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ABOUT

CA VINOD KUMAR AGARWAL

(AIR-2nd, 4th & 24th IN FOUNDATION, INTER & FINAL RESPECTIVELY)

SUMMARY

Founder Member of A.S. Foundation, India's Leading Academy for C.A. Course, CA Vinod Kumar Agarwal is a fellow member of ICAI and a past member of the Board of Studies, ICAI. With a teaching experience of twenty years, he has guided more than 1,00,000 students and is ranked as one of the best teachers for Accounts and Financial Management at Intermediate level and Financial Reporting and SFM at Final Level.

He has authored books on Accounts, Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management, and his books have sold more than 2,00,000 copies.

PUBLICATIONS AND ACHIEVEMENTS

- A merit holder in all the three levels of exams conducted by ICAI (2nd rank, 4th rank, and 24th rank in CA Foundation, CA Intermediate an CA Final respectively).
- Scored 99 marks in Accountancy in CA Foundation.
- Authored books on Accounts, Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management.
- Complied a book "No Truth, Only Interpretations", a book on motivation, inspiration and guidance.
- Compiled a book, "Mind Candy", a book on motivation.
- Compiled a book, "Sweet Voice", a book on inspirational quotes.
- Working experience with India's top firms Firms like M/s. S.B. Billimoria and A.F. Ferguson (both member firm of Deloitte).
- Published article in the Students Newsletter of ICAI on "Valuation of Equity Shares" and "Stock Market Index".
- Presented a paper on "Corporate Governance and Role of Auditor" in National Students Conference held in Goa.

EDUCATION

- Passed the Certified Public Accountant (CPA) (USA) exam in 2007.
- Post-graduation from Pune University with First Class.
- Graduation from B.M.C.C, Pune with distinction.
- Passed the Diploma in Business Finance Conducted by ICFAI, Hyderabad.
- Passed the Derivative Module test conducted by National Stock Exchange.
- Also appeared for UPSC exam and cleared Mains twice.

TEACHING EXPERIENCE

- Teaches Accounts, Advanced Accountancy, Financial management and Economics for Finance at CA Intermediate Level and Financial Reporting and Advanced Financial Management (AFM) at CA Final level.
- Pioneer of creating and distributing video tutorials in pen drives/google drive among students.
- Produced All India Toppers (1st Rank) in CPT examination and final examination apart from more than 250 all India merit- holders.
- More than 30000 Facebook subscribers, more than 42000 YouTube subscribers.
- Sold more than 40000 video lectures in pen-drive and google-drive mode.
- In 2019, launched a brand VKNOW, to become a national brand for digital learning.

TEACHING APPROACH

- Simple and effective way of teaching through concept building, class-room practice, home-exercise, and power-point presentation.
- A large variety of problems are solved in the class to meet the examination requirements.
- Notes are updated frequently covering amendments and exam problems.

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73	CA Final Exam - November 2023 - Case Study 5	● DT, ● Law, ● IDT, ● Audit, ● FR	● Income Tax – TDS to resident shareholders, TAN, Computation of total income ● Companies Act – Appointment of independent directors ● FEMA – capital account and current account transaction ● GST – valuation ● Audit – SA 299 – Joint Audit of financial statements, Audit procedure for show cause notice from state pollution Board ● FR – Ind AS 110 – Loss of control and impact in CFS	CA Gudia is a qualified Chartered Accountant......	340-346
74	CA Final RTP May 2024 Case Study 1	● FR, ● Law, ● IDT, ● Audit, ● SCMPE	● FR - Ind AS 115 ● GST – GST on airport levies ● Audit – SA 240 ● SCMPE – Kano's Model, Porter's five forces, Balance Scorecard ● Companies Act - Section 161 ● SEBI – LODR – Regulation 17A	Aviation industry has the power to change the economic landscape of a country......	347-356
75	MTP-Series I: March, 2024 Case Study 1	● IDT, ● Audit, ● DT, ● AFM, ● FR	● GST -GST payable in respect of supply of a gift pack, 10(1)(b) of the IGST Act, 2017 ● Audit - professional misconduct, SA 610 "Using the Work of Internal Auditor" ● Income Tax - 133A(2) of the Income Tax Act, 1961, Section 292C of the Income Tax Act, section 263(1)	Para 1 Harsh Chawda is practising Chartered Accountant,..	357-361

			• AFM - coefficient of variation is as a measure of risk, Inflation and capital budgeting • FR – Ind AS 19		
76	MTP-Series I: March, 2024 Case Study 2	• Audit, • DT, • IDT, • AFM, • FR	• Audit – Guidelines for Advertisement, Clause (8) of the Part I of the First Schedule, Steps for performing audit of block chain • Income Tax- section 143(2) of the Income Tax Act, Section 143(1)(a) of the Income Tax Act • GST – exemption to composite supply of goods and services • AFM – Mutual Fund – NAV, advantage, disadvantage • FR – Ind AS 2	Para 1 YK & Associates is a reputable firm of Chartered Accountants..	362-366
77	MTP-Series I: March, 2024 Case Study 5	• FR, • SCMPE, • Law, • Audit	• FR - Ind AS 28 • SCMPE - Evolutionary product • Accountability in performance measurement system • Critical success factor (CSF) • McKinsey 7s Framework • Law - Section 14 of the Insolvency and Bankruptcy Code • Audit – Role of internal audit	Background for establishment of Thunderbolt Airlines Private Limited (TAPL)....	367-371
78	CA Final Exam – MTP April 2024 - case study 1	• Law • DT • Audit	• Law – Rule 12 of the FCRA Registration rules, FCRA • Income Tax- Registration of Trust, sale of capital asset and acquisition of another capital asset by trust, section 12AB, section 11(1A) • Audit – Audit Risk in case of audit of Trust	Non-governmental organizations (NGOs)) are non-profit entities working...	372-376
79	CA Final Exam – MTP April 2024 - case study 2	• Audit • DT • SCMPE	• Audit -examination of prospective financial statements • Income tax - Keyman Insurance Policy premium deduction, book profit of the partnership for the purpose of calculation of allowable deduction for salary, section 40(b) • SCMPE – product pricing, Standard costing, Target costing, Kaizen costing, critical success factors (CSFs), Building Block model	Fresh Foods is a popular fast food joint t in Bangalore. It was formed by partnership...	377-383
80	CA Final Exam – MTP April 2024 - case study 3	• AFM •Audit • DT • FR	• AFM – Mergers and acquisition – post-merger EPS, Equity valuation using EBITDA multiple approach • Audit – Consolidation Adjustments, Audit Opinion, Audit Evidence, Forex problem on hedging • Income Tax- deductibility of interest converted into debentures • FR – Ind AS 115	Para 1 Established in 2003, RP Ltd. (RPL), based in Tirupur,....	383-387
81	CA Final Exam – MTP April 2024 - case study 4	• IDT • DT •FR •Audit • Law	• Customs Act - Rule 10(2) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007,cost of insurance, Section 15(1)(b) - rate of duty applicable for clearance for home consumption, section 14 of the Customs Act - rate of exchange • Law- Companies Act - Section 151, small shareholders' director • FR – Ind AS 1 - third statement of profit and loss as an additional comparative	Para A In the bustling heart of Kolkata, West Bengal,	388-392

Case study	Source	Subjects covered	Topics Covered	Question starts with	Summary	Page No
			• Law- XBRL, Rule 2 (1) (d) of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015, • Audit - SA 560, "Subsequent Events", issue of fresh Audit Report • DT - section 36(1)(iii)			
82	CA Final Exam – MTP April 2024 - case study 5	• FR • DT • Law • AFM	• Law – Companies Act Section 186(5), Section 197 (9) -Managerial Remuneration • AFM – Advanced capital budgeting – NPV calculation, RADR • Income Tax – Filing of return of income- section 139(1), Computation of deductions, TDS, • FR – Professional and ethical duty of Chartered Accountant	Subham Ltd., incorporated in 1999, is a public unlisted company....		393-396
83	ICAI New case studies 1	• Strategic management • GST • AFM • Law • DT	• Strategic decision making • GST- GST calculation, Liability to pay GST, Section 9 (5) of the CGST Act 2017 • Start-up finance - Unicorn • Companies Act - increase in the number of directors, Section 149(1) of the Companies Act, 2013 • Income tax- depreciation (Section 32), Section 38	Caber Cabs, which is better known by the name Caber, is an Indian startup company (privately held) which provides online cab services	An Indian startup providing online cab services, expanding rapidly with innovative strategies like "App Analytics" and social media campaigns targeting corporate employees aged 20-25.	397-402
84	ICAI New case studies 2	• Strategic management • SCMPE • FR • Law	• SM - competitive advantage, Backward vertical integration, Forward vertical integration, Evaluation of Strategy • SCMPE - supply chain management • FR – Ind AS 19, Ind As 102, Ind As 16 • Law - FEMA 1999 - requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of commission	SG's adherence to its strategic vision is pivotal in maintaining its competitive advantage in the fast fashion industry. Concerns	The case study involves an analysis of SG's business strategies, financial decisions, or operational challenges.	403-407
85	ICAI New case studies 4	• Law • Strategic management • FR • SCMPE	• Law – SEBI (LODR) Regulations, 2015, SEBI (Prohibition of Insider Trading) Regulation, • Strategic management – Brand Building, Porter's Five Forces model. • FR – Ind AS 34 • SCMPE – Supply chain Management	Becky Bond India Limited produces internationally successfully 'Becky' and 'Bond' brand of fashion clothes respectively for woman and men.	The case study explores strategic decisions such as pricing models, marketing strategies, and potential expansion into new markets.	408-412

86	ICAI new case studies 7	● SCMPE ● AFM ● Audit ● Law ● DT	● SCMPE – Pricing decisions, competitive advantage, Porter's Five Forces framework ● AFM - Mergers and acquisition – Type of acquisition, Relevant financial metric for value of target company ● Audit – Audit risks ● Law - Insolvency and Bankruptcy Code (IBC), 2016 ● AFM – Business Valuation – Valuation of distressed companies ● Income Tax - section 35ABA	The Connect Group, one of India's largest conglomerates, was founded by Ramlal Jain in 1966. Initially starting as a small textile company named Connect Commercial Corporation….	Connect operates as a digital aggregator platform, linking passengers with drivers for seamless transportation services. Offers real-time tracking, cashless rides, upfront pricing, and multiple ride options to enhance passenger experience.	413-418
87	ICAI new case studies 8	● AFM ● Law ● SCMPE	● AFM – Forward and backward integration, Interest rate swap, hedging foreign exchange risk ● Law - FEMA ● SCMPE – Supply Chain, Porter's Five Model, Business Model Canvas, Customer profitability analysis	Standard Tea Private Limited (STPL) was established in 1935 headquartered in Kolkata. The company is privately owned by the Ghanshyam family members…	**STPL** is privately owned by the Ghanshyam family members. STPL has a rich history and has grown to become a significant player in the tea industry. The company focuses on producing high-quality tea and has a strong presence in both domestic and international markets. STPL's business strategy includes maintaining traditional values while incorporating modern techniques to enhance production and distribution. The company is committed to sustainability and ethical practices.	419-424
88	ICAI new case studies 11	● SCMPE ● Audit ● FR	● SCMPE – Pricing decision, transfer pricing, non price strategy, McKinsey 7S element, core competency analysis ● Audit - ICAI's Code of Ethics, Section 260 of NOCLAR. ● FR - Ind AS 16 and Ind AS 36	V-Cure Limited is a pharmaceutical company that has many divisions. One of its divisions (Division A) produces chemical vials that can be used for storage of medicines…	The case explores the internal transfer pricing methodology, including calculating the transfer price based on full cost plus a 1% markup and discussing its pros and cons. It also touches on strategic decision-making within the company, such as allowing Division B to procure vials externally and	425-428

					the accounting treatment of events.	
89	ICAI new case studies 12	● AFM ● FR ● SCMPE ● Law ● DT	● AFM – Mergers and acquisitions, impact of merger on EPS ● FR – Ind AS 103 – calculation of Goodwill, Reverse Acquisition ● SCMPE – Methods of measuring performance ● Law - ● Income Tax - Depreciation	MNO Ltd. is a renowned powerhouse in the FMCG sector, known for its wide range of household products and a robust distribution network across urban centers…	MNO is a company that operates in the e-commerce sector. It faces challenges such as competition, maintaining customer trust, and logistical issues. To address these, the company focuses on enhancing user experience, implementing effective marketing strategies, and optimizing its supply chain.	429-432
90	ICAI new case studies 16	● SCMPE ● GST ● FR	● SCMPE - value proposition, strategic cost management, business strategic framework ● GST – Taxable Supply, Section 2(17) of the IGST Act, 2017 ● FR – Ind AS 16, Ind AS 40	PurchaseOnn Inc. was founded in 1992 by Rose Lee as an online bookstore. It has undergone a remarkable transformation into one of the world's leading technology companies.	PurchaseOnn is a company that operates in the e-commerce sector. It connects buyers and sellers, offering a wide range of products and services. It faces competition from other e-commerce platforms and must navigate regulatory requirements and customer expectations.	433-438
91	ICAI new case studies 17	● FR ● SCMPE ● GST ● Customs Act ● AFM	● FR – Ind AS 1, Ind AS 8 ● SCMPE - supply chain, Customer lifetime value ● GST - ITC ● Customs Act - value of machine for levying customs duty ● AFM – Ways to hedge forex risk	Maxplus Ltd, one of the most trusted gateways to medicines, incorporated in Delhi with an aim to eliminate fake and ineffective medicines…	The case study discusses strategic decisions involving product development, market exploration, and diversification. It highlights the importance of financial risk management and compliance with accounting standards and tax laws.	439-444
92	ICAI new case studies 18	● SCMPE ● FR ● DT ● AFM	● SCMPE - Kano Model of product development and customer satisfaction, Market Size Variance & Market Share Variance ● FR – Ind AS 115 ● DT – Income Tax Act - section 92A – Associate Enterprise, section 92, Transfer pricing, Arm's length price	India's Smartphone market shipped 8 million smartphones in 2023 with a normal one percent growth year-on-year basis….	Soft Tech Limited started its operations three years ago to manufacture Smart Phones and provision of IT-software services. The case study contains details about the company's financial performance, such as revenue, profit, and expenses.	445-449

			● AFM – Business Valuation			
93	ICAI new case studies 21	●DT ● SCMPE ● FR	● Income Tax – Depreciation, section 32(1)(ii) ● SCMPE - labour cost not be factored into set up cost, JIT, back-flushing in JIT system, traditional CVP method and the Activity Based CVP method, BEP ● FR – Ind AS 2	Cycles India Ltd. (CIL) manufactures cycles for both adults and children. Given below is information about cycles made for children…	CIL aims to increase annual manufacturing capacity from 10 lacs to 18 lacs cycles due to rising demand. Implemented Activity based costing to identify fixed costs and set-up costs for children's cycle steer supports, leading to a proposal to increase batch size. Management contemplates a Just In Time system to reduce storage space needs and improve efficiency.	450-454
94	ICAI new case studies 22	● GST ● Audit ● SCMPE ● DT ● AFM ● FR	● GST - place of supply and value of supply, GST payable in respect of supply of a gift pack ● Audit - Regulation 190A, professional misconduct ● SCMPE – Business Model, OEE ● DT - Section 133B ● AFM - Advanced Capital Budgeting – Risk Analysis, project appraisal under inflationary conditions ● FR – Ind AS 19	Mr. Manish, registered under GST, is a Chartered Accountant, resident of Pune. Manish has received the technical consultancy services for his business from his brother…	Mr. Manish evaluates two projects, considering inflationary conditions and the impact on financial outcomes. The case discusses the measurement of benefits for employee service over different periods and the implications for financial statements.	455-459
95	ICAI new case studies 24	● Law ● FR ● DT ● IDT	● Law – FEMA, residential status under the FEMA, ● FR – Ind AS 36, Ind AS 21 - functional currency ● DT - Residential status ● IDT – Foreign trade	CA Parminder Kaur who qualified as a Chartered Accountant 3 years back has set up her own Practice in Jalandhar, Punjab. Her major expertise is in the field	CA Parminder is a Chartered Accountant with a diverse client base, including individuals and businesses. He is known for his expertise in taxation and financial consultancy. The case study deals with FEMA provisions, Residential status provisions and knowledge of Ind AS 36 and Ind AS 21	460-465
96	ICAI new case studies 27	● Audit ● GST ● FR ● DT	● Audit – Existence assertion, Audit of Expenses ● GST - utilisation of ITC, value of supply ● FR – Ind AS 103 – Acquirer and date of acquisition, non-	Anupama Hotels Ltd. operating an all category resort – "THE VILLAS" which is a famous Vacation Property located in the Hills of Shivalik…	Anupma is a company involved in the hospitality industry, focusing on hotel management and operations. It emphasizes the importance of auditing, risk	466-471

			controlling interest, goodwill/gain on bargain purchase ● DT - profits and gains of business or profession		assessment, and adherence to statutory requirements.	
97	ICAI new case studies 28	● SCMPE ● DT ● AFM ● Audit	● SCMPE –performance indicators, Critical Success Factor, balance scorecard framework ● DT - scientific research expenditure ● AFM - EVA, EPS ● Audit - SA 510, SA 705, audit evidence	BL Limited is a bio-technology and pharmaceutical company that is listed on the National Stock Exchange (NSE). It is a small cap company engaged…	BL Ltd is a biotechnology and pharmaceutical company. The company incurred significant capital expenditure. The critical success factor for BL Limited is the percentage of profit earned from the launch of new drug formulations. The company aims to improve its EVA.	472-475
98	ICAI new case studies 36	●SCMPE ● Law ● AFM ● FR	● SCMPE - Michael Porter's value chain model, Kano Model, critical success factor, Outsourcing, brand strategy ● Law – Companies Act – Board Meeting ● AFM – EVA calculation ● FR – Ind AS 16	StayInn Limited is a well established company that runs chains of hotels and resorts across different locations in India. "StayInn Budget" hotels…	StayInn is a hospitality company offering budget-friendly accommodation. It faces issues with maintaining service quality and customer satisfaction.	476-479
99	ICAI new case studies 37	● FR ● Law ●SCMPE ● FR	● FR – Ind AS 21 ● Law - Companies Act - Managerial remuneration (section 198), related party transaction and Audit Committee Approval under SEBI Listing Regulations ● SCMPE - strategic considerations, mission and strategic objectives, McKinsey 7S model ● FR – Ind AS 116	Riddhi and Siddhi are siblings residing in a remote village in north-east India. Over the years Riddhi and Siddhi observed that rampant and unchecked …..		480-485
100	ICAI new case studies 41	● SCMPE ● FR ● IDT ● Audit	● SCMPE - key factors, strategic positioning ● FR – Ind AS 10, Ind AS 103 ● IDT – Customs Act - rate of customs duty, Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 ● Audit - compliance audit, Comprehensive Audit, Propriety Audit, Financial Audit	Established as a public sector undertaking of Government of India, Bharat Chemicals Pharma Ltd. has served as a cornerstone of the Indian pharmaceutical….	BCPL is a chemical manufacturing company known for its high-quality products, especially in the pharmaceutical sector. This case study deals with Ind AS 10, Ind AS 103, Customs Act and Valuation Rules, Comliance Audit etc.	486-490

