



PAPER – 6

INTEGRATED BUSINESS SOLUTIONS



QUESTIONS

Case Study 1

Secure Agrochemical Limited (SAL)

Secure Agrochemical Limited (SAL) is engaged in the business of producing agrochemical chemicals, specializing in fertilizers. Known as the Crop Nutrition Business (CNB) the company has a portfolio of 20 products offering different grades of fertilizers for different requirements of farmers. Crop nutrition is an important part of any farming activity as it has a direct impact on productivity and sustainability. An active management of micro and macro nutrients is required to ensure that the crop yield is maximized. Maximizing crop yield has become a significant global challenge due to the food requirement demands of a growing population. Hence, companies like SAL need to provide top grade fertilizers in order to ensure that farmers can maximize the crop yield from their farming activity.

Government grants

SAL carries out various projects with government's financial assistance. It received two grants of ₹ 5 crores each in April 2024 for ongoing research and development initiatives. The first unconditional grant pertains to research on "Soil degradation due to misuse of fertilizers", focusing on the long-term effects of excessive fertilizer use, such as soil acidification, hardening, and pollution in a designated agricultural belt in Punjab. However, as of March 31, 2025, no major steps have been taken to commence this research. The second grant supports the commercial development of crop-specific nutrition solutions, designed to provide tailored nutrients based on crop variety and growth stage to enhance yield and meet the country's food requirements. SAL is confident in the technical feasibility and financial viability of this research,

with the product expected to be available for sale by April 2026. Additionally, in September 2024, an earthquake led to a complete production loss at one of SAL's factories, forcing a two-month shutdown. The state government introduced a compensation package for affected manufacturing entities, entitling SAL to claim compensation based on the average sales of the preceding three months. To avail of this relief, SAL must submit an application with the necessary figures by May 30, 2025. However, by the time SAL's financial statements were adopted on May 31, 2025, the claim form had not yet been submitted.

Development of customized micronutrient mixture fertilizers for specific crops

After considerable research, SAL developed customized micronutrient mixture fertilizers that are designed to meet specific needs of certain soil type and crop variety. These are specialized fertilizers made by enriching mixing and blending fertilizers along with the crop or soil specific nutrient requirements. They promote growth of healthy crops and enhance soil nutrition. In recent years, in order to improve crop yield and soil productivity, there has been a lot of research and development done on such specialized fertilizers. They are not covered under any government subsidy scheme. The manufacturer can fix the Maximum Retail Price (MRP) and can also offer discounts as needed.

Recently, SAL has introduced 3 new grades of such fertilizers in the market. All three grades can be primarily used for growing vegetables. SAL has decided to test the market by launching these products in a limited scale.

After the end of the financial year in April 2025, the sales manager Mr. Ray looked up the sales volume report. The SAL had sold 11,000 units of all 3 grades put together during the year, this was more than the budget of 10,000 units for the period. Mr. Ray planned to mention this in his annual performance assessment report in order to get a good bonus for the year. He approaches Mr. Bose, the management account of the company, to help him analyse the sales performance.

The budget for the year 2024-25 projected sales of 2,000 kg for Grade 1, 3,000 kg for Grade 2, and 5,000 kg for Grade 3, totaling 10,000 kg. The average selling price per kg was set at ₹ 500 for Grade 1, ₹ 300 for Grade 2, and ₹ 200 for Grade 3. The direct material cost per kg was budgeted at ₹ 150, ₹ 100, and ₹ 75 for Grades 1, 2, and 3, respectively, while the direct labour cost was projected at

₹ 100, ₹ 60, and ₹ 75 per kg for the three grades. Variable overhead costs were expected to be ₹ 50 per kg for Grade 1, ₹ 40 per kg for Grade 2, and ₹ 10 per kg for Grade 3.

