

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

*The Question Paper comprises **five** case study questions.*

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

CASE STUDY - 1

Heritage Tea Processing Limited (HTPL) is an unlisted company founded in 1980 under the visionary leadership of Shri Bal Krishnan. The company is headquartered in Bengaluru, Karnataka. The Heritage Tea Group was founded on the belief that tea has the power to dissolve differences, foster connection and bring people together. Now 'Chai pe Charcha' has become a normal phenomenon. The company owns several tea estates in West Bengal, Tamil Nadu and Karnataka. Initially focused solely on tea leaf production until 1990, as the popularity of the beverage grew, HTPL decided to broaden its business operations. While maintaining its plantation activities, the company expanded into tea blending, packaging and marketing to strengthen its market presence. Some estates of the company initially operated on plucking cycles of up to 10 days, instead of the ideal 5-6 days. This resulted in coarser leaves, lower out-turn ratios and higher factory rejection rates. Additionally, logistical inefficiencies, such as uncoordinated inter-estate dispatches and underutilized vehicles, led to increased idle hours and higher operational costs. Following a comprehensive cost rationalization and benchmarking exercise, the company standardized plucking cycles by implementing weekly schedules. Today, over 80% of estates maintain the optimal 5-6 days cycle. Logistic optimization measures, including clustered routing and shared vehicle usage, have further reduced idle time and optimized fuel costs.

Currently, the company operates a fully integrated tea blending and packaging operation, where at every stage, from tasting and quality inspection to blending and final packing is meticulously managed to ensure purity and preserve its aroma. HTPL's integrated tea manufacturing begins with sourcing high-quality tea leaves, both from its own plantations and selected suppliers in Sri Lanka. Each

estate owned by HTPL is overseen by a superintendent and organized into divisions responsible for crop planting, manpower management and operations.

Tea plucking is primarily manual, scheduled according to leaf maturity, rainfall and bush type. Harvested leaves are transported to the estate's CTC (Crush-Tear-Curl) or modern processing facilities, where maintaining leaf quality is critical to ensure consistent flavour and overall product quality. At the factory, tea leaves undergo primary processing, including withering, rolling, oxidation or fermentation, drying and grading, to produce tea with desired characteristics. Processed tea is then blended and packaged in retail or bulk formats, often using sustainable packaging solutions. The company distributes finished products via internal channels, wholesalers, retailers, direct-to-consumer outlets and international markets, offering pack sizes from 100 grams to 10 kilograms. Its customers include supermarkets, hotels and restaurants. Marketing and sales efforts, supported by feedback mechanisms, helps refine product quality and service. Sustainability practices are integrated throughout, converting by-products into compost, bio-energy, or secondary products, reducing environmental impact and enhancing brand reputation. The company has transitioned towards renewable energy by installing solar panels at its manufacturing units, significantly reducing reliance on conventional power sources and lowering its carbon footprint. These green energy initiatives generate approximately 30 lakh units of solar power annually, offsetting nearly 2,000 metric tons of CO₂ emissions. Demonstrating a long-term commitment to sustainability, the company integrates modern technology with environmentally responsible practices. Around 55-60% of finished products are packaged in recycled bags, supporting resource efficiency. Additionally, tea dust and other organic waste from processing are used as natural fertilisers, improving soil health and minimizing landfill waste.

The entry of new suppliers into the tea business is a major cause of concern for the company. These new players are intensifying competition, particularly on pricing. However, the company holds a strong competitive advantage through its superior product quality, state-of-the-art infrastructure and a robust research and development team that continuously introduces innovative tea flavour. The company offers personalized service to customers through dedicated order support, while actively collecting customer feedback via surveys and quality monitoring to refine its blends. Responding to changing consumer preferences and growing health consciousness, the company has expanded its product line

since 2020 to include premium blends, organic teas and green tea, receiving a positive market response.

The Company's Board reflects a strong commitment to diversity through a balanced and independent composition. It includes an appropriate mix of Executive, Non-Executive and Independent Directors, each selected for their expertise and experience to enhance effective oversight and organizational performance. Mr. G. Krishnan has been serving as Chairman and Managing Director since 2010. With three manufacturing plants, one in Tamil Nadu and two in Karnataka, the Company has a strong presence in both domestic and international markets, offering over 180 Stock Keeping Units (SKUs) and enjoying recognition in more than 50 countries worldwide. Total employee strength at all the manufacturing facilities is 1,500. The company has state-of-the-art machinery installed at each of its tea manufacturing and packing plants.

Mr. G. Krishnan attended an international business workshop in Mumbai, where successful business founders and CEOs from around the world shared practical insights on decision-making, business modelling and growth strategies. During the workshop, he attended a lecture by a renowned strategic analyst on the Business Model Canvas, which illustrated how it helps businesses map, design and develop robust models while addressing critical areas for success. Upon returning to the office, Mr. G. Krishnan shared his workshop experience at the Board meeting, highlighting key insights, innovative strategies and actionable recommendations and expressed his intention to develop the company's business model canvas to further streamline operations and identify growth opportunities.

Unfortunately, a fire broke out at the Company's factory located in Kodagu, Karnataka on 5th August 2025, resulting in damage to inventories, machinery and equipment. Stock with a total cost of ₹ 1.20 crore was affected and damaged. Company has claimed ITC of ₹ 9.60 lakh on damaged stock in GSTR 3B filed for the month of July 2025. The damaged stock comprised raw materials, packing materials and finished goods, including bulk tea bags and retail cartons ready for dispatch. Machinery and equipment (15% Block) purchased on 1st February 2022 for ₹ 1.77 crore (exclusive of 18% IGST), were completely destroyed in the fire. The company has in place a reinstatement insurance policy covering loss or damage to its building, machinery and inventories due to fire. Against the loss of stock, the Company received insurance compensation of 1.05 crore and against the loss of machinery, it received ₹ 1.40 crore on 30th November 2025. In addition, the Company received equipment from the insurance company with a market value

of 0.10 crore as compensation for the equipment destroyed by the fire and the same was put to use on 30th November 2025.

HTPL is maintaining a Tea Development Account with NABARD as per the scheme approved by Tea Board. The Written Down Value (WDV) of the machinery and equipment block (Rate of Depreciation: 15%) as per the Income-tax Act, 1961 is ₹ 120 crore as at 1st April 2025. Company placed an order for new machinery and equipment (15% Block) costing ₹ 2.50 crore on 10th August 2025 by withdrawing ₹ 5 crore from the Tea Development Account. HTPL made payment of ₹ 2.50 crore for the new machinery and equipment ordered on 10th August 2025, ₹ 0.05 crore for freight and installation charges, ₹ 0.50 crore spent on office furnishing and renovation (including computers for ₹ 0.25 crore installed in office) and ₹ 1.90 crore on installation of solar panels for use in the factory and plantation estates and the balance amount was not used. The machinery and equipment were installed and put to use on 15th November 2025. HTPL sold a parcel of land in November 2025 for ₹ 3 crore. The land had originally been acquired in January 2023 for ₹ 1.50 crore using funds withdrawn from the Tea Development Account, which were intended for the upgradation of the existing infrastructure of the company's unit. However, the company utilized these funds to purchase the land with the objective of constructing a warehouse, The proposed warehouse could not be developed due to the failure to obtain the necessary approvals from the local government authorities.

HTPL held 82% of the shares as at 1st April 2025 of ABC Valley Tea Limited, an unlisted public company engaged in tea manufacturing and trading, with the remaining 18% held by various minority shareholders, including individuals and institutional investors. Over a period of six months, HTPL gradually increased its stake, raising its holding to 91% of the total issued equity share capital by 30th September 2025. In October 2025, HTPL notified ABC Valley Tea Limited of its intention to acquire the remaining 9% of shares. Management of ABC Valley Tea Limited appointed a registered valuer to determine the fair value, who determined the price at ₹ 180 per share. However, the highest price paid by HTPL for any shares acquired in the preceding 12 months was ₹ 170 per share. A notice was sent to 30 minority shareholders. Out of these, 10 shareholders, collectively holding 78% of the minority shareholding entered into separate negotiations with HTPL, which agreed to acquire their shares at ₹ 190 per share, a price higher than the initially determined amount. The remaining 20 shareholders, representing the balance 22% of minority shares, were willing to sell at the original determined price.

At present, all packing materials are sourced from external suppliers. In response to the increasing demand for tea sachets and to ensure full control over their quality, shape and size, the management has decided to manufacture sachets in-house. Accordingly, an order was placed on 1st November 2025 for two customised tea sachet forming machines with CNC system and PLC controls (15% Block) from XYZ GmbH situated in Germany at a FOB price of Euro 15,000 each to be despatched in first week of February 2026. The contract includes a price variation clause, under which the price of the machine will increase by 50% of the increase in material cost, if such increase of material cost exceeds 5%. Full payment will be made on or before 31st January 2026 before the despatch of machine.

The Finance Manager is considering various hedging strategies to mitigate currency risk in the current volatile foreign exchange environment. As of 1st November 2025, the spot exchange rate stands at ₹ 102 per Euro, with the three-month forward rate at ₹ 104 per Euro. Borrowing rates are 6% in Germany and 10% in India, while deposit rates are 4% and 7%, respectively. Additionally, the German branch of an Indian bank has offered credit at 6% per annum against the opening of an irrevocable letter of credit. Commission charges for issuance of letter of credit are at 2% per annum. The company currently utilizes cash credit and term loan facilities from its bank at an interest rate of 10% per annum. Interest is compounded monthly for borrowings and quarterly for deposits. The Finance Manager assigned CA. Arvind, newly appointed in the Finance Department with expertise in foreign exchange risk management, to analyse the exposure and recommend the most cost-effective hedging strategy. Based on his analysis, the company implemented the recommended hedge to manage its currency exchange risk.

Owing to a global rise in steel prices, XYZ GmbH increased the FOB price of the tea sachet forming machine by 3% over the previously agreed price. The Finance Manager received the email notification regarding the price revision on 25th January 2026 and the payment was made on 31st January 2026 in Euros, which were purchased in accordance with the hedging option selected by him. Exchange rate prescribed by RBI as on 31st January 2026 was ₹ 107 per Euro and exchange rate notified by CBIC was ₹ 106 per Euro. XYZ GmbH dispatched the machine by ship on 2nd February 2026. The ship carrying the machine arrived at Cochin Port on 6th March 2026 and the Bill of Entry was filed on 4th March 2026. Freight charges from Germany to India totalled Euro 5,000 and insurance charges of Euro 400 were paid on 31 January 2026. HTPL paid a commission of ₹ 1,61,300

to the local agent in India of the XYZ GmbH. Freight charges of ₹ 1,05,850 were paid to a local transport company for transporting the machine from Cochin Port to the factory situated at Kodagu, Karnataka. The machine was installed and put to use from 25th March 2026. The exchange rate notified by CBIC on the date of the Bill of Entry (04.03.2026) was ₹ 109 per Euro, while on the date of the ship's entry (06.03.2026) it was ₹ 108 per Euro. The Basic Customs Duty rate was 15% on the date of the Bill of Entry but was reduced to 10% with effect from 5th March 2026. The Social Welfare Surcharge is levied at 10% and the Integrated Tax (IGST) under the Customs Tariff Act, 1975 is 18%.

As part of its Corporate Social Responsibility obligations under the Companies Act, 2013, the Company purchased and distributed 2,000 educational kits comprising school bags, notebooks and stationery items to government schools in a rural area. In addition, the Company donated 250 Tablets to students of Government Aided Schools. The educational kits were procured in February 2026 from a local registered supplier for a total consideration of ₹ 12,90,000, inclusive of GST amounting to ₹ 90,000. The Tablets were purchased from a local registered supplier for ₹ 23,60,000, inclusive of GST amounting to ₹ 3,60,000. The Company claimed the input tax credit (ITC) of the GST paid on these purchases in its GSTR-3B return for the month of February 2026. The Chief Accountant of the Company, not being well-versed in the provisions and technical intricacies of Income Tax, GST and Customs law, engaged the services of CA. Abhinav, having vast experience in tax matters, to determine the correct amount of customs duty payable as well as correct admissibility or reversal of GST input tax credit (ITC) for the year and the depreciation allowable in accordance the provisions of the Income-tax Act, 1961.

CA. Anmol is the Engagement Partner for the statutory audit of the company for the year 2025-26. During the pre-audit meeting, he discussed with the audit team the use of statistical sampling techniques and external confirmation procedures to obtain sufficient and appropriate audit evidence. He decided to apply the stratified sampling method for selecting debtors and creditors. Accordingly, he provided a list of 100 debtors and 80 creditors to the Chief Accountant for sending positive balance confirmation requests, instructing that responses should be sent directly to the auditor's official email ID. While reviewing the list submitted by CA. Anmol, the Chief Accountant identified 6 creditors with zero balances and suggested that confirmations either need not be sent to them or that negative balance confirmations could be sent. However, CA. Anmol directed that confirmation emails be sent to all selected parties as originally planned.

Within seven days, confirmation responses were received from 90 debtors and 74 creditors. Out of these confirmations received, 5 debtors' confirmations and 4 creditors' confirmations were not received from the registered email IDs on record and balance confirmations of 10 debtors and 6 creditors with zero balance were not obtained. Upon inquiry, the Chief Accountant informed CA. Anmol that physical letters had already been obtained from those debtors and creditors.

During this review, Dinesh, a member of the audit team, observed that in the case of 4 creditors with zero balance, there were high volume transactions and nearly 15% of these transactions had been settled in cash.

Multiple Choice Questions

[Provide the correct or most appropriate option to the following questions]

1.1 What is the total amount of Customs duty and Integrated-tax (IGST) payable under Custom law on import of machine from Germany?

- (A) ₹ 4,52,980
- (B) ₹ 5,34,516
- (C) ₹ 12,75,756
- (D) ₹ 8,22,780

(2 Marks)

1.2 Which statements correctly explain how CA. Anmol should respond to issues which have arisen during the balance confirmation process and how such issues may impact his audit opinion and reporting in accordance with the applicable Standards on Auditing?

- (i) Investigate confirmations received from email addresses not on record, reconcile balances with the accounting records and perform alternative procedures such as reviewing subsequent receipts or payments to validate the balances.
- (ii) Reassess only the quantitative materiality in the light of unreliable confirmations and unusual cash transactions and disclose findings as Key Audit Matters only if the monetary amounts are large.
- (iii) Accept physical confirmations obtained by the Chief Accountant for debtors and creditors with zero balances as sufficient audit evidence and document them as the primary evidence for audit conclusions as the risk of material misstatement is low.

