PAPER – 6
INTEGRATED BUSINESS SOLUTIONS

QUESTIONS

Case Study-1

About Case Study	
Industry	Airlines
Subjects	Financial Reporting, Corporate Law, Indirect Tax, Auditing, Strategic Cost Management
Topics	Ind AS 115, GST on airport levies, Risk in a Statutory Audit, SA 240, Kano's Model, Porter's Five Forces, Section 161 of the Companies Act 2013, Regulation 17A of the SEBI (LODR) Regulations 2015, Balanced Scorecard

Civil Aviation Industry and Company Outlook

Aviation industry has the power to change the economic landscape of a country. Connectivity is important for generation of economic growth, trade, and tourism. Millions depend on this industry for their employment, either directly or indirectly. In the recent past, the entire industry worldwide was cripped by the COVID-19 pandemic. The years 2020 and 2021 proved to be the most trying and difficult period for all companies within this industry.

"When everything seems to be going against you, remember that the airplane takes off against the wind, not with it". Who should know better than Krishna Gupta who is the Managing Director of KG Airlines, one of India's leading airlines? The quote hangs on the wall at the entrance to KG Airlines' headquarters in Gurugram.

It has taken few years to rebound back to normal scale of business operations. With the impact of COVID-19 subsiding and the easing of travel restrictions, there has been a rebound passenger traffic.

Indian economy is being considered as one of the fastest growing economies, with projections for a GDP growth of 7% year on year. Private consumption, growing economic activity in both manufacturing and service sectors has spurred growth since 2022. Post pandemic, with the easing of restrictions on civil aviation that appetite of consumers to travel has increased manifold.

In India, the passenger traffic has increased since 2022. With rise in disposable incomes, rapid urbanisation and increase in working class population, the growth in the demand for air travel is expected to persist. Tier 2 and Tier 3 cities are also expected to play a pivotal role due to greater spread of economic activity and increasing population in these cities. The government is focussed on building and expanding modern infrastructure facilities across the country in order to support the domestic civil aviation industry. Almost 100 more new airports will be operational by 2028 giving scope for development of new regional route that can provide excellent connectivity within India. It is expected that domestic aviation requires at least 4,000 fleets within the next two decades in order to meet the anticipated growth in demand.

KG Airlines

Founded in 1996 by Krishna Gupta of KG Partners and D Gupta, KG Airlines has evolved into a significant player in the aviation industry. KG Partners holds a 59% stake in KG Airlines, while D Gupta's Singapore company, DG Assets, owns 41%. In August 1999, KG Airlines placed a firm order for fifty A320-200 aircraft, with plans to commence operations in mid-2000. The airline received its inaugural aircraft on 10 August 2000, nearly a year after the initial order. The maiden flights connected New Delhi to Mumbai. By the close of 2022, KG Airlines boasted a fleet of 270 aircraft, and an additional 40 were acquired in December 2023, solidifying its presence in the aviation market. Presently, KG Airlines serves approximately 49 cities across 25 states, carrying a total of 90 million passengers. Traded under the symbol "KGA" on NSE, KG's Board of Directors operates from its Gurugram office. A concise overview of the Board of Directors' profiles is provided in Annexure A.

Selection of Business Model

The growth trajectory of the industry holds significant potential. Several Board meetings have taken place in the past three months to discuss the optimal strategies for expanding KG Airlines' business. During the meeting, enthusiastically, Managing Director exclaimed, "*The future abounds with enticing opportunities, catering to both full-service airlines, boasting premium offerings and employing a product differentiation strategy, and low-cost airlines, capitalizing on a cost advantage strategy.*" Many business propositions for both these models were prepared, analysed, and discussed in depth.

After thorough study and deliberation, it was decided that KG Airlines had better prospects by developing as a low-cost airline. The focus for the next few years will be on the domestic civil aviation sector.

Transitioning to a new business model, KG Airlines has redefined its mission, vision, and purpose as under–

The Mission – *"KG Airlines is on a mission to provide connectivity with speed and reliability, making travel hassle free and affordable for our guests."*

The Vision – *"To be a leader in aviation by offering unmatched connectivity in and with India. Speed in and out of India with ease."*

The Purpose – *"Be our Guest, we connect you to your world."*

The airline aims to build a loyal customer base by (1) providing affordable rates, (2) on-time performance and (3) courteous and hassle-free service. These are reassurances that KG Airlines wishes to provide its customers (guests/ passengers).

Moreover, KG Airlines also envisions growth in size and scale. With 100 more airports coming up within India, KG Airlines aims to increase its fleet size by leasing aircrafts, develop more routes and provide unmatched connectivity to its customers. The expansion project is expected to be substantial, with an initial investment of at least a few hundred crore of Indian Rupees.

Operational Challenges in the Airline Industry

The management at KG Airlines soon realizes that there are multiple roadblocks to this expansion project. Increase in fleet size, development of more routes and providing unmatched connectivity all require one key element – more aircrafts. Unfortunately, in the current global scenario due to disruptions in the supply chain, aircrafts are in short supply. Moreover, the compounding effect of rising operational costs is exerting substantial pressure on margins, and the availability of spare parts poses a significant challenge for KG Airlines.

Aircraft and spare parts availability: One of the key impacts of the pandemic has been the disruption in supply chain in aircraft manufacturing and subsequent shortage of engines worldwide. Manufacturers have been unable to keep pace with growing global demand from airline companies. Market expansion plans by operating new routes have been delayed due to unavailability of additional aircrafts. Therefore, many airlines are extending the existing leases of their current fleet in order to keep up with the operations.

Over and above this, many of the existing aircrafts have had to be grounded due to unavailability of spare parts. Therefore, there has been a shortfall in the deployment of capacity to meet customer demand on many routes.

Due to lop-sided demand-supply of aircrafts, aircraft lessors, who supply the aircrafts on lease, have been increasing the lease rental. This has increased the cost of operations substantially.

Increase in the cost of operations: Jet fuel prices have been very volatile and has been on an upward trend in the recent years. Consequently, KG Airlines regularly monitors the fuel prices and assesses their impact on profitability. But it has not taken use of financial instruments to hedge the exposure.

Another critical cost component for KG Airlines is the cost of leasing and operating aircrafts, which includes lease rental, maintenance and depreciation / amortization. As mentioned earlier, these costs are also on the rise.

In addition to fuel and aircraft-related costs, there is a high demand for pilots, as well as flight and cabin crew members. Consequently, flight crew salaries and expenses have been on the rise.

The cumulative effect of increasing operational costs, including high fuel costs, lease rentals, and personnel costs, has exerted immense pressure on operating margins.

Margins under pressure: The senior management has emphasized the necessity to pass on the increased costs to the customer. However, operating in an intensely competitive market presents a challenge, as there is a limit to how much ticket fares can be raised without losing competitiveness. This is particularly crucial for KG Airlines, which, as a low-cost carrier, has engaged in code-sharing arrangements with partner airlines on specific routes to meet the rising demand and generate profits.

