiation, where a company tailors its product or service to a specific market segment with unique value propositions.

**3. Option (d) Only A and B**

**Reason:**

- A. Trade secrets can be spilled out: Collaboration may lead to unintentional disclosure of proprietary processes or strategies.
- B. Ally may become a competitor: Partnerships can lead to shared knowledge, which might make the ally a strong competitor in the future.
- C is incorrect because sharing skills and technology typically lowers costs through economies of scale, not increases them.

Thus, the downsides considered are only A and B.

**4. Option (a) High Power, High Interest (Key Players)****Reason:**

As an early investor and advisor, Josh Kattings holds significant power (financially and strategically) and has high interest in Money Mox's success. He qualifies as a "Key Player" who should be engaged closely and consulted in critical decision-making.

**5. Option (d) Co-generic Merger****Reason:**

CBZ Bank operates in the financial services sector, and Money Mox is a FinTech startup within the same broad domain. This acquisition is a co-generic merger, as it involves two companies in related industries but with different operational aspects, aiming to create synergy.



**CASE SCENARIO 23**

Jalsa Group is a family amusement park developer, based out of Ahmedabad. They have four prime properties in Gujarat; Snake Land, Water World, Ride Road and Habitat Universe.

Amongst above, Ride Road is the newest. The concept of Ride Road is that people can bring in their vehicles (of all sizes) and race against each other/in teams under expert guidance. The idea is fairly new to Indian market and the group is betting big money on it. Another bet that turned quite well for Jalsa is the Snake Land. The park has an integral design of a jungle with various rides based on snakes and reptiles. It has attracted locals in huge numbers and recently an influx of national tourists has been observed.

The owners liked a concept they saw on their visit to Indonesia, where people could visit an amusement park and plant vegetables and trees of their liking, and apparently own that particular tree/plant with all its produce being their property. This could have a major environmental benefit vis a vis governmental support to set up the business. The owners' proposed that this could even be made part of the Water World to revive it back to its glory.

Noting from above, Water World has seen tremendous competition at a national level, and the quality of rides has also deteriorated with new technological designs coming up. To meet the losses being made at Water World, management of Jalsa built Habitat Universe in a close spot, which has been awarded at international level and is seeing slight competition with increasing tourism, as the ticket sales figures are quite high.

The management team in their annual meeting presented the below matrix to the owners, based on which further plans were thought through;

Stars: Snake Land	Question Marks: Ride Road
Cash Cows: Water World	Dogs: Habitat Universe

The owners and team have realised that their differentiating factor at a national level is their ability to observe international trends and implement the same in India. Following which, Jalsa has planned to form an international vigilance committee to find such international trends and give them an Indianess for their

business. The Group plans to develop two more properties near Goa in the coming years.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. Mark the statement(s) that are most appropriate.
  - (a) Snake Land is in growth stage and Habitat Universe is in maturity stage
  - (b) Snake Land is in growth stage and Water World is in maturity stage
  - (c) Ride Road is in introduction stage and Habitat Universe is in maturity stage
  - (d) Ride Road is in introduction stage and Water World is in declining stage
2. Formation of International Vigilance Committee is an incidental product of \_\_\_\_\_ of Jalsa Group?
  - (a) Core Competency
  - (b) Differentiation Strategy
  - (c) Cost Leadership
  - (d) Strategy Audit
3. Developing Habitat Universe is what kind of an expansion strategy?
  - (a) Vertical Diversification
  - (b) Concentric Diversification
  - (c) Conglomerate Diversification
  - (d) Horizontal Diversification
4. Which of the following is true in the matrix presented at the annual meeting with the owners?
  - (a) Stars: Snake Land and Question Marks: Ride Road
  - (b) Cash Cow: Water World and Stars: Snake Land

- (c) Dogs: Habitat Universe and Question Marks: Ride Road
  - (d) Question Marks: Ride Road and Cash Cow: Water World
5. Clearly SWOT analysis helped the owners' understand their differentiating factor of success, but which factor amongst the below can disrupt their differentiation factor in the long term?
- (a) Highly complex environment
  - (b) Competitive Scenario
  - (c) Both (a) and (b)
  - (d) SWOT Analysis is a fool proof technique, thus nothing would affect

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (d) Ride Road is in introduction stage and Water World is in declining stage.**

**Reason:**

Ride Road is a new concept, indicating it is in the introduction stage, while Water World is facing competition and declining quality, placing it in the declining stage.