- (iv) *Escalate any unresolved issues related to cash payments or non-responses for confirmations to 'Those charged with governance' and if sufficient appropriate audit evidence cannot be obtained, evaluate the impact on the financial statements and consider issuing a qualified opinion if limitation is material but not pervasive.*

Options:

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

(2 Marks)

- 1.3 *What are the tax implications of the amount withdrawn from the Tea Development Account and the sale of land for Assessment Year 2026-27 in accordance with the provisions of the Income-tax Act, 1961?*

- (A) *₹ 0.30 crore shall be taxable as business income and ₹ 1.50 crore shall be taxable as long-term capital gain.*
(B) *₹ 0.72 crore shall be taxable as business income and ₹ 0.60 crore shall be taxable as long-term capital gain.*
(C) *₹ 0.82 crore shall be taxable as business income and ₹ 0.60 crore shall be taxable as long-term capital gain.*
(D) *₹ 0.12 crore shall be taxable as business income and ₹ 1.50 crore shall be taxable as long-term capital gain.*

(2 Marks)

- 1.4 *What is the total amount of GST Input Tax Credit (ITC) required to be reversed under the provisions of the CGST Act, 2017, as computed by CA Abhinav?*

- (A) *₹ 45,96,000*
(B) *₹ 23,12,700*
(C) *₹ 28,43,700*
(D) *₹ 14,10,000*

(2 Marks)

- 1.5 *Which of the following statements are correct as per the relevant provisions of Companies Act, 2013?*

- (i) *Offer price for acquisition of shares of ABC Valley Tea Limited should be the price determined by registered valuer based on fair price of shares of*

the company and the highest price offered by HTPL for acquisition of shares in last twelve months.

- (ii) Payment to all the 30 shareholders will be made at a price of ₹ 190 per share negotiated with 10 shareholders.*
- (iii) Additional consideration received by 10 shareholders shall be shared with 20 shareholders on a pro- rata basis.*
- (iv) An amount equal to the determined value of the shares shall be deposited in a separate bank account to be operated by ABC Valley Tea Limited, for a minimum period of one year. This amount shall be disbursed to the 30 shareholders within 60 days. If disbursement cannot be completed within 60 days, it may be extended, but in no case it shall exceed one year.*

Options:

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

(2 Marks)

Descriptive Questions

1.6 *Based on Mr. G. Krishnan's insights from the international business workshop, discuss the Business Model Canvas for HTPL with reference to the information given in the case study and how the following elements of the model can streamline operations and uncover growth opportunities:*

- 1. Key Partners, activities and resources*
- 2. Customer relationships*
- 3. Customer segments*
- 4. Cost structure*
- 5. Value proposition*

(5 Marks)

1.7 *Which hedging strategy is the most cost-effective for managing the company's euro-denominated liability: a forward hedge, a money market hedge, or a forward hedge under the LC option?*

(5 Marks)

- 1.8 You are required to compute the correct amount of depreciation on plant and machinery (Block: 15%) for the A.Y. 2026-27, including any additional depreciation allowable under the provisions of the Income-tax Act, 1961. Assume the company has not opted for new tax regime. **(5 Marks)**

ANSWER TO CASE STUDY 1

1.1 Option (C): ₹ 12,75,756

1.2 Option (B): (i) and (iv)

1.3 Option (D): ₹ 0.12 crore shall be taxable as business income and ₹ 1.50 crore shall be taxable as long-term capital gain

1.4 Option (B): ₹ 23,12,700

1.5 Option (D): (i), (iii), (iv)

1.6 Business Model Canvas given by Osterwalder:

Key Partners: Key Partnerships include domestic and international tea leaf suppliers to ensure flexible and reliable sourcing beyond owned estates; sustainable and recycled packaging vendors to support environmental commitments; external logistics providers to strengthen distribution capacity; research institutes and consultants to advance flavor innovation, soil health, and sustainable practices; and government that offer renewable energy incentives and sustainability certifications.

These collaborations enhance sourcing ability, reduce operational bottlenecks, strengthen sustainability performance, and improve brand credibility among eco-conscious consumers.

Key Activities: It includes tea cultivation (plucking, crop planning, workforce management, and leaf quality control) and processing (withering, rolling, fermentation, drying, grading, blending, and packaging). Operations are strengthened by efficient logistics and distribution through coordinated dispatches and optimized routing. Ongoing R&D ensures new flavor development, blend testing, and consistent quality, while sustainability efforts focus on waste conversion, solar energy, and eco-friendly packaging.

Standardized plucking cycles and efficient logistics reduce costs and improve productivity, and ongoing R&D strengthens product differentiation and competitive advantage.

Key Resources: It includes high-quality tea estates, efficient modern processing facilities, skilled human capital, sustainability infrastructure, and strong brand assets with proprietary blends and certifications.

Optimizing estate and factory operations reduces waste and rejection rates, while continued investment in R&D and sustainability strengthens brand equity and global competitiveness.

Customer Relationships: It focuses on delivering personalized service to customers responsive order support, while also engaging direct consumers via loyalty programs that encourage repeat purchases. The company leverages customer feedback through surveys and quality monitoring to continuously refine its blends.

Strong relationships with B2B and retail partners improve demand forecasting and inventory optimization, while feedback-driven R&D minimizes product rejection rates and enhances overall quality.

Customer Segments: HTPL serves diverse customers through internal channels, wholesalers, retailers, direct-to-consumer outlets, and international markets. Its clients include domestic consumers, retail and wholesale buyers, clients like hotels, export customers, and eco-conscious consumers. The company focuses on high value and international segments to boost margins and diversify revenue.

By segmenting its customers effectively, HTPL can tailor packaging sizes ranging from 100 g to 10 kg. implement differentiated pricing strategies and design targeted marketing campaigns. Furthermore, focusing on high-value and international segments provides opportunities to expand profit margins and diversify revenue streams, supporting long-term operational growth.

Channels: The company reaches customers through multiple channels, including company-owned retail stores, wholesalers and distributors across urban and rural areas and partnerships with overseas retailers for exports.

Operationally, clustering distribution routes and sharing logistics help reduce costs, while brand awareness enhances margins.

Cost Structure: This includes variable costs such as labor for plucking and factory operations, raw materials, packaging, logistics, and utilities, alongside fixed costs like estate maintenance, factory depreciation, R&D, marketing, and solar infrastructure. Sustainability investments cover solar panels, waste management systems, recycled packaging, and energy efficiency initiatives.

Operational efficiencies through estate benchmarking and optimized logistics reduce idle hours and fuel expenses, enabling competitive pricing against new market entrants without compromising quality.

Revenue Stream: The business generates revenue through multiple streams, including retail sales of packaged tea (wholesale and B2B supply to hotels, restaurants, and shops, as well as exports to international and specialty markets. Additional income comes from value-added offerings such as premium blends, organic teas, and eco-friendly packaging.

This diversified approach reduces reliance on any single market while premium and export products provide higher-margin growth opportunities.

Value Proposition: HTPL stands out by offering high-quality tea, carefully sourced and processed for consistent purity, aroma, and flavour. Its integrated operations from plantation to packaging ensure strict quality control, while sustainability initiatives like solar-powered factories, recycled packaging, and waste-to-compost programs appeal to eco-conscious consumers. The company also emphasizes product variety and innovation through unique blends developed via R&D, supported by reliable supply through efficient logistics and standardized plucking cycles.

These strengths in quality, sustainability, and innovation enable differentiation in a crowded market and create opportunities for premium pricing.

ALTERNATIVE

The Business Model Canvas (BMC) helps a company understand how different parts of the business work together to create value, improve efficiency and identify growth opportunities. Based on the insights gained

by Mr. G. Krishnan during the international workshop, HTPL can use the Business Model Canvas to strengthen its operations, improve customer satisfaction and support long-term sustainable growth.

1. Key Partners, Key Activities and Key Resources

Key Partners: HTPL's important partners include tea leaf suppliers from Sri Lanka, wholesalers, retailers, supermarkets, hotels, restaurants, logistics providers and sustainable packaging suppliers. The company also works with renewable energy solution providers for solar power generation. These partnerships help the company maintain quality standards, ensure smooth supply chain operations and strengthen market reach.

The decision to manufacture tea sachets in-house instead of depending completely on external suppliers would further improve control over quality, size and design of sachets. This can reduce dependency on outside vendors and improve operational efficiency.

Key Activities: The key activities of HTPL include tea cultivation, manual tea plucking, tea processing, blending, quality testing, packaging, distribution, marketing and customer feedback analysis. Sustainability activities such as solar power generation, use of recycled packaging and converting tea waste into fertilisers are also important operational activities.

The company has already streamlined operations by standardizing plucking cycles and improving logistics through clustered routing and shared vehicle usage. These measures have reduced idle time, improved leaf quality and lowered operational costs.

Key Resources: HTPL's major resources include its tea estates, manufacturing plants, skilled workforce, research and development team, strong brand reputation and global distribution network. The company's renewable energy infrastructure is also valuable resource.

Its strong research and development capabilities help in introducing innovative tea flavours and premium products such as organic and green tea, which support future growth opportunities.

2. Customer Relationships: HTPL focuses strongly on maintaining long-term relationships with customers through dedicated order support

and regular customer feedback systems. The company continuously monitors customer preferences and uses surveys and quality checks to improve its tea blends and services.

By offering consistent product quality, personalized support and innovative tea products, HTPL builds customer trust and loyalty. Expansion into premium tea, organic tea and health-focused products also helps the company meet changing consumer preferences and strengthen customer relationships.

The company's sustainability initiatives and CSR activities further improve brand image and customer goodwill, especially among environmentally conscious consumers.

3. Customer Segments: HTPL serves multiple customer segments in both domestic and international markets. These include:

- Retail customers purchasing packaged tea products
- Supermarkets and retail chains
- Hotels and restaurants
- International buyers across more than 50 countries
- Health-conscious consumers preferring organic and green tea
- Bulk buyers purchasing large packaging sizes

By offering in different pack sizes ranging from 100 grams to 10 kilograms, HTPL is able to cater to different customer needs and preferences.

The growing demand for premium blends, herbal tea and health-oriented tea products provides additional growth opportunities for the company in both Indian and international markets.

4. Cost Structure: HTPL's major costs include plantation expenses, labour costs for manual plucking, manufacturing costs, packaging expenses, transportation and logistics costs, research and development expenses and marketing costs.

Earlier, the company faced higher operational costs due to longer plucking cycles and inefficient transportation systems. However,

standardization of plucking schedules and logistics optimization have helped reduce idle time, improve productivity and lower fuel costs.

The installation of solar panels has reduced electricity expenses and dependence on conventional energy sources. Similarly, use of recycled packaging materials and conversion of tea waste into fertilisers reduce waste management costs and support cost efficiency.

The decision to manufacture sachets internally may initially require investment in machinery and setup costs, but in the long run it can reduce procurement costs and improve quality control.

- 5. Value Proposition:** HTPL's main value proposition lies in providing high-quality tea products with consistent taste, purity and aroma. The company differentiates itself through premium quality tea leaves, modern processing facilities, innovative tea blends and sustainable business practices.

Its strong focus on quality control at every stage from tea plucking to blending and packaging helps maintain customer trust and brand reputation. The company also creates value through personalized customer service, environmentally responsible operations and continuous product innovation.

The introduction of premium blends, organic tea and green tea allows HTPL to meet changing customer preferences and growing health consciousness. Sustainability initiatives such as renewable energy usage, recycled packaging and waste recycling further strengthen the company's value proposition and enhance its image as an environmentally responsible brand.

Overall, by developing a clear Business Model Canvas, HTPL can better understand its strengths, improve operational coordination, reduce inefficiencies and identify future growth opportunities in both domestic and global tea markets.

1.7 Forward Hedge

Forward Rate	₹ 104/€
Amount required to be paid after 3-months (€ 15000 x 2)	€ 30,000
Amt. payable in ₹ as per applicable Forward Rate	₹ 31,20,000

Money Market Hedge

Amount to be deposited in € [$€ 30000/(1+0.04/4)$]	€ 29,702.97
Spot Rate	₹ 102/€
Amt. need to be borrowed in	₹ 30,29,706
Add: Interest payable @ 10% for 3 months $\left(1+\frac{0.10}{12}\right)^3$	₹ 76,376
Amt. payable after 3-months	₹ 31,06,079

Forward Hedge under LC Option

Cost of letter of credit	
At 1.5% on € 30000 at 1 € = ₹ 102	₹ 45,900
Add: Interest for 1 Quarter $\left(1+\frac{0.10}{12}\right)^3$	₹ 1,157
(A)	₹ 47,057
Payment at the end of 90 days:	
Cost	€ 30,000
Commission at 2% p.a. [$€ 30000 \times 2/100 \times 1/4$]	€ 150
	€ 30,150
Conversion at ₹ 104 (B)	₹ 31,35,600
Total Cost: (A) + (B)	₹ 31,82,657

Since cash outflow is least in Money Market hedge it should be opted for.

1.8 Computation of depreciation on plant and machinery (Block 15%) for the A.Y. 2026-27

Particulars	Amount (in crore)
WDV as on 1.4.2025	120
Add: Cost of new machinery and equipment acquired on 10.8.2025 including freight and installation charges	2.55

Add: Cost of imported tea sachet forming machinery put to use 25.3.2026 [Refer Note Below]	0.45
Less: Insurance receipts for loss of machinery in fire	1.40
Add: Cost of equipment provided by insurance company	Nil
WDV as on 31.3.2026	121.60
Depreciation @15% x 50% on ₹ 3 cr (₹ 2.55 cr. + ₹ 0.45 cr.) since the asset put to use for less than 180 days	0.225
Depreciation @15% on ₹ 118.60 crores	17.79
Additional depreciation @20% x 50% on ₹ 3 crores	0.30
Total depreciation for P.Y. 2025-26	18.315

Note: Computation of actual cost of imported tea sachet forming machinery

Particulars	Amount (₹)
Purchase Price [Computed in Q 1.7, being the cost-effective strategy]	31,06,079
Add: Cost would be increased with the following: Increase in FOB price by 3% i.e., Euro 900 x 107	96,300
Total Purchase Price	32,02,079
Freight [Euro 5,000 x 107]	5,35,000
Insurance [Euro 400 x 107]	42,800
Commission paid to local agent	1,61,300
Freight Charges paid to local transport	1,05,850
Basic Custom Duty @10% computed on assessable value of ₹ 41,18,000 plus Social Welfare surcharge @10% of ₹ 4,11,800 [Refer MCQ 1 for this purpose]	4,52,980
Integrated GST [Not to be added since ITC can be claimed in respect of it]	Nil
Actual Cost	45,00,309

CASE STUDY - 2

Heritage Organic Limited (Heritage) has been founded by Mr. Sumit Joshi in the State of Uttarakhand. The Company has built its reputation on traditional methods and unbending quality products. The Company is an esteemed name in the food and beverage industry, with its product ranging from aged balsamic vinegars, freshly fermented sauces and premium craft spirits. The flagship product of the company, the "Joshi Farm Fresh Balsamic Vinegar", is renowned for its composite flavour profile. The product is the result of being aged for over 25 years in a series of gradually handcrafted smaller wooden barrels.

Over the past few years, under the leadership of Sumit's grandson, Roshan Joshi, Heritage Organic has gone for a rapid expansion. The company has expanded its product line and distribution network and has also appointed new dealers. The company's products are now available for online sale on all popular e-commerce sites. However, this growth has come at a cost. The once-pristine manufacturing process, rooted in manual craftsmanship, under one-roof has now been strained by a series of hasty and at times, unplanned expansions. The company's operations are now spread across three separate facilities located at three different industrial parks, spread over the entire state.