Maintaining profitability in the market-driven passenger ticket fare environment requires KG Airlines to focus on driving cost efficiency. Consequently, the airline has observed a gradual depletion of its cash reserves due to these factors.

Operational Highlights of KG Airlines

Particulars	FY 2023	FY 2022
Available Seat Kilometers (ASK) (in million)	1,14,000	70,400
Revenue Passenger Kilometers (in million)	94,000	52,000
Passenger Load Factor (%)	82.45%	73.86%
Cost per Available Seat Kilometer (CASK)	4.85	4.65
Revenue per Available Seat Kilometer (RASK)	4.80	3.70
Passenger traffic	90 million	75 million
Average % of scheduled flights cancelled *	1.00%	0.45%
On Time Performance (OTP)** in %	88%	80%
Number of unresolved customer complaints	10	4

*Reasons for increase in fight cancellation were primarily on account of mechanical faults and software glitches that need to be fixed along with unavailability of spare parts. In addition to technical and commercial reasons for cancellations, flights were also cancelled due to non-availability of requisite staff, particularly pilots and cabin crew. The staff attrition rate at KG Airlines has increased from 10% in 2022 to almost 15% this year. HR exit interviews have indicated that low pay scales as compared to market rates, combined with long work hours, are the primary reason for employee attrition.

Whenever a flight is cancelled, the airline has to arrange for an alternate flight or provide a refund to the passenger. In exceptional cases, compensation may have to be paid to the passenger.

** On Time Performance (OTP) is compiled at four metro airports Mumbai, Delhi, Hyderabad, and Bangalore. For delays beyond 2 hours, airlines have to pay compensation ranging from ₹ 5,000 to ₹ 20,000 for domestic flight.

Turnaround time is the time between aircraft landing and take-off. The turnaround process is a joint effort of both the ground team and the flight crew. Besides loading and unloading of passengers, aircrafts are cleaned, inspection and maintenance work is carried out. Aircrafts are also refuelled during this time. The average turnaround time is approximately 1 hour for each aircraft. A fast turnaround time ensures that the aircraft is available for the next travel leg quickly, thereby improving asset utilization. Hence, efficiency in these operations will impact revenue generation. Faster the turnaround time of planes on the ground better the prospects for revenue generation.

At the same time, in the pursuit of fast turnaround time, it is critical not to compromise on aircraft safety. Incidents related to safety issues are taken seriously not just by the company but also by the Director General of Civil Aviation (DGCA), the regulatory authority in India. Hence, safety record is also paramount to business operations.

An analysis at KG Airlines of the recent reports for delays in turnaround time and safety incident records has indicated a shortage of technical staff to inspect, detect and report faults in aircraft. The existing staff is overworked. Hence, KG Airlines plans to hire additional 100 engineers across India who can be trained at their internal training department.

As mentioned above, the number of passengers flown by KG Airlines have grown from 75 million in 2022 to 90 million in 2023. Until now there have been only few airlines within the civil aviation industry in India. KG Airlines has managed to capture majority of the traffic in certain routes. However, with the expected potential for growth within the industry, there may be more airlines that may be able to operate in these routes. Therefore, it is very important for KG Airlines to perform efficiently and manage its routes effectively.

Fare Structure in Airline Operations

A ticket worth ₹ 10,000 is sold at 5% discount per passenger. GST rate @5% is collected on this sale. Aviation security fee is charged at ₹ 500 per passenger and user development fee is charged at ₹ 250 per passenger. Airlines collect the aviation security fee from passengers when they book their tickets. This is passed to the government. This fee is used to fund the security arrangements at airports around the country. User development fee or Passenger service fee are levied by the airline when passengers book the ticket. They are then passed onto the airport operator like the government owned Airport Authority of India (AAI) or to other private operators who have the license to operate the airport. In return for this collection service the airline is compensated at the rate of ₹ 5 per passenger from whom these fees are recovered.

The financial statements of KG Airlines are prepared in accordance with the Indian Accounting Standards (Ind AS). This commitment to compliance is evident in the extracts extracted from 'Management's Responsibility for Financial Statements,' which are provided in Annexure-B.

Strategy

To operate as a low cost, high efficiency airline, KG Airlines has the following strategy in place:

Fleet management: The fleet will be of single type of aircraft to reduce maintenance and operational costs. Planes will be leased rather than bought outright. Economy seat will be the only seat class offered.

Building digital capabilities: Digitalize processes to make them efficient, error free and cost effective. KG Airlines already has an online booking and check in system in places. It plans to encourage passengers to utilize these tools to plan their travel. These measures will reduce reliance on human intervention and can help rationalize cost. Human resources freed up from digitalization can be used for other value adding activities. Also, commission paid to travel agents can be saved by introducing online booking services. Digitalizing processes can also aid the company's capabilities to scale up its operations in future. While the digitalization of processes brings significant benefits, scheduled maintenance activities remain crucial for ensuring the efficiency and safety of airline operations.

Ancillary services: Inflight entertainment, food and beverage will be charged extra and not included in the ticket cost. KG Airlines aims to generate additional revenue through an attractive choice of in-flight entertainment, food and beverage based on popular demand. For this, it can partner with renowned in-flight service providers as well as food and beverage suppliers who can cater to wide range of customer preferences. By charging premium rates for these ancillary services, KG Airlines can improve its revenue yield.

Managing customer loyalty: KG Airlines' management is keen on getting recognition by winning high profile awards for its various services as well as by getting above average ratings from various rating agencies. On time performance, customer satisfaction, value for money are criteria which are considered for awards and ratings.

The management has realized that value for money is partly driven by the redemption choices that customer loyalty programs offer. If passengers are allowed to redeem reward points towards another flight ticket, it takes away the opportunity to earn regular revenue. This is because, a seat in a flight has to be offered at a discounted rate while outside this program it would have earned the regular full ticket revenue. On routes that have a high passenger traffic, this would be a source of loss of regular revenue to the airline.

At the same time attractive loyalty reward programs are the best way to build and retain customer bases. While reward points are being granted, it was found that passengers were not completely satisfied with the range of choices offered for redemption. There has been huge number of unredeemed reward points. To bring a quick churn in redemption of reward points, thereby increasing customer satisfaction, KG Airlines plans to partner with stores in the airport which can accept passenger loyalty points. The passenger can redeem points from the program at these stores and get good value for money. At the same time, KG Airlines does not compromise on avenues to earn entire ticket fare of a seat.

Workforce management: High attrition rate of 15% is impacting operations. HR exit interviews indicate long work hours, low pay scale and lesser opportunities for career growth as primary reasons for high attrition. KG Airlines plans to have tie ups with training colleges and other technical institutes where technical staff and crew members can be trained in the latest developments in aviation. This will allow for personnel growth and improve staff morale. Attractive pay package, reward and recognition programs based on performance track record is being worked out to curb attrition. Improve amenities like staff mess, transportation from work to home, recreation rooms, off-site team building events are being planned out.