2. **Option (a) Core Competency.**

**Reason:**

The formation of the International Vigilance Committee reflects Jalsa Group's core competency in observing and adapting international trends to the Indian market.

3. **Option (b) Concentric Diversification.**

**Reason:**

Developing Habitat Universe complements the existing amusement park offerings, making it a concentric diversification strategy.

**4. Option (a) Stars: Snake Land and Question Marks: Ride Road.**

**Reason:**

The matrix categorization indicates Snake Land is performing well as a star, and Ride Road is in the question mark category as a new venture.

**5. Option (c) Both (a) and (b).**

**Reason:**

Both a highly complex environment and a competitive scenario can disrupt differentiation over time.

**CASE SCENARIO 24**

Medline patient care limited (MPCL) began its business as a small family-run business supplying custom-made hospital furniture and patient care equipment. The company started its operations with meager capital and work force in the year 1990, now having 20 years of experience and expertise, it has grown into a thriving hub of experts specializing in either custom-made, locally sourced or quality imported commercial grade hospital furniture. The company has made a significant name in the field of "patient care equipment" by providing high quality products to its customers.

Medline patient care limited (MPCL) has a wide business network throughout India and supply its products to various hospitals, nursing homes and medical colleges. It is well-known for manufacturing Hospital Furniture and Operation Theatre Equipment (Tables and Lights). Due to sudden plunge in the sales volume, margin of profits and declining market share, the company's CEO called a meeting with Board of Directors and other senior executives. They decided to appoint Mrs. Puri as a new strategy manager.

As a newly appointed strategy manager, Mrs. Puri has to assess and analyse the business environment and work out on the reasons of declining trends. Mrs. Puri conducted SWOT analysis and observed that the reason of these decreasing trends is increased competition that has emerged over the last three years. For many years, Medline (MPCL) has been known for high quality but now this quality is being matched by the competitors who are able to sell at lower prices.

After analysing the business environment, Mrs. Puri submitted her report to the top level management with the following proposals:

- Focus on technology, innovation, and quality: The expert technology, quality and innovates can earn the confidence of Doctors and the trust of consumers in developing latest Medical Equipments.
- Employee training & development: She advised to train and experts technical staff in our company to produce trouble free products.
- Cost rationalization: Reduction in the cost of production is required.

- Client service, support, and feedback: MPCL understands the importance of "After Sale-Service" to customers and always concentrate on this point.
- Product testing: All products are thoroughly tested before dispatch.

**Based on the above case scenario, answer the multiple choice questions**

### **MULTIPLE CHOICE QUESTIONS**

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1. After conducting the SWOT analysis by Mrs. Puri in MPCL, she identifies that high quality, custom-made hospital furniture has made a significant name in the field of "patient care equipment" by MPCL. For MPCL, these features of its products are its:
  - (a) Strength
  - (b) Opportunity
  - (c) Weakness
  - (d) Threat
2. MPCL recruits and appoints various employees at their respective levels in the organisation. Identify, the CEO, Board of Directors and other senior executives are a part of which of the following Strategic Levels in the organization?
  - (a) Business Level
  - (b) Functional Level
  - (c) Corporate Level
  - (d) Consultant Level
3. According to Michael Porter's five forces model, which force came into existence for declining the growth and profits of MPCL?
  - (a) Threat of new entrant
  - (b) Threat of substitutes
  - (c) Bargaining power of customers
  - (d) Bargaining power of suppliers

- 
4. MPCL's market share is declining due to equivalent products being sold by competitors at lower prices. What does this statement reflect?
- (a) It reflects that the cost of production of competitors is lower than MPCL
  - (b) It reflects that the competitors are providing cheap products
  - (c) It reflects that MPCL has declined the quality of its products
  - (d) All of the above.
5. Competitive advantage leads to superior profitability. Mrs. Puri's report indicates the factors for value creation. Identify the factors by which MPCL can achieve competitive advantage by value creation.
- (a) The expert technology, quality and innovates can earn the confidence.
  - (b) Reduction in the cost of production is required.
  - (c) After Sale-Service to customers and welcome the valuable suggestions from their customers.
  - (d) All of the above

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (a) Strength**

**Reason:**

High quality and custom-made products represent internal strengths of MPCL, as these features contribute positively to the company's reputation and market position.