Roshan has divided the entire process into three stages and has dedicated each facility for each stage. The first facility has been fermentation and aging of the product using the same traditional method. The second facility is used for bottling and packaging of the finished product in wooden barrels and the last facility is used for storage, distribution and e-marketing. This multi-facility setup has led to challenges in coordination and logistics.

Roshan has formed a team of experts to conduct an internal audit of the entire process. This team in its report has revealed a number of operational inefficiencies. The audit team has emphasized on the following inefficiencies:

- 1. The process of moving partially-aged products from the fermentation facility to the ageing facility, involves an outdated labour-intensive process which consumes substantial time.*
- 2. The Company's flagship product, balsamic vinegar barrels are often left unattended in a staging area, as the forklift operators are often engaged with other unproductive tasks.*

3. *The finished bottled spirits, once they leave the bottling line, are moved to a temporary holding bay where they are waiting for quality control checks, which can sometimes be delayed due to shortage of inspectors. This waiting time is a major bottleneck.*
4. *The quality control procedure involves a thorough inspection of 10% of the total produce, consumes significant time and human resource.*
5. *The company's storage facility is completely disorganised, with finished goods often spending long periods in warehouse before being dispatched to the distributors.*
6. *The production line for different products is also in a haphazard state due to unscheduled machine maintenance. This often leads to production delay.*

While highlighting these issues, the internal audit report has not quantified the actual financial impact on overall performance of the company. As the report got published, Roshan, who is a firm believer in the company's traditions, has come under tremendous pressure from the other Board members. The Board members believe that the traditional artisanal process is no longer relevant as it is not only squeezing the margins of the company but also affecting the market share which the company has previously enjoyed.

Heritage Organic's finances have been strong. The company's capital structure consisted of 1.50 crore equity shares with capital and reserves and surplus of ₹300 crore and a net debt of ₹400 crore, thus, maintaining a healthy debt-equity ratio. The company has also reported the Profit Before Interest and Tax (PBIT) of ₹120 crore for the preceding financial year. The average tax rate is 30%. The cost of equity is projected to be 14% and while the pre-tax cost of debt is 10%. In a bid to have a global footprint, Heritage Organic, entered into a strategic partnership with a German distributor. As part of this arrangement, the German distributor will pay a certain percentage of the sales revenue as a "Brand Royalty Fee" to Heritage Organic. This royalty fee is subject to Indian tax laws. However, the tax law regarding the classification of this income is unclear and there is a potential for a prolonged dispute with the income-tax authorities. In order to avoid future tax litigations, the company's legal and tax advisors have suggested to the Board to seek an opinion from the Income-tax Department. The Company's management is also equally concerned about the potential tax liability and the uncertainty it could create for the long-term partnership with the German firm. So, as advised by the legal team and the Board, Roshan decided to file an

application to the Board for Advance Rulings. Roshan wants a definitive ruling that will provide a legal shield and remove all uncertainty for their international transaction with the German company.

During the financial year 2025-26, the Heritage has sponsored a sports event for farmers conducted by a Farmers Friendly Club in Nainital. The said club was established in the year 2024 for protecting and promoting the rights of farmers. The company paid ₹ 25 lakhs for sponsoring the event.

Roshan has received a proposal for strategic partnership from Ms. Geeta Sharma of Shrey Industries Private Limited which is a rapidly growing company with a diverse portfolio which includes organic textiles, sustainable agriculture and eco-friendly packaging, all covered under one roof. Ms. Sharma sees an opportunity in premium food and beverage market as the next edge for expansion. In order to diversify its product line and increase the company's market share, Ms. Sharma does not see Heritage Organic as a competitor, but as a strategic partner that aligns perfectly with Shrey Industries' brand philosophy of long-term growth and sustainable legacy. Ms. Sharma has approached Roshan with a comprehensive acquisition offer. The offer is for strategic partnership wherein Roshan would retain a significant stake in the company and continue to lead the Board. To arrive at a fair price, Ms. Sharma appointed a team to conduct a meticulous valuation of the target company.

As per the advisors of Shrey Industries, the industry's average P/E Ratio is 15. Heritage Organic's future maintainable profit after taxes is estimated to be ₹ 98 crores, while the future maintainable earnings per share (EPS) is estimated at ₹ 6.50. However, since Heritage Organic is an unlisted company, the analysts believe a downward adjustment of 20% is necessary to account for the additional risk of non-listing.

The Board of Heritage Organic has made a detailed plan on how Shrey Industries' expertise in supply chain management and their team will help in eliminating the non-value-added activities in its operations, which would significantly increase its future cash flows.

During a GST audit for the financial year 2023-24 conducted by the GST Department in February 2026 at the premises of Shrey Industries Private Limited, the GST officer has identified three instances where input tax credit (ITC) was either incorrectly claimed or not admissible: first, an IGST ITC claim of ₹ 150 lakh was made in the March 2024 GSTR-3B filed on 18th April 2024 based on invoices

dated 30th March 2024 and reflected in GSTR-2B, but transport documents showed that the goods were physically received at the warehouse only on 4th April 2024, leading the Superintendent to allege that the credit was claimed prematurely as the goods were not received during the March 2024 tax period; second, ITC of ₹ 2.70 lakh was claimed in November 2023 on outdoor catering services availed for a marketing event organized for existing and prospective dealers and third, in October 2023, the company gifted home appliances worth ₹ 15,000 each to its 200 employees and ₹ 5,000 each to 500 workers, with a total market value of ₹ 55 lakh (excluding GST) and subject to GST at 18% (9% CGST and 9% SGST), prompting the Superintendent to issue a demand for tax, interest and penalties. To address the dispute, the Chief Accountant seeks advice from CA. Gaurav, an indirect tax specialist, who upon reviewing the company's Electronic Credit Ledger observed that even after filing the March 2024 GSTR-3B, the company had a remaining ITC balance of ₹ 120 lakh, comprising ₹ 60 lakh in CGST and ₹ 60 lakh in SGST.

The management of Heritage is also planning to enter into a new venture of manufacturing electric motors for EV two-wheelers as they feel that with the improved roads, the demand for EV two-wheelers is increasing day-by-day. To assess the financial feasibility of the venture, the Board tasked the Costing department with collecting and analysing relevant data on market prices and production costs. Based on market research, the department found that the expected selling price per unit would be ₹ 7,500, with a direct material cost of ₹ 6,200 per unit, direct labour cost of ₹ 240 per hour and variable overheads of ₹ 160 per hour. Labour efficiency is projected to improve as production increases due to a 90% learning curve effect (learning index = -0.1520). The first batch of 100 units is estimated to require 250 labour hours, with the learning effect expected to continue until 1,000 units (10 batches) have been produced. Beyond this level, the learning effect will plateau and each subsequent batch will require same labour time as the 10th batch. The batch size will remain constant at 100 units. The company is in negotiation with EV two-wheeler manufacturer and is assured of order for 5,000 units at a price of ₹ 7,200 per unit for the year 2026-27. It is anticipated that 5,000 electric motors will be produced and sold during this period. (Note $10^{-0.1520} = 0.705$ and $9^{-0.1520} = 0.716$)

Heritage Organic is proposing buy-back of its shares. The company would buy 10 lakh equity shares for ₹ 150 per share. All the shares were issued at face value of ₹ 10 each about 16 years ago. For making this offer, the company wants to

seek the opinion of its tax counsel about the taxability of buy back for shareholders and the obligations of the company.

Multiple Choice Questions

[Provide the correct or most appropriate option to the following questions]

2.1 Shrey Industries analysts are calculating the value of Heritage Organic using the capitalisation of earnings method. Given the capitalization rate of 14%, what would be the value of the business?

- (A) ₹ 700 crore
- (B) ₹ 980 crore
- (C) ₹ 560 crore
- (D) ₹ 630 crore

(2 Marks)

2.2 In the context of the advance ruling sought by Heritage Organic, with the Board for Advance Rulings, which of the following statements is incorrect?

- (A) The transaction value of Heritage Organic must exceed ₹ 100 crore for seeking a ruling.
- (B) The Board has to pronounce its ruling within six month of the receipt of the application.
- (C) The applicant Heritage Organic cannot appeal against the ruling.
- (D) The Board can call for record before pronouncing its ruling. **(2 Marks)**

2.3 Which of the following statement is correct in respect of the sponsorship of the event organised for farmers by the Farmers Friendly Club in Nainital?

- (A) GST is payable by the Heritage, being the recipient of the sponsorship service, under the reverse charge mechanism.
- (B) GST is payable by the Club, being the supplier of the sponsorship service.
- (C) GST is exempt in respect of sponsorship services for farmers.
- (D) GST is exempt in respect of sponsorship of sports event. **(2 Marks)**

2.4 What is the expected total variable cost of producing 5,000 electric motors in 2026-27?

- (A) ₹ 345.80 lakh

(B) ₹ 340.30 lakh

(C) ₹ 341.29 lakh

(D) ₹ 345.25 lakh

(2 Marks)

2.5 Based on the provisions of non-value-added activities, which of the following is the most accurate classification of the delays experienced by Heritage Organic's bottled spirits waiting for quality control checks?

(A) Storing

(B) Moving

(C) Waiting

(D) Inspecting

(2 Marks)

Descriptive Questions

2.6 Roshan Joshi believes that the operational inefficiencies in Heritage Organic are a necessary part of the artisanal process. However, Geeta Sharma plans to eliminate them. Based on the information in the given scenario, explain which of the identified 'Non-Value-Added' activities can be eliminated and what will be its strategic implication?

(5 Marks)

2.7 As tax counsel of Heritage, prepare a brief note of the Income-tax consequence of the buy-back of shares in the hands of the shareholders and company and its obligations.

(4 Marks)

2.8 In light of the issues raised by the GST officer, what advice should CA. Gaurav give to the company, with reference to the relevant provisions of the CGST Act, 2017, regarding tax liability, admissibility of input tax credit and the implications relating to interest and penalties?

(6 Marks)

ANSWER TO CASE STUDY 2

2.1 Option (A): ₹ 700 crore OR

Option (C): ₹ 560 crore

2.2 Option (A): The transaction value of Heritage Organic must exceed must exceed ₹ 100 crore for seeking a ruling **OR**

Option (C): The applicant Heritage Organic cannot appeal against the ruling

2.3 Option (A): GST is payable by the Heritage, being the recipient of the sponsorship service, under the reverse charge mechanism.

2.4 Option (C): ₹ 341.29 lakh

2.5 Option (C): Waiting

2.6 Several activities in Heritage Organic's operations can be classified as 'Non-Value-Added (NVA) activities. An NVA activity is defined as work that is not valued by the customer, does not improve the quality or function of a product or service, creates waste, and adds costs for which the customer is not willing to pay.

The identified NVA activities in Heritage Organic are:

Moving: The manual process of moving partially aged products from the fermentation facility to the aging facility is a "Moving" activity. The scenario defines this as an activity that uses time and resources to move materials and work-in-process from one department to another. Customers do not value this movement; they only care about the final quality and timely delivery of the product.

Waiting: The delays of finished bottled spirits in the temporary holding bay waiting for quality control checks is a "Waiting" activity. The scenario defines this as an activity where materials or work-in-process use time and resources by waiting for the next process. This delay adds no value to the final product.

Inspecting: The comprehensive inspection of every tenth bottle is an "Inspecting" activity. The scenario states that inspecting is a wasteful activity if the product was produced correctly the first time. While it ensures quality, the ideal state is to have a process so robust that inspection becomes unnecessary.

Storing: The long periods that finished goods spend in the storage facility before dispatch is a "Storing" activity. The scenario defines this as using time and resources while a good or material is held in inventory. This is generally considered wasteful unless, like in the example of the wine manufacturer, the storage time itself adds to the product's quality. Since the balsamic vinegar and spirits are aged in a separate process, and the storage of finished goods is causing delays, it is a non-value-added activity.

Scheduling: The haphazard scheduling of production runs is a "Scheduling" activity. The scenario states that this is not necessary if the company knows how to produce on demand. This inefficiency leads to poor resource utilization and increased costs.

The strategic implication of eliminating these NVA activities is to reduce waste, optimize resource utilization, and lower operational costs. By focusing on cross-functional processes and identifying these wasteful activities, Geeta can enhance the company's performance, which in turn will positively impact the company's valuation through increased future cash flows.

ALTERNATIVE

The internal audit report of Heritage Organic Limited highlights several activities that do not add value to the product and can therefore be classified as non-value-added activities. These activities consume time, labour and resources but do not improve the taste, quality or uniqueness of the company's products. Customers are willing to pay for the traditional ageing process and artisanal quality of the balsamic vinegar, but they are not willing to pay for delays, unnecessary movement of goods, idle time or inefficient processes. Hence, such activities should be reduced or eliminated without affecting the traditional identity of the company.

One major non-value-added activity is the labour-intensive movement of partially aged products between facilities. The transportation of products from one location to another does not improve the quality of the vinegar and only increases handling time and logistics cost.

Way Out -> The company can reduce this inefficiency through better layout planning, automated material handling systems and improved coordination between facilities. This would reduce transportation cost, save time and improve operational efficiency.

Another non-value-added activity identified in the process is the unnecessary waiting time arising when barrels remain unattended in the staging area due to forklift operators being engaged in other non-essential activities. This idle time does not enhance the quality or value of the product; instead, it disrupts the smooth flow of operations, increases handling delays and reduces overall operational efficiency.

Way Out -> The company can address this inefficiency through proper scheduling of material handling activities, deployment of dedicated forklift operators and better coordination between production and warehouse teams. Use of real-time tracking and workflow planning systems can further streamline movement of barrels across facilities. Eliminating such delays would ensure uninterrupted workflow, faster processing and better utilisation of manpower and equipment.

The delay in quality control checks is also a major bottleneck. Finished bottled spirits remain in temporary holding areas waiting for inspection due to shortage of inspectors. Although quality inspection is important, excessive waiting does not add value for customers.

Way Out -> The company can improve this process by increasing inspection capacity, using automated quality testing methods and introducing quality checks during the production process itself. This would reduce delays and improve delivery speed.

Similarly, the inspection of 10% of total production consumes significant time and human resources. Excessive inspection is considered a non-value-added activity because quality should ideally be built into the production process rather than checked after production.

Way Out -> The company can adopt practices such as Total Quality Management (TQM), employee self-check systems and process control techniques to reduce dependence on large-scale inspections. This would lower inspection cost and improve process reliability.

The storage facility of the company is also highly disorganised, resulting in finished goods remaining in warehouses for long periods before dispatch. Excess inventory and prolonged storage do not create any value for customers and only increase storage and carrying costs.

Way Out -> Better inventory management, warehouse organisation and demand forecasting can help reduce unnecessary storage time. This would improve inventory turnover and cash flow position.

Further, production delays caused by unscheduled machine maintenance are also non-value-added activities. Machine breakdowns interrupt production and create delays without contributing to product quality.