Performance Measurement System

The management has recognised that, with an increase in size and scale, the need arises to develop and align resources (people, technology, and processes) to deliver on the three reassurances provided to customers, which are stated above. In the highly competitive airline industry, the top management of KG Airlines desires a comprehensive view of its business regularly. Hence, they have adopted the Balanced Scorecard to access to information in a crisp and concise manner.

Given the challenges of rising costs, decreased profit margins and other business uncertainties, the airline aims to adopt "operational efficiency and performance" as its strategic theme for the coming years. A Balanced Scorecard is being prepared to understand the current performance across the four perspectives: financial, customer, internal business processes, and learning & growth.

Annexure-A: Board of Directors

Jai Kumar, Chairman and Non-Executive Independent Director	A business leader, technocrat and academic, having worked in Australia, Europe, and Asia through a career spanning over 30 years.
Ana Maria, Non-Executive Independent Director	With more than 25 years of extensive experience, Ana holds the position of Managing Partner at a renowned law firm. Her broad and varied representation of public and private corporations, alongside other entities, before various National Courts, Tribunals, and Legal Institutions has earned her acclaim on both national and international fronts.
K. Srinath, Non-Executive Independent Director	Srinath, who founded a technology company during his early twenties, has a track record of developing numerous successful businesses. In 2021, he sold his business interests and was later invited to serve as a non-executive board member for KG in 2022.
Krishna Gupta, Promoter and Managing Director	Krishna is also the Group Managing Director of KG Partners. He holds a degree in electrical engineering from the MIT.
M. Sridharan, Non-Executive Director	Sridharan, currently serving as a Governance Consultant, brings extensive experience collaborating with government, regulatory bodies, investment institutions, and banks.
Harsh Mittal, Non-Executive Director	Harsh, is a fellow member of the Institute of Chartered Accountants of India and is a graduate in Economics from Delhi University.

✈ Markus J., Non-Executive Director	Markus, an aviation industry veteran, with an illustrious career spanning over 36 years.
✈ K.B. Chakraborty, Independent Director*	K.B. had a successful career as a marketing executive, serving as Marketing Director of a major quoted engineering company until he retired in 2015. K.B. is fellow of CSEP. He is also an Independent Director on the Boards of several companies.
✈ Ravi Kishan (Retd.)	Ravi trained as a commercial pilot. He flew long-haul flights with a major airline for much of his career, before being promoted to chief pilot. He retired from flying in 2022. He was then invited to join KG's Board.

*K.B. was appointed as a casual vacancy director on 3rd September 2023. His appointment was subsequently approved by the members in the immediate next general meeting.

Annexure-B: Extracts from Management's Responsibility for Financial Statements

The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these individual financial statements that give a true and fair view of the financial position, financial performance, ----- in accordance with the Ind AS and other accounting principles generally accepted in India. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the company and for preventing and detecting frauds and other irregularities---- relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Multiple Choice Questions

(Provide the correct option to the following questions)

1.1 Aircrafts operated by KG Airlines, whether owned or leased require periodic maintenance. These are high value costs. As of the reporting date, provisions need to be made for these expenses based on number of variable factors and assumptions, likely utilization of the aircraft, expected cost of these high value maintenance on a future date, condition of the aircraft engine etc. Due to the complexity and subjectivity of these conditions, auditors rely on management judgement in order to quantify the amount of provision to be made. This would be an example of which type of risk in a statutory audit:

(a) Inherent risk

(b) Control risk

(c) Detection risk

(d) Contract risk

1.2 The Cashier committed fraud and absconded with the proceeds. The Chief Accountant was unaware of when the fraud occurred. During the audit, the auditor failed to discover the fraud. However, after completion of the audit, the Chief Accountant discovered the fraud, and an investigation indicated that the auditor did not exercise proper skill and care, performing the work in a desultory and haphazard manner.

Which of the following statements accurately characterize the situation and the subsequent action:

(i) The auditor exhibited due diligence and careful conduct

(ii) Clause (7) of Part I of Second Schedule to Chartered Accountants Act, 1949 and SA 240 are relevant in this situation

(iii) The auditor failed to plan and perform the audit with an attitude of professional skepticism

(iv) A Chartered Accountant in practice will be deemed guilty of professional misconduct based on clause (7) of Part II of the second schedule to Chartered Accountants Act, 1949

Options

(a) Only (iv)

(b) Both (ii) & (iv)

(c) Both (ii) & (iii)

(d) Both (i) & (iii)

1.3 KG Airlines has decided to remove of expiration date on the frequent flyer miles. It has done this to improve customer satisfaction of its flyers. Using the Kano Model, which of the following attributes of the Kano Model does this pertain to:

(a) Threshold attribute

(b) Performance attribute

(c) Reverse quality

(d) Delight attribute

1.4 Assuming that Mr. Stephen is eligible to be appointed as a director. In line with requirements, KG Airlines aimed to fill up the vacancy caused by resignation of Mr. K.B. Chakraborty by nominating Mr. Stephen as an Independent Director. However, Mr. Ravi Kishan, a Board Director objected, contending that Mr. Stephen lacks eligibility for the Board position due to already occupancy of a position of independent director in 3 listed entities. Evaluate Mr. Ravi's claim regarding Mr. Stephen's suitability for the position of Independent Director on the Board.

(a) Yes, contention of Mr. Ravi Kishan is correct regarding Mr. Stephen that he is ineligible to be appointed being Independent Director in already 3 listed entities. Mr. Stephen cannot be appointed in KG Airlines.

(b) No, contention of Mr. Ravi Kishan is incorrect regarding Mr. Stephen’s appointment as he eligible to be appointed in maximum twenty companies. Mr. Stephen can be appointed in KG Airlines.

(c) No, contention of Mr. Ravi Kishan is not correct regarding Mr. Stephen’s appointment as he eligible to be appointed in maximum ten public companies. Mr. Stephen can be appointed in KG Airlines.

(d) No, contention of Mr. Ravi Kishan is incorrect regarding Mr. Stephen’s appointment, as he eligible to be appointed in maximum seven listed entities. Mr. Stephen he can be appointed in KG Airlines.

1.5 Given are few parameters that need to be considered while using Porter’s Five Forces Model. Match the parameter to the appropriate category of the model:

Parameter	Porter's Five Forces
a. Congestion in airports due to non-availability of parking space.	i. Threat of substitutes
b. Reduced need to travel due to remote working capabilities	ii. High supplier power
c. Low switching costs to choose between airlines	iii. Threat of new entrants
d. Favourable government policies towards investments in aviation sector	iv. High customer power

Options

(a) a- ii, b- i, c- iv and d- iii

(b) a- ii, b- iv, c- i and d- iii

(c) a- iii, b- iv, c- i and d- ii

(d) a- iii, b- iv, c- ii and d- i

Descriptive Questions

1.6 CONSTRUCT a Balanced Scorecard table for KG Airlines, identifying two goals along with corresponding performance measures for each perspective. EVALUATE the relevance of these goals and performance measures to KG Airlines.