**2. Option (c) Corporate Level**

**Reason:**

The CEO and Board of Directors operate at the corporate level, focusing on overall strategic direction and decision-making for the organization as a whole.

**3. Option (b) Threat of substitutes****Reason:**

The decline in MPCL's growth and profits is significantly impacted by competitors offering equivalent products at lower prices. This suggests that customers may choose substitutes (in this case, similar hospital furniture and equipment from other suppliers) over MPCL's products, which aligns with the threat of substitutes in Porter's model.

**4. Option (a) It reflects that the cost of production of competitors is lower than MPCL****Reason:**

The statement specifically highlights that competitors are selling similar products at lower prices, which suggests they have a cost advantage over MPCL. The other options either generalize or misrepresent the situation.

**5. Option (d) All of the above****Reason:**

All listed factors (expert technology and quality, cost reduction, and after-sale service) contribute to MPCL's ability to create value and achieve a competitive advantage in the market.



**CASE SCENARIO 25**

Aero Mind Bridge Technologies Ltd (AMBTL) is a software development company work as a solution provider to airlines industry. The company was established more than a decade ago by Mr. Pranshu Gupta having experience of working in the United States of America (USA). His entrepreneurial desires brought him back to India to promote Aero Mind Bridge Technologies Ltd (AMBTL). The company started its operations with a meager capital of Rs. 10 lakhs with limited workforce. Currently, it enjoys a valuation of more than Rs. 50 crores. Almost everybody acknowledged the competency of AMBTL in developing customised software for the airlines industry.

The high growth of the company was mainly on account of the heavy inflows of the funds in the airlines industry from various big business houses that have diversified into airlines industry. Currently, these business houses were in the manufacturing of FMCG, textiles, packaging etc. and having good expertise and uniqueness in these industries.

However, AMBTL saw stagnation in last three years. The order position was shrinking day by day. The margins were also reducing. Last year was particularly bad for the AMBTL and its annual sales reduced by 20 % for the first time since its inception.

Most of the business houses that had entered in the airlines industry had less knowledge and experience in the industry. However, their desire to diversify and seeing new opportunity in the airlines industry prompted them to invest heavily into the industry.

However, things did not turn out to be as expected. The tough competition between several players, reduction in the fare by railways and high prices of aviation fuel created problems for the industry. The sector was not able to generate reasonable profits thus resulting difficulty in maintaining operations. They were in need for hard to come by capital. Lately, the airlines industry is witnessing some consolidation with companies planning for mergers or even contemplating closures.

The general global recession also resulted in the reduction of travel expenditure of corporates resulting in decrease in the order position of AMBTL.

**Based on the above case scenario, answer the multiple choice questions**

### **MULTIPLE CHOICE QUESTIONS**

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1. Identify the nature of diversification by the business houses entering into airlines industry.
  - (a) Concentric diversification
  - (b) Conglomerate diversification
  - (c) Vertically integrated diversification
  - (d) Horizontal integrated diversification
2. The big business houses were in the manufacturing of FMCG, textiles, packaging etc. and had good expertise and uniqueness in these industries. But they are not performing well in airlines industry because of
  - (a) Non availability of funds
  - (b) Incompetent workforce
  - (c) Rapid technological changes
  - (d) Lacking core competence
3. AMBTL has been known for its competency in developing customized software for the airlines industry. Which "S" in the 7S Framework reflects this capability?
  - (a) Systems
  - (b) Skills
  - (c) Structure
  - (d) Strategy
4. AMBTL could be easily marked as a Star as per BCG's Growth Matrix in its early years. However, the last three years have not been good for AMBTL. Where would you put it on the BCG Matrix?
  - (a) Dog
  - (b) Question Mark

- (c) Will remain a star
  - (d) Cash Cow
5. Mr. Pranshu Gupta as a core strategist of AMBTL has been authorised to bring about strategic change in his company, how he will initiate "unfreezing of the situation"?
- (a) Promoting new ideas throughout the organization
  - (b) Promoting compliance throughout the organization
  - (c) Promoting change in process throughout the organization
  - (d) None of the above

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (b) Conglomerate diversification**

**Reason:**

Conglomerate diversification refers to entering into a completely different industry than the one currently being operated in. The business houses in this case were originally involved in industries like FMCG, textiles, and packaging, and they ventured into the airlines industry, which is unrelated to their existing businesses.