In contrast, actual sales for the year stood at 2,500 kg for Grade 1, 3,100 kg for Grade 2, and 5,400 kg for Grade 3, bringing the total to 11,000 kg. The average selling price per kg realized was ₹ 450 for Grade 1, ₹ 280 for Grade 2, and ₹ 180 for Grade 3. Direct material costs per kg increased to ₹ 170 for Grade 1, ₹ 120 for Grade 2, and ₹ 95 for Grade 3. Meanwhile, direct labour costs remained consistent with the budget at ₹ 100, ₹ 60, and ₹ 75 per kg for Grades 1, 2, and 3, respectively. Similarly, variable overhead costs remained unchanged at ₹ 50, ₹ 40, and ₹ 10 per kg for the respective grades.

The main sales responsibility of Mr. Ray is restricted to these grades of fertilizers. Due to the novelty of these products, the management of SAL decided not to stock up the products as inventory as they want to first test the demand and market conditions. Rather for these products alone, SAL follows Just in Time system for purchasing and production and does not hold any inventory. Mr. Ray co-ordinates as an intermediary with the whole sale dealers in various regions and SAL's production department. Mr. Ray is not in charge of any other function or operation of the manufacturing process.

Sales campaign of customized micronutrient mixture fertilizers for specific crops

The above grades Grade 1, Grade 2 and Grade 3 are of a variety of fertilizers that can substitute one another based on the requirements of the farmer. SAL launched a sales and marketing campaign through social media that helped them reach out to farmers directly all across the country. This campaign was spearheaded by Mr. Ray. This was done to understand how product pricing can impact sales of each of these grades. Since the products are similar, SAL expects the product price to play a primary role in generating sales. As a threshold for analysis, the company considers a product to be price sensitive only if there is an impact of 5% of sales volume due to a change in price.

During the campaign, SAL offered slightly higher discounts on bulk purchases beyond a certain limit. This helped spur the sales volumes. The additional discount policy was not factored in the budgets. The campaign also helped SAL overcome the problem of good sales personnel who have been hard to find in the recent past. There have been times when there is a sudden spike in

demand for a particular grade of fertilizer since the conditions to grow and sell that crop is favourable in that season.

Combined with a successful sales and marketing campaign that spurred sales volume, the procurement department had to procure the raw material from the open market at prevailing prices. Generally, the current prevailing market prices are higher than that agreed with the JIT supplier partners.

Educational and promotional campaign for effective use of fertilizers

Crop yield can be maximized only if the farmers use the fertilizers effectively. There is not much awareness about customized micronutrient mixture fertilizers. The above-mentioned grades of customized micronutrient mixture fertilizers have the potential to improve agricultural productivity of farmers. SAL's management expects the demand for such customized mixture fertilizers to increase in future. Hence it was important to promote the potential such products, educate and spread awareness about them among farmers and agriculturalists.

Sales campaigns such as those above have been helpful in generating preliminary interest in these products. They are more temporary and seasonal in nature. Proper awareness about the application techniques of these fertilizers would generate more regular sales. This requires SAL to be able to connect even better with the farmers by educating them and making them aware about these products. With this in mind, the company bought a plot of agricultural land, which was used exclusively to showcase fertilizer application techniques for farmers. By being able to understand firsthand from the experts at SAL, the farmers can better understand the potential benefits of these fertilizers. These promotional events are held almost all year round, where depending on the season, fertilizers can be customized to suit the crop that requires it. After gaining adequate knowledge, many farmers who attend such events buy such customized fertilizers from the stalls in such events, based on their requirements. No actual agricultural production occurs on this land.

Financial performance

As of 31st March 2025, SAL has a share capital of ₹5 crores; reserves and surplus of ₹4 crores; long term debt of ₹16 crores; trade payables of ₹0.2 crores. SAL has demonstrated strong financial performance by achieving a profit before interest and tax (PBIT) of ₹9 crores; Interest paid for the financial year is ₹1.12 crores. The

corporate tax rate is 30%; the cost of equity is 12.50% and the cost of debt is 4.9%.

To effectively evaluate the company's financial performance and make informed investment decisions, SAL utilizes the weighted average cost of capital (WACC) as a key metric. At all times, the management wishes to keep the average cost of financing the company's operations across all sources of capital (debt and equity) to be below 10%.