1.7 On 19th October 2023 Mr. K.B. resigned after working about 45 days as a director. The Board wishes to fill up the said vacancy by appointing Mr. Stephen in the capacity of independent director in the forthcoming meeting of the Board. The Board Meeting is scheduled on 31st December 2023.

(a) ADVISE the Board, keeping in view the provisions of the Companies Act, 2013, with respect to appointment of Mr. Stephen.

(b) FIND the maximum time period within which the proposed appointment of Mr. Stephen can be made in the company.

1.8 To recognize ticket sales from the flights KG Airlines operates, you are required to answer the following questions:

(a) DETERMINE the transaction price of KG Airlines in the given case, as per Ind AS 115. How should it recognize revenue of tickets related to scheduled future flights?

(b) Does KG Airlines have to pay GST on airport levies like user development fee, passenger service fee, etc. collected from the passengers? Briefly DISCUSS.

(c) Does KG Airlines have to pay GST on the collection charges of ₹ 5 charged for the collection service provided by the airline to the airport operators? Briefly DISCUSS.

Case Study-2

About Case Study	
Industry	Steel
Subjects	Financial Reporting, Direct Tax, Corporate and Economic Laws, Indirect Tax, Advanced Auditing, Assurance and Professional Ethics
Topics	Section 92CE of the Income-tax Act,1961, Section 188 of the Companies Act, 2013 along with Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014, Provisions of the FCRA Act, 2010, SA 540, SA 320, Ind AS 20.

Para 1

Yantra Pedasu Ltd. (YPL) is an unlisted public company, incorporated since 2005, engaged in the steel business, with nine directors on its board. There is a company in Singapore named, SYD Pte Ltd. (SPL) in which it acquired 54% stake during financial year 2022-23 and thereby it became its first subsidiary company. Mr. Sunil Verma has been appointed for the second consecutive term of five years as the managing director of YPL. He has a daughter named, Mrs. Sunita, who is residing in Singapore since last 6 years and she was appointed as the director in SPL, during financial year 2023-24, at a monthly remuneration of SGD 60,000 equivalent to ₹ 3 lakhs.

Para 2

For financial year 2023-24, YPL appointed Chappan & Co. as its statutory auditors in place of its previous auditors. All the formalities as prescribed by section 139 & 140 of the Companies Act, 2013, were complied with by YPL in relation to such appointment. Also, Chappan & Co. made a written communication vide a registered post acknowledgment due to the previous auditor before accepting such appointment.

CA. Kailash Chappan, one of the senior partners of the firm was appointed as the engagement partner by Chappan & Co. on such audit assignment of YPL. While conducting the audit of YPL, CA. Kailash observed that there were certain accounting estimates made in relation to certain items of financial statements that might give rise to significant risks and thereby he performed substantive procedures in accordance with the requirements of SA 330, "The Auditor's Reponses to Assessed Risks".

Further, CA. Kailash determined that there were certain factors that indicated the existence of certain transactions entered into by YPL for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements and accordingly, CA. Kailash lowered his materiality level determined for such transactions.

Apart from conducting the audit assignment, Mr. Kailash also used to solve the concerns raised by the accountant of YPL with respect to GST and Income tax matters. One such concern raised by the accountant to him was with respect to ITC availment under GST, which is briefed as under:

'The balance of ITC with YPL after discharging the GST liability for April month was ₹ 60,00,000. The eligible ITC reflected in GSTR-2B with respect to May month of YPL was ₹ 56,00,000 whereas the input tax paid by it on invoices received during the May month was ₹ 75,00,000 and the output tax liability for the month of May was for ₹ 110 lakhs. So, he was not sure about the amount of ITC to be availed for the month of May for which he consulted CA. Kailash and after following his advise, the GST liability for the month of May was discharged by YPL fully through its balance in electronic credit ledger only.

Para 3

YPL provides donation every year as a part of its CSR activities to a charitable trust named Shiksha Kalyan Trust (SKT) engaged in activities of providing education to poor children. The average net profit of YPL for the past three years was ₹ 88 crore. Accordingly, during current financial year i.e. during F.Y. 2023-24, it made a donation of ₹ 2 crore to SKT as its CSR spend. SPL, its subsidiary company also proposed to make donation to such trust in India during the same financial year. However, SKT's certificate of registration under the Foreign Contribution (Regulation) Act, 2010, would expire on 20th December, 2023 and it had not applied for renewal of certificate before that as the Head accountant believed that they could apply for renewal of registration within one year from the expiry date as per the law and hence pending but the trustees decided to make an application for renewal for certificate sooner so that the trust can accept donation from SPL and the same was done as per the relevant legal provisions.

Para 4

YPL bought a machinery from Dusham Ltd. for its business for which YPL received a government grant of ₹ 6 lakhs, the details of machinery are as follows:

Particulars	(₹)
List price of machinery (exclusive of taxes and discount)	30,00,000
Corrugated Boxes used for packing the equipment (not included in price above)	60,000
Discount @ 2% is offered on the list price of the machine (recorded in the invoice of the machine)	-

As a part of its policy, YPL depreciates all its plant and machinery at 20% per annum on straight-line basis and also it does not claim depreciation on GST component included in the price of plant and machinery.

Para 5

On 24th January, 2024, YPL supplied 2000 MT steel pipes to SPL @ ₹ 1 lakh/ MT on CIF basis. Insurance and Freight of ₹ 11,000/ MT were included in it. Also, on 5th February, 2024, it made a supply of 3000 MT steel pipes to another Singapore based company, Unno Pte Ltd. (UPL) @ ₹ 95,000 / MT on

FOB basis for which payment was to be made of SGD 5,70,00,000 in 3 months and so in order to protect itself from exchange rate fluctuations., YPL hedged receipt of such foreign currency in the forward market.

Multiple Choice Questions

(Provide the correct option to the following questions)

2.1 With reference to the information given under Para 5, what amount of additional tax needs to be paid by YPL if it does not want to repatriate the excess money with respect to supply of steel pipes to SPL?

(a) ₹ 22,46,400

(b) ₹ 25,15,970

(c) ₹ 31,20,000

(d) No need to pay additional tax as the amount of primary adjustment does not exceed the prescribed limit.

2.2 With reference to the information given under Para 1, whether any formalities would have been complied by YPL with respect to appointment of Mrs. Sunita as a director in SPL?

(a) No, as such appointment did not amount to appointment of Mrs. Sunita to an office or place of profit in SPL.

(b) Yes, as Mrs. Sunita was a related party to YPL and she would be drawing a monthly remuneration exceeding ₹ 2.5 lakhs in its subsidiary company.

(c) No, as even though Mrs. Sunita was a related party to YPL but she would be drawing remuneration from SPL, its subsidiary company and not YPL, itself.

(d) No, as such provisions with respect to related party are not applicable in relation to a foreign subsidiary company.