**2. Option (d) Lacking core competence**

**Reason:**

While these companies may have expertise in their original industries, they lack the core competence required to succeed in the airlines industry. Their inexperience and lack of industry-specific knowledge have hindered their performance.

**3. Option (b) Skills**

**Reason:**

Skills refer to the organization's core competencies and technical capabilities, which in this case is software development expertise.

**4. Option (d) Cash Cow****Reason:**

If AMBTL has reduced growth but remains profitable due to established clients, it may still act as a Cash Cow. However, if profitability is severely impacted, (a) Dog might also be considered correct.

**5. Option (a) Promoting new ideas throughout the organization****Reason:**

To initiate change, the first step is to "unfreeze" the current state by promoting new ideas and creating awareness about the need for change among employees. This encourages a shift in mindset and prepares the organization for the upcoming changes.

**CASE SCENARIO 26**

Over 3 billion people worldwide drink coffee every day, and about 18% of Indians prefer coffee over tea. These numbers are growing at a CAGR of 11% and HotKopi wants to lead the way ahead in budget coffee stores in the Indian subcontinent. With many new brands mushrooming out to make money from the growing industry, HotKopi's unique selling proposition (USP) is its hand blended coffee, roasted on cow dung.

The business is not easy, getting quality cow dung, training individuals, packing organically and maintaining hygiene has been a constant issue. However, their customer reach and relationship management has been a winner in the market. This has helped them grow slowly and steadily even with enormous competition in the coffee segment.

In their annual finance meeting, the CFO of the company aimed to achieve 30% growth in customers and a 7% increase in net profits as soon as possible. On these lines, the company planned to expand its operations and team size to nearly thrice of what they were at the beginning of the year.

The business of HotKopi seemed sustainable but as the environment is dynamic and competition is fierce, the management had been keeping an eye on competition very closely. The promotions from competitors were flocking between being organic to dropping prices, offering free corporate parties, student discounts and souvenirs for high purchasers. The team knew these were costly promotions and were denting their competition economically but getting them business and a big share of the market.

More so, ChocoJoe, the biggest coffee brand in North America, was due to enter India in the coming months. They had already partnered with one of HotKopi's competitors and the business sustainability of HotKopi seemed weak. The team sat down for a round table meeting and decided to offer their entire business to ChocoJoe for a 120% premium and exit the business.

ChocoJoe recently accepted their offering, and the deal shall finalise by year end.

HotKopi has been a short success story which shall now hide behind the mega branding of ChocoJoe. Nonetheless, businesses are meant to be practical at times rather than being emotional. Whether the decision to sell off and exit was a wise one or not, only time would tell.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. Which of the following aspects of Value Chain Analysis has been a crisis area for HotKopi?
  - (a) Inbound logistics and Transformational operations
  - (b) Outbound logistics and Transformational operations
  - (c) Marketing and Sales
  - (d) Service and Inbound logistics
2. Differentiation has been core to HotKopi's business, but it has its own weaknesses. Which of the following could be the weakest of them all for HotKopi?
  - (a) Price point war
  - (b) Sustainability of uniqueness
  - (c) Inevitability of offering proposition
  - (d) Switching costs for customers
3. Which core characteristics in CFO's objective of achieving 30% growth in customers and 7% increase in net profits is missing?
  - (a) Being concrete and specific
  - (b) Providing standard for performance appraisal
  - (c) Challenging in nature
  - (d) Time frame specific
4. Had they not offered their business to ChocoJoe, HotKopi would have to pursue their plans of expansion. Which of the following would best suit their organizational structure?
  - (a) Divisional structure
  - (b) Multidivisional structure
  - (c) Functional structure
  - (d) Strategic business unit structure

5. HotKopi opted for liquidation. What kind of strategic control helped them get money out of the business at the right time?
- (a) Strategic surveillance
  - (b) Special alert control
  - (c) Premise control
  - (d) Management control

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (a) Inbound logistics and Transformational operations**

**Reason:**

HotKopi struggled with sourcing quality cow dung (inbound logistics) and maintaining hygiene, training, and organic packaging (operations).

**2. Option (b) Sustainability of uniqueness**

**Reason:**

Their differentiation (roasting on cow dung) is difficult to sustain in the long run due to competition and operational challenges.

**3. Option (d) Time frame specific**

**Reason:**

The CFO's objective lacked a specific deadline, making it incomplete as per the SMART goal framework.