Regulatory scrutiny: Refer Annexure 1

Out of the 20 products in its portfolio, SAL sells 3 products that have a red label and 2 products that have a yellow label. Such products generate higher margins and thus far they have contributed around 25% of SAL's annual revenue. Central Insecticide Board (CIB) has periodically raised queries and investigations about these products in the recent years. Due to the increased scrutiny of these harmful products, SAL's management has decided to gradually phase out them from its portfolio. On stopping their production, the revenue is likely to fall by at least 25% in the short term. Meanwhile, SAL plans to invest in R&D to develop more environmentally safe products. PAL which is a competitor of SAL in the same industry also derives around 30% of its annual revenue from sale of red and yellow labelled products. CIB has recently launched an investigation into these highly toxic products that PAL is manufacturing. Yet PAL, on account of them being high margin products, plans to increase its production of these products despite regulatory concerns of imposition of a ban in the near future. PAL expects revenues to grow by at least 10% in the coming year.

Merger with Unlimited Urea Limited (UUL): Refer Annexure 2

SAL (transferee company) decided to acquire UUL (transferor company) by acquiring its shares via a process of takeover under section 235 of the Companies Act, 2013. SAL prepared a scheme by which an offer was made to the shareholders of UUL. The offer was made on 1st August 2024. The offer has remained open for 4 months and was approved by shareholders having 92% value of the shares. Subsequently, SAL gave notice to the remaining dissenting shareholders that it desires to acquire their shares. Such notice was given on 5th January 2025. Certain dissenting shareholders made an application to the Tribunal that acquisition of their shares should not be permitted. However, the application was dismissed by the Tribunal. Hence,

SAL acquired shares of 5% of the dissenting shareholders (out of the balance 8%). The shareholding of the remaining 3% shareholders continued to remain with the dissenting shareholders.

Annexure 1:



State Times

Hidden Dangers of Agrochemicals



Jaipur, 21st February 2025 – A bountiful harvest, at affordable prices is the need of the hour to feed the world's growing population. Enter agrochemicals, in particular chemical fertilizers and pesticides which have ensured higher crop yield. Chemical formulations are precise and deliberate, depending on the intended use, and they are relatively cost effective. This has helped farmers across the globe get better control over their crop production. In the short-term farmers

can produce more and higher quality crops. However, excessive usage of these fertilizers erodes soil health in the long run. They can seep into groundwater and other water sources leading to contamination, which can be toxic in the long run. Greenhouse gases emitted during the production of nitrogen fertilizers have had a profound impact on climate change and caused immense biodiversity losses.

Human health issues also crop up as due to the use of fertilizers, crops are not as nutritious as they should be. It also increases the risk of developing cancer in adults and children. The nervous, endocrine and immune systems are severely affected by their usage, especially with that of pesticides. Many other health issues have been highlighted by medical fraternity over the past few decades.

The recent months have seen a lot of public outcry and debate over the excessive use of fertilizers in India. There has been increasing pressure on the government to force companies to label their products based on their toxicity. Due to the profound, sometimes adverse impact that agrochemicals (including fertilizers) can have on human health and other natural resources, the Central Insecticide Board (CIB) has categorised agrochemical toxicity levels based on a labelling system – using red, yellow, blue and green labels – where red is the most toxic while green is the least toxic. In addition, to prevent counterfeit products companies are adding barcode or other identifying technologies to identify their product packaging.

Red-labelled products have come under a lot of scrutiny in recent years following public outcry about their harmful effects. The regulatory authorities are severely curtailing the use of these products and are also gradually bringing restrictions for the yellow labelled products as well. It is very likely that they will be banned in the near future as per ESG guidelines. All packages carry labels to help users identify their toxicity level. Despite this certain companies are increasing production of such products since they are highly profitable to them.

Annexure 2:



The Chronicle

Secure Agrochemicals Limited to Acquire Unlimited Urea Limited in a ₹ 1,000 Crore Deal



Jaipur, 2nd September 2024 – Unlimited Urea Limited (UUL) to change hands by sale of unit to Secure Agrochemicals Limited (SAL). Unlimited Urea Limited (UUL) based at Gadepan in Kota district of Rajasthan, is set to change hands with the company revealing sale of its entire business to Secure Agrochemical Limited (SAL) for a total consideration of ₹ 1,000 crores.