2.3 With reference to the information given under Para 2, how much balance in electronic credit ledger would have been available with YPL after discharging its GST liability for May month for which Mr. Kailash was consulted?

(a) ₹ 11,60,000

(b) ₹ 7,10,000

(c) ₹ 8,80,000

(d) ₹ 28,75,000

2.4 With reference to the information given under Para 3, till what time period, SKT had to make an application for renewal of its certificate so that it might be accepted and the application should have been accompanied with what amount of fees?

(a) Such application needs to be made within 3 months before date of expiry and the total fees payable with such application shall be ₹ 5,000.

(b) Such application needs to be made within 6 months before date of expiry and the total fees payable with such application shall be ₹ 5,000.

(c) Such application needs to be made by 31st March, 2023 and the total fees payable with such application shall be ₹ 1,500.

(d) Such application needs to be made by 20th December, 2024 and the total fees payable with such application shall be ₹ 6,500.

2.5 With reference to the information given under Para 4, what shall be the value of supply for the machinery supplied by Dusham Limited to YPL?

(a) ₹ 30,60,000

(b) ₹ 25,00,000

(c) ₹ 35,00,000

(d) ₹ 30,00,000

Descriptive Questions

2.6 With reference to the accounting estimates (given under Para 2) that might give rise to significant risks, what Mr. Kailash should have evaluated in addition to performing procedures as per SA 330?

2.7 With reference to the information given under Para 2, what kind of factors might be there that would have indicated existence of certain transactions entered into by YPL for which Mr. Kailash was required to lower his materiality?

2.8 With reference to the information given under Para 4, show the statement of profit and loss and balance sheet extracts in respect of the grant received by YPL for first year under both the methods as per Ind AS 20?

SUGGESTED ANSWERS/HINTS

1.1 The correct answer is – (a) Inherent risk.

Reason: Inherent risk is the susceptibility of an assertion to a misstatement that could be material, either individually or when aggregated with other misstatements. Provision for high value maintenance cost is dependent on complex and subjective conditions. The provision is based on the management's judgement. If any assumption or judgement is incorrect, the risk of material misstatement is high. This is an inherent risk.

1.2 The correct answer is – (c) Both (ii) & (iii).

Reason: In the given case, in the course of audit, auditor failed to discover the fraud. It is clearly given that investigation indicated that the auditor did not exercise reasonable skill and care and performed his work in a casual and unmethodical manner.

According to Clause (7) of Part I of Second Schedule of Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties".

As per SA 240, "The auditor's responsibilities relating to fraud in an audit of financial statements", it can be concluded that the auditor did not plan and perform the audit with an attitude of professional skepticism. Thus, having regard to this and a fraud has actually taken place during the year, committed by the absconding cashier, it is reasonable to think that prima facie there is a case against the auditor for gross negligence.

From the facts given in the case and by applying Clause (7) of Part I of Second Schedule to Chartered Accountants Act, 1949 and SA 240, it is clear that the auditor is guilty of professional misconduct.

1.3 The correct answer is – (d) delight attribute of the Kano Model.

Reason: In general, frequent flyer miles have expiration dates, before which they can be redeemed. Removal of this expiration date is something that customers/ flyers would not be expecting.

1.4 The correct answer is – (d) No, contention of Mr. Ravi Kishan is incorrect regarding Mr. Stephen's appointment, as he eligible to be appointed in maximum seven listed entities. Mr. Stephen can be appointed in KG Airlines.

Reason: As per Regulation 17A of the SEBI (LODR) Regulations 2015, the directors of listed entities shall with respect to the maximum number of holding of directorships, can be at any point of time, be not more than seven listed entities. Provided that a person shall not serve as an independent director in more than seven listed entities.

Notwithstanding the above, any person who is serving as a whole time director/managing director in any listed entity shall serve as an independent director in not more than three listed entities.

1.5 The correct answer is (a) a- ii, b- i, c- iv and d- iii

Reason: Congestion in airports due to non-availability of parking space→ High supplier power.

Reduced need to travel due to remote working capabilities→ Threat of substitutes.

Low switching costs to choose between airlines→ High customer power.

Favourable government policies towards investments in aviation sector→ Threat of new entrants.

1.6 Balanced Scorecard Table for KG Airlines, a low-cost high efficiency airline–

Perspective	Strategic Objective	Measure	Relevance to KG Airlines
Financial Perspective	**Goal-1** To lower costs, improve cost structure, and increase	▪ Lease Cost per annum ▪ Maintenance Cost per annum	Input Costs like cost of fuel, leasing and labour form a major portion of operating expenses. To ***navigate the volatility of fuel prices***, the airline must

	asset utilization	▪ Cost per Available Seat Kilometer (CASK) ▪ Cost per Available Seat Kilometer - Ex Fuel (CASK-Ex)	vigilantly monitor and proactively secure competitive rates for procurement, utilizing financial instruments to hedge against exposure. In pursuit of its expansion project, KG Airlines has chosen to ***lease planes, deeming it a more viable option given the airline's low cash reserves***. Nevertheless, opting for an outright purchase, although more cost-effective in the long run, involves a significant upfront expenditure or necessitates debt servicing for acquisition. CASK is currently ₹ 4.83 and likely to increase unless KG Airlines manages its cost structure efficiently. To achieve this efficiency, the airline is ***focusing on eliminating non-value-adding costs***. This includes standardizing seats, exploring e-commerce channels, and charging customers separately for extra amenities like in-flight entertainment. Furthermore, KG Airlines has ***standardized planes that it operates in order to reduce operational costs like maintenance costs***. KG Airlines' strategy is to win market through cost leadership. Hence, maintaining a lower cost structure is paramount importance to the airline.

	Goal-2: To boost revenue and broaden revenue streams	▪ Revenue per average seat kilometre (RASK) ▪ % revenue generated from ancillary activities ▪ % revenue generated from new routes	KG Airlines wishes to build a loyal customer base by offering affordable ticket rates priced attractively in this competitive market. This will be possible only if costs can be managed efficiently. The RASK is currently at ₹ 4.80, which is lower than CASK ₹ 4.85. This implies that the airline is not making sufficiently money to cover its costs. Therefore, the airline should ***pass on some of the increase in costs to the passenger without impacting demand***. Simultaneously, it should monitor and enhance the profitability of its current customer base. ***Route planning should be done to optimize revenue generation***. This will require KG Airlines to explore opportunities to improve revenue streams (eliminate unprofitable routes, determine new routes, markets and code sharing partners, refer internal perspective). Moreover, KG Airlines can improve the value provided to customers by ***enhancing ancillary services***, including inflight entertainment, food and beverage offerings, and the sale of mementos, among others. This would make the overall bundle more appealing and potentially increase ancillary income.