101	ICAI new case studies 42	● DT ● SCMPE ● Law ● IDT ● Audit	● DT - penalty leviable u/s 270A, Book-profit of the firm under section 40(b) of the Income-tax Act, Allowable working partner salary under section 40(b). ● SCMPE - Change in business model on account of technological advancements ● Law - maximum permitted dividend as per Rule 18 of the Nidhi Rules, 2014: ● IDT – Customs Act, GST liability of registered charitable trust ● Audit – Professional misconduct	Bound by the strong ties of friendship since childhood, Kushal Dabhoi, Raj Varia, and Kishan Kaneja had their paths diverge after graduation. Raj and Kishan…	The case focuses on RK Enterprises and the conditions they must meet to avail exemption on goods re-imported for repairs. The case also discusses the computation of GST liability for Bhagya Sugam Charitable Trust, considering various services provided within a religious place.	491-494
102	ICAI new case studies 43	● SCMPE ● FR ● Audit ● DT ● FR	● SCMPE - Triple Bottomline theory, TBL framework ● FR – Ind AS 1, Ind AS 8 ● Audit – Audit opinion, CARO 2020, Key Audit matters (SA 701). ● DT - section 271AAB(1A) of Income-tax Act, 1961 – penalty ● FR – Ind AS 115	Home Decor Ltd operate the brand WallKraft – the country's largest maker of home furnishing items. The Company is the partners of choice..	Home Decor faced a search operation under the Income-tax Act, revealing INR 89 crores in cash. It claimed this was from the sale of old and discarded assets. The company needed to justify the cash found and address potential lapses in internal controls and compliance with accounting standards.	495-498
103	ICAI new case studies 44	● SCMPE ● AFM ● Law ● FR ● Audit ● DT	● SCMPE - Porters Five Forces ● AFM – Mergers and Acquisition ● Law - Related party transaction under section 188 of the Companies Act, 2013 ● FR - Ind AS 10 ● Audit - SA 706 ● DT - ICDS IX relating to "Borrowing Cost"	Established in 1971 in Siliguri, West Bengal, HotSip Limited stands as a distinguished Indian company renowned for its expertise in the marketing…	HotSip and HotBrew are two companies in the tea and snacks industry considering a merger. The case study deals with Porters Five Forces model, Ind AS 10, Related party transaction under section 188 of the Companies Act, SA 706 and ICDS IX	499-503
104	ICAI new case studies 45	● SCMPE ● Law ● AFM ● IDT	● SCMPE - 5S methodology, Overall Equipment Effectiveness, Kano Model, Availability ratio, Performance ratio, Quality ratio, Total Productive Maintenance (TPM) ● Law - Companies Act – Directors, Internal auditors	Indian Watches Private Ltd. (IWPL) manufactures smart watches. IWPL had a turnover of over `560 crores in the preceding financial year….	IWPL is facing delays in delivering electronic components to the assembly line, impacting machine performance. Implementing the 5S methodology and Pareto analysis to identify and address the root causes of delays.	504-507

			● AFM – Mergers and Acquisition – Type of Merger ● IDT - Customs Act, 1962 - section 14, Rule 2(2) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007			
105	ICAI new case studies 46	● SCMPE ● AFM ● FR ● DT	● SCMPE - disruptive innovation, Just in Time, low cost advantage strategy, Osterwalder’s Business Model Canvas ● AFM – Start-up finance, certainty equivalent technique ● FR - Ind AS 116, Ind AS 38 ● DT – TDS on fees for technical services, section 40(a)(i)	Due to increased urbanization, there has been a strong demand for residential housing facilities in various cities in India. Residential housing construction…	Bhartiya 3D (B3D) is a startup in the real estate sector, leveraging 3D printing technology to offer affordable housing solutions. B3D focuses on advanced construction techniques, strategic partnerships, and continuous innovation to reduce costs and improve efficiency. B3D faces challenges in inventory management, regulatory approvals, and market competition.	508-513
106	ICAI new case studies 48	● FR ● Audit ● AFM ● SCMPE ● GST	● FR - IND AS 37 ● Audit - section 144 of the Companies Act, 2013, audit of internal control with reference to financial statements ● AFM – Risk Management ● SCMPE - Pareto’s analysis. ● GST - secondment arrangement	Manpower Services Private Limited is a subsidiary of a Singapore based Company. The Company has received a land on lease for 99 years…	The company has a 99-year lease for land from the government, on which it has constructed a building. The company has agreements with foreign group companies to second managerial and technical personnel to assist in its business. The GST department contends that the seconded employees are not employees of the Indian company, leading to a demand for unpaid GST, interest, and penalties.	514-517

Case study	Source	Subjects covered	Topics Covered	Question starts with	Page No.
107	ICAI May 2024 Exam- case study 107	● GST ● DT ● AFM ● SCMPE	● Penalty ● Income Tax- Depreciation ● NPV using RADR method ● Throughput Accounting	KLM Private Ltd, Jaipur is a wholly owned subsidiary of MNO Ltd, Mumbai. KLM is engaged in	518-520

		● Audit ● FR	● Management Representation - Emhasis of Matter ● Ind AS 40- Transfer from owner occupied property to investment property, ● Ind AS 8- Change in Accounting Policy	manufacture of textile goods and beverages.	
108	ICAI May 2024 Exam - case study 108	● Law ● Audit ● FR ● AFM ● GST	● FCRA- Gift in Kind to friend ● Appointment of Internal Auditors , ● Eligibility of internal Auditor, ● Applicability of Internal Audit ● Ind AS 19- Defined benefits - plan,- amount to be shown in OCI for actuarial gain or loss, ● Ind AS 116- Leases- Initial measurements of Right of use Assets ● Mergers and Acquisitions - Post merger EPS, Post Merger MPS, Post merger market capitalisation , ● Hedging Forex Risk ● GST on sponsorship of Event, Value of Supply	**Enterprising State of Indian Agriculture Industry** The innovation and government support has put the agriculture industry on a growth trajectory.	521-524
109	ICAI May 2024 Exam - case study 109	● FR ● Audit ● GST ● Law ● DT	● Ind AS 2 and Ind AS 10- Valuation of inventory and Event after reporting date, ● Ind AS 115- Revenue Recognition in case of variable Consideration ● ICAI guidelines relating to Websites, Statutory and Internal Auditor ● ITC, Appeal, Additional Pre-deposit money for filing second appeal ● Companies Act- appointment of Liquidator ● Income tax act section 254- Rectification order	A group of four practicing chartered accountants namely P, Q, R, and S living in Kandivali in Mumbai decided to form a brain storming group to meet on every Saturday evening to discuss the important and typical professional matters to have consensus for the mutual	525-528
110	ICAI May 2024 Exam - case study 110	● Audit ● Law ● DT ● SCMPE ● AFM	● Range of threats- Familiarity Threats, Self-Review threats, self- interest threats. Advocacy threats ● Professional Misconduct ● Insolvency Law ● Income tax- Allowability of expenses on glow-sign boards, Income Chargeable to tax, Taxability to Charitable organisation ● Material usage variance ● Advanced Capital Budgeting - Which machine to buy using EAC method	**CA. Rajesh — An experienced Practicing Chartered Accountant** Rajesh is a practicing Chartered Accountant and has struggled in initial days but put in hard work and now...	529-532
111	ICAI May 2024 Exam - case study 111	● DT ● SCMPE ● GST ● AFM ● Law	● Income tax - Section 44AD, ● ITR ● TDS on loan to Director and Deemed dividend ● Non-resident Taxation ● Kaizen costing ● Time limit for claiming ITC- GSTR 3B, ● Value of service under section 2(6) of IGST Act ● Exponential Moving Average ● Companies Act- Loan granted to director	Magic.Ltd received an order for supply of service to a UK based client by name Botham Ltd for £ 10 lakhs. Magic Ltd was unable to provide the entire services...	533-536

Case study	Source	Subjects covered	Topics Covered	Question starts with	Summary	Page No.
112	ICAI RTP Nov 2024- case study 112	●GST ● Income Tax ● SCMPE ● FR	● GST - ITC, Reverse Charge, Value Added service ● Income Tax – Presumptive taxation u/s 44AE ● SCMPE - McKinse's 7s Element of Systems, CRM,	FrontRunner Pvt. Ltd. (FPL) traces its origins back to its beginnings as a proprietorship firm founded by	FrontRunner Pvt. Ltd. (FPL) evolved from a proprietorship to a private limited company, specializing in B2B trucking services	537-543

			Performance Pyramid model suggested by Lynch and Cross, TQM, TQM • FR – Ind AS 116	Hansraj several decades ago….	in Gujarat. Operates 9 trucks, focusing on Full Truck Load (FTL) shipments. Plans to introduce Less than Truck Load (LTL) shipments to increase competitiveness. Issues include truck maintenance, overloading, and the need for better management practices to ensure efficiency and compliance	
113	ICAI RTP Nov 2024-case study 113	• SCMPE • FR • Audit • GST • Law	• SCMPE – Competitive Advantage, Pricing Staregy • FR – Ind AS 20. Ind AS 103, Ind AS 110, Ind AS 38 • Audit – SA 250, SA 706 • GST – Value of supply, Rule 28 • Law – Companies Act, section 234, Rule 25A of the Companies (Compromise, Arrangements and Amalgamations) Rules, 2016	Suraj Pharma stands tall as a leading player in the global pharmaceutical landscape. Founded in the 1960s by Dr. Anand Srinivasan, a brilliant scientist with a passion for affordable medicine…	Suraj Pharma, founded in the 1960s, is a leading global pharmaceutical company known for developing complex, high-value medications[1]. It holds a strong market presence in over 100 countries. The patent for Suraj Pharma's antibiotic drug, Rifmn, is about to expire. This will lead to increased competition from generic versions, prompting the company to review its pricing strategy. The company is considering how to reposition itself in the market and optimize its pricing strategy to maintain profitability and competitiveness.	544-550
114	ICAI RTP Nov 2024-case study 114	• Audit • Law • GST • FR • SCMPE 6Cs of TQM	• Audit – Section 143(12) of Companies Act, reporting of fraud, Access to relevant information, CARO 2020 • Law - SEBI (Prohibition of Insider Trading) Regulations, 2015 • GST – Date of payment and time of payment • FR – Ind AS 38 • SCMPE - 6Cs of TQM	IndyaDekho: Pioneering Innovation and Customer Experience in the Digital Travel Landscape The travel industry has undergone a significant transformation in recent years…	IndyaDekho is a digital travel company that has innovated in the travel industry by leveraging technology and focusing on customer experience. The case study includes questions about the recognition of intangible assets, implementation of Total Quality Management (TQM), and the handling of brand-building expenditures.	551-556

115	ICAI MTP Sept 2024 – Case study 1	• **Audit** • **FR** • **Law** • **DT** • **SCMPE**	• **Audit -** SA 210, audit engagement letter, confirmation request, SA 505 • **FR-** Ind AS 115, Ind AS 38 • **Law – Companies Act -** independent director • **DT -** Section 37 of the Income-tax Act, 1961 • **SCMPE –** Value Chain Analysis	The journey of Rahul & Raj Films Ltd. ("R & R") began in 1994, weaving captivating tales that unfolded on small screen...	Rahul & Raj Films Ltd. (R & R) started in 1994 and became a leader in India's entertainment industry, launching a streaming platform in 2023. Focus on quality content, expanding into non-fiction, and enhancing user experience through technological upgrades. Issues with trade receivables, competition in the movie theatre sector, and the decision to abandon the movie 'Kaleen Bhaiya' due to an unsatisfactory storyline.	557-564
116	ICAI MTP Sept 2024 – Case study 2	• **Law** • **SCMPE** • **FR** • **Audit** • **AFM**	• **Law – Companies Act -** Section 232(6), Section 240 • **SCMPE -** McKinsey's 7S framework • **FR –** Ind AS 38, Schedule III to the Companies Act • **Audit -** Permanent consolidation adjustments and Current period adjustments • **AFM –** DCF valuation	Dev Products Ltd. (DPL): A Journey of Strategic Growth Founded in the heart of India's industrial hub, Lucknow, in the early 1980s, Dev Products Ltd. (DPL) began...	Dev Products Ltd. started in the 1980s in Lucknow, expanding from agricultural implements to building materials and home appliances. It has a strong market presence due to strategic growth and diversification. DPL reported significant revenue growth and improved internal controls post-acquisition. The company also invested in finance software to bolster its operations.	565- 569
117	ICAI MTP Sept 2024 – Case study 117	• **FR** • **Audit** • **IDT** • **AFM** • **SCMPE**	• **FR –** Ind AS 38, Ind AS 115, blockchain technology • **Audit -** SA 701 • **IDT –** GST – Time of supply and taxable value - section 13(4) of the CGST Act, 2017 • **AFM –** International Capital Budgeting • **SCMPE** - Business Model Canvas	Founded by Manish Jha and Keyur Vasai in 2006, Doormato is a public company whose shares are traded on a stock exchange...	Doormato, founded in 2006, is a public company in the food and restaurant industry, known for its adaptability and use of AI. Doormato evaluates investments using nominal cash flows and a nominal discounting rate, with specific projected cash flows for a project in an African region. The case also involves Doormato's strategic acquisition of African Eats, considering non-	570 - 576

					financial factors like political, economic, social, and technological influences.	
118	ICAI MTP Sept 2024 – Case study 118	• **FR** • **DT** • **Law** • **IDT**	• **FR –** Ind AS 116 – Initial lease liability, Ind AS 23 – Capitalisation rate, Ind AS 103 – Goodwill calculation under two methods, Ind AS 24 - Identification of Related parties and disclosures • **DT –** Income Tax – Section 43B • **Law –** Companies Act – Section 203 – appointment of whole-time Company Secretary (CS), Section 192(1) • **IDT -** Customs Duty and integrated tax payable	**Emergence of Green Entrepreneurship** - India's remarkable economic progress, marked by its position as the fastest growing major economy…	EcoTech Innovations Pvt. Ltd., founded by Priya and Arjun in 2021, focuses on sustainable energy and waste management technologies. Faced challenges with interest deduction on loans and a notice from the Commissioner of Income-tax regarding revised orders.	577 - 582
119	ICAI MTP Sept 2024 – Case study 5	• **Audit** • **Law** • **IDT** • **SCMPE**	• **Audit -** Part I of Second Schedule of the Chartered Accountants Act, 1949, Internal Audit reporting structure, Clauses (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 • **Law -** secretarial audit under the Companies Act, 2013, Regulation 18(1) of LODR Regulations • **IDT – GST Liability** • **SCMPE –** Value Chain, Responsibility accounting, Competitive Advantage	A Ltd., an established player in the hospitality industry, oversees its subsidiary B Ltd., which specializes in the tourism sector,	A Ltd., a hospitality industry player, oversees its subsidiary B Ltd. in the tourism sector. They purchased a new building from P Ltd. to enhance their operational capabilities. The acquisition aims to improve service delivery with modern facilities, fostering collaboration between A Ltd. and B Ltd. Issues include fraud by a cashier, GST liabilities, and the need for proper audit and internal controls.	583 - 589
120	ICAI MTP Oct 2024 – Case study 1	• **Audit** • **Law** • **SCMPE** • **FR**	• **Audit -** SA 240 • **Law –** FEMA (Overseas Investment) Regulations, 2022, Companies Act - Section 185 and Section 186, Section 197 • **SCMPE –** Business Model Canvas, Supply Chain • **FR –** Ind AS 109 – Loan to employees at concessional rate	The hospitality industry is a dynamic and multifaceted sector that plays a pivotal role in the global economy, encompassing a wide range…	SarTaj Hotels: Known for its growth and commitment to ESG principles, SarTaj Hotels excels in financial and non-financial performance, offering a diverse portfolio from luxury to budget stays. The hotel food service faces challenges with perishable produce and demand forecasting, managed through push and pull production methods.	590 - 596
121	ICAI MTP Oct 2024 –	• **FR** • **Law**	• **FR –** Ind AS 101	As a sunrise sector, India's skill-based online	FFL's Strategy: Fastest Finger Limited (FFL) aims to expand into	597 - 603