The company disclosed the information as part of the mandatory disclosure to the stock exchanges, the BSE and the NSE, under Regulation 30 of SEBI (listing obligations and disclosure requirements) Regulations, 2015. The disclosure states that the board of directors at its recent meeting granted in-principal approval for the sale of its business to SAL. The agreed consideration value is expected to be ₹ 1,000 crores. The notice adds that the sale is subject to approval from shareholders, other regulatory and statutory approvals and financial due diligence.

The acquisition is of particular interest since the Government of India had announced New Investment Policy (NIP) to facilitate fresh investment in the urea sector and to make India self-sufficient in the urea sector. SAL is a well-established player in the fertilizer industry, its portfolio includes both chemical and organic fertilizers and crop nutrition solutions. The acquisition of the urea business of UUL will give a fillip to unlocking value within its business. Recent geo-political tensions have led to supply chain disruptions and sent price of raw materials including that of urea skyrocketing. Having a captively owned urea manufacturing unit will help it mitigate risks of supply chain disruptions and price fluctuations.

Multiple Choice Questions

- 1.1 Which of the following statements are true?
- (i) One of the reasons for actual material procurement to be higher than the budget is on account of SAL following JIT procurement which had to cater to higher than anticipated demand due to a successful marketing campaign by SAL.
 - (ii) Mr. Ray is solely responsible for the contribution generated from sale of each grade of fertilizer.
 - (iii) JIT production system may not always be suitable since there have been instances of sudden spike seasonal demand for certain products depending on the seasonal conditions for growing crops. Production department may not be able to account for this in their annual planning exercise.
 - (iv) JIT procurement of raw materials is suitable since production is also done on a just in time basis.

Options:

- (a) (i) and (iii)
 - (b) (i), (ii) and (iii)
 - (c) (i), (iii) and (iv)
 - (d) (ii), (iii) and (iv)
- 1.2 Referring to sale of highly toxic red and yellow labelled products, which of the following should be the consideration by the auditors of SAL and PAL in the audit of the financial statements?
- (i) Auditors of SAL and PAL need to obtain audit evidence regarding compliance with laws and regulations and audit procedures have to be designed accordingly.
 - (ii) Auditors of SAL and PAL do not need to obtain audit evidence regarding compliance with laws and regulations since these products are not explicitly banned in India.

- (iii) Auditors of PAL need to keep in mind SA 250 where non-compliance with laws and regulations may result in fines and litigations or other consequences that may have a material effect on the financial statements.
- (iv) Auditors of SAL need to be concerned about the phase out of these products that can impact revenue negatively by 25%. In addition, the company plans to invest in R & D to develop environmentally safe products despite losing revenue following this decision.

Options:

- (a) (i) and (iv)
 - (b) (ii) and (iv)
 - (c) (i) and (iii)
 - (d) (ii), (iii) and (iv)
- 1.3 Based on the sales variance analysis, which product(s) should the management prioritize for future discounts to maximize sales volume while ensuring continued profitability?
- (a) Grade 1 and Grade 2 since they both have increased sales volumes as well as positive net contribution
 - (b) Grade 1 and Grade 3 since they both are price sensitive, given the 5% threshold for analysis as considered by the company.
 - (c) Grade 1, Grade 2 and Grade 3 since the volume increased in all the cases for the discount that was given
 - (d) Grade 1 only as that is the only product that is both price sensitive as well as has the capability of yielding positive contribution due to high margins.
- 1.4 Which of the following statements would be true regarding the takeover of UUL by SAL?
- (a) The takeover of UUL by SAL is valid as the Tribunal dismissed the application made by the dissenting shareholders.