**4. Option (c) Functional structure**

**Reason:**

Since HotKopi has a low level of diversification, a functional structure (with separate departments for marketing, operations, finance) is the best fit for expansion.

**5. Option (b) Special alert control**

**Reason:**

The entry of ChocoJoe and rising competition led to a sudden strategic decision to sell, which aligns with special alert control.

**CASE SCENARIO 27**

O-Farm, an organic farm products brand has been operating in India since 2014. It has had a decent history of business with revenue of INR 50 crores in the previous year and a Compound Annual Growth Rate (CAGR) of 11% year on year.

While the company operated on “Kisaan Kalyan” i.e., farmer friendly agenda since its inception, the rough times ahead seem to call for changes. The recent amendments in Agriculture laws, though indirectly related to organic farming, have posed immense threat to how the business operates. The leaders have been proactive in shifting gears and budgeted funds for shifting focus to “Upbhokta Sewa”, i.e., customer orientation.

To create newer demands and position themselves against the local farming practice changes, they reached out to West Asian and African Nations for their farm inputs, just like many other small traders from their segment. Accordingly, they ordered dry fruits from Afghanistan, whole wheat from Nigeria, and citrus fruits from Turkey. This has helped them get raw input at cheaper than usual rates and even better contractual terms, thus reducing input costs and thereby passing on the surplus margins to customers.

Further, the marketing team roped in big cricket stars and many social media influencers to aware customers about the brand’s customer orientation and product benefits. But, as the focus was on minimal spending, the team smartly locked in affiliate marketing terms with the influencers and even celebrities, instead of upfront promotion fee. This also helped in saving a lot of money initially.

With the changing environment in the Indian subcontinent around agriculture production, the team is confident with its strategic positioning. The sales have been just at the break-even bars for now, and the projected CAGR is 19% year on year, taking the sales volume to 10X in the next 4 years.

Farming has been a respected profitable business with big players as huge as oil companies. Nonetheless, it is complex, as it involves a lot of stakeholders, especially as it still remains a labour-intensive industry.



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**Based on the above case scenario, answer the multiple choice questions.**

**MULTIPLE CHOICE QUESTIONS**

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1. O-Farm's new strategy implementation as a result of amendment of Agriculture laws by the government, resonates with which of the following statements?
  - (a) Organisational operations are highly influenced by the ripple effect of environmental changes.
  - (b) Organisational structure is highly influenced by the ripple effect of environmental changes.
  - (c) Organisational operations are not affected by the ripple effect of environmental changes.
  - (d) Organisational structure can influence environmental changes.
2. The shift of O-Farm from "Kisaan Kalyan" to "Upbhokta Sewa" is a change in?
  - (a) Mission
  - (b) Vision
  - (c) Promotion
  - (d) Product
3. Which of the following was the first and major advantage for O-Farm that helped them achieve Cost Leadership in the market?
  - (a) Economies of Scale was achieved very early on
  - (b) Prompt forecast of product demand
  - (c) Becoming customer oriented
  - (d) Well negotiated purchase contracts

4. O-Farm's marketing strategy is an example of which of the following marketing strategies?
  - (a) Person Marketing
  - (b) Augmented Marketing
  - (c) Enlightened Marketing
  - (d) Synchro Marketing
5. The brand has achieved cost leadership through multiple strategies, but it would be a constant challenge to sustain this leadership because of which of the following reasons?
  - (a) Competitors would imitate their modus operandi.
  - (b) Marketing costs will be huge as volumes increase given their choice of marketing strategy.
  - (c) Change in Agriculture Laws shall disrupt its supply chain time and gain.
  - (d) Sales volume will have to outperform its own targets and even that of competitors.

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (a) Organisational operations are highly influenced by ripple effect of environmental changes.**

**Reason:**

O-Farm had to alter its strategy (importing from other nations and shifting focus) due to changes in agriculture laws, showing how operations are affected by environmental changes.

2. **Option (b) Vision**

**Reason:**

The shift from "Kisaan Kalyan" (farmer welfare) to "Upbhokta Sewa" (customer focus) represents a long-term strategic direction rather than just an immediate purpose, indicating a change in vision.

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**3. Option (d) Well negotiated purchase contracts**

**Reason:**

Importing cheaper farm inputs from West Asian and African nations helped O-Farm reduce input costs, making it the primary driver of cost leadership.