Way Out -> The company can introduce preventive and predictive maintenance systems to reduce unexpected breakdowns. This would improve production continuity and machine utilisation. The company can also adopt Total Productive Maintenance (TPM) practices, where both maintenance staff and machine operators collectively work towards improving equipment effectiveness and reducing breakdowns. Further, the company may use Overall Equipment Effectiveness (OEE) as a performance measurement tool to monitor machine availability, operational efficiency and quality output.

Strategic implication

The strategic implication of eliminating these non-value-added activities is highly significant for Heritage Organic Limited. The company can reduce operational costs, improve efficiency and respond faster to market demand while still preserving its traditional artisanal methods. The traditional fermentation and ageing process, which forms the core identity of the brand, can continue unchanged. However, operational inefficiencies such as waiting time, unnecessary movement, excessive storage and production delays should be removed because they do not contribute to customer value.

Therefore, the company should focus on maintaining the traditional craftsmanship that ***differentiates its products in the market*** while ***modernising inefficient operational processes***. This balanced approach would help Heritage Organic improve profitability, protect market share and achieve long-term sustainable growth without losing its heritage value.

2.7

Particulars	
(i)	Consequences of buy back of shares in the hands of shareholder and its obligation
	In case of buyback of shares by Heritage Organic, the sum of ₹ 150 per share paid by it for purchase of its own shares would be treated as dividend and taxable under the head "Income from Other Sources" in the hands of shareholders. No deduction for expenses would be available against such dividend income.

	The consideration received on buy-back of shares will be taken as nil and the entire cost of acquisition of shares would be either long term or short-term capital loss based on period of holding of respective shareholder. The said long term or short-term capital loss is eligible for set-off and carry forward as per provisions of the Income Tax Act, 1961.
(ii)	Consequences of buy back of shares in the hands of company and its obligation
	There would be no tax implications in the hands of Heritage Organic on buy back of its shares. The company is required to deduct tax at source @10% under section 194. However, tax is not required to be deducted at source where shareholder is an individual, the dividend is paid by any mode other than cash and amount of deemed dividend does not exceed ₹ 10,000.

2.8

CA Gaurav should give following advice to the company:	
Tax liability	An activity or transaction is considered as supply only when it is supply of goods or services or both for consideration in course or furtherance of business. However, Schedule I of the CGST Act, 2017 specifies exceptions where an activity or transaction is deemed to be a supply even without consideration. One such exception is gifts exceeding ₹ 50,000 in value in a financial year by an employer to an employee. Since in the given case, amount of gift does not exceed ₹ 50,000 per employee, gifting of home appliances to employees and workers ¹ does not amount to supply.
ITC admissibility	Following ITC availed is inadmissible:

¹ It has been assumed that workers are also on company's payroll.

	(i) ITC of ₹ 150 Lakh is not admissible in the month of March 2024, since goods have not been received in said month. (ii) ITC of ₹ 2.70 lakh is not admissible in November 2023 since ITC on outdoor catering is blocked if the same is not used for making an outward supply of outdoor catering or as an element of a taxable composite/mixed supply. (iii) ITC on gifts to employees is inadmissible since ITC on goods disposed of by way of gift is blocked under section 17(5). Therefore, above credit will be reversed.
Interest and penalty	Interest under section 50 is payable on amount of utilized ITC from the date of utilisation of such wrongly availed ITC (i.e. 18th April, 2024, earlier of GSTR-3B due date or filing date) till the date of reversal of such credit or payment of tax in respect of such amount @ 15% per annum. The wrongly availed ITC is deemed to be utilised to the extent the Electronic Credit Ledger balance falls below such ITC. Thus, interest is payable on ITC utilised, i.e. ₹ 42.60 lakh [(150 Lakh + ₹ 2.70 lakh + 9.90 lakh) - ₹ 120 lakh] Penalty as per the provisions of section 74A, will be applicable.

CASE STUDY - 3

Harcharan Ceramics Limited (HCL) enjoys the reputation of being one of the best companies in South India to offer end to end lifestyle solutions to Wall and Floor Tiles, Sanitaryware & Bath Fittings, Engineered Marble and Quartz for different Residential, Commercial and Industrial Spaces. With more than six decades of pioneering innovations and expertise, HCL offers a wide array of products for diversified application and usages. HCL operates from Mysore and has its

manufacturing plants throughout Karnataka. It has a couple of wholly owned subsidiaries in its corporate portfolio.

Very often, HCL is engaged in strategic acquisitions to expand its business portfolio. As part of its growth strategy, on 1st January 2025, HCL acquired entire share capital of Savreen Ceramics Limited (SCL) for 1,500 lakhs. The book values and the fair values of the identifiable assets and liabilities of SCL on the date of acquisition are set out below, together with their tax bases. Any goodwill arising on the acquisitions is not deductible for tax purposes. The tax rate is 30%.

Net Assets Acquired	Book Values	Tax Base	Fair Values
Land and Buildings	600	500	700
Property, Plant and Equipment	250	200	270
Inventory	100	100	80
Accounts Receivable	150	150	150
Cash and Cash Equivalents	130	130	130
Total Assets	1,230	1,080	1,330
Accounts Payable	(160)	(160)	(160)
Retirement Benefit Obligations	(100)	-	(100)
Net Assets before Deferred Tax Liability	970	920	1,070
Deferred Tax Liability on differences between Book Values and Tax Bases (₹ 50@ 30%)	(15)		
Net Assets at Acquisition	995	920	1,070

Harnam Singh Ceramic Tiles Limited (HSCTL) is one of the subsidiaries of Harcharan Ceramics Limited (HCL). All the three directors of HCL are also the directors of HSCTL. However, the three directors have been disqualified under the Companies Act, 2013 as HSCTL has defaulted in filing its financial statements for three financial years. Hariharan Singh, the Promoter of HCL wants to have the directors' vacancy filled up so that the Company's operations could go on without hindrance.

Another subsidiary of HCL namely Harkaran Innovative Tiles Limited (HITL) wants to pay remuneration to its Managing Director and CEO namely, Mr. Nanak Dev Singh in excess of the limits specified in Schedule V of the Companies Act, 2013 as the Company does not have adequate profits. The Company has defaulted in

payment of dues to Banks as well as to Non-Convertible debenture holders. It may be noted that the term of office of Mr. Nanak Dev Singh expires by April 10th, 2026. CA. Amanpreet Singh has been appointed as the Statutory Auditor of HITL for a period of five years at the AGM of the Company held on 29th September 2025. While drafting audit letter communicating the key points of audit to 'Those Charged with Governance' and Audit Committee, CA. Amanpreet Singh is contemplating whether he needs to generate a Unique Document Identification Number (UDIN). Mr. Ronnie Coleman is a European, having vast experience of more than three decades in all gamut of Marble, Granite and Tiles Manufacturing and Sales throughout Europe. Having heard of the reputation and cost effective quality products of HCL in India, he wanted to have business dealings with HCL in India for his latest, innovative, digital 3D Wall and Floor Tiles. In this regard, he is desirous of knowing the conveyance, clearance and warehousing procedures under the Indian Customs Law from the point of import of goods into India.

HCL has purchased certain state-of-the art new machines on 23rd November 2024 for US\$ 1,00,000 when the exchange rate per US dollar was ₹ 84. As on 31st March 2025, the exchange rate was ₹ 86 per US \$. HCL made the payment on 5th June 2025 when the exchange rate was ₹ 86.50 per US\$.

HCL has proposed a new foreign investment which involves creation of a plant with an annual output of 1 million units. The entire production will be exported at a selling price of USD 10 per unit. At the current rate of exchange, dollar cost of local production equals to USD 6 per unit. Dollar is expected to decline by 10% or 15%.

The change in local cost of production and probability from the expected current level will be as follows:

Decline in value of USD (%)	Reduction in local cost of production (USD/ unit)	Probability
0	-	0.40
10	0.30	0.40
15	0.15 Additional Reduction	0.20

The plant at the current rate of exchange will have a depreciation of USD 1 million annually. Assume local tax rate as 30%.

HCL has preferred an appeal against certain additions relating to Assessment Year 2023-24 before Commissioner of Income-tax (Appeals) and has not contested a few other additions made to the returned income in the assessment

made in regular assessment of the Income-tax Act, 1961. When the appeal was pending disposal, the Commissioner of Income-tax invoked its revisionary powers in respect of other issues which have not been dealt with in the assessment order. The tax counsel has opined that the doctrine of total merger would apply and therefore, the revision proposed is bad in law. For the Assessment Year 2024-25, the Assessing Officer made an addition of ₹ 150 lakhs on account of excess depreciation and ₹ 120 lakhs by way of disallowance under Section 40A (2) of the Act. HCL filed an appeal before the CIT(A) against the denial of depreciation and on being unsuccessful, filed a further appeal before the Appellate Tribunal. In respect of the disallowance under Section 40A (2) of the Act, it did not file any appeal but filed a revision petition before the Commissioner of Income-tax who dismissed it on the ground that the assessment is a subject matter of appeal before the Appellate Tribunal. The tax counsel opined that the action of the Commissioner is not tenable in law.

Multiple Choice Questions

[Provide the correct or most appropriate option to the following questions]

3.1 In the absence of any director available in HCL, can Hariharan Singh, as the Promoter of HCL, proceed with the appointment of required number of fresh directors? Choose the incorrect option(s) from the following:

- (i) Hariharan Singh cannot proceed with the appointment of fresh directors.
- (ii) Hariharan Singh as Promoter of the Company can proceed with the appointment of required number of fresh directors.
- (iii) Hariharan Singh can proceed with the appointments of fresh directors after getting the prior consent of the three directors who have been disqualified.
- (iv) Hariharan Singh can proceed with the appointments of fresh directors after getting the prior consent of any two directors out of three directors who have been disqualified.

Options:

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

(2 Marks)

3.2 *Harkaran Innovative Tiles Limited (HITL) wants to pay remuneration to its Managing Director, namely Mr. Nanak Dev Singh in excess of the limits specified in the Companies Act, 2013. In view of the facts given in the case study, which is the correct legal position from the following?*

- (A) *Prior approval of the concerned banks and the non-convertible debenture-holders before placing the special resolution, before the shareholders at the general meeting.*
- (B) *Prior approval of the concerned banks and the non-convertible debenture-holders before placing the ordinary resolution, before the shareholders at the general meeting.*
- (C) *Prior approval of the Central Government, the concerned banks and the non-convertible debenture-holders before placing the special resolution, before the shareholders at the general meeting.*
- (D) *Prior approval of the Central Government, the concerned banks and the non-convertible debenture-holders before placing the ordinary resolution, before the shareholders at the general meeting. (2 Marks)*

3.3 *While drafting audit letter communicating the key points of audit to 'Those Charged with Governance' and Audit Committee, CA. Amanpreet Singh was thinking if he needs to generate a Unique Document Identification Number (UDIN). Choose the incorrect statement(s) from the following:*

- (i) *One Single UDIN can be generated for the whole year for one engagement which may include various communications by the Auditor to Management and those charged with Governance.*
- (ii) *Separate UDIN's are to be generated for the Statutory Audit Report and Letter to those charged with Governance.*
- (iii) *Separate generation of UDIN is required for certificates, audit reports and reports in respect of all other Audit, Assurance and Attest functions and not for any letters etc., for making communications.*
- (iv) *One single UDIN can be generated for all documents of one client. UDINs are to be generated client wise instead of document wise.*

Options:

- (A) (i) and (ii)

(B) (i) and (iv)

(C) (i), (ii) and (iv)

(D) (ii) and (iv)

(2 Marks)

3.4 Mr. Ronnie Coleman is desirous of knowing the conveyance, clearance and warehousing procedures under the Indian Customs law from the point of import of goods into India. Outline the sequence of procedure for import of goods into India from the following:

(i) Grant of Entry Inwards to Vessel

(ii) Filing of import General Manifest

(iii) Uploading of Goods

(iv) Assessment of Goods

(v) Filing of Bill of Entry

(vi) Payment of Duty.

Options:

(A) (i), (ii), (iii), (iv), (v) and (vi).

(B) (ii), (iii), (i), (iv), (v) and (vi).

(C) (iii), (ii), (i), (vi), (v) and (iv).

(D) (ii), (i), (iii), (v), (iv) and (vi).

(2 Marks)

3.5 In respect of the state of the art new machines purchased by HCL in foreign currency, how much will be the foreign exchange loss/gain for the financial year 2024-25 and financial year 2025-26 as per the relevant Ind AS?

(A) F.Y. 2024-25 - Loss of ₹ 2,00,000 and F.Y. 2025-26 Loss of ₹ 50,000.

(B) F.Y. 2024-25- Gain of ₹ 2,00,000 and F.Y. 2025-26 - Gain of ₹ 50,000.

(C) F.Y. 2024-25- Gain of ₹ 2,00,000 and F.Y. 2025-26 Loss of ₹ 50,000.

(D) F.Y. 2024-25 - Loss of ₹ 2,00,000 and F.Y. 2025-26 Gain of ₹ 50,000.

(2 Marks)

Descriptive Questions

- 3.6 HCL requires you to calculate "Deferred tax" arising on acquisition of SCL and the goodwill arising thereon. **(4 Marks)**
- 3.7 HCL has proposed a new foreign investment which involves creation of a plant with an annual output of 1 million units. Taking into consideration the other inputs given in the case study above, you are requested to find out:
- Annual Cash Flow after Tax (CFAT) under all the different scenarios of exchange rate.
 - Expected value of CFAT assuming no repatriation of profits.
 - Viability of the investment proposal on the basis of CFAT arrived under option (ii) assuming an initial investment of USD 25 million on plant and working capital with a required rate of return of 11% on investment. The CFAT will grow @ 3% per annum in perpetuity. **(6 Marks)**
- 3.8 Decide the correctness of the views of the Tax Counsel and suggest the course of action to be pursued by the Company in respect of the Income-tax appeals preferred by HCL before the CIT(A) for the A.Y. 2023-24 and an appeal for the Assessment Year 2024-25 before the Appellate Tribunal. **(5 Marks)**

ANSWER TO CASE STUDY 3

3.1 Option (C): (i), (iii), and (iv)

3.2 Option (A): Prior approval of the concerned banks and the non-convertible debenture-holders before placing the special resolution, before the shareholders at the general meeting.