Customer Perspective	**Goal-1:** Customer retention, new customer acquisition	▪ Number of repeat customers ▪ Number of high-profile awards won/ Latest rankings ▪ Number of new customers	Implementing a robust Customer Relationship Management (CRM) system is crucial for managing the number of repeat customers. ***Attractive customer loyalty programs with different redemption options*** play a key role in retaining the customer base. Customers will be motivated to travel again with KG Airlines to earn enough points for redemption. Moreover, KG Airlines's plan to bring higher churn in redemption of reward points by partnering with airport stores is a win-win strategy to ensure customer satisfaction while maintaining profitability. In addition, ***enhancing the brand image through winning high-profile awards for various services and securing above-average ratings*** from rating agencies contributes to both retaining and expanding the customer base. Besides, ***offering better connectivity through route planning*** at attractive prices will help to grow market share and acquire newer customers.
	Goal-2: Customer Satisfaction	▪ Number of flights cancelled ▪ 'On time performance" (OTP) statistics	Average % of scheduled flight cancelled increased from 0.45% in 2022 to 1% in 2023. This impacts customer satisfaction. Despite this challenge, OTP statistics has shown improvement in 2023 compared

		▪ Compensation for flight delays and cancellations ▪ Unresolved customer complaints	to the previous year. Improving On-Time Performance is essential to enhance customer experience and satisfaction. However, it is necessary to keep compensation for flight delays and cancellations at minimum. ***Building robust capabilities in operations*** will reduce instances of cancellation and delays. Moreover, unresolved customer complaints have become important concerns that demand attention from higher management. The volume of these unresolved complaints has seen an increase in 2023. Integrating these initiatives into a holistic approach is crucial for ensuring a positive overall customer experience and satisfaction.
Internal perspective	**Goal-1:** Flight Operations (Cycle time optimization)	▪ 'On the ground' (turnaround) time ▪ No. of instances of serious lapses in flight safety ▪ Maintenance frequency rate	Fast and efficient turnaround times are critical for asset utilization to generate revenue. At the same time, flight safety is paramount to running airline operations. KG Airlines has a responsibility towards the society to ensure that safety standards are met. Given that the number of flights is likely to increase from the current number of 310 and passenger traffic is expected to rise, any incidents of flight safety concerns must be given high priority and resolved effectively. To address this, increasing capacity of on- ground technical

			staff by KG Airlines, such as hiring additional 100 engineers, will help to improve flight operations.
	Goal-2: Digitalisation (to develop the online booking & check-in system)	▪ Ratio of online booking vs. booking through travel agents ▪ Percentage downtime of website	Online booking and check-in capability will improve business operations efficiencies. To ensure effectiveness, digital capabilities must be able available at all times to the customers. Therefore, downtime has to be reduced. Given that KG Airlines expects passenger traffic to grow in the coming years, ***digitalizing can help it scale up operations***. Furthermore, Digitalizing can also help ***rationalize operational costs***. This is because it frees up personnel for value additive tasks and saves commission that need to be paid to travel agents (financial perspective).
	Goal-3: Route Network Redesign	▪ Passenger Load Factor ▪ Number of Routes expected to be withdrawn (loss making) ▪ Number of New Routes ▪ % of Load for New Route ▪ Time period to break-even	To foster additional growth, the airline can redesign its network and may also ***explore potential regional routes*** and ***engage in code-sharing partnerships*** with other airlines. ***<u>Shortage of aircrafts, high lease rental and other operational costs need to be considered</u>*** while determining route network.
Learning & Growth	**Goal-1:** Staff Motivation	▪ Staff attrition rate	KG Airlines should allow for personal growth of employees to combat staff attrition and

	and Loyalty	▪ Staff absentee rate ▪ The number of days absent per employee ▪ Employee Feedback Score	staff absenteeism. Staff attrition rate increased from 10% to 15% this year. To mitigate concerns related to dissatisfaction arising from prolonged work hours and a perceived low pay scale, implementing ***<u>a diverse approach can be important</u>***. Firstly, adopting a ***performance-based attractive pay package*** can serve as a powerful motivation, aligning financial rewards with individual and team accomplishments. Secondly, ***creating a workplace environment with ample amenities***, favourable to employee well-being, further contributes to job satisfaction by addressing the physical and mental aspects of the work experience. Thirdly, ***incorporating team-building exercises*** can enhance collaboration, and overall workplace synergy, helping mitigate the challenges associated with extended work hours.
	Goal-2: Functional excellence and Leadership skills	▪ Strategic Skill Ratio ▪ Number of days' training per ground crew member ▪ Number of training programs	***KG Airlines should improve and maintain its strategic skill ratio*** (a metric that quantifies the proportion of strategic skills possessed by a workforce in comparison to the entire skill set) through training and development programs. ***If ground crew are better trained or multiskilled***, they

			can reduce the number of minutes that the plane stays on the ground, which will result in fewer planes being required and therefore lower costs. ***Tie up with institutes for training on latest developments in aviation and other programs*** will allow for personal growth and career development. This will retain skilled high performing staff.

☞ **Two goals, each with two corresponding performance measures, are sufficient. Additional performance measures have been included to ensure comprehensive coverage across various scenarios.**

1.7 Section 161(4) of the Companies Act, 2013 provides that if the office of any director appointed by the company in general meeting is vacated before his term of office expires in the normal course, the resulting casual vacancy may, in default of and subject to any regulations in the articles of the company, be filled by the Board of Directors at a meeting of the Board which shall be subsequently approved by members in the immediate next general meeting.

Further, any person so appointed shall hold office only up to the date up to which the director in whose place he is appointed would have held office if it had not been vacated.

In view of the above provisions, in the given case, the appointment of Mr. K.B. Chakraborty in place of the deceased director Mr. Rai was in order. In normal course, Mr. Mr. K.B. Chakraborty could have held his office as director up to the date to which Mr. Rai would have held the same.

However, Mr. K.B. Chakraborty resigned on 19th October 2023 and again a vacancy has arisen in the office of director owing to resign of Mr. K.B. Chakraborty who was appointed by the board and approved by members to fill up the casual vacancy resulting from Mr. Rai's demise. Vacancy arising on the Board due to vacation of office by the director appointed to fill a casual vacancy in the first place, does not create another casual vacancy as section 161 (4) clearly mentions that such vacancy is created by the vacation of office by any director appointed by the company in general meeting. Hence, the Board cannot fill the vacancy arising from the resignation of Mr. K.B. Chakraborty who was appointed to fill as a casual vacancy.

In fact, here the vacancy caused by the resignation of Mr. K.B. Chakraborty will result in an intermittent vacancy. This vacancy can be filled as per Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014 read with Section 149(4) of the Companies Act, 2013.

Following are the answers:

(a) Accordingly, in the light of the said provisions, the Board may however appoint Mr. Stephen as a director in any capacity either independent or non-independent, as an additional director under section 161 (1) of the Companies Act, 2013 provided the articles of association authorise the Board to do so, in which case Mr. Stephen will hold the office up to the date of the next annual general meeting or the last date on which the annual general meeting should have been held, whichever is earlier. His appointment, if required, can be regularised in the subsequent general meeting of the Company pursuant to Section 149 and other related provisions of the Act.