**4. Option (c) Enlightened Marketing**

**Reason:**

O-Farm used social media influencers and cricket stars with affiliate marketing instead of upfront payments, which is an example of enlightened marketing—a cost-effective and responsible promotional approach.

**5. Option (b) Marketing cost will be huge as volumes increase given its choice of marketing strategy.**

**Reason:**

Since O-Farm relies on affiliate marketing, costs will rise proportionally as sales volume increases, making it harder to sustain cost leadership.

**CASE SCENARIO 28**

There is a wave of interest from around the globe in an upcoming one of its kind three-day fitness event called DRIPP, organised by Monolith Events LLP. The event is due next year, and the tickets are already sold out.

Major attractions are that only organic foods and health drinks shall be available throughout the three-day event, free consultations with athletes, training tips and tricks. Competitions with prize money are also up for grabs. A lot of Bollywood Stars and International Celebrities have also shown interest and pledged to visit the event in Goa.

Rishi Bhalla, the Chief Logistics Officer, has formed a team of 30 people to get the right products from the right place to the right place at the best possible prices. They have been in conversation with many local vendors for organic products and have an inclination towards local businesses than going for big brand names. The idea is to give maximum profits to the vendors and in doing so the vendors would also have to bear the costs of setting up and share the risks of organising DRIPP. It seems a fair win-win proposition.

Further, Elina Ray, Director of Operations, has divided her team into middle managers looking after finance, customer service, supplies, community engagement and IT. They would all report to Elina directly and would be independent in taking decisions for their respective responsibilities. This would ensure an autonomous decentralised management to speed up operations.

The team had been working long hours till January and the business was struck by the pandemic. They have been fortunate enough to keep the ticket buyers, vendors and celebrities on board and even though the preparations have been a challenge in Covid19 times, the team has worked hard to keep things intact and on track.

Assuming global and domestic travel to normalise by next year, the team at Monolith anticipates many more such events like DRIPP with big event companies joining the party to imitate their concept.

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**Based on the above case scenario, answer the multiple choice questions.**

**MULTIPLE CHOICE QUESTIONS**

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1. Which of the following is untrue about Elina Ray's team?
  - (a) They are group of Functional level managers.
  - (b) They are aimed at facilitating the business level strategies.
  - (c) They would work isolated but work towards core business strategies.
  - (d) They would be responsible for control of their respective function.
2. Which of the following best describes the vendor engagement for DRIPP?
  - (a) Organizational alliance
  - (b) Economic alliance
  - (c) Strategic alliance
  - (d) Political alliance
3. Which of the following is a focal weak point for DRIPP's success if the pandemic allows more time for competitors to conceptualise something similar?
  - (a) Minimum capital requirement
  - (b) Inadequate barriers to entry
  - (c) Easy access to distribution channels
  - (d) Low switching costs
4. According to Mendelow's Matrix, which stakeholder group do the vendors belong to, considering they share risks and costs of DRIPP?
  - (a) Key Players
  - (b) Keep Informed
  - (c) Keep Satisfied
  - (d) Minimal Effort
5. For an Events Management firm such as Monolith Events LLP the ideal form of organisaitonal structure would be
  - (a) Hourglass

- (b) Matrix
- (c) Functional
- (d) Divisional

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### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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1. **Option (c) They would work isolated but work towards core business strategies.**

**Reason:**

Elina's team members report directly to her and handle different functions independently but not in isolation. They coordinate for overall operations.

2. **Option (c) Strategic Alliance**

**Reason:**

The vendors are not just suppliers but also share costs and risks, making this a long-term collaboration rather than a simple financial or political arrangement.

3. **Option (b) Inadequate barriers to entry**

**Reason:**

Event management has low entry barriers, meaning competitors can easily copy DRIPP's concept, reducing its uniqueness and market edge.

4. **Option (a) Key Players**

**Reason:**

Vendors directly impact the event's success by providing essential products and services. Their high power and high interest make them key stakeholders.

5. **Option (b) Matrix Structure**

**Reason:**

Event management requires cross-functional collaboration, and a matrix structure allows for flexibility, as employees report to both functional and project managers.

**CASE SCENARIO 29**

Increasing investment in the share market, mutual funds, and equity/debt investment plans from the growing salaried middle class gave birth to Scripzy, an Artificial Intelligence based market predictor and digital brokerage company. The company is headquartered in Mumbai and has a team of 100+ IT professionals working on building a safe and secure digital infrastructure.