	Case study 2	• **IDT** • **Audit** • **SCMPE**	• **Law –** Companies Act – Section 173(2) of Companies Act, 2013 • **IDT –** Rule 31B of CGST Rules, 2017 • **Audit -** Paragraph 3(vii)(b) of CARO 2020 • **SCMPE -** McKinsey's 7S Framework, Life-cycle costing	gaming industry could play a crucial role in making India a US$5 trillion economy by …	new verticals like the Metaverse and AI through strategic partnerships and acquisitions.. FFL is transitioning to Ind AS for financial reporting, facing challenges like determining comparative information and reconciliations.	
122	ICAI MTP Oct 2024 – Case study 3	• **SCMPE** • **IDT** • **AFM** • **Law** • **Audit** • **FR**	• **SCMPE -** Value for Money (VFM) framework • **IDT – GST -** value of the goods supplied- section 15(1) of the CGST Act • **AFM –** Valuation of Shares – DDM Model, Forex problem – Timing of payment to supplier • **Law –** Companies Act – filing of petition, Section 197, Section 171, Section 185 • **Audit –** Audit Evidence, SA 560 • **FR -** Ind AS 105	From humble beginnings as a small trading business in 1970s Mumbai, Aadhya Ltd. has emerged as one of India's most prominent	Aadhya Ltd. is a diversified conglomerate with operations in infrastructure, power, telecom, retail, and financial services. It emphasizes ethical business practices, innovation, and sustainability. The company has embraced emerging technologies like AI, IoT, and Blockchain to enhance its operations.	604 - 609
123	ICAI MTP Oct 2024 – Case study 4	• **Audit** • **Law** • **FR** • **SCMPE**	• **Audit -** SQC 1, SA 230, Code of Ethics, Independence of Auditors, threats to independence , SA 705 • **Law -** Companies Act - Section 188(1) • **FR –** Ind AS 115 • **SCMPE -** enhancing competitive positioning	CA. Radhika Sharma is an audit partner in L & V LLP, a firm of Chartered Accountants. The Firm was founded by CA. Lata Subramanian in 1960…	L & V LLP, founded in 1960, is a well-established firm with offices across India, serving diverse market segments. A qualified audit opinion was issued due to insufficient evidence on the recoverability of investments in one subsidiary. The firm's bookkeeping division faced operational difficulties due to rapid expansion, highlighting the need for strategic measures to enhance profitability and competitiveness.	610 - 616
124	ICAI MTP Oct 2024 – Case study 5	• **IDT** • **DT** • **SCMPE**	• **IDT –** GST - IGST liability, section 16(3) of the IGST Act, Rule 89(4) of the CGST Rules, 2017 • **DT –** TDS - 194 C, 115BAB, 115JB • **SCMPE -** product life cycle, supply chain	Mr. Aditya: From Corporate Professional to Entrepreneur Before founding Sprinter Private Limited, Mr. Aditya P. had a distinguished career in the textile industry,	Mr. Aditya P., with over two decades of experience in the textile industry, founded Sprinter Private Limited to tap into the booming textile exports market. Despite Sprinter's success, the company faced criticism for unethical practices in its supply chain,	617 - 622

					particularly concerning child labor and poor working conditions in supplier factories. The case highlights the importance of ethical supply chain management and the moral obligations companies have towards ensuring the well-being of all workers involved.	

▸ CASE STUDY - 121 ◂
MTP OCT 2024

– As a sunrise sector, India’s skill-based online gaming industry could play a crucial role in making India a US$5 trillion economy by 2025. Online games may be categorized into two broad categories basis the involvement of element of skill and chance – skill-based games (i.e. where the outcome is mostly dependent upon player’s skills, knowledge, training, etc. with less/minimal dependence on chance factor) and chance-based games (i.e. games where the outcome is primarily dependent upon chance and wherein player’s skills, knowledge, etc. have limited influence over the same). The online skill-based gaming industry in India may be categorised into real money games (RMG) (a game where a user makes a deposit in cash or kind with the aim of earning winnings on the deposit) and non-real money games (non-RMG). Skill based games are played in one of the following formats, namely – casual games, card games, fantasy sports, etc.

– The online game industry has undergone a significant evolution from its humble beginnings of pixelated arcade games in the 1970s to ~US$ 200 billion industry with cutting-edge graphics, immersive gameplay, and an ever-expanding audience. With an estimated 3 billion active players worldwide, the gaming industry has a massive and growing audience. In fact, approximately 50% of these active players are also active buyers of in-game assets, such as virtual goods. This highlights the significant economic potential of the gaming industry and its ability to generate substantial revenue through in-game purchases and other related transactions. Gaming is rapidly emerging as the future of entertainment, with its market size already surpassing that of the global music and movie industries. In fact, the gaming industry is currently 7 times larger than the global music industry and 5 times larger than the global movie industry, making it a major player in the entertainment landscape.

– India's online gaming segment is experiencing remarkable growth, indicating substantial economic potential. With a robust gaming community consisting of approximately 42.5 crore gamers—second globally after China − the sector has potential to accelerate Foreign Direct Investment inflows, job creation, and investments across various sectors. For the segment to truly thrive, a stable regulatory and legal framework is imperative. Uncertainties can impede the realization of its full potential and hinder rapid scalability. Over the past three years, the online gaming industry has grown at a CAGR of 28%, reaching ` 16,000 crore in F.Y.2023-24 and is likely to reach ` 32,000 crore by F.Y.2027-28. This boost is largely attributed to factors like widespread smartphone penetration, improved internet connectivity, a growing youth population, and the development of local gaming content. Over the course of time as younger generations become the key customers, the spending patterns and the market is expected to shift to become a core gaming market. Additionally, the pandemic played a significant role in driving up mobile game downloads as people sought digital entertainment. India continues to be a 'mobile first' market, with 94% of its gamer base engaging in mobile gaming. Despite the rapid increase in game consumption, India's online gaming revenue is still merely 1.1% of global online gaming revenue.

– As online gaming continues to catalyse ancillary sectors like fintech, cloud services, data analytics, and cybersecurity, India takes a significant leap in its digital economy landscape. The growth of this segment poses an enabling environment for future investments and potential economic development. Guidelines by the Ministry of Electronics and Information Technology have been instrumental in removing ambiguity, bolstering investor sentiment, attracting funding, and encouraging innovations in India's digital economy, while prioritising user safety. India is witnessing increasing financial and digital inclusion boosting the growth of the gaming industry. The growth mainly is driven by the following factors:

  India, with the highest population in the world at 1.4 billion also boasts of one of the largest markets for smartphones. This increased digital penetration catalysed by the affordability of mobile data and accessibility of smartphones is further supporting the expansion of the skill-based online gaming industry in India. Another pertinent development is the burgeoning production of smartphones in India that has led to the availability of advanced specifications of smartphones at an affordable rate.

  As 5G services are rolled out throughout the country, it may unlock a new era of cloud gaming, super-fast downloads, high-quality live streams, and seamless multiplayer online gaming. 5G may also enable more realistic Extended Reality (XR) and empower large-scale, platform-agnostic events and social experiences with seamless interactions between users.

  In absolute numbers, India may have a working-age population of more than a billion by 2030. With the largest youth population in the world, the median age in the country is just 28 years. A young demographic means an increasing inclination towards various types of gaming products and services available in the market.

– Fastest Finger Limited (FFL) founded by Mr. Viper Armstrong has embarked on the mission to enhance India’s footing in the global landscape. With innovation and adaptability at core, FFL is positioned to not only match the pace of change in the gaming world but to take the lead as it undergoes a massive transformation. FFL is a diversified gaming and sports media platform headquartered in Bangalore, with a presence in both developing and developed global markets such as Africa and North America. FFL is confident in shaping the future and expanding its leadership, both in India and globally, with operational efficiencies and industry-leading mindset. Refer annexure for details on FFL’s popular games. F.Y. 2023-24 has proven to be another year of progress for the company, FFL continue to rank among the popular companies worldwide. While FFL faced certain challenges that tested its resilience, FFL emerged triumphant but delivered muted results.

FFL's existing business strategy comprise the following

Segment	Organic growth	Inorganic growth
Gaming	Focus on driving organic growth through strategic investments in user acquisition with a strong emphasis on sustainable unit economics. Consistently update product features and content to improve user retention, engagement, and satisfaction, fostering longterm customer loyalty.	Expand the gaming vertical by acquiring games with valuable intellectual properties (IPs) that demonstrate high growth potential and the ability to deliver a 20% EBITDA margin. Leverage existing expertise in user acquisition and analytics to maximize the post-acquisition performance and accelerate market presence.
eSport	Fuel non-linear EBITDA growth by enhancing internal capabilities, expanding the local ecosystem, and consolidating leadership in the Indian market. Strengthen brand positioning through internal innovation, community engagement, and organic market penetration.	Develop a comprehensive 360-degree eSports ecosystem by exploring acquisitions of specialized brands or capabilities, particularly in the US sports sector. These strategic acquisitions will help diversify FFL's portfolio and expand its market reach globally.

- Mr. Viper Armstrong, the CEO, is concerned about FFL's prospects for the future. FFL is suffering from strategic drift and has no clear vision about its purpose or direction. It is active in the domestic and international markets but is consistently losing its dominant presence. There are no plans to put more investment into promoting foreign revenue.
- A particular concern is a long-term contract to provide Teen Patti (i.e., premium online new games) facilities to a major theme park in India. This five-year contract is due to end next year, and although it may be renewed, the CEO suspects that the customer may switch its business to a larger competitor. Loss of this contract would have a serious impact on FFL's business, reducing annual profit by as much as 10% and almost certainly leading to some redundancies among the work force.
- The CEO is aware from lengthy discussions with the product development team that FFL could invest in developing a more engaging and revamped type of premium online gaming experience for the domestic market. Developing this new gaming experience would, however, require a substantial capital investment. It would also mean having to resort to from external designers/ resources. It would also mean having to appoint some experienced personnel to research and development unit, because FFL does not currently have resources with sufficient knowledge of the new technology.
- The product development team are all in favour of the new investment, and the CEO believes that such investing will give FFL a much clearer strategic vision of what it should be trying to achieve. Some colleagues disagree strongly. The Operations Director sees no need to change the offering that FFL has been making successfully and the Sales and Marketing Director believes that the contract with the major customer will be renewed next year. Human Resources relations are also not good in FFL, following strike action last year in support of a claim for a pay rise and against planned redundancies amongst the staff. No one seems to understand the need for a new product, or the reason for change.
- The achievement of the above objectives would entail significant funding. Considering the quantum of investment required FFL decided to list its shares on the recognised Indian stock exchanges. The Initial Public Offer would comprise of fresh issue of equity shares, aggregating up to ` 500 crores. FFL would utilize the Net Proceeds towards funding the following objects:

  The business is working capital-intensive, and FFL funds its working capital requirements in the ordinary course of business from internal accruals and financing from various banks and financial institutions. As of 31 December 2023, FFL had a total sanctioned limit of working capital facilities of ` 350 crores on a consolidated basis, including fund based and non-fund based sublimits, and had an aggregated outstanding borrowing of ` 215 crores on a consolidated basis. FFL proposes to utilize an amount of up to ` 100 crores of Net Proceeds, towards working capital requirements of FFL in F.Y.2024-25 and F.Y. 2025-26.

  FFL seeks to continue expanding its offerings to include emerging areas such as Metaverse leveraging artificial intelligence, and ancillary services. FFL intends to expand into these new verticals through strategic partnerships and acquisitions. By diversifying into new related verticals, FFL seeks to be able to attract more users to its platforms, increase user engagement and serve as a comprehensive 'one-stop' solution. In addition to growing business organically, FFL have in the past and may continue to pursue targeted acquisitions or investments that complement its service offerings, strengthen or establish presence in target market or help in gaining access to new markets, technology and teams. FFL expects to utilize the remaining of the Net Proceeds towards funding inorganic growth segment through unidentified acquisitions and other strategic initiatives and general corporate purposes.
- Since FFL is in the process of being listed, Companies Act, 2013 would require it to prepare its financial statements under Ind AS. The first set of financial statements under Ind AS which comprise the balance sheet as at the end of the financial year, statement of profit and loss, statement of cash flow for the financial year; statement of changes in equity; and any explanatory note annexed to. The first set of Ind AS financial statements would also include three balance sheets i.e., balance sheets as at 31stMarch 2024, 31stMarch 2023 and 1stApril 2022.
- First time implementation of Ind AS posed many challenges including determination of comparative information including opening balance sheet and reconciliations as at the transition date. Accordingly, CFO was given the responsibilities to identify the GAAP differences and suggest the transition options. The CFO suggested as follows:

- Elected the deemed cost exemption in accordance with the relevant Ind AS which permits to continue with the carrying value for all of its property, plant and equipment as per the previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.
- Entity, being the first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind ASs).

– The CFO also mentioned that FFL had made certain investments in Dream Play Limited’s convertible debt instruments. The conversion rights are substantive rights and would provide FFL with a controlling stake over Dream Play. FFL has evaluated that Dream Play Limited would be treated as its subsidiary under Ind AS and, hence, would require consolidation in its Ind AS based consolidated financial statements. Dream Play Limited was not considered as a subsidiary, associate or a joint venture under previous GAAP.

– Under the latest GST norms, the CFO's snapshot of amount received towards online money is as follows:

- The total amount received from online bets is ` 35 crores after 1st October, 2023. After accounting for refunds amounting to ` 1 crore and unused or returned amounts totaling ` 4 crores, the amount utilized for the purpose of placing online bets is ` 30 crores.
- FFL also received a demand cum show cause notice from the GST department alleging that non-payment of GST of ` 50 crores in the previous years. FFL filed an appeal by 31st March 2024 against the demand notice.

– On 15th April,2024, a Board Meeting was called to discuss the matters on hand. This included matter related to FFL’s listing on 28th March,2024 and approval of financial statements for the F.Y.2023–24. Mr. Viper Armstrong, the CEO of FFL attended the Board Meeting through video conference. Other directors attended the Board Meeting physically.

ANNEXURE

Extract of Statement on Matters Specified in paragraphs 3 and 4 of the Companies (Auditors Report) Order, 2020 from the Independent Auditor’s Report

vii) (a) According to the information and explanations given to us, and based on the audit procedures performed by us, in our opinion, amounts deducted/ accrued in the books of account in respect of undisputed statutory dues including Goods and Services Tax (‘GST’), Provident fund, Employees’ State Insurance, Income-Tax, Duty of Customs, Profession Tax, Cess and other statutory dues have been regularly deposited by the Company with the appropriate authorities wherever applicable, and there are no such outstanding dues as at March 31, 2024, for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us and on the basis of our examination of the records of the Company, statutory dues relating to Goods and Services Tax (‘GST’) which have not been deposited on account of any dispute are as follow:

Name of Statute	Nature of dues	Amount not deposited on account of demand (In crore)
Goodsand ServiceTax,2017	GST	50.00

ChakdeIndia 	TeenPatti 	ZSports 	NOX-A 
– World’s largest cricket simulation game with 1.5 million daily active users and 9 million monthly active users – Revenue grew by 7% (last year:10%) – Shows reduced retention metrics with Day 1 retention of 46%, Day 7 retention of 18% and Day 30 retention of 7% in F.Y. 2023-24	– Classic card games. A Premium offering by FFL – Revenue grew by 8% (last year: 12.5%) – FFL is further strengthening its position in this sector	– Multi-sports destination. Dominant position in key markets – Revenue grew by 14% (last year: 25%) – Strong customer loyalty followed with high unique customer additions	– This innovative game is having a life cycle of less than one year – Currently, it is in the introduction tage of its life cycle and is generating significant unit profits – FFL adopted a market skimming pricing policy – FFL expects that other companies will try to join the market very soon

I. Multiple Choice Questions

1. Which of the following statements is correct with respect to the Ind AS transition option chosen by Fastest Finger Limited for the property, plant and equipment?
   (a) Not a carve out – Like IFRS 1, Ind AS 101 also does not provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.
   (b) Carve out – Unlike IFRS 1, Ind AS 101 provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of firsttime adoption of Ind AS.
   (c) Carve out – Unlike IFRS 1, Ind AS 1 provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of firsttime adoption of Ind AS.
   (d) Not a carve out – IFRS 1 and Ind AS 101 are identical with no changes in any of the paragraphs and provisions. **2 Marks**
2. Date of transition to Ind AS for Fastest Finger Limited is________?
   (a) 31st March, 2024 (b) 1st April, 2023 (c) 31st March, 2023 (d) 1st April, 2022 **2 Marks**
3. In the Board Meeting, Mr. Viper Armstrong expressed his concern that approval of financial statements for the year ended 31stMarch,2024 cannot be approved through video conferencing. Do you agree?
   (a) Disagree. Since there is quorum in a meeting through physical presence of directors, Mr. Viper Armstrong can participate through video conferencing on the matters relating to approval for annual financial statements as permitted under section 173 to the Companies Act, 2013.
   (b) Partially Agree. Since there is quorum in a meeting through physical presence of directors, Mr. Viper Armstrong can participate in discussion through video conferencing but cannot approve the annual financial statements as it is not permitted under section 173 to the Companies Act, 2013.
   (c) Agree. Rule 4 of the Companies (Meetings of Board and its Powers) Rules,2014 prohibits approval of annual financial statements in a Board Meeting conducted through video conferencing.
   (d) Disagree. Section 173 to the Companies Act, 2013 do not prohibit approval of annual financial statements in a Board Meeting conducted through video conferencing. Meeting quorum through physical presence of directors is not necessary. **2 Marks**
4. The amount of GST liability in respect of the amount received from online bets is________.
   (a) ` 5.81 crores (b) ` 11.30 crore (c) ` 9.80 crores (d) ` 30.11 crores **2 Marks**
5. With reference to Paragraph 3(vii)(b) of CARO 2020, Whether reporting under CARO is appropriate (refer Annexure):
   (a) Reporting is appropriate. The extract includes all the information prescribed under CARO, 2020.
   (b) Reporting is appropriate. The extract includes all the information prescribed under CARO, 2020, to the extent considered material by the auditor.
   (c) Reporting is inappropriate. CARO, 2020, requires the auditor to also report the period to which the amount relate and the forum where the dispute is pending.
   (d) Reporting is inappropriate. CARO, 2020, requires the auditor to also report the forum where the dispute is pending. **2 Marks**

II. Descriptive Questions

6. How should Dream Play Limited be consolidated on transition to Ind AS considering that Fastest Finger Limited has opted to avail the exemption from retrospective restatement of past business combinations as permitted under the relevant Ind AS? **4 Marks**
7. How can Fastest Finger Limited (FFL) realign its strategic direction and address internal conflicts APPLYING McKinsey's 7S Framework to drive innovation, enhance compliance, and secure its competitive position in the gaming industry? **3 Marks**
8. Briefly describe the relevant provisions that would have been considered for the conduct of Board meeting through video conference on 15th April, 2024 as Mr. Viper Armstrong attending it through such mode? **4 Marks**
9. ANALYSE, with reasons, the changes, if any, to the unit selling price and the unit production (development) cost that could occur when NOX-A moves from the previous stage into each of the following stages of its life cycle in the context of the online gaming industry:
   (i) Growth (ii) Maturity **4 Marks**

ANSWERS TO THE CASE STUDY - 121

I. Answers to the Multiple Choice Questions

1(b) Carve out – Unlike IFRS 1, Ind AS 101 provide an additional option to continue with the carrying value for property, plant and equipment as per previous GAAP and use that as deemed cost for the purposes of firsttime adoption of Ind AS.