(b) Whereof, there is an intermittent vacancy of an independent director, it shall be filled-up by the Board at the earliest but not later than immediate next Board meeting or three months from the date of such vacancy, whichever is later.

Here, Board may fill up the vacancy caused by the resignation of Mr. K.B. Chakraborty by appointing Mr. Stephen in the capacity of an independent director within 3 months from date of vacancy (i.e., by 18th of January 2024) or immediate next Board meeting (i.e. 31st December 2023), whichever is later. Hence the maximum time period within which the proposed appointment of Mr. Stephen can be made is, latest by 18th January 2024.

1.8 (a) Revenue recognition for KG Airlines will be based on Ind AS 115 "Revenue from Contracts with Customers". Paragraph 47 of Ind AS 115, inter alia states that an entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. Amounts collected on behalf of third parties are not economic benefits which flow to the entity. Therefore, they are excluded from revenue.

As per Ind AS 115, each booking is a contract that the passenger enters into with KG Airlines. Passenger revenue should be recognized on flown basis i.e., when KG Airlines provides the transportation to the passenger. This is when service is rendered to the passenger. Revenue should be recognized on net of discounts given to the passengers, amount collected on behalf of third parties, applicable taxes, and airport levies such as passenger service fee, user development fee, etc., if any. Fees charged for cancellation of flight tickets are recognised as revenue on rendering of the said service.

Here, the revenue from sale of ticket that should be reflected in the Statement of profit and loss of KG Airlines would be ₹ 9,500 which would be the airfare charges of ₹ 10,000 per passenger less 5% discount given to the passenger which is ₹ 500.

Particulars	**Amount (₹)**
Airfare charges	10,000
Less: Discount @5%	500
Net ticket fare (revenue)	9,500
Add: GST @5% on net ticket fare	475
Add: Aviation security fee	500
Add: User development fee	250
Total amount collected from passenger	10,725

Note: Since, Goods and Service Tax (GST) @5% is payable to the government, it does not form part of revenue. Similarly, aviation security fee and user development fee are payable to the government and airport operator respectively. Here, the airline acts only as an agent to collect the money from the passenger and pass it on to the government or the airport operator. No service is rendered by the airline to the passenger on this behalf. Therefore, no revenue should be recognized for aviation security fee or user development fee by KG Airlines.

However, since the airport operator on whose behalf the user development fee is collected, compensates KG Airlines for ₹ 5 per passenger flown, it would be recognised as revenue in the books of KG Airlines. Hence, the total revenue of ₹ 9,505 would be reflected in the Statement of profit and loss separately as 'revenue from sale of tickets' and 'other operating revenue'.

Revenue from sale of tickets that relate to scheduled future flights will be recognised as "unearned revenue", forming part of current liabilities. Depending on the facts and circumstances relating to the contract, the liability recognised represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. In either case, the liability shall be measured at the amount of consideration received from the customer.

(b) Services provided by an airport operator to passengers against consideration in the form of UDF and PSF are liable to GST. PSF and UDF are levied by the airport operators but are collected by the airlines. These charges are collected by the airline as an agent of passengers and is not a consideration for any service provided by the airlines.

Thus, the amount so recovered by airlines will be excluded from the value of supplies made by the airline to its passengers. In other words, the airline shall not be liable to pay GST on the PSF and UDF (for airport services provided by airport operator), provided the airline satisfies the conditions prescribed for a pure agent under Rule 33 of the CGST Rules, 2017. It is the airport operator which is liable to pay GST on UDF and PSF.

The airline should separately indicate actual amount of PSF and UDF and GST payable on such PSF and UDF by the airport operator, in the invoice issued by airlines to its passengers.

Thus, KG Airlines is not liable to pay GST on airport levies like user development fee, passenger service fee, etc. collected from the passengers.

(c) Yes, KG Airlines is liable to pay GST on the collection charges of ₹ 5 charged for the collection service provided by the airline to the airport operators. The collection charges paid by airport operator to airlines are a consideration for the services provided by the airlines to the airport operator and KG Airlines shall be liable to pay GST on the same.

2.1 The correct answer is (b) ₹ 25,15,970.

Reason: As per section 92CE of the Income-tax Act, 1961, the assessee is required to carry out secondary adjustment where the primary adjustment to transfer price exceeds Rs. 1 crore and primary adjustment is made in respect of A.Y. 2017-18 and onwards. Where, as a result of primary adjustment to the transfer price, there is an increase in the total income of the assessee, the excess money or part thereof which is available with the AE needs to be repatriated.

In a case where the excess money or part thereof has not been repatriated within the prescribed time, the assessee has the option to pay additional income-tax @ **20.9664%** (i.e., tax @ 18% **plus** surcharge @ 12% **plus** cess @ 4%) on such excess money or part thereof, as the case may be.

YPL and SPL are associated enterprise since YPL is the holding company of SPL. As the similar goods were sold by YPL to UPL, an unrelated party, CUP method can be applied for determining the ALP. While applying the Comparable Uncontrolled Price (CUP) method, the price in comparable uncontrolled transaction needs to be adjusted to account for difference, if any, between the international transaction and uncontrolled transaction and the price so adjusted shall be the ALP.

Hence, the ALP of steel pipes would be:

	(₹)
Price per MT of steel pipes to UPL	95,000
Add: Cost of insurance and freight per M.T.	11,000
Arm's length Price per M.T.	1,06,000

Primary adjustment needs to be made to the total income of YPL for P.Y. 2023-24, which shall be 2000 MT × (₹ 1,06,000 - ₹ 1,00,000) = ₹ 1,20,00,000.

Here, the amount of primary adjustment is ₹ 120 lakhs (as calculated above). Accordingly, the amount of additional tax that needs to be paid by YPL would be ₹ 120 lakhs x 20.9664% = ₹ 25,15,970 (rounded off) if it does not want to repatriate the excess money with respect to supply of steel pipes to SPL.

2.2 **The correct answer is (b)** - Yes, as Mrs. Sunita was a related party to YPL and she would be drawing a monthly remuneration exceeding ₹ 2.5 lakhs in its subsidiary company.

Reason: Section 188 of the Companies Act, 2013, along with Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014 contain provisions which regulate 'related party transactions'. Further, Section 2(76) of the Act defines who is a 'related party.

As per Section 2(76), 'related party', with reference to a company, means a director or his relative;

Where the transaction or transactions to be entered into as contract or arrangement is for **appointment to any office or place of profit in the company**, its subsidiary company or associate company at a monthly remuneration **exceeding ₹ 2.5 lakh as mentioned in clause (f) of sub-section (1) of Section 188,** approval by an ordinary resolution is required**.**

The expression "office or place of profit" means any office or place –

(1) **where such office or place is held by a director -** if the director holding it receives from the company anything by way of remuneration <u>over and above the remuneration to which he is</u>

entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

(2) **where such office or place is held by an individual other than a director or by any firm, private company or other body corporate -** if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise.