3.3 Option (C): (i), (ii) and (iv)

3.4 Option: No Correct Option

3.5 Option (A): F.Y. 2024-25 – Loss of ₹ 2,00,000 and F.Y. 2025-26 – Loss of ₹ 50,000.

3.6 Computation of Net Deferred Tax Liability **(₹ in lakhs)**

Particulars	Fair Value	Tax Base	Temporary Difference	Tax Effect @ 30%
Land and Buildings	700	500	200 (Taxable)	60

Property, Plant and Equipment	270	200	70 (Taxable)	21
Inventory	80	100	(20) (Deductible)	(6)
Retirement Benefit Obligations	(100)	Nil	100 (Deductible)	(30)
Net Deferred Tax Liability				45

Computation of Fair Value of Net Identifiable Assets

Fair Value of Net Identifiable Assets before DTL	1,070
Less: Net Deferred Tax Liability	(45)
Fair Value of Net Identifiable Assets after DTL	1,025

Computation of Goodwill on Acquisition

Goodwill = Purchase Consideration Transferred – Fair value of Net Identifiable Assets

$$= 1,500 - 1,025 = ₹ 475 \text{ lakhs}$$

3.7 (i) Calculation of Annual CFAT

	Scenario 1	Scenario 2	Scenario 3
Annual Sales (in units) (A)	10,00,000	10,00,000	10,00,000
	US \$	US \$	US \$
Selling price p.u.	10.00	10.00	10.00
Cost p.u.	6.00	5.70	5.55
Profit p.u. (B)	4.00	4.30	4.45
Total Profit (A x B)	40,00,000	43,00,000	44,50,000
Less: Depreciation	10,00,000	9,00,000	8,50,000
PBT	30,00,000	34,00,000	36,00,000
Less: Tax @30%	9,00,000	10,20,000	10,80,000
PAT	21,00,000	23,80,000	25,20,000
Add: Depreciation	10,00,000	9,00,000	8,50,000
Expected CFAT (US\$)	31,00,000	32,80,000	33,70,000

(ii) Expected Value of CFAT

$$= \text{US\$ } 31,00,000 \times 0.4 + \text{US\$ } 32,80,000 \times 0.4 + \text{US\$ } 33,70,000 \times 0.2$$

$$= \text{US\$ } 32,26,000$$

(iii) Viability of proposal:

$$\text{Expected CFAT} = \text{US\$ } 32,26,000$$

$$\text{Expected Growth Rate} = 3\%$$

$$\begin{aligned} \text{Expected Value of inflow in perpetuity} &= \frac{\text{US\$ } 32,26,000 (1.03)}{0.11 - 0.03} \\ &= \frac{33,22,780}{0.08} = \text{US\$ } 4,15,34,750 \end{aligned}$$

	US \$
Value of Inflows	4,15,34,750
Less: Initial Outlay	2,50,00,000
NPV of project	1,65,34,750

Since NPV is positive, project is viable.

3.8 (i) In respect of appeal preferred by HCL before the CIT (A) for A.Y. 2023-24

HCL has filed an appeal against the order of the Assessing Officer against certain additions. While appeal was pending disposal, the CIT invoked its revisionary power u/s 263 in respect of other issues which have not been dealt with in the assessment order.

The **doctrine of partial merger holds good for section 263**. Where the order passed by the A.O. has been the subject matter of any appeal, the powers of the Commissioner u/s 263 **shall extend to such matters as had not been considered and decided in such appeal**.

In this case, the commissioner **can invoke its revisionary power u/s 263** in respect of other issues which have not been dealt with in the assessment order. Even for the subject matter of appeal, it has not been yet considered and decided in the CIT(A).

Accordingly, the view of tax counsel that the doctrine of total merger would apply in this case and the revision proposed is bad in law is **not correct**.

(ii) In respect of appeal preferred by HCL before the Appellate Tribunal for A.Y. 2024-25

HCL has filed an appeal against the order of the CIT(A) against the denial of depreciation. For disallowance u/s 40A(2), it did not file the appeal but filed a revision petition before commissioner u/s 264.

The **concept of total merger would apply in case of section 264**. The Commissioner of Income-tax has no power to revise any order under section 264, if the order has been made subject to an appeal to the Appellate Tribunal, even if the relief claimed in the revision is different from the relief claimed in the appeal and irrespective of the fact whether the appeal is by the assessee or by the Department.

Accordingly, the view of tax counsel that the action of the commissioner is not tenable in law is **not correct**.

CASE STUDY - 4

Vinod Heavy Industries Ltd. (VHIL) is a listed, esteemed conglomerate, having its head office in an industrial town of Gujarat. Inspired by "Make in India", an initiative of the Government of India, the company engaged itself in manufacturing components for large-scale infrastructure projects like mining, heavy industrial machinery and sea-link building equipment for companies all across the globe. VHIL has an extensive manufacturing complex, an in-house dedicated R&D division and a robust client portfolio (both national and international) which includes government projects, mining corporations and heavy construction firms. Despite working in a duopoly market, VHIL operated on narrow profit margin, which is the basic characteristic of an infra company. Being in a highly capital-intensive infrastructure sector, the company requires continuous investment in advanced machinery and other equipments and therefore, the company is regularly tapping the capital markets by issuing bonds and debentures to meet its working capital needs.

VHIL also aimed to expand its operations while adopting the Triple Bottom Line (TBL) approach. The company wants to balance its goals in sustainable

technologies and has approved an initial investment of ₹ 50 crore. The company plans to enhance its image by recruiting 200 people from the local community. The company also wants to reduce its carbon footprint by 20% in the next 2 years. This development is being keenly watched by company's stakeholders, employees and local communities.

In order to achieve its goal, an independent advisor has given two options to the company's Board:

Option A: The Company can invest in advanced recycling technologies thus, focusing on economic growth and environmental sustainability.

Option B: The Company can develop a community-based waste management program which prioritises social impact and environmental benefits.

VHIL also required a short-term credit facility of ₹ 100 crore for a period of 3 months. Anticipating a temporary spike in interest rates, VHIL entered into a 6x9 Forward Rate Agreement (FRA) with Easy Infra Credit Limited (EICL). The actual MIBOR on the date of contract (1st October 2025) was 8.10% per annum. However, since the company was a regular client of EICL, they mutually decided to agree upon a Forward Rate (FR) of 7.80% per annum.

Meanwhile, VHIL's management wanted to diversify the company's business beyond manufacturing. The company was facing regular delays in transporting its products to its domestic as well as international clients due to lack of adequate heavy trucks, shipping containers and other logistic support. So, the company decided to take over VCL Logistics Ltd. (VLL), a prominent logistic and cargo handling company based in the port city of Kandla, Gujarat. VLL, though possessing a valuable inland network and fleet, has been facing with significant financial distress due to inexperienced management, complicated regulatory compliances related to international shipping, unstable fuel prices and intense competition both nationally and internationally. VHIL planned to integrate VLL's logistics abilities to restructure its supply chain for transporting its assembled products to the end users.

The company is having a unit named 'Metal Cast Division' which produces various components required for infrastructure machinery. The following information is being provided:

RAW MATERIAL

Closing Stock	1,400 units
Cost Price	₹ 70 per unit
Replacement Cost	₹ 40 per unit

FINISHED PRODUCT	PRODUCT 1	PRODUCT 2
Production	6,000 units	3,200 units
Closing Stock	500 units	300 units

Material Consumed	₹ 6,40,000
Direct Labour	₹ 3,20,000
Direct Expenses	₹ 1,56,000
Fixed Overheads	₹ 1,90,000 (including godown rent of ₹ 30,000. Godown is used for storing finished products).

Besides 2 Main Products, 1,000 units of a By-product also emerged in the production process which was sold at ₹ 24 per unit after meeting an expenditure of ₹ 5,000. Further, ₹ 9,600 was realized from sale of scrap. The average market price of Finished Product 1 is ₹ 320 per unit and for Finished Product 2 is ₹ 200 per unit.

A scheme of arrangement was proposed by VHIL for the amalgamation of VLL into VHIL as per the Companies Act, 2013. Promoters of both the Companies entered into a binding agreement. The acquisition was to be made through issue of equity shares to the shareholders of the said target company, as per the valuer's report and SEBI regulations. The scheme was presented to the National Company Law Tribunal (NCLT). As part of the process, VHIL made all necessary disclosures and submitted its latest financial position along with auditor's report and other annexures to the appropriate authority. The scheme also included an option for the conversion of VLL's outstanding preference shares into equity shares of VHIL, as per the valuer's report. The preference shareholders also had an option to receive arrears of dividend either in cash or equivalent equity shares of VHIL.

VHIL approached the NCLT for necessary directions and approvals. The NCLT appointed an observer and directed VHIL to call for an extraordinary general

meeting of VLL's shareholders and creditors. As directed, an EGM was convened on 15th March 2025, under the guidance of the observer, as appointed by the Tribunal. VLL had 50,00,000 equity shares, aggregating to a paid-up capital of ₹ 5,00,00,000. The total number of shareholders on the record date was 1,200. Out of total, 800 shareholders holding 35,00,000 equity shares of the company attended this meeting. The voting data revealed that, out of these 800 shareholders, 650 shareholders holding 28,00,000 shares voted in favour of the scheme. While 100 shareholders holding 4,00,000 shares voted against it. The remaining shareholders abstained.

A group of VLL's equity shareholders, holding 8% of the total equity share capital, voted against the resolution. As over 90% of the shareholders of VLL have already voted for the resolution proposed by VHIL, the acquirer company issued notice dated 10th April 2025, to all the dissenting shareholders, expressing its intention to acquire their equity shares as per the provisions of the Companies Act, 2013. However, these dissenting shareholders filed an application with the NCLAT on 5th May 2025, seeking an immediate stay on the proposed amalgamation. The NCLAT, after giving due opportunity to both the parties to present their cases, dismissed the application filed by the dissenting shareholders, on 20th June 2025. VHIL, thus, on receipt of the final order from the NCLAT, acquired 75% of the shares held by these dissenting shareholders. R & Co. LLP, a reputed audit firm, are the statutory auditors of VHIL. After auditing the financial statements of VHIL, the auditors have found material misstatement related to the valuation of certain long-term investments made by the company as on 31st March 2025. So, after due deliberation with the management of the company, the auditors issued a qualified audit report dated 1st June 2025.

In order to further expand its business and meet the working capital requirements, in July 2025, VHIL approached a consortium of public sector banks for a new credit facility. The consortium demanded from VHIL, an audited specific element of the financial statement related to "Trade Receivables from Government Contracts" for the same period and the report was to be prepared by the company's auditors in accordance with a special purpose framework tailored to the loan agreement. VHIL also requested R & Co. LLP to prepare a summary financial statement for the year ended 31st March 2025. The report was to be dated 15th July 2025. The company required the said report for public distribution. The statement for "Trade Receivables from Government Contracts," was prepared by the finance department of VHIL. The company was of the opinion that the

summary financial statements could be presented without making all the general disclosures, as the same was being accompanied by full audit report.

VHIL's intrusion into automated tunnelling machinery is quantum leap in market expansion besides product diversification. The tunnelling machinery is a product of latest technology which is much sought after even on lease basis in many mega infrastructure products. The marketing team explored a new potential market in Africa and obtained market research report from various sources. While the Company wants to launch its tunnelling machine with a huge fanfare, there is another view to allow lease of machines by incorporating a subsidiary company in the new market. 2 market research firms gave a report that there is no similar high end product. However, contrary reports were received such as customers are conservative, there are already strong players hence, it would be a Me-too product or it is a evolutionary product. The management of VHIL wants you to prepare a comprehensive pricing strategy including the impact of entering into joint venture with a local player. Though, the NCLT's dismissal of the dissenting shareholders' application on 20th June 2025 has given control to VHIL over VLL, yet the company still has some minority shareholders which are required to be managed. This partial acquisition made by the company increased the compliance burden and highlighted the complexities of corporate amalgamation and the subtle balance between majority control and minority shareholder rights and interference in quick decision-making process.

Multiple Choice Questions

[Provide the correct or most appropriate option to the following questions]

4.1 VHIL entered into a 6 x 9 Forward Rate Agreement (FRA) with EICL.

Calculate the settlement amount (profit/loss) for VHIL. (Assume 360 days in a year and 30 days in a month).

- (A) ₹ 7,35,114 (Profit)
- (B) ₹ 7,50,827 (Profit)
- (C) ₹ 7,35,114 (Loss)
- (D) ₹ 7,50,827 (Loss)

(2 Marks)

4.2 *In the amalgamation scheme of VLL into VHIL, was the scheme approved by the requisite majority as per the provisions of the Companies Act, 2013?*

- (A) Yes, because the number of members voting in favour is more than 400 and the value of shares voting in favour is more than 22,00,000.
- (B) Yes, because the number of members voting in favour is more than 600 and the value of shares voting in favour is more than 26,25,000.
- (C) Yes, because the number of members voting in favour is more than 375 and the value of shares voting in favour is more than 24,00,000.
- (D) Yes, because the number of members voting in favour is more than 375 and the value of shares voting in favour is more than 25,00,000.

(2 Marks)

4.3 R & Co. LLP issued a qualified opinion on VHIL's complete financial statements for FY 2024-25 due to a material misstatement in long-term investments. Subsequently, VHIL requested R & Co. LLP to audit "Trade Receivables from Government Contracts" for the same period, which constitutes a significant but not major portion of VHIL's total assets. This specific audit is for a new credit facility and is prepared under a special purpose framework. Which of the following statements is most accurate regarding R & Co. LLP's ability to express an unmodified opinion on "Trade Receivables from Government Contracts"?

- (A) R & Co. LLP cannot express an unmodified opinion on "Trade Receivables from Government Contracts" because they issued a qualified opinion on the complete set of financial statements.
- (B) R & Co. LLP can express an unmodified opinion on "Trade Receivables from Government Contracts" only if the report is not published together with the qualified opinion on the complete set of financial statements.
- (C) R & Co. LLP can express an unmodified opinion on "Trade Receivables from Government Contracts" provided it does not constitute a major portion of the entity's complete set of financial statements and the report is not published together with the qualified opinion.
- (D) R & Co. LLP can express an unmodified opinion on "Trade Receivables from Government Contracts" regardless of its proportion to total assets or publishing together with the qualified opinion, as it's a separate engagement.