Reason: Paragraph D7AA of Ind AS 101 has been added to provide for transitional relief from the retrospective application of Ind AS 16: Property, Plant and Equipment. Paragraph D7AA, provides an entity option to use carrying values of all such assets as on the date of transition to Ind ASs, in accordance with previous GAAP as an acceptable starting point under Ind AS.

2(d) 1stApril,2022

Reason: The date of transition will be 1st April, 2022 being the beginning of the earliest comparative period presented. To explain it further, Fastest Finger Limited is required to adopt Ind AS for F.Y.2023-24, and it will provide comparatives for F.Y.2022-23. Accordingly, the beginning of the comparative period i.e. 1stApril,2022 will be considered as date of transition.

3(a) Disagree. Since there is quorum in a meeting through physical presence of directors, Mr. Viper Armstrong can participate through video conferencing on the matters relating to approval for annual financial statements as permitted under section 173 to the Companies Act, 2013.

Reason: The participation of Directors in a meeting of the Board may be either in person or through video conferencing or other audio visual means, as may be prescribed, which are capable of recording and recognising the participation of the Directors and of recording and storing the proceedings of such meetings along with date and time.

4(c) ` 9.80 crores

Reason: Under Rule 31B of the CGST Rules, 2017 any amount returned or refunded by the supplier to the player for any reasons whatsoever, including player not using the amount paid or deposited with the supplier for participating in any event, should not be deductible from the value of supply of online money gaming. Accordingly, GST @28% is payable on the entire amount of ` 35 crores.

5(c) Reporting is inappropriate. CARO, 2020, requires the auditor to also report the period to which the amount relate and the forum where the dispute is pending.

Reason: Where statutory dues have not been deposited on account of any dispute, then the name of statute, nature of dues, amount not deposited, period and the forum where dispute is pending should be mentioned in auditor's report under CARO. [Paragraph 3(vii)(b) of CARO 2020]. The auditor has not disclosed the period and forum where the dispute is pending.

II. Answers to the Descriptive Questions

6. Appendix C to Ind AS 101 prescribes an optional exemption from retrospective restatement in relation to past business combinations. Paragraph C(4)(j) of Appendix C to Ind AS 101 prescribes that when the past business combinations are not restated and a parent entity had not consolidated an entity as a subsidiary in accordance with its previous GAAP (either because it was not regarded as a subsidiary or no consolidated financial statements were required under previous GAAP), then the subsidiary's assets and liabilities would be included in the parent's opening consolidated financial statements at such values as would appear in the subsidiary's separate financial statements if the subsidiary were to adopt the Ind AS as at the parent's date of transition.

It may be noted here that the above exemption is available only under those circumstances where the parent, in accordance with the previous GAAP, has not presented consolidated financial statements for the previous year; or where the consolidated financial statements were prepared in accordance with the previous GAAP, but the entity was not treated as a subsidiary, associate or joint venture under the previous GAAP. As such, if the consolidated financial statements were required to be prepared and there is a change in classification of the entity from subsidiary to associate or vice versa in accordance with Ind AS, then the above exemption does not apply.

In the present case, the subsidiary's separate financial statements would be prepared as if it was a first-time adopter of Ind AS i.e. after availing relevant first-time adoption mandatory exceptions and voluntary exemptions. The parent will adjust the carrying amount of the subsidiary's assets and liabilities to the amounts that Ind ASs would require in the subsidiary's balance sheet.

The deemed cost of goodwill equals the difference at the date of transition between:

(a) the parent's interest in those adjusted carrying amounts; and

(b) the cost in the parent's separate financial statements of its investment in the subsidiary.

The measurement of non-controlling interest and deferred tax follows from the measurement of other assets and liabilities.

7. Applying McKinsey's 7S Framework to Fastest Finger Limited (FFL) highlights several areas where improvement is necessary for achieving strategic success.

Strategy: FFL is experiencing strategic drift, with unclear direction and resistance to new initiatives. To address this, the strategy must be communicated effectively to all managers and employees involved. The current approach, combining organic and inorganic growth, needs refinement, particularly in innovation and managing risks associated with the Teen Patti contract.

A clearer focus on product development and enhancing the premium online gaming experience will help restore FFL's competitive edge.

Structure: FFL operates in domestic and international markets with a structure that supports diverse gaming and e-Sports segments. However, misalignment across functional units threatens the success of the change program. To support its growth and innovation objectives, FFL must streamline its structure to promote cross-functional collaboration and align with its strategic goals.

Systems: The company is transitioning to **Ind AS** and dealing with **GST compliance** issues, both of which are critical for managing growth and regulatory requirements. FFL needs robust financial systems to handle these complexities, and addressing compliance issues will be essential for maintaining investor confidence.

Shared Values: There is a lack of consensus on the need for new product development and strategic direction. This disconnects between leadership and staff underscores the importance of shared values. The CEO's concerns about the company's future have not been communicated clearly, leaving employees uncertain. Fostering a culture of innovation and ensuring alignment on strategic goals across the organization will help overcome resistance to change and drive growth.

Skills: FFL lacks expertise in new gaming technologies, which is critical for developing new products and maintaining competitiveness. The company must invest in hiring senior resources for research and development and possibly engage external designers. Strengthening its technical capabilities will be essential for supporting innovation and future product development.

Style: Internal disagreements over FFL's direction and investment strategies are causing friction. The CEO has not secured commitment from key managers, such as the operations and sales directors, who are skeptical about the need for technological advancements. To move forward, leadership must resolve these conflicts and create a collaborative environment that encourages innovation and adaptability.

Staff: FFL faces human resource issues, including potential redundancies and dissatisfaction among operations staff. The reliance on external resources and technical experts may be seen as a threat to existing employees. Additionally, the failure to coordinate the new program with the sales team could undermine its success. Effective HR management, clear communication about strategic changes, and investment in talent acquisition and development are crucial to maintaining morale and productivity.

Conclusion

Fastest Finger Limited needs to realign its strategic direction by refining its rowth strategy, revising its organizational structure, and investing in key skills and technologies. Clear communication and fostering a shared vision are essential to overcoming resistance to change. By resolving internal conflicts and creating a collaborative environment, FFL can drive innovation, ensure compliance, and secure its competitive position in the gaming industry.

8. Section 173(2) of Companies Act, 2013 read with Rule 3 of the Companies (Meetings of Board and its Powers) Rules, 2014, provide that participation of directors in a meeting of the Board may be either in person or through video conferencing or other audio-visual means as may be prescribed, which are capable of recording and recognizing the participation of the directors and of recording and storing the proceedings of such meetings along with date and time. Chairman of the Meeting and Company Secretary should safeguard the integrity of the meeting by ensuring sufficient security and identification procedures, ensure availability of proper video conferencing or other audio visual equipment or facilities for providing transmission of the communications for effective participation of the directors and other authorised participants at the Board meeting and other matters as prescribed in the above Rule.

The **notice of the meeting** shall be sent to all the directors 7 days in advance as per section 173 (3) of the Act and the notice shall inform the directors regarding the option available to them to participate through video conferencing mode or other audio-visual means and shall provide all the necessary information to enable the directors to participate through video conferencing mode or other audio-visual means.

Key points to be observed before/ during the meeting are as follows:

STEP 1: Roll Call

At the commencement of the meeting, a Roll Call should be taken by the Chairperson when every director participating through video conferencing or other audio-visual means shall state, for the record, the prescribe matters including name; location from where participating and that he has received the agenda and all the relevant material for the meeting

STEP 2: Considerations for the Chairman or Company Secretary

The Chairperson / Company Secretary would then read out the names of persons (other than the Directors who are present at the meeting) to assist/guide/witness the proceedings of the Meeting the Board. The **attendance register shall be deemed to have been signed by the directors** participating through electronic mode, if their attendance is recorded by the Chairman or FFL Secretary in the attendance register and the minutes of the meeting.

STEP 3: Requirement of Quorum

The Chairperson / Company Secretary should confirm that the **required quorum** is present throughout the meeting. The statutory registers which are required to be placed in the Board meeting should be placed at the scheduled venue of the meeting.

STEP 4: Transaction during Meeting

Each item of business should be taken up one by one as per the agenda specified in the notice. If a motion is objected to and there is a need to put it to vote, the Chairperson shall call the roll that is to say that he shall first announce that he shall be doing the roll call and call out the name of each director who shall identify himself while casting his vote and the Chairperson shall then note the vote of each director. The Chairperson shall then **announce the summary of the decision** taken on such item along with names of the directors, if any, who dissented from the decision taken by majority.

9(i) Growth

(ii) Maturity

Growth Stage

Compared to the introduction stage, the likely changes for NOX-A in the online gaming industry are as follows:

Unit Selling Prices (In-game purchases or subscriptions): The prices for in-game purchases or subscription fees may reduce for several reasons:

- Competitors are likely to enter the market with similar games, pushing NOX-A to reduce prices to stay competitive.
- To increase its user base and discourage new entrants, NOX-A might adopt aggressive pricing strategies, offering discounts or promotions.
- As the player base expands, lowering prices might make the game accessible to a wider audience, driving growth in terms of both revenue and user engagement.

Unit Production (Development) Costs: Development and operational costs are likely to decrease due to:

- Economies of scale: Larger player volumes lead to more efficient server utilization and reduced per-user maintenance costs.
- Improved efficiency in game updates: As the development team becomes more familiar with the game mechanics and platform, the learning curve effect helps in streamlining production processes.
- Bulk purchasing of cloud and IT services: With increased demand, NOXA can negotiate better deals for cloud hosting, IT infrastructure, and other development resources, reducing overhead costs.

Maturity Stage

Compared to the growth stage, the changes in the maturity stage for NOX-A are as follows:

Unit Selling Prices (In-game purchases or subscriptions): At this stage, the game has likely captured a significant share of the market. Hence:

- Prices are likely to stabilize as NOX-A has now established itself in the online gaming community. There may be occasional promotions or limited-time offers, but overall pricing remains consistent.
- There might be less pressure to lower prices further as the focus shifts to customer retention rather than rapid expansion. Unit Production (Development) Costs: Costs are likely to Stable or Slightly Increasing Costs due to:
- The efficiency gains from the learning curve and scale have plateaued, leading to more stable development costs.
- Direct development costs may remain constant but could also rise due to ongoing investment in keeping the game relevant with new features, content, and user experience improvements.
- As the game reaches a stable player base, additional resources might be needed for customer service, moderation, and security, particularly as user expectations evolve.

Conclusion

In conclusion, during the **growth stage**, the key trend for NOX-A is likely a reduction in both unit selling prices and production costs as it seeks to expand its user base and benefit from economies of scale. However, in the **maturity stage,** prices tend to stabilize while production costs could slightly increase or remain constant as the focus shifts to retaining players and maintaining the game's relevance through continuous development.

► CASE STUDY - 122 ◄
MTP OCT 2024

– From humble beginnings as a small trading business in 1970s Mumbai, Aadhya Ltd. has emerged as one of India’s most prominent and diversified conglomerates. What started as a family-run operation is today a professionally managed group with a multinational presence and over 5,000 employees. Headquartered in a towering glass edifice in Mumbai’s business district, Aadhya Ltd.’s operations span multiple verticals – infrastructure, power, telecom, retail and financial services. The company takes immense pride in its stellar senior leadership drawn from India’s premier institutes.

– At the helm is Rajesh Sharma, who rose through the ranks to become the Chairman and Managing Director in 2016. Assisting him is a dynamic top management team that includes Chief Financial Officer Nisha Patel and Chief Operating Officer Rakesh Raghavan. "Our vision is to build a globally respected Indian conglomerate that creates sustainable value through ethical business practices, innovation and operational excellence," Rajesh articulates the group's driving philosophy. This vision extends beyond just financial growth to include environmental sustainability and holistic societal impact.

– The group's entrepreneurial culture and diversity & inclusion policies have made it a dream employer, consistently ranked among India's best companies to work for. At the heart of Aadhya Ltd.'s operations is its state-of-the-art digital transformation journey cutting across business verticals. From smart factories and intelligent supply chains to mobile-first retail offerings, the conglomerate has thoroughly embraced emerging technologies. Its in-house R&D and innovation labs are at the cutting edge of fields like AI, IoT, Blockchain and more. However, Aadhya Ltd.'s impact transcends just business. The Aadhya Foundation runs skills training programs, schools, hospitals and disaster relief efforts that have uplifted lakhs of underprivileged lives across India. The group is a pioneer in corporate social responsibility, deploying both human and financial capital to drive sustainable development initiatives.

– Aadhya Ltd. is gearing up for its next phase of global growth, led by forward-thinking leadership and a motivated workforce. As a homegrown giant, it’s set to create a lasting legacy as a leading Indian multinational. Its remarkable success stands as a testament to the entrepreneurial spirit and ambition of India.

– It was a crisp autumn morning in October 2020 when Rajesh Sharma, the MD of Aadhya Ltd., stepped into the boardroom to meet his leadership team including Nisha Patel, the CFO. “We’ve identified an opportunity with Suraksha Constructions,” Rajesh began. Nisha explained that Suraksha was a stagnant mid-sized construction firm but integrating it could unlock potential synergies. After extensive negotiations and due diligence, Aadhya Ltd. announced the acquisition in December. The fair value of Suraksha’s total assets excluding liabilities was ` 3,060 crore on acquisition, with ` 48 crore estimated as costs to sell. The fair value of liabilities stood at ` 510 crore. The integration was challenging, but eventually, cost savings and efficiencies materialized. However, Rajesh and Nisha intended to turn around Suraksha and spin it off. By the time, as Aadhya Ltd. explored selling the former Suraksha unit, the fair value of its total assets excluding liabilities had changed to ` 3,000 crore, while costs to sell remained ` 48 crore and liabilities were valued at ` 528 crores. After weighing various offers, they struck a deal with a global private equity firm specialized in construction. While inking the final documents, Rajesh had a pleased expression. The divestment would unlock capital to focus on Aadhya Ltd.’s core competencies. More importantly, it was a learning experience that would shape their approach to future growth opportunities. Nisha too was satisfied with the outcome and looked forward to redeploying resources optimally to create long-term shareholder value.

– The month of July 2021 marked a transition of leadership at Aadhya Ltd., one of India’s leading conglomerates. Vihaan Mehta, a rising star within the company, was appointed as the new Managing Director, succeeding the long-serving Rajesh Sharma. The boardroom buzzed with excitement as Vihaan took charge, outlining his vision to propel Aadhya Ltd. to new heights through strategic initiatives and operational excellence. However, his remuneration package soon became a subject of debate among certain shareholders. The company had decided to pay Vihaan a competitive compensation suitable to his new role and responsibilities. Rajveer Bhatia, a minority shareholder actively tracking company, sought to inspect the contract detailing Vihaan’s remuneration terms. But he was denied access by the company on the grounds that no written contract existed with the new Managing Director.