The market is densely competitive. Apart from similar start-ups, several established players of the industry have also diversified their businesses with digital offerings for their existing customers. However, Scripzy, with its organic reach for the young earning set of customers, is on a winning streak. This was achieved by project 'Force.'

Project Force was a secret market analysis conducted by internal teams to find sustainable competitive advantages, focus on final product attributes most valued by customers and imitate the competitive capabilities of competitors. It was a complete final product-customer approach which helped them win over youngsters.

Interestingly, the company being AI based has also automated its internal decision making with in-house AI decision making bots. The top management explains their requirements to the AI bot and the bot makes functional decisions that are to be executed by respective teams. It also engages with team leaders and sends regular reports on fulfillments. This projected a very strong image for the company in the international market and a Chinese investor offered them a huge undisclosed amount to buy-out the AI system. Scripzy immediately accepted the offer and earned huge sums from the unexpected sale.

Repercussions followed and their core customers, the youth, boycotted their product. The team had to approach the share market leaders to support and with a little influence from the share market leaders, they were able to regain their "True Indian Company" status in the media. Nonetheless, damage was done, and they saw their customer base shattered to an all-time low.

Decisions which seem economically attractive are multi-faceted, and this is one lesson that Scripzy shall remember for times to come. Business for now is low and weak, but a good strategy can change the landscape for Scripzy's future.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. Which of the following statement by Ansoff is most appropriate for Scripzy's strategy in the changing environment?
  - (a) Preparedness of worst-case scenarios
  - (b) Farfetched planning of leadership
  - (c) Money has the power to influence the environment
  - (d) Blend of proactive and reactive actions
2. Project Force was crucial in determining Scripzy's position in the market. However, which of the following metrics was missed by the team while understanding KSFs?
  - (a) Crucial product attributes
  - (b) Sustainable competitive advantage
  - (c) Resources for competitive success
  - (d) Competitive capabilities to be competitively successful
3. Competitive landscapes of Scripzy comprises?
  - (a) AI Firms
  - (b) Existing financial firms that diversified their offerings
  - (c) Other start-ups
  - (d) Only (b) and (c)
4. In future, to fight out uncertainties like geo-political influences, which of the following can be used by Scripzy?
  - (a) PESTLLE Analysis
  - (b) SWOT Analysis
  - (c) GE Matrix
  - (d) ADL Matrix



5. Which of the following elements of the 7S McKinsey Model played a crucial role in Scripzy's success by aligning its AI-driven decision-making bots with its operations?
- (a) Strategy
  - (b) Systems
  - (c) Structure
  - (d) Style

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (d) Blend of proactive and reactive actions**

**Reason:**

Scripzy initially followed a proactive strategy by conducting Project Force, which helped them gain a competitive edge by understanding customer preferences. However, their decision to sell their AI system led to unexpected customer backlash, requiring them to take reactive measures to regain trust. This mix of proactive and reactive actions aligns with Ansoff's strategic management insights.

**2. Option (c) Resources for competitive success**

**Reason:**

While Project Force successfully identified product attributes, competitive capabilities, and sustainable advantages, Scripzy failed to recognize the importance of retaining its internal AI system as a key resource for competitive success. Selling the AI system weakened their differentiation, leading to a decline in their competitive position.

**3. Option (d) Only (b) and (c)**

**Reason:**

Scripzy faces competition from existing financial firms that have diversified into digital offerings (b) and other start-ups (c) in the AI-based market prediction and brokerage sector. While AI firms may develop

predictive technologies, they do not necessarily operate in the same business model as Scripzy, making option (a) less relevant.

**4. Option (a) PESTLLE Analysis**

**Reason:**

PESTLLE Analysis helps assess external macro-environmental factors, including Political and Legal aspects, which are crucial for handling geo-political uncertainties. It evaluates trade policies, regulations, foreign investments, and economic impacts, making it the best tool for Scripzy.

**5. Option (b) Systems**

**Reason:**

The AI bots automated decision-making and operational processes, which falls under the Systems component of the 7S Model, focusing on internal processes and workflows.

**CASE SCENARIO 30**

Rohansh Bakshi, a 22-year-old from Maharashtra, started a gaming equipment company called TEEMOX, which specialises in gaming chairs, gaming consoles, controllers, wireless keyboard, touchscreen and mouse pads. Rohan has been an innovator and loves building products. Hence, to prioritise his time more on development, he insisted Mr. N. Muniyappa, his mentor, to be the CEO of the company and spearhead business from the front.