(2 Marks)

4.4 *In the amalgamation scheme, VHIL has acquired more than 90% of the shares of the company VLL. VHIL has further acquired shares of the dissenting shareholders of VLL after dismissal of their application by NCLT and there still remains dissenting shareholders who continues to hold. What action VHIL should take to overcome dissenting shareholders?*

- (A) *No action is required because VHIL has acquired a substantial majority of shares in VLL.*
- (B) *Yes, action is required because once the NCLT dismisses the dissenting shareholders' application, VHIL is bound to acquire all the remaining shares of the dissenting shareholders at the rate as determined by the registered valuer as per rules.*
- (C) *No action is required because the Companies Act, 2013 allows for partial acquisition of dissenting shares at the transferee company's discretion.*
- (D) *No action is required because the dissenting shareholders should have been given an exit option before the NCLT dismissal. **(2 Marks)***

4.5 *R & Co. LLP was the statutory auditor for VHIL's Full Financial Statements for FY 2024-25, issuing a qualified opinion dated 1st June 2025. They were also engaged to audit Summary Financial Statements for the same period, with a report dated 15th July 2025. What additional reporting responsibility does R & Co. LLP have in their report on the Summary Financial Statements due to the difference in report dates and the qualified opinion on the Full Financial Statements?*

- (A) *R & Co. LLP must state that the summary financial statements do not reflect events subsequent to July 15th, 2025 and also describe the basis for the qualified opinion on the audited financial statements.*
- (B) *R & Co. LLP must state that the Summary Financial Statements do not reflect events subsequent to 1st June 2025 and also describe the basis for the qualified opinion on the audited financial statements.*
- (C) *R & Co. LLP must re-audit the full financial statements up to 15 June 2025, before issuing the summary report.*
- (D) *R & Co. LLP must re-audit the full financial statements up to 15th July 2025, before issuing the summary report. **(2 Marks)***

Descriptive Questions

- 4.6 With reference to the inputs given for one of the operating segments of VHIL namely 'Metal Cast Division', calculate the value of closing stock as per relevant Ind AS on 'Inventories'? **(5 Marks)**
- 4.7 R & Co. LLP is the statutory auditor for VHIL's full financial statements. VHIL has requested R & Co. LLP to audit a specific element, "Trade Receivables from Government Contracts", for the same period, prepared under a special purpose framework. Discuss the key considerations R & Co. LLP must bear in mind regarding the acceptance, planning and performance of this engagement, especially given their existing role as statutory auditor for the full financial statements. **(5 Marks)**
- 4.8 Prepare a pricing strategy to be followed by VHIL based on various contradictory reports received as regards gaining foothold in an African Country. **(5 Marks)**

ANSWER TO CASE STUDY 4

- 4.1 **Option (A):** ₹7,35,114 (Profit)
- 4.2 **Option (C):** Yes, because the number of members voting in favour is more than 375 and the value of shares voting in favour is more than 24,00,000.
- 4.3 **Option (D):** R & Co. LLP can express an unmodified opinion on "Trade Receivables from Government Contracts" regardless of its portion to total assets or publishing together with the qualified opinion, as it's a separate engagement.
- 4.4 **Option (B):** Yes, action is required because once the NCLT dismisses the dissenting shareholders' application, VHIL is bound to acquire all the remaining shares of the dissenting shareholders at the rate as determined by the registered valuer as per rules.
- 4.5 **Option (B):** R & Co. LLP must state that the Summary Financial Statements do not reflect events subsequent to 1st June 2025 and also describe the basis for the qualified opinion on the audited financial statements.
- 4.6 Per Ind AS 2 'Inventories', most by-products as well as scrap or waste materials, by their nature, are immaterial. They are often measured at net realisable value and this value is deducted from the cost of the main product.

Calculation of value of stocks:**(1) Calculation of NRV of By-product**

Selling price of by-product	1,000 units	24,000
Less: Separate processing charges of by-product	x 24/unit	(5,000)
Net realisable value of by-product		19,000

(2) Calculation of cost of conversion for allocation between joint products Main Product 1 (MP1) and Main Product 2 (MP2)

Raw material		6,40,000
Direct Labour		3,20,000
Direct Expenses		1,56,000
Fixed overhead		1,60,000
Less: NRV of by-product (See calculation 1)	19,000	
Sale value of scrap	<u>9,600</u>	(28,600)
Joint cost to be allocated between MP1 and MP2		12,47,400

(3) Determination of "basis for allocation" and allocation of joint cost to MP1 and MP2

	<u>MP 1</u>	<u>MP 2</u>
Output in units (a)	6,000	3,200
Sales price per unit (b)	320	200
Sales value (a x b)	19,20,000	6,40,000
Ratio of allocation	3	1
Joint cost of ₹ 12,47,400 allocated in the ratio of 3:1 (c)	9,35,550	3,11,850
Cost per unit [c/a]	155.925	97.453125

(4) Determination of value of closing stock of MP1 and MP2

Particulars	MP 1	MP 2
Closing stock in units	500 units	300 units
Cost per unit	155.925	97.453125
Value of closing stock	77,962.50	29,235.9375

**Total closing stock of finished goods = 77,962.50 + 29,235.94
= 1,07,198.44**

Closing stock of raw material

Since selling price of both finished goods are more than their cost price, it is implied that NRV of Finished Goods would be more than the cost. Hence, raw materials will be valued at cost.

Closing stock of raw material = 1,400 units x ₹ 70 = ₹ 98,000

Total closing stock of finished goods = ₹ 77,962.50 + ₹ 29,235.94
= ₹ 1,07,198.44

Total closing stock of raw material = ₹ 98,000.00

Grand total of all closing stock ₹ 2,05,198.44

4.7 Considerations When Accepting Such Engagement: As per **SA 805**, a single financial statement or a specific element of a financial statement may be prepared in accordance **with an applicable financial reporting framework** that is based on a financial reporting framework established by an authorised or recognised standards setting organisation for the preparation of a complete set of financial statements [e.g., Financial Reporting Framework]. If this is the case, determination of the acceptability of the applicable framework may involve considering whether that framework includes all the requirements of the framework on which it is based that are relevant to the presentation of a single financial statement or of a specific element of a financial statement that provides adequate disclosures.

SA 800 states that in case of special purpose financial statements, **the financial information needs of the intended users are a key factor** in determining the acceptability of the financial reporting framework applied in the preparation of the financial statements. The applicable financial reporting framework may encompass the financial reporting standards established by an organisation that is authorised or recognised to promulgate standards for special purpose financial statements.

The applicable financial reporting framework may encompass the financial reporting provisions of a contract or sources other than those described in the preceding paras. In that case, the acceptability of the financial reporting

framework in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks in accordance with the requirements of SA 210.

Considerations When Planning and Performing Such Audit: SA 200 requires the auditor to comply with (a) **relevant ethical requirements**, including those pertaining to independence, relating to financial statement audit engagements, and (b) **all SAs relevant to the audit**.

It also requires the auditor to comply with each requirement of an SA unless, in the circumstances of the audit, the entire SA is not relevant, or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA by performing alternative audit procedures to achieve the aim of that requirement.

Application of some of the requirements of the SAs in an audit of special purpose financial statements may require special consideration by the auditor.

In planning and performing the audit of a single financial statement or of a specific element of a financial statement, the auditor shall adapt all SAs relevant to the audit as necessary in the circumstances of the engagement. The relevance of each of the SAs requires careful consideration. Even when only a specific element of a financial statement is the subject of the audit, SAs such as **SA 240, SA 550 and SA 570(Revised)** are, in principle, relevant. This is because the element could be **misstated as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern** basis of accounting under the applicable financial reporting framework.

SA 260(Revised) requires the auditor to determine the appropriate person(s) within the **entity's governance structure with whom to communicate**.

When auditing a single financial statement or a specific element of a financial statement in conjunction with the audit of the entity's complete set of financial statements, the auditor may be able to use audit evidence obtained as part of the audit of the entity's complete set of financial statements in the audit of the financial statement or the element. SAs,

however, require the auditor to plan and perform the audit of the financial statement or element to obtain sufficient appropriate audit evidence on which to base the opinion on the financial statement or on the element.

The individual financial statements that comprise a complete set of financial statements, and many of the elements of those financial statements, including their related notes, are interrelated. Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may not be able to consider the financial statement or the element in isolation. Consequently, the auditor may need to perform procedures in relation to the interrelated items to meet the objective of the audit.

Therefore, while accepting and performing the engagement, R & Co. LLP should comply with SA 800 (Revised) and SA 805 (Revised) and adapt all relevant SAs to the circumstances of the engagement. Although the firm is already statutory auditor of VHIL's complete financial statements and may use evidence obtained therein, it must independently plan and perform procedures to obtain sufficient appropriate audit evidence regarding the specific element. The auditor should also consider governance communication requirements, interrelationship of financial statement items, applicability of fraud/related party/going concern considerations, and separate materiality determination for the specific element under audit.

4.8 Pricing strategy for automated tunnelling machinery in the African Market:

1. It is stated by two market research firms that this product is a unique product and ***has no such competitor in the African market***. This would mean that VHIL has abundant scope for making the product prominent besides earning huge profit margin. If the market report is correct, the product is first of its nature, the '**skimming pricing**' would be the most appropriate pricing strategy.
2. ***If the product has to gain foothold in the market*** by making the public or the users to be aware of its availability, it is an **evolutionary product** and by means of mega advertisement demand can be generated and market hold could be achieved. The price can be determined by taking cost-benefit, competitor and demand for the product into account.

3. ***If the market already has players or potential entry*** of other machinery manufacturer, the company has to adopt either a **cost based pricing or mark up pricing** to play cautiously in the market.
4. If the market information is that the tunnelling machinery is a ***Me-too product***, the company has to resort to **penetration pricing** to gain foothold in the market as in this case market price is determined by competitive forces for a successful product.
5. All the above strategies could be pursued either by incorporating a subsidiary company or by means of joint venture with a local player subject to due diligence.

ALTERNATIVE

VHIL should adopt a **flexible and carefully planned pricing strategy while entering the African market because the market research reports provide mixed opinions.**

Some reports suggest that there is no similar high-end tunnelling machine available in the market, while other reports indicate that customers are conservative and strong competitors already exist. Therefore, the company should not depend on only one pricing method and should design its strategy according to market conditions and customer acceptance.

Since automated tunnelling machinery is a highly advanced and expensive product used in large infrastructure projects, customers may hesitate to make huge upfront investments. Therefore, instead of only selling the machinery, VHIL can also **offer the machines on lease through a subsidiary company.** Leasing would reduce the financial burden on customers and help the company generate regular long-term income. It would also help the company attract customers who may not be willing to purchase the machinery immediately.

In the initial stage, VHIL may adopt a **penetration strategy by offering the machinery at comparatively attractive prices or with flexible payment terms** to gain entry into the market and build customer confidence. This would help the company establish its presence and increase acceptance of the product. However, the company should avoid very low pricing because the machinery represents advanced technology

and premium quality. Extremely low pricing may negatively affect the premium image of the product.

Once the product gains market acceptance, VHIL can **gradually shift towards value-based pricing**. Under this approach, the company would charge prices based on the benefits provided by the machinery such as faster project completion, better efficiency, lower labour requirement and advanced technology. Infrastructure companies usually focus more on long-term cost savings and project efficiency rather than only the initial purchase price.

If the product is viewed as a “Me-too” product because of existing competitors, VHIL may adopt **competitive pricing** by keeping prices comparable with market players while differentiating itself through better after-sales service, maintenance support, spare parts availability and operator training. Such additional support services can improve customer satisfaction and create competitive advantage.

The company should also follow **geographical pricing** depending upon local conditions in different African countries. Pricing may vary based on transportation cost, import duties, economic conditions and infrastructure development of each region.

Entering into a joint venture with a local player can further strengthen VHIL’s pricing strategy. A local partner would have better knowledge of customer preferences, government procedures and local business practices. This would help VHIL reduce market entry risk and operational costs. Due to lower setup and marketing costs, the company may be able to offer more competitive pricing. A local partner would also improve customer trust and acceptance, especially in conservative markets.

The joint venture can also help VHIL share costs relating to marketing, servicing and distribution. This would reduce the financial burden on the company and provide greater pricing flexibility. **Further, local partners may help in obtaining government projects and local business opportunities more easily.**

Considering the contradictory market reports, VHIL should initially enter the market gradually through pilot projects, selective leasing arrangements and strategic partnerships instead of making large aggressive investments

immediately. Based on customer response and market acceptance, the company can later modify its pricing strategy.

Overall, VHIL should adopt a combination of penetration pricing, value-based pricing, competitive pricing and leasing-based pricing along with a joint venture approach to successfully establish its presence in the African market.

CASE STUDY - 5

India's aviation industry has witnessed significant expansion, emerging as the world's third-largest aviation market by 2025. After a severe downturn in

FY 2020-21 due to the pandemic, the sector rebounded strongly by FY 2024-25, supported by affordable fares, a rising middle class and improved connectivity across metros as well as tier-2 and tier-3 cities. Airlines are expanding fleets, airports are scaling up infrastructure and passenger demand both domestic and international continues to grow. In FY 2024-25, total passenger traffic reached 220 million, surpassing pre-COVID levels by 25%. Despite this recovery, several airlines ceased operations between 2021 and 2024 due to financial stress caused by high aviation turbine fuel prices, depreciation of the Indian rupee against the US dollar, supply chain disruptions and intense competition. Industry profitability remained under pressure, with many carriers experiencing an average profit decline of around 14%. Amid these challenges, Avigo Airlines (Avigo), a business unit of Avigo Global Limited headquartered in New Delhi, stood out as one of the few consistently profitable carriers. The airline reported a net profit of ₹ 6,780 crore in FY2024-25, compared to ₹ 7,250 crore in FY2023-24. Although profits declined due to higher fuel costs, foreign exchange losses, increased airport charges and rising non-fuel operating expenses, the drop was considerably lower than the industry average. Avigo maintains a dominant 60% domestic market share.

The Board of Directors of Avigo Global Limited comprises 12 members and is led by its Chairman, Mr. Karanveer, along with the Managing Director, Mr. Anirudh. The Board includes five Independent Directors and five Non-Independent Directors (including one woman director) and is recognized for its strong corporate governance practices. Founded in 2010 as a low-cost carrier, Avigo steadily expanded from serving a limited number of Indian cities to operating approximately 1,900 daily flights across 125 domestic and international

destinations. Its fleet primarily consists of Airbus A320 family aircraft, enabling operational efficiency and cost optimization. Avigo's ultra-low-cost carrier model is built on aggressive cost control, high aircraft utilization, a point-to-point route network and lean staffing structures. Historically achieving on-time performance above 75-85%, the airline has strengthened its reputation for reliability and efficiency. Strategic initiatives such as sale-and-leaseback arrangements, operating a single aircraft type, maintaining a single-class configuration on domestic routes and securing manufacturer-backed maintenance agreements have further enhanced cost efficiency and productivity. While Avigo initially operated an all-economy configuration to minimize overhead and interior costs, it later introduced a dual-class setup on international routes to remain competitive. Avigo operates on a no-frills model while maintaining a strong focus on punctuality, safety, cleanliness, seamless transfers and efficient baggage handling. Consistent branding such as logos on headrest covers and in-flight magazines further strengthens Avigo's recognition and presence in the market. Avigo has successfully increased its revenue per available seat kilometer and consolidated its leadership position in India's rapidly growing aviation sector.

In the financial year 2025-26, Avigo reported a net profit of ₹ 1,575 crore in Q1 and ₹ 862 crore in Q2. The sharp decrease in the second quarter was driven by the depreciation of Indian currency and the revaluation of dollar-denominated lease obligations. The operational crisis in Avigo erupted in November 2025 and escalated rapidly over the subsequent 20 days marking one of the most catastrophic days in Indian aviation history. During this disruption period, total 5,000 flights of Avigo Airlines were cancelled over a period of 20 days with peak daily cancellation of 700 flights, more than 6,00,000 passengers affected and on time performance decreased to 20%. The primary catalyst emerged from revised Flight Duty Time Limitations (FDTL) framework, introduced by DGCA in January 2024 to align with international standards. Key changes included mandatory weekly rest increased from 30 to 48 consecutive hours, stricter limits on night flying and maximum daily duty hours reduced to prevent fatigue accumulation. These modifications effectively reduced available pilot flying hours by 25%, necessitating proportional staff increase that Avigo failed to implement. Passengers faced unprecedented disruptions, including airport waits exceeding 12 hours with little support. International travellers were stranded due to single-entry visa issues, unclaimed baggage piled up at major airports and alternative carriers tripled fares on key routes, further worsening the crisis. The crisis costs company ₹ 600 crore due to compensation paid to passengers, fines imposed by

the Government in meeting deadlines. Company reported 60% decline in the December Quarter net profit at ₹ 345 crore. The primary causes of Avigo's operational failure stemmed from an over extended lean operating model that lacked adequate structural support. Key issues included ineffective workforce planning, out dated or insufficient rostering technology and cost-cutting culture that prioritized aggressive optimization over investment in infrastructure and operational resilience. Early warning signals from FDTL concerns were reportedly overlooked, compounding crew availability challenges. Additionally, the airline's dominant market position may have fostered complacency, further delaying critical investments in systems, staffing depth and contingency planning. The Board established a Crisis Management Group (CMG), chaired by Karanveer Singh and supported by three Independent Directors, to oversee the November 2025 operational breakdown caused by crew shortages, software issues and network planning challenges. The CMG met daily to restore operational integrity. Avigo implemented immediate stabilisation measures and long-term reforms, including a temporary 7% flight reduction, improved crew rostering and coordination with the aviation regulator for flexible duty rules. To rebuild passenger confidence, the airline offered refunds and compensation and launched a recruitment drive to hire over 750 pilots and other administrative staff, to prevent future staff shortages.