– It was early 2023 when Aadhya Ltd., the prominent Indian conglomerate, found itself under the scanner from some minority shareholders. The company had expanded rapidly into new verticals under the leadership of its newly appointed Managing Director Vihaan Mehta. However, these shareholders raised concerns over certain transactions entered into by Aadhya Ltd. They alleged that these transactions were not fully compliant with the provisions of the Companies Act, 2013 and were potentially prejudicial to the company’s interests. Worried by these developments, the shareholders decided to invoke their statutory rights. They moved to make an application to the Central Government in late 2023, seeking appointment of an Inspector to investigate the affairs of Aadhya Ltd. The shareholders were determined to ensure that Aadhya Ltd.’s growth plans didn’t come at the cost of governance lapses or violating the legal framework governing the company’s operations. Furthermore, a group of members of Aadhya Ltd., holding 12% of the company's issued share capital, has filed a petition before the Tribunal alleging acts of oppression and mismanagement by the majority shareholders. During the petition's pendency, some members holding 5% of the share capital wish to withdraw. The majority shareholders, along with these withdrawing members, argue that the petition should be dismissed as non-maintainable.

– During the last quarter of the financial year 2023-24, the Aadhya Group navigated several complex transactions, focusing on meticulous financial practices and strategic decisions. One notable deal involved Aadhya Ltd. supplying specialized machinery to XYZ Traders for ` 2,95,000, inclusive of GST at 18%. In conjunction, XYZ Traders provided materials valued at ` 10,000, exclusive of GST, as part of the consideration. Vihaan Mehta, the new MD, keenly monitored this transaction. He convened a meeting with CFO Nisha Patel and COO Rakesh Raghavan to review the details. "We need to ensure every aspect of this deal is handled meticulously," Vihaan emphasized. Around the same time, Aadhya Enterprises Ltd., a subsidiary of Aadhya Ltd., supplied the same machinery to another unrelated party for ` 2,97,360, inclusive of GST at 18%. This prompted the finance team to discuss the valuation and pricing strategies. Nisha explained, "For the machinery supplied to XYZ Traders, we must calculate the value before GST and add the value of the additional materials provided." Rakesh noted, "Comparing this to the transaction made by Aadhya Enterprises Ltd. will help ensure our pricing strategy is consistent and competitive." After careful calculation, they concluded that the value of the goods supplied to XYZ Traders needed thorough documentation for accurate financial reporting. This exercise not only clarified the value but also reinforced Aadhya Ltd.'s commitment to meticulous financial practices. Vihaan, satisfied with the outcome, reflected on the importance of detailed evaluations in maintaining the company's reputation for excellence and integrity.
– Simultaneously, Aadhya Enterprises Ltd. was also deliberating over two significant loan proposals as part of its strategic focus on employee retention and welfare. The first proposal concerned a substantial personal loan requested by K. Ahuja, one of the company's directors, aimed at financing the construction of his residential property. This loan was being considered in light of Ahuja's long-standing contributions to the company and the potential role such financial assistance could play in ensuring his continued engagement with Aadhya Enterprises Ltd. The second proposal pertained to a loan sought by Bharat Mehta, the company's Whole-Time Director, though the specific purpose for this loan has not been explicitly stated. Despite the lack of clarity on the loan's objective, the Board was weighing carefully the request, considering the importance of supporting Key Managerial Personnel within the organization. In parallel, Aadhya Ltd. prepared for an important international trade operation, set to import goods worth USD 2 million from an overseas supplier. Typically, the company required 90 days to make the payment. The supplier offered a 60-day interest-free credit period, along with an additional 30-day credit extension at an 8% per annum interest charge. Meanwhile, Aadhya Ltd.'s bankers presented a 30-day loan facility at a 10% per annum interest rate. The finance team, led by CFO Nisha Patel, evaluated these options against current foreign exchange rates: a spot rate of 1 USD = ` 83.50, a 60-day forward rate of ` 84.10, and a 90-day forward rate of ` 84.50, recognizing the potential impact on the company's financial position.
– While addressing these corporate developments, Vihaan also led discussions about the Aadhya Foundation, emphasizing the importance of aligning social responsibility programs with core values and actively engaging with local communities. "We must adapt our strategies based on their feedback to ensure that our foundation uplifts communities and fosters a lasting legacy," he stated.
– As the financial year 2023-24 near to close, Aadhya Ltd. was gearing up for its annual audit process. Nisha Patel, the Chief Financial Officer, had the accounts payable break-up ready for scrutiny. DRT & Co. were appointed to conduct Aadhya Ltd.'s audit for the year. As they reviewed the accounts payable, one particular vendor – M/s Builders Corp. with a sizable ` 14.56 Lakhs payable – caught their attention.
– In May 2024, an important financial issue arose that required immediate attention. DRT & Co., the auditors of Aadhya Ltd. for the year ended on 31/03/2024, had signed the audit report on 04/05/2024. The Annual General Meeting was scheduled for August 2024. On 06/05/2024, the company received a communication from the Central Government that an amount of ` 20 crore, kept pending on account of incentives pertaining to the financial year 2023-24, had been approved and would be paid before the end of May 2024. When asked about this by the management, Chief Financial Officer Nisha Patel informed them that this amount had not been recognized in the audited financial statements due to uncertainty of receipt before the financial year end. Now, having received confirmation of the amount, the management wished to include it in the financial statements for the year ended 31/03/2024. On 08/05/2024, the management amended the accounts and approved the same. During the intervening period between 04/05/2024 and 08/05/2024, the audited financial statements and audit report were not issued to anybody. The management requested the auditor to consider the situation and issue a fresh audit report on the financial statements for the year ended 31/03/2024.
– Aadhya Ltd. recently declared and paid an annual dividend of ` 5 per share for the most recent financial year, reflecting its commitment to returning value to shareholders. According to management's guidance, the dividend is expected to experience a robust growth rate of 18% per annum over the next two years, signaling confidence in the company's near-term financial performance and expansion potential. Beyond this period, the growth rate is projected to moderate to a more sustainable 8% per annum indefinitely. With the required rate of return for equity investors in Aadhya Ltd. set at 14%, the company's dividend strategy plays a crucial role in shaping investor expectations and valuation considerations, providing a balanced outlook between short-term growth and long-term stability.

I. Multiple Choice Questions

1. Aadhya Foundation is applying the Value for Money (VFM) framework to enhance its programs. Which of the following actions best balances the principles of effectiveness, efficiency, and economy?

   (a) The Foundation implements AI to automate patient record-keeping andoptimize hospital workflows, resulting in improved care delivery. It also continuously tracks patient recovery rates and uses this data to adjust its healthcare strategies. In addition, the Foundation ensures that it secures quality supplies at competitive rates after comparing several vendors.

   (b) The Foundation partners with Aadhya Ltd.'s R&D team to deploy IoTenabled tracking systems in its disaster relief supply chains. These systems improve real-time monitoring of resource usage and minimize wastage, while data-driven insights are used to enhance service delivery efficiency, even if it involves higher initial investment. (c) Aadhya Ltd. launches a new blockchain-powered solution to manage the Foundation's financial aid programs, prioritizing faster transaction times, but without adequately monitored for potential errors in fund distribution.

   (d) The Foundation expands its skills training programs by focusing on providing courses in emerging technologies like Blockchain, increasing the number of participants, while delaying the introduction of performance metrics to track how many trainees benefited in the long run. **2 Marks**

2. Based on the transaction described in the case study, what should be the value of the goods supplied by Aadhya Ltd. to XYZ Traders?

   (a) ` 2,52,000 (b) ` 2,95,000 (c) ` 2,97,360 (d) ` 2,50,000 **2 Marks**

3. The intrinsic value of Aadhya Ltd.'s equity shares using the two-stage dividend growth model shall be approximately _________.

   Note: Use PVF up to 4 decimal points.

   (a) ` 106.98(b) ` 105.57 (c) ` 107.34 (d) ` 104.98 **2 Marks**

4. Evaluate the status of petition filed by the group of members of Aadhya Ltd., holding 12% of the company's issued share capital in contention in light of the Companies Act, 2013.

   (a) The petition must be dismissed as the petitioners no longer meet the minimum shareholding requirement.

   (b) The proceedings shall continue irrespective of the withdrawal of consent by some petitioners.

   (c) The Tribunal must consider the current shareholding percentage of the petitioners before making a decision.

   (d) The petitioners must file a new petition reflecting the current shareholding situation. **2 Marks**

5. DRT & Co. knew they had to thoroughly validate the existence and valuation of the significant liability (M/s Builders Corp.) as on March 31, 2024. But which audit procedure would yield the most reliable evidence?

   (a) Inspect each and every journal entry passed in Aadhya Ltd.'s books

   (b) Ask Aadhya Ltd. to provide the details of payments made to vendors during the year

   (c) Inspect the invoices issued by M/s Builders Corp. and the related payments made

   (d) Interrogate Aadhya Ltd.'s cash management team **2 Marks**

II. Descriptive Questions

6. RECOMMEND how the discontinued operation pertaining to Suraksha Constructions was measured and presented in Aadhya Ltd.'s consolidated financial statements:

   1. On the acquisition date.

   2. On the reporting date of the divestment. **4 Marks**

7(a) In light of the tenets of corporate governance and shareholder rights enshrined in the Companies Act, 2013, evaluate whether Aadhya Ltd.'s decision to deny Rajveer access to Vihaan's contract was justified. Substantiate your answer with relevant provisions of the Act and principles of transparency and disclosure that a company like Aadhya Ltd. should uphold. **2 Marks**

(b) In the context of the two loan proposals by K. Ahuja and Bharat Mehta, analyze the legal permissibility and conditions under the Companies Act, 2013 for a company to grant such loans to its directors. **2 Marks**

8. With reference to the information given in the case study, analyze the issues involved and give your views as to whether or not the auditor, DRT & Co., could accept the request of the management. **3 Marks**

9. Considering the import transaction, what would have been the most likely recommendation made by the finance team to Vihaan Mehta during the meeting? (Assume 360 days in a year) **4 Marks**

ANSWERS TO THE CASE STUDY - 122

I. Answers to the Multiple Choice Questions

1(a) The Foundation implements AI to automate patient record-keeping and optimize hospital workflows, resulting in improved care delivery. It also continuously tracks patient recovery rates and uses this data to adjust its healthcare strategies. In addition, the Foundation ensures that it secures quality supplies at competitive rates after comparing several vendors.

Reason: Option (a) illustrates a balanced approach to the VFM framework by addressing effectiveness through the use of AI for improved care delivery and patient tracking, ensuring the foundation meets its healthcare objectives. It also incorporates **efficiency** by optimizing workflows and economy by securing quality supplies at competitive rates. In contrast, option (b) focuses on efficiency and effectiveness but involves higher costs without clear long-term economic benefits. Option (c) prioritizes speed but neglects monitoring, risking errors. Option (d) increases participation without assessing long-term effectiveness, compromising the foundational aim of sustainable outcomes.

2(a) ` 2,52,000

Reason: In the given case, price is not the sole consideration for the supply. Apart from monetary consideration, the buyer has given some material to the supplier as consideration for such supply. Hence, the value of the supply cannot be determined on the basis of the transaction value in terms of section 15(1) of the CGST Act, 2017. Here, the value will be determined with the help of rule 27 of the CGST Rules, 2017 which specifies that where the consideration for a supply is not wholly in money, the value will be the open market value. Open market value of a supply means the full value in money, excluding the applicable GST, where the supplier and the recipient of the supply are not related and the price is the sole consideration, to obtain such supply at the same time when the supply being valued is made. Therefore, in the given case, the open market value of the goods supplied is ` 2,52,000 (` 2,97,360 x 100/118) and is therefore, the value of such goods.

3(a) ` 106.98

Reason:

D_0 = ` 5

D_1 = ` 5 (1.18) = ` 5.90

D_2 = ` 5 $(1.18)^2$ = ` 6.96

D_3 = ` 5 $(1.18)^2$ (1.08) = ` 7.52

$P = D_1/(1 + ke) + D_2/(1 + ke)^2 + TV/(1 + ke)^2$

$TV = D_3/(ke – g)$

$= 7.52/(0.14 – 0.8)$

$= 125.33$

$P = 5.90/(1 + 0.14) + 6.96/(1 + 0.14)^2 + 125.33/(1 + 0.14)^2$

$= 5.90 \times 0.8772 + 6.96 \times 0.7695 + 125.33 \times 0.7695$

$= 5.18 + 5.36 + 96.44$

$= 106.98$

4(b) The proceedings shall continue irrespective of the withdrawal of consent by some petitioners.

Reason: The proceedings shall continue irrespective of withdrawal of consent by some petitioners. It has been held by the Supreme Court in Rajmundhry Electric Corporation vs. V. Nageswar Rao, AIR (1956) SC 213 that if some of the consenting members have subsequent to the presentation of the petition withdraw their consent, it would not affect the right of the applicant to proceed with the petition. Thus, the validity of the petition must be judged on the facts as they were at the time of presentation. Neither the right of the applicants to proceed with the petition nor the jurisdiction of the Tribunal to dispose of it on its merits can be affected by events happening subsequent to the presentation of the petition.

5(c) Inspect the invoices issued by M/s Builders Corp and the related payments made.

Reason: By scrutinizing the original invoices and cross-verifying the payment trails, auditors could obtain direct evidence validating the existence and accurate valuation of this key accounts payable component in Aadhya Ltd.'s books as on the balance sheet date.

II. Answers to the Descriptive Questions

6. **Guidance from standard:** Ind AS 105 defines a disposal group as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, alongwith liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to

which goodwill has been allocated in accordance with the requirements of paragraphs 80-87 of Ind AS 36, Impairment of Assets, or if it is an operation within such a cashgenerating unit.

Analysis and Conclusion: In the given case, Suraksha Constructions was acquired exclusively with a view to sell. Hence, it meets the criteria to be classified as a discontinued operation. The discontinued operation would be measured in accordance with paragraphs 15 and 16 of Ind AS 105.

- As per para 15, an entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.
- As per para 16, if a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale (see paragraph 11), applying paragraph 15 will result in the asset (or disposal group) being measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Hence, if the asset (or disposal group) is acquired as part of a business combination, it shall be measured at fair value less costs to sell.

Therefore, on acquisition date, in line with paragraph 16, Aadhya Ltd. would have measured Suraksha Constructions as a disposal group at fair value less costs to sell which would have been calculated by Adhya Ltd. as:

- Fair value of total assets excluding liabilities on acquisition – Costs to sell = ` 3,060 Crores - ` 48 Crores = ` 3,012 Crores.
- Fair value of liabilities on acquisition= ` 510 Crores.

At the reporting date, in line with paragraph 15, Aadhya Ltd. would have remeasured the disposal group at the lower of its cost and fair value less costs to sell, which would have been calculated by Adhya Ltd. as:

- Fair value of total assets excluding liabilities on subsequent reporting date – Costs to sell = ` 3,000 Crores -` 48 Crores = ` 2,952 Crores
- Fair value of liabilities on reporting date = ` 528 Crores.

At the reporting date, Aadhya Ltd. would have presented these assets and liabilities separately from other assets and liabilities in its consolidated financial statements.

In the statement of profit and loss, Aadhya Ltd. would have recognized loss on subsequent measurement to fair value less cost to sale of the disposal group i.e. Suraksha Constructions, which equals ` 60 crores (` 3,060 Crores - ` 3,000 Crores).

7(a) No, the company's decision to deny Rajveer Bhatia access to Vihaan's remuneration details was likely not justified.

Section 197(4) expressly requires that the remuneration payable to the directors of a company, including any managing or whole-time director or manager, shall be determined, in accordance with and subject to the provisions of Section 197 of the Companies Act, 2013. Determination of Remuneration can be made either by the articles or by a resolution or if the articles so require, by a special resolution passed by the company in general meeting. The remuneration so determined to be payable is required to be inclusive of the remuneration payable to him for the services rendered by any such director in any other capacity.

As per Section 171(1) of the Companies Act, 2013:

(1) register of directors and key managerial personnel of the company

(A) Shall be open for inspection during business hours and the members shall have a right to take extracts therefrom and copies thereof, on a request by the members, be provided to them free of cost within thirty days; and

(B) Shall also be kept open for inspection at every annual general meeting of the company and shall be made accessible to any person attending the meeting.

Even though a written contract might not exist, the company should still be able to provide details on Vihaan's remuneration package. This could include information like salary, benefits, stock options, and performance-based bonuses.

In conclusion, the company's decision to deny access without proper explanation is likely questionable. Transparency is crucial for maintaining good corporate governance, and shareholders have the right to be informed about such matters.

(b) Section 185 of the Companies Act, 2013 contains provisions which impose restrictions on the loans, etc. being given to directors, etc. According to the provision:

As per sub-section (1), a company is not permitted to advance any loan, or to give any guarantee or provide any security in connection with any loan taken by, -

(i) any director of company, or of a company which is its holding company or any partner or relative of any such director; or

(ii) any firm in which any such director or relative is a partner. Further sub-section (3) states that above provision shall not apply:

(a) where any loan is given to a managing or whole-time director-

(i) as a part of the conditions of service extended by the company to all its employees; or

(ii) pursuant to any such scheme which is approved by the members by a special resolution.

(b) where a company in the ordinary course of its business:

- provides loans or gives guarantees or securities for the due repayment of any loan; and

- In respect of such loans an interest is charged at a rate not less than the rate of prevailing yield of one year, three years, five years or ten years Government security closest to the tenor of the loan.

Accordingly, following are the answers to the stated problems:

(i) In the first case it would violate section 185(1) of the Companies Act, 2013. Aadhya Ltd. is not permitted to advance any loan, or to give any guarantee or provide any security in connection with any loan taken by K. Ahuja (director) of the company.

(ii) In the second case, as per section 185(3), restrictions imposed in section 185(1), will not apply to giving of loan to Bharat Mehta, the hole-time director if it is given as a part of the conditions of service extended by the company to all its employees.