Rohansh has always believed in bringing something new to the consumer and that is clearly projected in the products offered by TEEMOX. His designs reflect youth with exciting colors and comfort, and they match the quality of big global brands. However, to make his products worth the money that his customers are paying, the procurement is done from Indonesia and Vietnam, where the materials are easily available at low costs.

Interestingly, Rohansh's AI based gaming chairs have been a huge hit for the company, bringing in the maximum revenue and margins. The business has gone from 200 units sold to over 5000 units sold in just six months. To add to it, a famous FMCG Brand approached TEEMOX to collaborate for a sports drink focused on gamers. The team is excited about this collaboration as the deal will bring in more awareness and open newer markets for them. But Mr. Muniyappa insists that this might also displease the existing consumers who relate to TEEMOX as a customer-oriented brand rather than yet another money-minting business.

Nonetheless, the plans seem to be working in the company's favour for now and the future seems bright. To put it in context, the gaming industry is booming with a Compound Annual Growth Rate (CAGR) of 190%, adding over 20 million new customers every quarter. Clearly, opportunities are enormous, and the brand is on track. A well-established vision and mission for the company could be a strong strategic advantage for challenging times to come.

**Based on the above case scenario, answer the multiple choice questions.**

### **MULTIPLE CHOICE QUESTIONS**

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1. Based on the above case which of the following seems true about the Strategy of TEEMOX?
  - (a) Strategy was unified and comprehensive.
  - (b) Strategy was comprehensive and integrated.
  - (c) Strategy was integrated and unified.
  - (d) Strategy was integrated, unified and comprehensive.
2. Gaming chair business of TEEMOX is a cash cow. Which of the following strategies helped it become such an influential business?
  - (a) Organisation differentiation
  - (b) Product differentiation
  - (c) Focused differentiation
  - (d) Low-cost product provider
3. By routing its products from Indonesian and Vietnam, TEEMOX was able to achieve which of the following strategies on the holistic level of business?
  - (a) Product differentiation
  - (b) Horizontal integration of business
  - (c) Best cost provider in the industry
  - (d) Globalisation of business
4. TEEMOX's success is primarily driven by Rohansh's passion for product development and innovation. Under the 7S framework, which element does this align with?
  - (a) Strategy
  - (b) Systems

- (c) Shared Values
  - (d) Skills
5. A well-known FMCG brand is interested in collaborating with TEEMOX for a sports drink targeting gamers. Given its potential impact on TEEMOX's brand and market position, where would this FMCG company fall in Mendelow's Matrix?
- (a) High power, High interest (Key Players)
  - (b) Low power, Low interest (Minimal Effort)
  - (c) Low power, High interest (Keep Informed)
  - (d) High power, Low interest (Keep Satisfied)

### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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**1. Option (d) Strategy was integrated, unified, and comprehensive.**

**Reason:**

TEEMOX's strategy covers multiple aspects: innovation in product design (differentiation), cost-effective procurement (low-cost sourcing), and market expansion (collaboration opportunities). Since it aligns different business functions (integration), maintains a unified approach (innovation + affordability), and covers all strategic dimensions (comprehensive planning), option (d) is the most accurate.

**2. Option (b) Product differentiation**

**Reason:**

TEEMOX's AI-based gaming chairs are unique, offering advanced features that have made them a high-revenue product. This aligns with product differentiation, where the company creates unique value through innovation rather than competing solely on price.

**3. Option (c) Best cost provider in the industry**

**Reason:**

By sourcing from lower-cost countries, TEEMOX can maintain high quality while keeping production costs down. This aligns with the best-cost

provider strategy, which focuses on offering superior products at competitive prices, rather than purely low-cost or high-differentiation approaches.

**4. Option (d) Skills**

**Reason:**

The McKinsey 7S Framework includes Skills, which refers to the capabilities and expertise of individuals within the organization. Rohansh's strength in product development and innovation is a key skill driving TEEMOX's success.

**5. Option (a) High power, High interest (Key Players)**

**Reason:**

The FMCG brand has a high stake in the collaboration and can influence TEEMOX's brand perception. Since this collaboration could open new markets or create brand dilution risks, the FMCG brand holds both high power and high interest, making them a key player in Mendelow's Matrix.