During a Board Meeting held on 15th December 2025, the Board members reviewed the root causes of recent operational crisis in detail and discussed appropriate measures to prevent its recurrence. It was unanimously decided to commit 3% of annual revenue to IT infrastructure modernisation and to implement AI driven predictive rostering and disruptive management systems to strengthen operational reliance. Mr. Neeraj, an Independent Director holding a Master's degree in Business Administration from the Indian Institute of Management, Pune, recommended adopting the McKinsey 7S Model to ensure that the planned initiatives are implemented effectively and sustained over the long term. In view of the increased responsibilities of the directors compared to the previous year, the Board of Directors have decided, by way of altering the Articles of Association through a special resolution, to revise the sitting fees for Board meetings from ₹ 50,000 per meeting to ₹ 60,000 per meeting for all directors other than independent directors and women director and to ₹ 75,000 per meeting for all independent directors and women director.

In March 2026, anticipating a decline in market interest rates, the Chief Financial Officer (CFO) is considering the call of ₹ 500 crore of 10-year bonds with a face value of ₹ 1,000 each, issued five years ago with a callable feature at a coupon rate of 13%. The bonds were issued at a premium of ₹ 50 per bond, generating total proceeds of ₹ 525 crore and incurred an initial flotation cost of ₹ 1.20 crore. They are currently callable at ₹ 1,100 per bond. To refinance the existing debt, the company plans to issue ₹ 500 crore of new 11%, 10 year bonds at par value (₹ 1,000 per bond), with an estimated flotation cost of ₹ 1.50 crore. The after-tax cost of debt is 8% and flotation cost is written off for tax purpose in five years. The CFO has instructed CA Ankit, Finance Manager, to assess the viability and financial implications of retiring the bonds by the end of March 2026. The company tax rate is 25%.

Avigo Global Limited had entered into a lease arrangement on 1st April 2021 for office space measuring ₹ 6,000 sq. ft. for a period of 10 years. As per the terms of the agreement, lease payments of ₹ 6,00,000 per annum were payable in advance at the beginning of each year. The agreement also provided an option to extend the lease for an additional period of 5 years at an annual rent of ₹ 8,00,000. It is the company's policy to depreciate RoU asset on straight line basis. However, the Company had not shown any intention to exercise the extension option at the time of lease agreement. The Company had incurred initial direct costs amounting to ₹ 3,00,000 in connection with the lease. The incremental borrowing rate at the commencement date, i.e., 1st April 2021 was 11% per annum. In March 2026, due to space constraints arising from the recruitment of additional staff in the next year, the Company decided to take on lease an additional 3,000 sq. ft. in the same building. It is decided to enter into a separate lease agreement for additional space for a period of 9 years and the additional space will be available for use from March 2027. The incremental borrowing rate as of 31st March 2026 is 12% per annum. The company also decided to exercise the extension option relating to the original 6,000 sq. ft. lease at the end of the year 2025-26.

A team of four officers from Income-tax Department descended upon the company's Head Office at New Delhi on 15th February 2026 to conduct TDS survey under Income-tax Act, 1961. After completing the necessary formalities, they asked for the TDS returns filed during the financial year 2024-25 and three quarters of 2025-26. After perusing the company's accounts, bills and TDS returns, the team summarised following points in the matter of TDS deduction and incidental issues:

- (i) *Company has made payment of lease rent of ₹ 24 crore to PQR Fleet Services IFSC Limited located in Gujarat International Finance Tec-City for lease of an aircraft which commenced in June 2025. Neither tax has been deducted on lease rent paid during the year nor these payments have been reported in TDS returns filed by the company.*
- (ii) *Company has paid landing and parking charges of ₹ 12 crore to Airport Authority of India and 8 crore to private airport operators. The company has deducted tax @ 2% instead of 10% as the payments are in the nature of rent paid for use of space.*
- (iii) *Company has taken an engine on lease in financial year 2025-26 under an arrangement with a foreign company, a tax resident of Germany. Company deducted tax at source @ 10% on lease rental paid as per the provisions contained under DTAA between India and Germany. Chief Accountant informed that foreign company has no permanent establishment in India. However, revenue officers contended that in the absence of furnishing of PAN, TDS is to be deducted at a higher rate of 20% as per the relevant provisions of Income-tax Act, 1961.*
- (iv) *The Company allowed exemptions and deductions to its employees during financial year 2024-25 relevant to Assessment Year 2025-26 on account of House Rent Allowance (HRA), Leave Travel Concession (LTC) and deductions under Chapter VI-A of the Income-tax Act, 1961. In cases, where the monthly rent exceeded ₹ 10,000, the Company accepted cash rent receipts containing only the address of the property as supporting evidence. Further, exemption in respect of Leave Travel Concession was allowed on self-declaration submitted by employees who had exercised the option to opt out of the new tax regime under Section 115BAC. During verification conducted in financial year 2025-26, it was observed that in 10 cases the rent receipts furnished by employees were not found to be genuine. It was further noticed that in 20 cases, employees ultimately filed their returns of income under the new tax regime and discharged the tax liability accordingly at the time of filing their returns. Before leaving, the income-tax officer issued show cause notice in respect of above issues.*

In the financial year 2025-26, Avigo enhanced the passenger experience by offering complimentary high-speed WiFi for economy class travellers and meals on board, with the value of these meals included in the fare. The company partnered with Royal Caterers Pvt. Ltd., an outdoor catering service,

to provide these meals. In February 2026, Avigo collected a total of ₹ 2,000 crore (excluding GST) from both domestic and international flights. Of this, ₹ 1,600 crore was generated from economy class passengers, which includes ₹ 60 crore as Passenger Service Fee (PSF) and ₹ 50 crore as User Development Fee (UDF). Additionally, ₹ 400 crore was collected from business class passengers, which includes ₹ 12 crore as PSF and ₹ 8 crore as UDF. Royal Caterers Pvt. Ltd. submitted a tax invoice for ₹ 5.90 crore (including IGST 18%). Total ITC available in GSTR 2B for the month of February 2026 is ₹ 26.50 crore. The applicable GST rates are 5% on economy class fares, 18% on business class fares and 18% on PSF and UDF payable by airline operator.

Multiple Choice Questions

Provide the correct or most appropriate option to the following questions

5.1 Match the following attributes of the Kano Model to the corresponding services offered by Avigo to its customers:

	Attribute		Services
a.	Basic	1.	Free Hingh- Speed Wi-fi
b.	Performance	2.	Efficient Baggage handing
c.	Delighter	3.	Logos on headrest covers and in-flight magazines
d.	Indifferent	4.	Seamless Transfers

Options:

(A) a-3, b-1, c-2, d-4

(B) a-2, b-4, c-1, d-3

(C) a-1, b-3, c-4, d-2

(D) a-4, b-2, c-3, d-1

(2 Marks)

5.2 What is the financial impact i.e. NPV of retiring the bonds? (PVIFA 8%, 106.71 and PVIFA 8%, 5=3.99)

(A) NPV of redeeming bonds is ₹ 10.82 crore

(B) NPV of redeeming bonds is ₹ 25.84 crore

(C) NPV of redeeming bonds is ₹ 36.63 crore

(D) NPV of redeeming bonds is ₹ 24.13 crore

(2 Marks)

5.3 Which of the following statement(s) is/are incorrect in regard to deduction of tax at source from salary in view of the information given in the case study as per the relevant provisions of Income-tax Act, 1961?

- (i) Company cannot be treated as assessee in default because it has correctly deducted TDS on the basis of evidences submitted by the employees and employees have already filed income tax returns.
- (ii) Company will be subject to interest and it is payable even where the company is not deemed to be an assessee in default.
- (iii) Company will be subject to penalty under Section 221 and not Section 271C, once short deduction under Section 192 is established.
- (iv) Receipt of intimation from employees automatically relieves the employer from verifying the admissibility or correctness of HRA, LTC, or other deductions.

Options:

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

(2 Marks)

5.4 Which of the following statements is fully correct as per the relevant provisions of CGST Act, 2017?

- (A) Meals supplied on board constitute a mixed supply and ITC in respect of outdoor catering is available as the same is used to making outward taxable supply as an element of taxable supply. The total GST (net of ITC) payable by Avigo is ₹ 125.5 crore, PSF and UDF form part of airfare value taxable at 18% for economy and business class.
- (B) Meals supplied on board constitute a composite supply with air transportation as principal supply but ITC on outdoor catering services is blocked. The total GST (net of ITC) payable by Avigo is ₹ 117.30 crore and PSF and UDF form part of airfare value taxable at 18% for economy and business class and it will take ITC of GST on PSF & UDF paid to airport operators.

- (C) Meals supplied on board constitute a composite supply with air transportation as principal supply and ITC in respect of outdoor catering is available as the same is used to making outward taxable supply as an element of a taxable composite supply. The total GST (net of ITC) payable by Avigo is ₹ 116.40 crore, PSF & UDF are statutory levies collected as agent of airport operator and excluded from taxable value of airfare.
- (D) Meals supplied on board constitute a composite supply with air transportation as principal supply and ITC in respect of outdoor catering is available as the same is used to making outward taxable supply as an element of a taxable composite supply. The total GST (net of ITC) payable by Avigo is ₹ 116.40 crore and it will take ITC of GST on PSF & UDF paid to airport operators. **(2 Marks)**

5.5 Which of the following statement is correct as regards the proposed enhancement of sitting fees as per the provisions of the Companies Act, 2013?

- (A) The proposal to increase the sitting fee to ₹ 75,000 for Independent Directors and Women Director cannot be accepted, as all directors are required to receive equal sitting fees per meeting.
- (B) The proposal to increase the sitting fee to ₹ 75,000 only for women director can be accepted, as all other directors must receive equal sitting fees per meeting.
- (C) The proposal to increase the sitting fee to ₹ 60,000 per meeting for all directors other than Independent Directors and Women Directors and to ₹ 75,000 per meeting for Independent Directors and Women Director, can be accepted, as the sitting fee is within the maximum permissible limit.
- (D) The proposal to increase the sitting fee to ₹ 60,000 per meeting for all directors other than Independent Directors and Women Directors and to ₹ 75,000 per meeting for Independent Directors and Women Director, can be accepted provided it is approved by the shareholders in a general meeting. **(2 Marks)**

Descriptive Questions

5.6 How can Avigo Global Limited align and integrate all seven elements of the McKinsey's 7S framework to strengthen operational robustness, enhance

competitive advantage and prevent a recurrence of operational crisis, while ensuring that each element reinforces the others to create a resilient, efficient and customer-focused airline?
(6 Marks)

5.7 The company has decided to exercise the extension option under its original lease agreement. Explain the accounting treatment for this transaction in the books of Avigo Global Limited and prepare the necessary journal entry as of 31st March 2026. Use present value (PV) factors up to four decimal places for all calculations as given below.
(5 Marks)

5.8 The survey team has raised the matter regarding non-deduction of tax at source on lease rent paid to PQR Fleet Services IFSC Limited and lease rent of engine paid to foreign company and short deduction of landing and parking charges, in its show-cause notice. How can CA. Ankit defend the company while preparing reply to show cause notice as far as these issues are concerned?
(4 Marks)

Year	0	1	2	3	4	5	6	7	8	9	10
PV@11%	1	0.9009	0.8116	0.7312	0.6587	0.5935	0.5346	0.4817	0.4339	0.3909	0.3522
PV@12%	1	0.8928	0.7972	0.7118	0.6355	0.5674	0.5066	0.4524	0.4039	0.3606	0.3220

ANSWER TO CASE STUDY 5

5.1 Option (B): a-2, b-4,c-1,d-3

5.2 Option: No Correct Option

5.3 Option (C): (i) (iii), (iv)

5.4 Option (C): Meals supplied on board constitute a composite supply with air transportation as principal supply and ITC in respect of outdoor catering is available as the same is used to making outward taxable supply as an element of a taxable composite supply. The total GST (net of ITC) payable by Avigo ₹ 116.40 crore, PSF & UDF are statutory levies collected as agent of airport operator and excluded from taxable value of airfare.

5.5 Option (C): The proposal to increase the sitting fee to ₹ 60,000 per meeting for all directors other than Independent Directors and Women Directors and

to ₹ 75,000 per meeting for Independent Directors and Women Director, can be accepted, as the sitting fee is within the maximum permissible limit. **OR**

Option (D): The proposal to increase the sitting fee to ₹ 60,000 per meeting for all directors other than Independent Directors and Women Director and to ₹ 75,000 per meeting for Independent Directors and Women Directors, can be accepted provided it is approved by the shareholders in a general meeting.

5.6 McKinsey's 7S framework serves as a comprehensive tool for organizations seeking to drive effective change, implement new strategies, and enhance overall performance. It provides a structured way to analyse an organization's internal environment by examining seven interrelated elements: Strategy, Structure, Systems, Shared Values, Skills, Style, and Staff. These elements are not independent; rather, they are interconnected, meaning that a change in one area inevitably influences the others. For instance, revising the organizational strategy may require adjustments in structure, processes, or staff roles to ensure successful execution.

By using the 7S framework, organizations can identify weaknesses and misalignments within their systems, understand how various subsystems influence one another, and develop interventions that are holistic rather than piecemeal. For an organization aiming to achieve its objectives efficiently and sustainably, it is critical that all seven elements are aligned and mutually reinforcing. Proper alignment ensures that the organization's strategy is supported by the right structures, systems, capabilities, culture, leadership style, and talent, thereby maximizing the likelihood of achieving strategic goals and maintaining long-term effectiveness.

Strategy & Structure: Avigo's ultra-low-cost strategy has been instrumental in driving rapid market penetration, high aircraft utilization, and competitive pricing. However, this lean operating model has also exposed operational vulnerabilities, particularly when regulatory changes such as the revised Flight Duty Time Limitations (FDTL) disrupted tightly optimized schedules. Heavy reliance on minimal buffers, quick turnarounds, and lean crew rosters amplified the impact of such external shocks. To sustain growth, Avigo must embed resilience directly into its core strategy rather than treating it as an afterthought. This includes developing robust contingency planning frameworks that anticipate regulatory, operational, and environmental disruptions. Greater fleet flexibility such as maintaining

standby aircraft capacity or diversifying aircraft deployment can reduce cascading delays. Scalable crew management systems, including reserve pools and cross-qualified staff, would further enhance operational continuity.