Mrs. Sunita, was the relative of a director of YPL and she was appointed as the director in its subsidiary company, SPL, at a monthly remuneration of ₹ 3 lakhs during F.Y. 2023-24, the remuneration of which she was entitled to as a related party to the director of YPL holding a place of profit in SPL as its director and no information is given that anything over and above such remuneration was paid or to be paid her. Accordingly, such appointment of her would amount to appointment to an office or place of profit in SPL w.r.t. YPL and accordingly, the required formalities would need to be compiled with by YPL with respect to such appointment of Mrs. Sunita as a director in SPL, i.e. this contract shall be entered into with the prior approval of the company (YPL) by passing an ordinary resolution.

2.3 **The correct answer is (b)** - ₹ 7,10,000.

Reason: ITC on all invoices/debit notes which are uploaded by the suppliers in their GSTR-1s can be availed in full. The recipient gets details of tax invoices and debit notes uploaded by the suppliers in their GSTR-1s, in his (recipient's) GSTR-2B.

However, in respect of invoices/debit notes the details of which are not uploaded by the suppliers in their GSTR-1s (and hence cannot be seen in GSTR-2B of the recipient), ITC cannot be availed in terms of Rule 36(4) of CGST Rules, 2017.

The balance of ITC with YPL after discharging the GST liability for April month was ₹ 60,00,000.

The eligible ITC reflected in GSTR-2B with respect to May month of YPL was ₹ 56,00,000 whereas the input tax paid by it on invoices received during the May month was ₹ 75,00,000.

Thus, total ITC available for discharging liability for May month = ₹ 60,00,000 + ₹ 56,00,000 = ₹ 1,16,00,000 and the output tax liability for May month for ₹ 110 lakhs. So, the balance in electronic credit ledger that would have been available with YPL after discharging its GST liability for May month would be ₹ 1,16,00,000 - ₹ 1,08,90,000 = ₹ 7,10,000

As per rule 86B, where the value of taxable supply (other than exempt supply and zero-rated supply) in a month exceeds ₹ 50 lakh, amount available in electronic credit ledger can be utilized only to the extent of 99% of the output tax liability while discharging such tax liability. Balance 1% of the output tax liability needs to be discharged from electronic cash ledger.

2.4 The correct answer is (b) - Such application needs to be made within 6 months before date of expiry and the total fees payable with such application shall be ₹ 5,000.

Reason: As per the provisions of the FCRA Act, 2010, if the validity of the certificate of registration of a person has ceased in accordance with the provisions of Rule 12, a fresh request for the grant of a certificate of registration may be made by the person to the Central Government as per the provisions of rule 9.

(1) **Period for applying for renewal of certificate:** Every person who has been granted a certificate, shall have such certificate renewed within six months before the expiry of the period of the certificate.

(2) **Filing of an application to CG:** An application for renewal of the certificate of registration shall be made to the Central Government in electronic form in Form FC-3C accompanied with an affidavit executed by each office bearer, key functionary and member in Proforma 'AA' appended to these rules within six months before the date of expiry of the certificate of registration.

Every person seeking renewal of the certificate of registration under section 16 of the Act shall open an FCRA Account and mention details of the account in his application for renewal of registration.

An application made for renewal of the certificate of registration shall be accompanied by a fee of rupees five thousand only, which shall be paid through payment gateway specified by the Central Government.

No person whose certificate of registration has ceased to exist shall either receive or utilise the foreign contribution until the certificate is renewed.

If no application for renewal of registration is received or the application is not accompanied by requisite fee before the expiry of the validity of the certificate of registration, the validity of the certificate of registration shall be deemed to have ceased from the date of completion of the period of five years from the date of the grant of certificate of registration.

SKT's certificate of registration under the FCRA Act, 2010, was expiring on 20th December, 2023 and they had to apply for renewal of certificate as against what the Head accountant believed. Accordingly, it had to make an application for renewal of its certificate by 20th December, 2023 so that it might be accepted and the application shall be accompanied with fees of ₹ 5,000.

2.5 The correct answer is (d) - ₹ 30,00,000.

Reason:

Computation of value of taxable supply for Dusham Ltd.

Particulars	(₹)
List price of equipment (exclusive of taxes and discount)	30,00,000
Add: Corrugated Boxes used for packing the equipment (refer section 15(2)(c) of the CGST Act, 2017)	60,000
Total	30,60,000
Less: Discount @ 2% is offered on the list price of the machine (recorded in the invoice of the machine) (refer section 15(3)(a) of the CGST Act, 2017)	(60,000)
Value of taxable supply	30,00,000

Note: The government grant has been received by YPL, so there will be no impact on value of taxable supply due to it for Dusham Ltd.

2.6 As per SA 540, 'Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures', for accounting estimates that give rise to significant risks, in addition to other substantive procedures performed to meet the requirements of SA 330, the auditor shall evaluate the following:

(a) How management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.

(b) Whether the significant assumptions used by management are reasonable.

(c) Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.

In the given instance, Mr. Kailash should have evaluated the aforesaid points, in addition to performing procedures as per SA 330.

2.7 As per SA 320, 'Materiality in Planning and Performing an Audit', factors that may indicate the existence of one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements include the following:

- Whether law, regulations or the applicable financial reporting framework affect users' expectations regarding the measurement or disclosure of certain items (for example, related party transactions, and the remuneration of management and those charged with governance).

- The key disclosures in relation to the industry in which the entity operates (for example, research and development costs for a pharmaceutical company).
- Whether attention is focused on a particular aspect of the entity's business that is separately disclosed in the financial statements (for example, a newly acquired business).

In the given instance, factors, as aforesaid, might be there that would have indicated existence of certain transactions entered into by YPL for which Mr. Kailash was required to lower his materiality as for such transactions, misstatements of lesser amounts than materiality for the financial statements as a whole could also reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

2.8 (a) When grant is treated as deferred income

Statement of profit and loss – An extract

	(₹)
Depreciation (₹ 30,00,000 x 20%)	6,00,000
Government grant credit (W.N.1)	1,20,000

Balance Sheet - An extract

	(₹)	(₹)
Non-current assets		
Property, plant and equipment	30,00,000	
Less: Accumulated depreciation	(6,00,000)	24,00,000
		????
Non-current liabilities		
Government grant	(4,80,000 - 1,20,000)	3,60,000
Current liabilities		
Government grant		1,20,000
		????

Working Note:

Government grant deferred income account

	(₹)		**(₹)**
To Profit or loss (6,00,000 × 20%)	1,20,000	By Grant cash received	6,00,000
To Balance c/f	4,80,000		
	6,00,000		6,00,000

(b) When grant is deducted from cost of the asset

Statement of profit and loss – An extract

	(₹)
Depreciation {(₹ 30,00,000 - ₹ 6,00,000) × 20%}	4,80,000

Balance Sheet - An extract

	(₹)	**(₹)**
Non-current assets		
Property, plant and equipment (30,00,000 – 6,00,000)	24,00,000	
Less: Accumulated depreciation	(4,80,000)	19,20,000