8. Facts which become known to the auditor after the date of the auditor's report but before the date the financial statements are issued: As per SA 560, "Subsequent Events", the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

(i) Discuss the matter with management and, where appropriate, those charged with governance.

(ii) Determine whether the financial statements need amendment and, if so,

(iii) Inquire how management intends to address the matter in the financial statements.

If management amends the financial statements, the auditor shall carry out the audit procedures necessary in the circumstances on the amendment. Further, the auditor shall extend the audit procedures and provide a new auditor's report on the amended financial statements. However, the new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

In the instant case, Aadhya Ltd. received an amount of ` 20 crore on account incentives pertaining to the year 2023-24 in the month of May 2024 i.e. after finalization of financial statements and signing of audit reports. The management of Aadhya Ltd. amended the accounts, approved the same and requested DRT & Co. (auditor) to consider this event and issue a fresh audit report on the financial statements for the year ended on 31.03.2024.

After applying the conditions given in SA 560, DRT & Co. can issue a new audit report subject to the date of audit report which should not be earlier than the date of approval of the amended financial statements.

9. Possible Options are as under:

(i) Pay the supplier in 60 days

If the payment is made to supplier in 60 days, the applicable forward rate for 1 USD	` 84.10
Payment Due	USD 20,00,000
Outflow in Rupees (USD 2,000,000 × ` 84.10)	` 16,82,00,000
Add: Interest on loan for 30 days @10% p.a.	` 14,01,667
Total Outflow in `	` 16,96,01,667

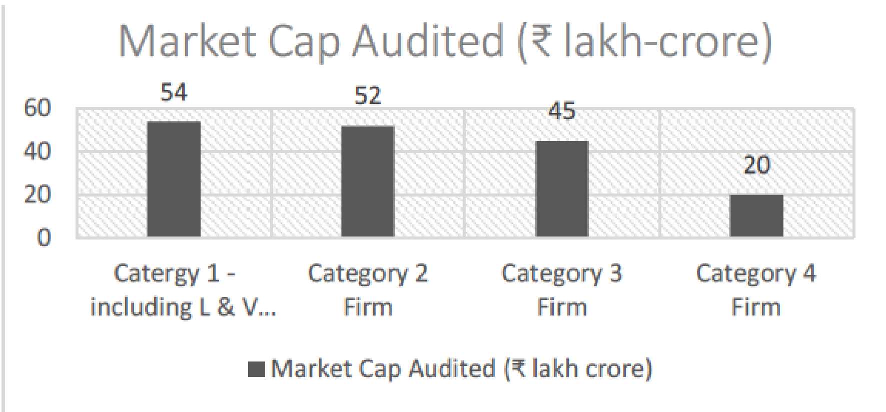
(ii) Availing supplier's offer of 90 days credit

Amount Payable	USD 20,00,000
Add: Interest on credit period for 30 days @8% p.a.	USD 13,333
Total Outflow in USD	USD 20,13,333
Applicable forward rate for 1 USD	` 84.50
Total Outflow in ` (USD 2,013,333 × ` 84.50)	` 17,01,26,639

Alternative 1 is better as it entails lower cash outflow.

▸ CASE STUDY - 123 ◂
MTP OCT 2024

- CA. Radhika Sharma is an audit partner in L & V LLP, a firm of Chartered Accountants. The Firm was founded by CA. Lata Subramanian in 1960. With a strong legacy of spanning over multiple decades and its humble origins in the steel city of Jamshedpur, the Firm has established offices across key cities in India. The firm caters to clients across diverse market segments including industrial markets, infrastructure, consumer products, financial services, technology and telecommunications.
- CA. Radhika was waiting at the Mumbai office to meet CA. Archana Kumari, a Fellow Chartered Accountant. CA. Archana had been appointed by a competent authority to inspect and evaluate adherence to SQC-1 and review selected audit documentations in relation to statutory audit of the financial statements for the year ended 31 March 2023, conducted by L & V LLP for a listed entity. The review focused on three significant audit areas—Revenue, Trade Receivables, and Investments—due to their inherent higher risk of material misstatement in the audit engagement.
- The receptionist informed CA. Radhika about the arrival of CA. Archana. Both of them exchanged pleasantries and CA. Archana was guided into a pre-booked meeting room. CA. Archana requested for the audit files for initiating audit inspection. CA. Radhika explained that the audit documents are maintained electronically. For ease of review, the archived version of the audit file has been hosted on the laptop of the firm. CA. Archana explained that she would need some time to understand the policies of L & V and discuss her initial observations. At the end of the day, following discussions took place:
- **CA. Archana:** Can you tell me about the service offerings of the firm? Does it also provide advisory services?
- **CA. Radhika:** We are a multidisciplinary firm providing a wide array of services. Our service offerings can be bifurcated between:

Audit and Assurance	– Audits are the fundamental building blocks of effective capital markets. Auditors use their knowledge, skills and experience to deliver high-quality audits with independence, integrity, objectivity and professional skepticism. In doing so, they help to support sustainable, long-term value creation. High-quality audits facilitate economic growth and enhance trust and confidence in business and the capital markets. More than 1,500 audit professionals support the delivery of data-driven audits, powered by leadingedge technology, including foundational audit technologies.
	– The firm provide consistent audits by assembling the right multidisciplinary teams to address the most complex issues, using a proven audit methodology and deploying the latest, high-quality auditing tools and technologies. The Firm understands that to achieve the desired potential a tailored assurance service as much as a consistent methodology, clients benefit from sector and subject-matter knowledge is provided.
Advisory services	 – The Firm's tax professionals offer services across all tax disciplines to help thrive in this era of rapid change. The coordinated tax professionals offer connected services across all tax disciplines to help the entities thrive in an era of rapid change. The Firm combine its exceptional knowledge and experience with the people and technology platforms that make us an ideal partner for tax-related needs. The Firm has competencies in business tax, international tax, transaction tax and tax-related issues, compliance and reporting as well as legal matters. – Complying with the tax laws and regulations that are constantly changing is a challenge.

	– The Firm provides services from tax filing to tax planning. For global businesses, accurate tax compliance is an instrumental piece of the tax puzzle. Getting this piece right is increasingly complicated because of the rapid pace of legislative and regulatory change, and the increasing digitalization of revenue authorities. Additionally, staying current on tax developments at the local and national level, while meeting the demands needed for more transparency and financial information, strains the resources of tax departments and further complicates tax compliance. – Advisory at the Firm helps in realizing business transformation through the power of people, technology and innovation. Faced with an increasingly complex and uncertain operating environment, organizations — and the people within them — are under pressure to make decisions better, faster, and smarter. Yet, as stakeholder expectations shift, and as technology advances, new ways of working and regulatory change are making it harder for people to make the right decisions. – To further support clients, the Firm provides business strategy consulting, utilizing frameworks such as the Boston Consulting Group (BCG) Matrix and McKinsey's 7S model. Our diversified services in business strategy help organizations assess market positions, allocate resources efficiently, and devise competitive strategies for sustained growth. By leveraging strategic tools like these, the Firm enables businesses to build resilient, scalable models that adapt to changing environments while driving longterm value creation. – In addition, the firm offers bookkeeping service as well. Our bookkeeping services ensures the integrity of transactions and company data. Hence, it requires experienced and skilled professionals, who hold deep knowledge of the subject. Our services help businesses streamline activities, make better business decisions, decrease execution costs, reduce time spend, and manage budget whenever necessary.

- **CA. Archana:** That's interesting. But how do you ensure that no independence conflict arise while accepting/ performing an audit engagement? If there is an independence policy, can you please share a copy of such policy?
- **CA. Radhika:** If you browse to the client acceptance section of the electronic audit file, we have documented our independence policy. In a nutshell, our independence policy is based on the requirements of SQC 1 as issued by the ICAI. As per SQC 1, the firm has established policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements, maintain independence where required by the ICAI's Code of Conduct. Accordingly, the firm is able to identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement. The Code also require us to consider the requirements of applicable laws and regulations e.g. the Companies Act, 2013.
- **CA. Archana:** Great. I would go through the independence policy in detail. Was any breach of independence requirements were observed for the engagement under inspection?
- **CA. Radhika:** No breach of independence was observed. We have a close relationship with the audit client. During the last year due to high level of attrition the client approached us to help in preparing the financial statements– which the Firm decided to support. A team (separate from the audit team) was formed to avoid any independence threat.
- **CA. Archana:** Considering the engagement under discussion is in industrial equipment segment, did you involve an engagement control quality reviewer ('EQCR') for this engagement?
- **CA. Radhika:** It is essential that the quality of our work is of the highest standard. One of the ways in which we seek to achieve this high standard is through engagement quality control reviews. The objective of such review is to provide an objective evaluation, on or before the date of the engagement report, of the signi ficant judgments the engagement team made, and the conclusions reached thereon. Pursuant to our quality management and risk management policies, we have appointed Mr. Qureshi as the EQCR for this engagement.
- **CA. Archana:** I am not too sure about the skill and experience of the EQCR. Could you please elaborate about his experience?
- **CA. Radhika:** Please be rest assured, the EQCR involved in this engagement is very experienced in accounting and audit. He leads the banking and financial services audit practice. He is a member of the ICAI and have over 30 years of experience in statutory audits, financial accounting advisory and accounting due diligence services relating to financial service sector. We have extensively leveraged his vast experience in all aspects of audit. He has also made decisions for the engagement team.
- **CA. Archana:** Could you please elaborate about the revenue recognition policy of the entity under discussion?
- **CA. Radhika:** Revenue is recognised as per the relevant Ind AS when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. For example, revenue from sale of equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. The company has generally concluded that it is the

principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer. The normal credit term is 30 to 90 days upon delivery. The company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of equipment, the company considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

- **CA. Archana:** I was inclined to ask you about the revenue transaction with Customer P. I could see you concluded that the revenue recognition was appropriate, but it required exercise of significant judgement. Please explain this transaction.
- **CA. Radhika:** The company had a Customer P which was undergoing restructuring due to issues related to liquidity. The company has decided not to do any further business with Customer P. The customer has informed that it will provide Letter of Credit from a nationalised bank against which the company can despatch goods. Company has manufactured the goods exclusively for Customer P, but the Letter of Credit was not yet arranged because it was in process till the date of our audit report. However, basis the past experience of no default by Customer P, the company recognised revenue.
- **CA. Archana:** A qualified audit opinion was issued in the current year due to the inability to comment recoverability of the company's investment in subsidiaries. Could you please explain the rational for the same?
- **CA. Radhika:** The qualification was limited only to the investments of the company in one subsidiary. It does not have an impact on the recoverability of the outstanding loans given to the subsidiary. Since the undetected misstatements were limited to specific investments, in absence of sufficient appropriate audit evidence, there is no pervasive impact as per the requirements of the SA 705 and accordingly a qualified opinion was appropriate.
- **CA. Archana:** In how many days was the electronic audit file assembled?
- **CA. Radhika:** The firm has established policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. In the case of an audit the time limit is ordinarily not more than 65 days after the date of the auditor's report. Post completion of discussion, CA. Archana continued to review the electronic file till next week. Multiple rounds of discussions were held between CA. Radhika and
- **CA. Archana:** On the last working day, CA. Archana set up a meeting to discuss the findings of the draft inspection report. Excerpt of the draft inspection report is enclosed as Annexure.
- Simultaneously, a business review meeting was held by the firm's partners to evaluate the firm's operations and to assess the potential implications if the firm were to cease providing bookkeeping services, given the concerns highlighted in the draft inspection report. The bookkeeping division (under advisory services), launched in November 2014, initially expanded rapidly, growing to about 50 locations within three years, primarily in metro cities. However, this rapid expansion exposed weaknesses in the division's systems and infrastructure, which were unable to support such growth. As a result, the Firm encountered operational difficulties.
- The bookkeeping services offer low-margin services while facing high operational costs, including rent and payroll. These challenges were further exacerbated by issues like high staff attrition, supply-chain inefficiencies, and infrastructure limitations. Consequently, the division was forced to close nearly 10 offices within two years of its launch. In response to these challenges, the bookkeeping division has since standardized its operations, streamlined processes, and centralized its supply chain to improve efficiency.
- Despite providing a comprehensive range of boutique services under one roof— offering a broader portfolio than many local advisory firms—L & V LLP struggles to compete effectively with smaller, politically connected local advisory firms – who are not a firm of Chartered Accountants. These local advisory firms often offer limited but highly competitive services, particularly in terms of pricing. In 2016, L & V LLP faced significant setbacks when it was forced out of several profitable regions due to intense opposition from small, locally connected firms, highlighting the challenges posed by local competition.
- One of the key issues L & V LLP faces is the uneven pricing structure among local advisory firms. Although L & V LLP offers its services at comparable prices, and provides a superior quality of service, local businesses frequently prefer to work with local firms, valuing proximity and political ties over service quality.
- Moreover, the bookkeeping division requires continuous investment, yet it lacks strategic synergy with the firm's broader activities. The division continues to incur losses despite the improvements in operations. For the firm to achieve its expansion goals and maintain profitability across all offices, it must rethink its strategy. The aim is to ensure that every office not only sustains itself but also contributes to the overall profitability of the firm, which is crucial for scaling the business in a sustainable way. The firm is contemplating various strategic measures including establishment of a Centre of Excellence.

ANNEXURE

Excerpt of the Draft Inspection Report

Review of Firm-vide Audit Quality Control System

- The firm has formulated an EQCR policy which inter-alia requires EQCR in audit of listed entities. Such review was conducted in a timely manner at appropriate stages during the engagement so that significant matters may be promptly resolved to the reviewer's satisfaction before the report is issued. However, the firm's policies and procedures on appointment of engagement quality control reviewers and their eligibility conditions are not in line with SQC 1. In the extant case, EQCR has experience in audit of banking and financial services entities and did not possess experience in the sector where the entity belongs (i.e. industrial equipment sector). Also, the EQCR's involvement in making decisions for the engagement team is also not in line with SQC 1.
- The firm has established policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. The audit report was signed on 15 May 2023. At present the assembly period is maximum of 65 days from the date of the audit report and accordingly the electronic audit file was assembled on 19 July 2023. The extant archival policy of the firm is not aligned with the requirements of SQC 1. Independence threat
- The firm's independence policy does not restrict rendition of non-audit services that are prohibited under ICAI's Code of Ethics. For instance, the independence policy of the firm does not prohibit the rendering of bookkeeping services to the audit client. We observe that the firm has prepared the financial statements of the audit client by forming a separate team of professionals (other than the audit team professional). This tantamount to providing bookkeeping services to the listed company. However, such service cannot be provided to the listed company as per ICAI' Code of Ethics. The firm is advised to create a negative list, which should, at a minimum, cover the services prohibited under the ICAI's Code of Ethics, and appoint an Independence and Ethics Partner. Failure to consider 'Material and Pervasive' impacts of misstatements while expressing audit opinion on the financial statements
- The firm expressed a qualified audit opinion due to its inability to comment upon recoverability of thecompany's investments in the subsidiary. However, the audit firm did not consider other financial exposures - which were in the form of the loans. It is quite obvious that a doubt on recoverability of investment equally creates doubt on recovery of loans given to subsidiary. Accordingly, the basic premise of focusing solely on investments and not considering the total financial exposure to the subsidiary is fundamentally flawed. The total financial exposure, including investments in the subsidiary, represented 60% of the company's total net worth at the year-end. A very high-level estimate performed indicated a possible reduction in profit before tax by 70% as impairment indicators exist as at the year end.
- The rational documented by the engagement partner is inappropriate since the engagement partner failed to consider the total exposure of the company in its subsidiary, while evaluating the possible effects of undetected misstatements on the financial statements. There is no explanation for how the engagement concluded that there was no impact on the recoverability of the loans given to the subsidiary. The firm's contention that since such undetected misstatements were limited to specific investments, there is no pervasive impact (as per the requirements of SA 705), is not satisfactory.

Unapproved related party transactions not considered while forming the audit opinion

- During the year the listed company purchased goods amounting to ₹150 crores from related parties as defined under the Companies Act, 2013. Turnover for the year amount to ₹1,300 crores. Under Section 188 of the Companies Act, 2013, shareholders' approval is required if purchases of goods from related party exceeds 10% of the turnover of the year – in the extant case it amounts to 12%. The electronic audit file simply states that the transactions are at arm's length and in the ordinary course of business. No detailed assessment is included. Considering non-compliance of the Companies Act, 2013, the audit opinion should have been modified in respect of this matter.

I. Multiple Choice Questions

1. Do you agree with CA. Archana's findings related to the EQCR? Choose the correct statement.
   (a) **No.** The observation is incorrect, as an EQCR is not required to be assigned for audits of listed entities unless specifically mandated by the engagement's complexity or regulatory body.
   (b) **Yes.** Mr. Qureshi does not possess the necessary sectoral experience and knowledge to perform the EQCR role effectively, and under SQC 1, he cannot make decisions for the engagement team.
   (c) **Yes.** Mr. Qureshi does not possess sectoral experience and technical knowledge, which disqualifies him from being an EQCR as per SQC 1, but he may still support the engagement in a limited capacity.
   (d) **No.** An individual can be appointed as an EQCR for multiple audit engagements, even in cases where they do not possess specific sectoral knowledge, as long as they fulfil other technical qualifications under SQC 1. **2 Marks**
2. In accordance with SQC 1 and SA 230, the audit firm should have completed the assembly of final audit files by-
   (a) **13 August 2023 –** The firm is allowed total 90 days from the audit report date (including extended time (of 30 days) to accommodate additional reviews and documentation for complex audits, in line with regulatory flexibility for listed entities as permitted under SQC 1.