At the structural level, resilience must be institutionalized through the creation of dedicated risk and crisis management teams with clear authority and accountability. Establishing well-defined escalation pathways ensures rapid decision-making during irregular operations. Stronger cross-functional coordination between operations, crew scheduling, maintenance, and regulatory compliance functions will prevent siloed responses to complex challenges.

By aligning organizational structure with strategic resilience goals, Avigo can protect operational reliability without sacrificing cost discipline. Ultimately, integrating resilience into both strategy and structure enables the airline to balance efficiency with stability, sustaining long-term growth while proactively managing emerging risks.

Systems & Shared Values: The operational disruptions experienced during the November 2025 crisis underscored the critical importance of robust, modernized systems in airline operations. Large-scale instability revealed how vulnerabilities in crew rostering, flight scheduling, and real-time coordination can rapidly escalate across an entire network. For Avigo, this serves as a defining lesson that advanced operational systems are not merely efficiency tools but strategic enablers of resilience. Modernized crew rostering and dynamic flight scheduling platforms must be capable of responding instantly to irregular operations. Automated real-time monitoring systems should detect cascading delays, crew legality risks, aircraft rotation conflicts, and airport constraints as they emerge. Such visibility enables operations control teams to implement corrective measures before disruptions spread further. Predictive analytics strengthens this framework by forecasting demand surges, adverse weather risks, and crew fatigue exposure under Flight Duty Time Limitations (FDTL). Proactive resource reallocation within regulatory constraints helps prevent network-wide strain.

However, technology alone cannot safeguard operational stability. Systems must be reinforced by shared organizational values that prioritize safety, reliability, transparency, and customer trust alongside cost efficiency. Embedding disciplined decision-making ensures regulatory obligations are upheld and communication remains responsible. Employees across operations control, crew planning, ground handling, and customer service must consistently adhere to established protocols. A culture grounded in accountability, proactive communication, and continuous improvement transforms technology into a force multiplier. **By integrating advanced systems with deeply embedded values, AviGo can build structural resilience and maintain passenger confidence even under severe crisis conditions.**

Style and Staff: Leadership style plays a key role in cascading strategic priorities and operational discipline throughout the organization. A participative, transparent, and proactive leadership style encourages reporting of early warning signs, fosters collaboration across departments, and drives adherence to safety and operational standards. This, in turn, empowers staff especially pilots, crew, and operational planners, to take ownership of scheduling, contingency measures, and passenger service. By investing in workforce planning, training, and retention, **Avigo ensures adequate staffing depth, flexible scheduling, and a motivated team capable of maintaining operational continuity even under stress.**

Skills: The skills element ties all others together. Even with the right strategy, structure, systems, values, style, and staffing, a lack of skills in predictive analytics, network planning, crisis management, and regulatory compliance can undermine operations. Developing these competencies ensures that the workforce can fully leverage systems, execute the strategy, uphold shared values, and support the leadership style. Skilled teams improve operational efficiency, reduce errors, and enhance passenger satisfaction, solidifying Avigo's competitive advantage and reducing vulnerability to future crises.

Overall, by interlinking all seven S's, Avigo can transform its lean operational model into one that is both efficient and resilient. Strategy guides priorities, structure supports execution, systems provide real-time control, shared values drive responsible behaviour, leadership

style motivates staff, skilled personnel ensure capability, and staffing ensures sufficient capacity. Together, these elements reinforce each other to prevent operational breakdowns, improve reliability, strengthen market position, and maintain cost competitiveness.

ALTERNATIVE

Avigo Global Limited can use the McKinsey 7S Framework to ensure that all parts of the organisation work together in a coordinated manner. The operational crisis faced by the company showed that although Avigo was successful in controlling costs, there was lack of proper coordination between people, systems and operational planning. Therefore, all seven elements of the McKinsey 7S Model should be aligned to build a strong, efficient and customer-focused airline.

Strategy: Avigo should redesign its strategy by balancing low-cost operations with operational stability and customer satisfaction. Earlier, the company focused heavily on aggressive cost control and lean staffing, which created problems when new FDTL rules reduced pilot availability. **The company should now focus not only on cost reduction but also on investing in technology, workforce planning and operational resilience.** The decision to invest 3% of annual revenue in IT infrastructure and AI-based rostering systems is an important strategic step. The strategy should also focus on punctuality, safety, service quality and customer trust.

Structure: The organisational structure of Avigo should support quick decision-making and better coordination between departments. During the crisis, poor coordination between crew management, operations and scheduling worsened the situation. Formation of the Crisis Management Group (CMG) was an important step. **The company should further create dedicated teams for operational planning, disruption management and customer support.** Better coordination among departments would help the airline respond quickly during emergencies and reduce operational disruptions.

Systems: Avigo's systems for crew rostering and disruption management were outdated and insufficient. **The company should introduce AI-based crew scheduling systems, real-time monitoring systems and automated disruption management tools.** These systems would help in

proper allocation of pilots, compliance with FDTL rules and better handling of cancellations and delays. Strong systems would improve efficiency, reduce manual errors and help the company identify problems at an early stage.

Shared Values: The company should build a culture where safety, customer satisfaction, operational reliability and employee well-being are given equal importance along with profitability. **Earlier, the organisation focused excessively on cost cutting, which affected operational stability. Management should encourage a culture of accountability, teamwork and proactive problem-solving.** Shared values focused on customer service and safety would improve trust among passengers and employees.

Skills: The crisis highlighted gaps in workforce planning, technology management and crisis handling skills. **Avigo should provide regular training to pilots, operational staff and management teams on AI systems, disruption handling and customer service.** Recruitment of additional pilots and administrative staff would also improve operational capability. Developing employee skills would help the company handle future challenges more effectively.

Staff: Avigo's lean staffing model became inadequate after the new FDTL rules reduced pilot flying hours. **The company should maintain adequate staff strength and reserve crew capacity to handle operational disruptions.** Recruitment should focus not only on pilots but also on operational and customer service staff. Better work schedules and employee welfare measures would improve morale and reduce fatigue. Proper workforce planning would strengthen operational continuity.

Style: The leadership style of the company should become more proactive, participative and transparent. Earlier, management appeared *too focused on cost optimisation and delayed responding to warning signals related to pilot shortages*. The leadership should now encourage open communication, teamwork and timely reporting of operational issues. **Active involvement of Independent Directors in the Crisis Management Group reflects a stronger governance-oriented approach. A supportive leadership style would improve employee confidence and organisational discipline.**

Integrated Alignment of 7S Elements

All seven elements of the McKinsey 7S Framework are interconnected and should support each other. Avigo's new strategy of balancing cost efficiency with operational resilience should be supported by strong systems, adequate staffing, skilled employees and effective leadership. Shared values should encourage safety, customer focus and operational discipline across the organisation.

By properly aligning all seven elements, Avigo can build a more resilient, efficient and customer-focused airline. This would help the company prevent future operational crises, strengthen customer trust and maintain its leadership position in the Indian aviation industry.

- 5.7** In the given case, the company has decided to exercise the extension option relating to the original 6,000 sq. ft. lease. Avigo thus concludes at the end of year 5 that it is reasonably certain that it will exercise the extension option. Thus, the lease liability and right of use (ROU) asset for the original lease will be modified while the lease for the additional floor will be treated as separate lease in accordance with para 44 Ind AS 116.

The lease liability and ROU asset for the original lease will be modified:

Under Ind AS 116, at commencement date, lessee recognises lease liability at present value of lease payments and Right-of-Use (RoU) Asset. Cost of RoU Asset includes 1. Initial measurement of lease liability, 2. Lease payments made at or before commencement, and 3. Initial direct costs.

When there is a change in assessment of extension option, lease liability is remeasured using revised discount rate and corresponding adjustment is made to RoU Asset.

Further, additional space taken on lease is treated as a separate lease if it increases scope and consideration is at stand-alone price.

Calculation of lease liability at commencement date i.e. 1st April 2021

Since lease rentals are payable in advance, payments occur from Year 0 to Year 9.

Annuity of PV factor @ 11% = $1 + 0.9009 + 0.8116 + 0.7312 + 0.6587 + 0.5935 + 0.5346 + 0.4817 + 0.4339 + 0.3909 = 6.5370$

Lease liability = ₹ 6,00,000 x 6.5370 = ₹ 39,22,200

However, since lease payment is done in advance, the lease liability to be recognised would be ₹ 39,22,200 - ₹ 6,00,000 = ₹ 33,22,200

Measurement of RoU asset

Particulars	Amount (₹)
Lease Liability	39,22,200
Add: Initial Direct Cost	3,00,000
Cost of RoU Asset	42,22,200

Computation of depreciation of RoU asset till 31st March 2026

Initially lease term considered = 10 years.

Annual depreciation = 42,22,200 / 10 = ₹ 4,22,220

Depreciation for 5 years = ₹ 4,22,220 x 5 = ₹ 21,11,100

Carrying amount of RoU Asset on 31st March 2026 = 42,22,200 - 21,11,100 = ₹ 21,11,100

Computation of lease liability at the end of 5th year

Date	Initial Value	Lease payments (at the beginning of the year)	Interest exp @ 11%	Closing Balance	Initial Balance	Depreciation	Closing Balance
1.4.2021	39,22,200	6,00,000	3,65,442	36,87,642	42,22,200	4,22,220	37,99,980
1.4.2022	36,87,642	6,00,000	3,39,641	34,27,283	37,99,980	4,22,220	33,77,760
1.4.2023	34,27,283	6,00,000	3,11,001	31,38,284	33,77,760	4,22,220	29,55,540
1.4.2024	31,38,284	6,00,000	2,79,211	28,17,495	29,55,540	4,22,220	25,33,320
1.4.2025	28,17,495	6,00,000	2,43,924	24,61,419	25,33,320	4,22,220	21,11,100
1.4.2026	24,61,419	6,00,000	—	18,61,419	21,11,100	—	

Reassessment of extension option on 31st March 2026

As per Ind AS 116 'Leases', lease liability will be remeasured using revised discount rate of 12% by making corresponding adjustment to RoU Asset.

Calculation of PV of revised lease payments using original discount rate of 12% p.a.

Year	Lease payments ₹	PV @ 12%	PV of lease payments
1–4	6,00,000	3.0374	18,22,440
5–10	8,00,000	2.2909	18,32,720
Total			36,55,160

Before the changes in lease term, the lease liability using the original discount rate of 11% p.a. comes to ₹ 18,61,419. The company's RoU asset at that date is ₹ 21,11,100. Lease liability is remeasured, including four payments of ₹ 6,00,000 and five payments of ₹ 8,00,000, discounted at 12% p.a. The present value is ₹ 36,55,160. The company increase the lease liability by ₹ 17,93,741 (₹ 36,55,160 – ₹ 18,61,419). Due to remeasurement, the carrying amount of the company's RoU asset is ₹ 39,04,841 (₹ 21,11,100 + ₹ 17,93,741).

On 31st March 2027, the company will calculate the interest expense for the lease liability at the changed interest rate of 12% p.a.

Journal Entry to be passed to recognise lease modification as on 1st April 2026:

Particulars	Dr. (₹)	Cr. (₹)
Right-of-Use Asset A/c Dr.	17,93,741	
To Lease Liability A/c		17,93,741
(Being remeasurement of lease liability on reassessment of extension option)		

Revised carrying amount of RoU asset

Particulars	Amount (₹)
Existing carrying amount	21,11,100
Add: Remeasurement adjustment	17,93,741
Revised carrying amount	<u>39,04,841</u>

Annual depreciation from 6th year onwards = $39,04,841 / 10 = ₹ 3,90,484$

5.8 (i) Non deduction of tax at source on lease rent paid to PQR Fleet Services IFSC Ltd.

No tax was deductible on lease rent paid to PQR Fleet Services IFSC Limited, being a unit located in IFSC, GIFT City, engaged in aircraft leasing business and eligible for deduction under section 80LA in view of the CBDT Notification No. 65/2022 dated 16.06.2022 issued under section 197A(1F). The said Notification specifically provides that no tax is required to be deducted under section 194-I on such lease rentals subject to prescribed conditions. Since the prescribed declaration/documents were obtained from the PQR Fleet Services IFSC Ltd, the Company bona fide did not deduct tax at source.

However, since these transactions have not been reported in the TDS returns filed during the P.Y. 2025-26, the company should file revised TDS returns and report the transactions specifying the reasons for non-deduction.

(ii) Short deduction of tax at source on lease rent of engine paid to foreign company

The Company deducted tax at source @10% on engine lease rental paid to German company in accordance with the India-Germany DTAA. The non-resident payee does not have any Permanent Establishment in India and the applicable DTAA rate being more beneficial, the same is applicable by virtue of section 90(2).

Further, with respect to deducting tax at source at the rate specified in DTAA though tax has to be deducted at higher rates in the absence of furnishing of PAN, the company had relied on the Supreme Court ruling in case of **CIT (International Taxation) v. Air India Ltd. [2023] 456 ITR 139 wherein the Apex Court** noted that section 90(2) provides that the provisions of the DTAA would override the provisions of the Act in cases where the provisions of DTAA are more beneficial to the assessee. Even the charging sections 4 and 5 of the Act, which deal with the principle of ascertainment of total income under the Act, are also subordinate to the principle enshrined in section 90(2).

The provisions of tax withholding, i.e., section 195 of the Act, would apply only to sums that are otherwise chargeable to tax under the Act.

The provisions of DTAA, along with sections 4, 5, 9, 90 & 91 of the Act, are relevant while applying the provisions of tax deduction at source. Therefore, section 206AA of the Act cannot be understood to override charging sections 4 and 5 of the Act.

Accordingly, the Apex Court held that where the tax has been deducted on the strength of the beneficial provisions of DTAA, the provisions of section 206AA cannot be invoked to insist on the tax deduction @ 20%, having regard to the overriding nature of the provisions of section 90(2).

(iii) Short deduction of tax at source on landing and parking charges

With respect to short deduction of tax at source on landing and parking charges, the company had relied on Supreme Court ruling in case of ***Japan Airlines Co. Ltd. v. CIT / CIT v. Singapore Airlines Ltd. (2015) 377 ITR 372***, wherein the Apex Court held that the landing and parking charges which are fixed by the Airports Authority of India and private airport operators are not merely for the "use of the land". These charges are also for services and facilities offered in connection with the aircraft operation at the airport, which include providing of air traffic services, ground safety services, aeronautical communication facilities, installation and maintenance of navigational aids and meteorological services at the airport [(SC)]. Thus, tax is **not** deductible under section 194-I, which provides deduction of tax for payment in the nature of rent.

Accordingly, the company had deducted tax at source @2% under section 194C on payment of ₹ 12 crores and ₹ 8 crores made towards landing and parking charges to the Airports Authority of India and private airport operators, respectively.