(b) **24 July 2023 –** SQC 1 and SA 230 set a standard time limit of 60 days but allow for a flexibility of up to 10 additional days for firms auditing multiple subsidiaries, provided that sufficient documentation justifies the extension.

(c) **3 August 2023 –** Certain international regulatory frameworks permit an additional 20 days beyond the standard time limit of 60 days prescribed under SQC 1 to address complexities arising from cross-border audit engagements.

(d) **14 July 2023 –** SQC 1 requires audit firms to establish policies for the timely completion of audit files, and as per SA 230, this should ordinarily be no more than 60 days after the auditor's report date. **2 Marks**

3. The threat to auditors independence identified in the inspection report represents_______.

(a) **Self-review threat.** The Firm will not appropriately evaluate the results of an activity performed by an individual within the firm as part of a non-audit service on which the audit team will rely when forming a judgment as part of an audit.

(b) **Self-interest threat.** Financial interest will inappropriately influence auditor's judgment or behaviour.

(c) **Advocacy threat .** Auditor will promote the Company's position to the point that his/ her objectivity is compromised.

(d) **Familiarity threat.** Due to a long or close relationship with the Company, the auditor will be too sympathetic to their interests or too accepting of their work. **2 Marks**

4. Considering non-availability of audit evidence, CA. Radhika should have issued ________________?

(a) Adverse audit opinion

(b) Disclaimer of audit opinion

(c) Unmodified audit opinion with an emphasis of matter paragraph

(d) Adverse audit opinion on the investment and disclaimer of audit opinion on the remaining portion of the financial statements **2 Marks**

5. Do you agree with CA. Radhika's observation relating to related party transactions?

(a) **No.** Companies Act, 2013 requirements do not apply to an listed entity if they are conflict with SEBI Listing Regulations. SEBI Listing Regulations do not mandate shareholder approval

(b) **No.** Section 188 do not cover routine transactions like purchase of goods

(c) **No.** Shareholders' approval under section 188 is not triggered if the transaction is at arm's length.

(d) **No.** Shareholders' approval under section 188 is not required if the transaction is at arm's length and at ordinary course of business. **2 Marks**

II. Descriptive Questions

6. When should revenue from the Customer P be recognised by the Company? **3 Marks**

7. RECOMMEND the strategic measures L & V LLP can implement to enhance the profitability and competitiveness of its bookkeeping division, considering internal inefficiencies, external market challenges, and the establishment of a Centre of Excellence. **4 Marks**

8. In light of the Ms. Archana's observation RE-DRAFT a policy to identify and evaluate possible threats to independence considering SQC 1? **8 Marks**

ANSWERS TO THE CASE STUDY - 123

I. Answers to the Multiple Choice Questions

1(b) Yes. Mr. Qureshi does not possess the necessary sectoral experience and knowledge to perform the EQCR role effectively, and under SQC 1, he cannot make decisions for the engagement team.

Reason: Under paragraph 68 of SQC 1 the firm's policies and procedures should address the appointment of EQCRs and establish their eligibility through technical qualifications required to perform the role, including the necessary experience and authority. Also, as per paragraph 70 of SQC 1 an EQCR does not make decisions for the engagement team.

2(d) 14 July 2023 – SQC 1 requires audit firms to establish policies for the timely completion of audit files, and as per SA 230, this should ordinarily be no more than 60 days after the auditor's report date.

Reason: SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files.

As per paragraph A21 of SA 230, an appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.

3(a) Self-review threat. The Firm will not appropriately evaluate the results of an activity performed by an individual within the firm as part of a nonaudit service on which the audit team will rely when forming a judgment as part of an audit.

Reason: Under ICAI's Code of Ethics providing accounting and bookkeeping services to an audit client create a self-review threat. As per the provisions of the Guidance Note on Independence of Auditors, it is not permitted to do the book keeping work of the auditee client.

4(b) Disclaimer of audit opinion

Reason: The implication arising due to non-availability of information relating to recovery of total financial exposure can possibly have a pervasive effect on the financial statements.

SA 705 defines pervasiveness as follows:

Pervasive – A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

(i) Are not confined to specific elements, accounts or items of the financial statements;

(ii) If so confined, represent or could represent a substantial proportion of the financial statements; or

(iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Since the total financial exposure, including investments in the subsidiary, represented 60% of the company's total net worth at the yearend and a possible reduction of 70% of profit before tax (basis high level estimate), the impact can be pervasive. Accordingly, as per SA 705, disclaimer of opinion should have been issued by CA. Radhika Sharma.

5(d) No. Shareholders' approval under section 188 is not required if the transaction is at arm's length and at ordinary course of business.

Reason: First proviso to Section 188(1) of the Companies Act, 2013 interalia require companies to obtain shareholder approval if the prescribed threshold is met. However, fourth proviso to section 188(1) state that the requirements of section 188(1) including proviso do not apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.

II. Answers to the Descriptive Questions

6. As per paragraph 9 of Ind AS 115, "An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

(a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;

(b) the entity can identify each party's rights regarding the goods or services to be transferred;

(c) the entity can identify the payment terms for the goods or services to be transferred;

(d) the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and

(e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession".

Paragraph 9(e) above, requires that for revenue to be recognised, it should be probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

In the given case, as the customer has liquidity issues, the collection is not considered to be probable. Accordingly, till the time the Letter of Credit (LoC) is arranged from a nationalised bank, criterion as mentioned in paragraph 9(e) is not met. Hence, revenue recognition from sale to customer P should be deferred till receipt of LoC.

7. To enhance the profitability and competitiveness of the bookkeeping division at L & V LLP, the firm must address both internal inefficiencies and external market challenges. Here are strategic recommendations based on the analysis provided:

Analyse the Value Chain

To enhance profitability and operational efficiency, the firm should analyse its value chain thoroughly. By optimizing key activities such as client engagement, service delivery, and reporting, the firm can improve the quality of its offerings. This could involve establishing stronger communication and collaboration between departments to ensure that resources are used effectively and aligned with client needs.

Addressing Buyer Power

Currently, local firms have an advantage because they allow clients to negotiate prices, whereas L & V LLP offers fixed-price services. To address this, the firm could offer customized pricing based on client size, volume of transactions, or complexity of work. For example, providing tiered pricing or discounted packages for long-term contracts could help attract price-sensitive clients.

In addition, highlight the superior quality of L & V LLP's services in client communications, positioning the firm as a trusted advisor with more to offer than local firms. Educating clients about the long-term benefits of high-quality, error-free bookkeeping could justify a premium price.

Create a Centre of Excellence (CoE) and Leverage Local Talent

Establishing a Centre of Excellence would enable the firm to create a pool of highly skilled professionals focused on standardizing best practices, improving operational efficiency, and reducing costs across the organization. The CoE can implement standardized operating procedures, ensuring consistency and high-quality output throughout the bookkeeping division, minimizing errors and inefficiencies.

In conjunction with the CoE, the firm should actively participate in placement activities at local colleges to hire skilled but more affordable graduate-level employees for bookkeeping roles.

This approach would not only lower staffing costs but also help increase profitability. By providing ongoing professional development, mentorship, and growth opportunities through the CoE, the firm can foster loyalty, reduce staff attrition, and create a sustainable talent pipeline that aligns with long-term organizational goals.

Market Differentiation and Competitive Positioning

While local clients may initially be drawn to the lower prices of local firms, L & V LLP should focus on communicating the long-term benefits of working with a firm that provides higher-quality, more reliable service.

Moreover, rather than competing solely on price, the firm should work on retaining existing clients by building strong relationships, offering personalized services, and providing value-added solutions, such as financial reporting, advisory, or tax planning services in addition to bookkeeping.

Streamlined Expansion Strategy

Rather than expanding rapidly into new regions, the firm should focus on strengthening operations in existing markets and ensuring each office becomes profitable. Centralized support functions, such as IT and HR, could help standardize processes and reduce overhead costs.

The firm should consider expanding in regions where local competition is weaker, focusing on sectors or industries that require more complex, highquality bookkeeping services. This would help the firm build a niche presence and avoid direct competition with local firms.

Conclusion

By addressing inefficiencies in its value chain, adopting more flexible pricing strategies, leveraging local talent, and enhancing its competitive positioning, L & V LLP can improve the profitability of its bookkeeping division.

8. L & V LLP establishes procedures to identify and evaluate possible threats to independence and objectivity, including the familiarity threat that may be created by using the same senior personnel on an audit or attest engagement over a long period of time, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards. Following is an illustrative independence policy that may be drafted by L & V LLP considering the requirements of SQC 1:

- Requiring the engagement partner to provide relevant information about client engagements, including the scope of services, to enable him to evaluate the overall impact, if any, on independence requirements.
- Providing training to partners and professional staff on what constitutes threats to independence and the nature of safeguards that may be taken to eliminate or reduce the threats to an acceptable level. Such training should include ICAI's responses to matters dealing with ethical conduct.
- Accumulating and communicating relevant information to appropriate personnel so that the following can occur:
  - The firm, the engagement partner, firm personnel and others, if any, can readily determine whether they satisfy independence requirements.
  - The firm can maintain and update information relating to independence.
  - The firm and the engagement partner can take appropriate action regarding identified threats to independence, in consultation with the independence and ethics partner.
- Requiring personnel to promptly report circumstances and relationships that create a threat to independence and independence breaches of which they become aware to the independence and ethics partner so that appropriate action can be taken.
- Establishing criteria to determine the need for safeguards for engagements where the following have taken place:
  - The firm's monitoring procedures or peer review has identified weaknesses in previous years.
  - The same senior personnel have been used for five years or more on an audit or attestation engagement.
  - The client pressurizes the engagement partner to take a particular position or an accounting or auditing issue.
- **Promptly communicating identified breaches of these policies and procedures,** and the required corrective actions, to the following personnel:
  - The engagement partner who, with the firm, needs to address the breach.
  - The independence and ethics partner who should report the breaches to the managing partner for necessary action.
  - Other relevant personnel in the Firm and those subject to the independence requirements who need to take appropriate action.
- Requiring the engagement partner and the other individuals referred to in the previous list to confirm to the firm that the required corrective actions have been taken.
- Having the independence and ethics partner, or an individual designated by him, periodically review unpaid fees from clients to ascertain whether any outstanding amounts impair the firm's independence.
- Establishing additional procedures that provide safeguards when the firm performs audit or other attest work for a) significant clients or b) clients at which partners or other senior personnel are offered key management positions or have accepted offers of employment.
- Documenting the threats and the safeguards applied to eliminate or reduce them to an acceptable level for each instance.

▸ CASE STUDY - 124 ◂
MTP OCT 2024

– Mr. Aditya: From Corporate Professional to Entrepreneur Before founding Sprinter Private Limited, Mr. Aditya P. had a distinguished career in the textile industry, working for over two decades in a leading multinational corporation. Starting as an entry-level employee, he rose through the ranks due to his expertise in manufacturing, international trade, and operational management. His experience gave him deep insights into the textile market, both domestically and globally. With a vision to build a brand of his own and tap into the booming textile exports market, Mr. Aditya ventured into entrepreneurship. He brought with him not just years of industry knowledge but also an entrepreneurial spirit, leading to the incorporation of Sprinter Private Limited in May 2023.

Sprinter Private Limited's Journey

– Incorporated in May 2023, Sprinter Private Limited has quickly made significant strides in the textile industry. Headquartered in New Delhi, the company embarked on the construction of a state-of-the-art factory building in NOIDA using prefabricated structure, which is common and prevalent in modern times. The building, comprising about 1,00,000 square ft. of covered area, was ready to use by the end of July 2023 at a cost of ` 6.50 crores. The company also obtained GST registration the state of Uttar Pradesh in May 2023.
– In anticipation of launching production quickly, the company had placed advance orders for new textile machinery from South Korea, costing ` 8.65 crores. Additionally, it planned to install previously used indigenous machinery valued at ` 2.00 crores. By the first week of August 2023, both imported and indigenous machinery were brought at the NOIDA premises, enabling Sprinter to kick-start commercial production of textile made-ups by September 1, 2023.
– The early success of Sprinter's made-up textiles became evident when they quickly gathered attention in the U.S. market. Operating under the "Sprinter" brand, the company skillfully leveraged digital and online marketing platforms to secure export orders, effectively competing with and surpassing Chinese rivals in terms of quality and innovation. The company's strategic focus on digital outreach helped it capture a significant chunk of the export market, further fueling its rapid growth.
– To further optimize its operational efficiency, in February 2024, Sprinter outsourced 20% of its production to factories in countries with lower operational costs. These factories cater exclusively to Sprinter's procurement demands but operate independently, with no direct involvement from Sprinter. Products from these suppliers are stored at Sprinter's distribution centers and dispatched for sales as needed.
– The company's rapid production ramp-up, combined with Managing Director Mr. Aditya's strategic vision, and its successful penetration of international markets, led to significant profitability during the financial year 2023-24. This success reflects
– Sprinter's ability to swiftly scale operations, utilize cost-effective solutions, and establish a strong foothold in the global market. Sprinter Private Limited's **mission** is to become a globally recognized textile brand by delivering innovative, high-quality products, while maintaining integrity and placing sustainability at the forefront of its operations. The company's vision is to lead the global textile industry by setting new standards in quality, innovation, and ethical practices, ensuring sustainable growth and contributing positively to the community. Sprinter's **long-term goals** include achieving global market leadership by expanding into key international markets, sustaining 20% annual growth while maintaining operational excellence, investing in cutting-edge technology and research for continuous innovation, and ensuring ethical supply chain practices by maintaining transparency across operations.

GST Compliance Challenges

– During the fiscal year ended March 31, 2024, Sprinter achieved an impressive export turnover of ` 50 crores. The company opted to export with the payment of IGST and benefited from duty drawbacks, amounting to ` 2.00 crores, credited to its statement of profit and loss. By the end of the year, Sprinter's financial statements reflected a net profit before tax of ` 7.50 crores. Additionally, the company invested ` 10 lakhs in research and development, further strengthening its innovative edge in the market.
– Despite its commercial success, the company's in-house GST team faced challenges in navigating GST liability on IGST payments and refunds, particularly concerning the export sales that began in Oct 2023. The made-ups valuing `5 crores were exported during Oct 2023, carrying a GST rate of 5%. The break-up of ITC for month of Oct 2023 is as under:

Eligible ITC on inputs	0.15 crores
Eligible ITC on capital goods	0.03 crores
Eligible ITC in input services	0.02 crores

– There were divergent opinions among team members pertaining to discharge of tax liability and refund issues given below before they could approach their tax consultant.
– Opinion I - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 2023 is ` 0.25 crores and it would be discharged by the company by availing ITC on inputs of ` 0.15 crores and balance of ` 0.10 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said amount of ` 0.25 crore would be refunded/refundable directly by customs in bank account of company.

- Opinion II - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 2023 is ` 0.25 crores and it would be discharged by the company by availing ITC on inputs of ` 0.15 crores, ITC on capital goods of ` 0.03 crore and ITC on services of ` 0.02 crores and balance of ` 0.05 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said amount of ` 0.25 crore would be refunded /refundabledirectly by customs in bank account of the company.
- Opinion III - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 23 is ` 0.25 crores and it would be discharged by the company by availing ITC on inputs of ` 0.15 crores, ITC on capital goods of ` 0.03 crore and ITC on services of ` 0.02 crores and balance of ` 0.05 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B, GSTR-1, and GSTR-9, the above said amount of ` 0.25 crore would be refunded/refundable directly by customs in bank account of the company.
- Opinion IV - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 2023 is ` 0.25 crores and it would be discharged by the company by availing ITC on inputs of ` 0.15 crores, ITC on capital goods of ` 0.03 crores and ITC on services of ` 0.02 crores and balance of ` 0.05 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said ITC amounting to ` 0.20 crore would be refunded/refundable directly by customs in bank account of the company.
- The GST team's uncertainty highlighted the complexities of navigating exportrelated tax laws.

Capital Investments and Other Costs

- The company imported machinery worth ` 8.65 crores from South Korea, with the cost being CIF at Mundra port. However, the company incurred ` 2.36 lakhs as clearing charges paid to DK Services Private Limited (including ` 0.36 lakhs on account of IGST) for availing services for getting consignments cleared from port.
- Further, the company incurred ` 3.00 lakhs for freight services, paid to D Transport Services, a proprietary concern that is not registered under GST and owning 15 goods carriage. As a result, the company deposited ` 0.15 lakhs in IGST under the reverse charge mechanism.
- Moreover, the company paid `1.77 crores to another company providing building construction services during the financial year 2023-24, which included ` 27 lakhs of IGST.

Rapid Growth and Strategic Leadership Under Mr. Aditya

- Under the visionary leadership of Mr. Aditya, Sprinter Private Limited has rapidly established itself as a competitive force in the textile industry. The company's early success in penetrating the U.S. market, combined with its strategic investments in modern infrastructure, innovative marketing approaches, and capital expansion, has paved the way for sustained growth. Despite facing some challenges in GST compliance, Sprinter's strong performance and rapid export expansion reflect Mr. Aditya’s entrepreneurial acumen, strategic foresight, and unwavering determination to drive the company forward.

ANNEXURE

The Time

The New AgeSprinter Faces Scrutiny Over Child Labour and Unethical Practices in Overseas Supply Chain

Recent reports from several Third World countries have uncovered alarming instances of child labor within factories linked to global supply chains, including those associated with Sprinter, a leading global apparel brand. Despite child labor being illegal in these nations, it has been reported that factories outsource work to contractors who, in turn, illegally hire children, bypassing local law enforcement.

Although Sprinter itself has not directly engaged in these practices, acting only as a customer for these factories, its lack of initial intervention has drawn criticism. Working conditions in many of these factories are described as unhygienic and oppressive, with the exploitation of vulnerable workers being a widespread issue.

I. Multiple Choice Questions

1. Regarding tax liability of the said company for the month of Oct 2023 under provisions contained in GST laws and rules, which statement is correct?

   (a) Opinion II is correct. (b) Opinion III is correct. (c) Opinion I is correct. (d) Opinion IV is correct. **2 Marks**

2. In context of the information given in under "Capital Investments and Other Costs of the case study, consider the following table of compliances under income tax law as well as under GST law:

	Nature of Compliances		Appropriate response of company in accordance with law
(1)	Deduction of TDS under income tax law and availing of eligible ITC under GST law	(i)	TDS of ` 3,07,000/- is deducted on account of above three transactions and company is availing ITC of ` 51,000/- in respect of these transactions
(2)	Deduction of TDS under income tax law and availing of eligible ITC under GST law	(ii)	TDS of ` 2,30,250/- is deducted on account of above three transactions and company is availing ITC of ` 36,000/- in respect of these transactions
(3)	Deduction of TDS under income tax law and availing of eligible ITC under GST law	(iii)	TDS of ` 2,30,250/- is deducted on account of above three transactions and company is availing ITC of ` 27,51,000/- in respect of these transactions
(4)	Deduction of TDS under income tax law and availing of eligible ITC under GST law	(iv)	TDS of ` 3,07,000/- is deducted on account of above three transactions and company is availing ITC of ` 27,36,000/- in respect of these transactions

Which of the following forms appropriate response by the company in accordance with law?

(a) Combination (1) and (i) (b) Combination (2) and (ii)
(c) Combination (3) and (iii) (d) Combination (4) and (iv) **2 Marks**

3. Given this scenario, in which stage of the product life cycle is Sprinter's madeup products most likely positioned?

(a) Shakeout (b) Maturity (c) Growth (d) Introduction **2 Marks**

4. Why should Sprinter address the issue of child labour in its supply chain? Select the most appropriate statements:

i. Sprinter is directly responsible for any faulty practices of its suppliers.
ii. Sprinter has a moral duty of care towards a broad range of stakeholders, even if they are not directly related to the company.
iii. Sprinter has a responsibility to ensure the well-being of employees working within its supply chain. The issue involves child labour exploitation by subcontractors.
iv. Sprinter has a responsibility to ensure the well-being of employees working within its factory only. The issue involves child labour exploitation by subcontractors.
v. Even though Sprinter hasn't done anything illegal, it has a moral obligation to protect the rights of these children. Child labour is prohibited in most countries because children have a right to education.
vi. Negative publicity regarding unethical production practices could damage Sprinter's business reputation.

Options

(a) ii, iii (b) i, ii, iii, iv (c) ii, iii, v, vi (d) iii, iv, v, vi **2 Marks**

5. Which of the following are the most proactive steps Sprinter can take to address the unethical practices in its supply chain?

i. Sprinter can develop a Code of Conduct that details the acceptable standards for conducting business.
ii. Sprinter can set up an audit team to regularly audit factories in both presourcing and follow-up stages.
iii. Sprinter can list location-wise suppliers on its website, from whom it procures its products.
iv. The Board must take immediate action to address unethical practices in the supply chain by implementing strict measures to eliminate child labour and ensuring transparent communication of this commitment to all stakeholders.
v. Close production in countries with unethical practices.
vi. Play an active role in managing the business operations of its suppliers.

Options

(a) ii, iv (b) i, ii, iii, iv (c) i, iii, iv, vi (d) i, ii, v, vi **2 Marks**

II. Descriptive Questions

6. The promoters of the company are law compliant and do not want to be seen on the wrong side of law. However, they are also prudent minded and want to take tax benefits available legally and seek your advice. Advise promoters of company of any such legally permissible benefits to lower its income tax liability for A.Y. 2024-25. Ignore the adjustment on account of depreciation under the Income-tax Act, 1961. **9 Marks**

7. The company has exported made ups of ` 50 crores on payment of IGST during year 2023-24 carrying a GST rate of 5%. Further, the company had availed ITC of ` 2.00 crore during year 2023-24. The details of same are as under:

Eligible ITC on inputs ` 1.50 crore

Eligible ITC on capital goods ` 0.36 crore

Eligible ITC on services ` 0.14 crore

DISCUSS whether there was any other legally permissible way to export its goods keeping in view provisions of GST law assuming that there are no domestic sales. Also make a cross comparison of export on payment of IGST vs. other legally compliant way in terms of financial burden/benefit and procedural requirements to the taxpayer company.

Make suitable assumptions. **6 Marks**

ANSWERS TO THE CASE STUDY - 124

I. Answers to the Multiple-Choice Questions

1(a) Opinion II is correct.

Reason: The IGST liability of company pertaining to zero-rated supplies (export) in Oct 23 is 5% of ` 5crores i.e. ` 0.25 crore. It is discharged by setting off eligible ITC of ` 0.20 crore. It is immaterial whether ITC is availed on inputs, capital goods or input services. The export supplies are zero-rated supplies and IGST paid of ` 0.25 crore would be refunded/refundable directly in bank account of the company by customs upon monthly filing of GSTR-3B and GSTR-1 for each tax period. Further, filing of GSTR-9 is an annual affair and hence nothing to do with refund of IGST.

The refund by customs is system generated upon filing of GSTR-3B and GSTR-1 for each tax period. The invoices transmitted to customs via GST network are matched with shipping bills and others details which are also system driven and refund scroll is generated. After scroll generation, refund is credited in bank account of exporter.

2(a) Combination (1) and (i).

Reason: The TDS amount to be deducted during financial year 2023-24 is as under -

TDS to be deducted on clearing charges of ` 2.00 lakhs u/s 194 C is 2% in case of payment to companies.

TDS to be deducted on freight paid of ` 3.00 lakhs u/s 194 C is 1% in case of payment to individuals.

TDS to be deducted on payment made to building contractor company of ` 1.50 crore u/s 194 C is 2% in case of payment to companies.

Hence, total TDS to be deducted by company comes to ` 3,07,000/- (4,000 + 3,000 + 3,00,000).

It is to be remembered that TDS is not to be deducted on GST amount included in payments made to above service contractors in accordance with provisions of CBDT circular number 23/2017 dated 19.7.2017.

Hence, for calculation of TDS, pre-GST amounts have to be arrived at.

Further, company has correctly availed IGST on services amounting to ` 51,000/-. The company is eligible to avail ITC on services for import of machinery amounting to ` 36,000/-. Further, credit of IGST paid on reverse charge basis by the company on freight services amounting to ` 15,000/- is also available to the company. The IGST on building contactor services is not eligible as amount would be capitalised under building and the same is blocked under section 17(5) of CGST Act.

3(c) **Growth**

Reason: Given the scenario, Sprinter made-ups have received a very good response, and they have captured a significant share of export orders, indicating that the product is experiencing rapid market acceptance and sales growth.

4(c) ii, iii, v, vi

Reason: Most appropriate statements are (ii) Sprinter has a responsibility to a wide range of stakeholders, including vulnerable children affected by its supply chain practices. (iii) Sprinter is accountable for ensuring the well-being of employees in its supply chain, especially regarding the exploitation of child labour by subcontractors. (v) Although Sprinter may not engage in illegal activities, it has a moral obligation to protect children's rights, as child labour is illegal in many countries and contradicts their right to education. (vi) Negative publicity surrounding unethical production practices can harm Sprinter’s brand reputation and customer trust, which are critical for long-term success. Statements (i) & (iv) are less appropriate.

(i) While Sprinter may not be directly liable for suppliers' actions, it is responsible for ensuring they adhere to ethical standards, highlighting the interconnectedness of its operations and supply chain. (iv) While the Sprinter does have a responsibility toward its factory employees, it must also extend this obligation to those working in its supply chain.

5(b) i, ii, iii, iv

Reason: Sprinter can take several proactive steps to ensure ethical practices in its supply chain. These include developing a robust Code of Conduct (i), conducting regular audits to ensure compliance (ii), and publicly disclosing supplier information to enhance transparency (iii). Furthermore, the Board’s commitment to eliminating child labour and communicating this effort (iv) strengthens the company's ethical stance. Closing production in certain countries (v) and directly managing supplier operations (vi) are less feasible and may not effectively address the root issues. Instead, enforcing strict standards and conducting audits will ensure compliance while maintaining supplier independence.

II. Answers to the Descriptive Questions

6. In a major tax policy initiative, section 115BAB has been inserted w.e.f. A.Y. 2020-21 to provide an option to new manufacturing or electricity generating domestic companies set up and registered on or after 1.10.2019 and commences manufacturing or generating electricity on or before 31.3.2024 for availing concessional income tax rates subject to fulfilment of certain conditions contained thereunder like non-availability of profit-linked deductions and investment-linked tax deduction under the Act, non-availability of deduction for contribution to research and development, additional depreciation etc.

Section 115BAB provides for concessional rate of tax @15% (plus surcharge@10% plus HEC@4%).

The option for section 115BAB has to be exercised in the **very first year** in which the **eligible company is set up,** failing which it cannot exercise such option in the future years. However, once the company exercises such option under 115BAB, as the case may be, in a year, it would continue to be overned by the special provisions u/s 115BAB thereafter and cannot opt for regular provisions in any subsequent year.

It may be noted that companies exercising option under section 115BAB are not liable to minimum alternate tax under section 115JB.

The following are the conditions specified under section 115BAB:

(a) the company has been set-up and registered on or after the 1.10.2019, and has commenced manufacturing or production of an article or thing on or before the 31.3.2024 and, —

(i) the business is not formed by splitting up, or the reconstruction, of a business already in existence:

(ii) does not use any machinery or plant previously used for any purpose.

Any machinery or plant which was used outside India by any other person shall not be regarded as machinery or plant previously used for any purpose, if the following conditions are fulfilled -

(A) such machinery or plant was not, at any time previous to the date of the installation used in India;

(B) such machinery or plant is imported into India from any country outside India; and

(C) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of this Act in computing the total income of any person for any period prior to the date of the installation of machinery or plant by the person.

Further, where in the case of a person, any machinery or plant or any part thereof previously used for any purpose is put to use by the company and the total value of the machinery or plant or part so transferred does not exceed 20% of the total value of the machinery or plant used by the company, then, the condition specified that the company does not use any machinery or plant previously used for any purpose would be deemed to have been complied with.

(b) the company is not engaged in any business other than the business of manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it.

The business of manufacture or production of any article or thing referred to in clause (b) shall not include business of,—

(i) development of computer software in any form or in any media;

(ii) mining;

(iii) conversion of marble blocks or similar items into slabs;

(iv) bottling of gas into cylinder;

(v) printing of books or production of cinematograph film; or

(vi) any other business as may be notified by the Central Government in this behalf; and

(c) the total income of the company has to be computed -

(i) without any deduction under the provisions of section 10AA or section 32(1)(iia) or section 33AB or section 33ABA or section 35(1)(ii)/(iia)/(iii) or section 35(2AA) or section 35(2AB) or section 35AD or section 35CCC or section 35CCD or under any provisions of Chapter VI-A other than the provisions of section 80JJAA or section 80M;

(ii) without set-off of any loss or allowance for unabsorbed depreciation deemed so under section 72A where such loss or depreciation is attributable to any of the deductions referred to in sub-clause (i).

(iii) by claiming the depreciation under the provision of section 32 determined in such manner as may be prescribed. However, additional depreciation u/s 32(1)(iia) cannot be claimed.

In the present case, company is eligible to opt for concessional tax rate of 15% (plus surcharge@ 10% plus HEC @ 4%), since it satisfies the following condition -

(1) It is a company registered after 1.10.2019 and has started production on or before 31.3.2024.

(2) Its business is not formed by splitting or reconstruction of business already in existence.

(3) Although it has used plant and machinery previously used, it falls within overall cap of 20% stipulated u/s 115BAB. The total value of plant and machinery used by the company is ` 10.65 crores. However, value of machinery previously used is only ` 2.00 crore which is 18.78% of total value of plant and machinery. Hence, this newly set up domestic company satisfies this criterion also.

(4) The company is engaged in business of manufacturing of an article or thing and research in relation to it.

(5) The company's business does not fall into prohibited categories.

(6) The company has not taken benefit of other beneficial provisions as listed out under section 115BAB.

(7) The company has to exercise the option by filing Form 10-ID by due date of filing first return of income under section 139 for A.Y. 2024-25.

7. As per section 16(3) of the IGST Act, 2017, a registered person making zero rated supply may supply goods and/or services under bond or Letter of Undertaking (LUT) without payment of IGST and claim refund of unutilized ITC. Further, notified class of persons may make zero-rated supply or notified class of goods or services may be exported, on payment of IGST and refund of such tax paid on goods and/or services supplied may be claimed. Accordingly, suppliers of textiles made-ups are permitted to export on payment of IGST and claim refund of such tax paid.

Rule 89(4) of the CGST Rules, 2017 stipulates that in the case of zero-rated supply of goods or services or both without payment of tax under bond/LUT in accordance with the provisions of section 16(3) of the IGST Act, 2017, refund of ITC shall be granted as per the following formula:

$$\text{Refund Amount} = \frac{\text{(Turnover of zero-rated supply of goods + Turnover of zero-rated supply of services)}}{\text{Adjusted Total Turnover}} \times \text{Net ITC}$$

Here, Net ITC means ITC availed on inputs and input services during the relevant period other than the ITC availed for which refund is claimed under sub-rules (4A) or (4B) or both. Thus, refund of ITC on capital goods is not allowed.

However, in case of export on payment of IGST, entire IGST paid would be refunded and ITC on input, input services and capital goods can be utilized for making payment of IGST. Refund under both the cases will be computed as follows:

Export under LUT or bond

Tax liability	0
Refund of unutilized ITC	` 1.64 crore

Export on payment of IGST

Tax liability	` 2.50 crore
Set off by using ITC	` 2.00 crore
Set off by payment of cash	` 0.50 crore
Refund of IGST paid	` 2.50 crore

In export under bond/LUT, ITC of input and input services amounting to ` 1.64 crore is refundable. In case of export on payment of IGST, refund of IGST paid of ` 2.50 crore is available and IGST payable in cash is ` 0.50 crore.

In terms of procedural requirements, a separate refund application has to be filed electronically for exports under LUT. However, for exports on payment of IGST, refund is automatically granted by customs on valid filing of GSTR- 3B and GSTR-1 and validation of tax invoice data with shipping bills and other information.

Further, in case of export under LUT, no tax is to be deposited by the company and refund of ITC has to be applied by way of separate application. Therefore, it does not involve any cash outflow at the time of export.

In case of export on payment of IGST, it involves cash outflow of ` 50.00 lakh which is refunded subsequently. Therefore, it involves temporary blockage of working capital for certain period of time. However, since refund process is system driven and automated as provided in rules under this route, it results in quicker refunds including refund of entire ITC and cash deposited.

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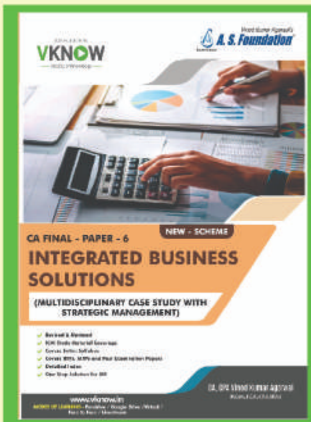

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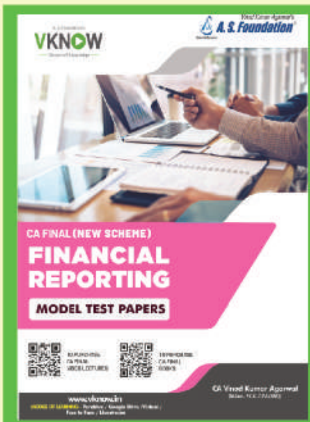

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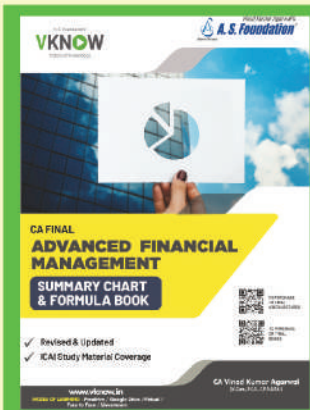

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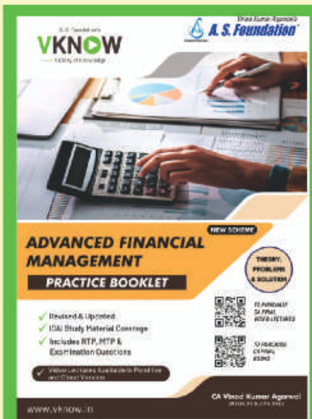

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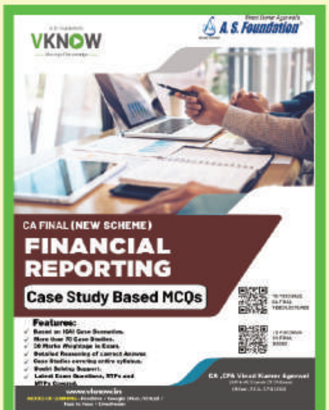

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