- (b) The takeover of UUL by SAL is invalid as even after the Tribunal dismissed the application made by the dissenting shareholders, UUL acquired the shares of only 5% out of the total 8% dissenting shareholders.
 - (c) The takeover of UUL by SAL is valid as shareholders having 92% of shareholding value gave approval to the offer and this was done within 4 months of receiving the offer from SAL.
 - (d) The takeover of UUL by SAL is invalid as shareholders having 8% of the shareholding value have dissented to the takeover and they cannot be legally bound to surrender their ownership to SAL.
- 1.5* Which of the following activities represents a strategic, value-adding initiative that can provide SAL with a long-term competitive advantage in its supply chain?
- (a) Demand forecast errors that result in rush orders or extended lead times for raw material procurement.
 - (b) Storing finished goods in warehouses nationwide prior to shipping them to dealers.
 - (c) Routine inspection of finished goods solely to meet regulatory compliance.
 - (d) Legal fees for filing patents for enhanced formulations designed to improve nutrient efficiency, reduce environmental impact, and promote sustainable agricultural practices.
- 1.6 How should SAL's income from the sale of such customized micronutrient mixture fertilizers at these stalls be classified under the Income Tax Act, 1961?
- (a) The income qualifies as agricultural income because SAL acquired agricultural land to promote awareness of fertilizer usage in farming.
 - (b) The income qualifies as agricultural income only if SAL's fertilizers are applied on the acquired land for agricultural production.

- (c) The income does not qualify as agricultural income and is taxable as business income under "Profits and Gains of Business or Profession," despite acquiring agricultural land.
- (d) The income can be partially considered agricultural if the fertilizers sold by SAL are used by farmers trained on the acquired land.

* *Additional Question*

Descriptive Questions

- 1.7 ADVISE the appropriate accounting treatment, if any, for the two grants received and the earthquake-related compensation in the books of accounts of SAL as at March 31, 2025.
- 1.8 PERFORM a detailed variance analysis of the budgeted and actual contributions. Include a comprehensive breakdown of all elements causing the variances, such as volume differences, variations in selling prices, changes in cost structures, and the impact of discounting strategies.
- 1.9 EVALUATE SAL's financial performance based on the given data.

Case Study 2

Diamond Limited

Diamond Limited, a listed company is a leading player in India's organised jewellery retail sector, known for its diversified business in the trade, manufacture, and sale of diamonds, precious stones, diamond-studded jewellery, as well as articles. The Company offers a broad range of jewellery items, with a particular focus on certified diamond jewellery. Their offerings cater to various market segments, including wedding jewellery, party wear, and daily wear, providing a comprehensive selection for customers across different occasions. This focus on certified diamonds is central to the Company's value proposition, ensuring quality and trust for its customers.

Business Structure and Strategy

Diamond Limited, as the holding company, oversees a diverse portfolio of subsidiaries, joint ventures, and associates, leveraging its presence across various regions to gain a competitive edge. The Company follows a decentralized management structure, delegating daily operational and decision-making responsibilities to designated personnel within its divisions

or branches. This approach promotes autonomy and accountability while ensuring that each division's objectives align with the Company's overarching strategic goals. By operating as responsibility centres, managers are held accountable for the performance, results, and profitability of their respective divisions. This structure enables Diamond Limited to manage its diverse operations efficiently while staying aligned with its broader business vision.

As part of its strategic expansion and supply chain optimization, Diamond Limited has undertaken various acquisitions. A few years ago, the company acquired Zircon Limited, a company specialized in the retail segment, through a forward integration strategy. This acquisition allowed Diamond Limited to leverage Zircon Limited's specialized retail expertise, strengthening the brand's presence in the final consumer market. By integrating Zircon's capabilities, Diamond Limited enhanced its ability to effectively market and sell its jewellery products, ensuring a seamless flow from manufacturing to retail.

Global Expansion and Product Alignment

Diamond Limited strengthened its global footprint in 2023 by acquiring Retail Gems S.p.A., a renowned Italy-based company. The Company is currently evaluating whether Retail Gems should procure Gem-Indo, diamond-studded jewellery item manufactured by Diamond Limited's Ahmedabad Division. The Ahmedabad Division has an annual production capacity of 1,20,000 units of Gem-Indo, while Retail Gems, with its smaller manufacturing capacity, can produce a similar item Gem-Milano, up to 50,000 units annually. In the Italian market, the local purchase price for an item similar to Gem-Milano is €1,600 (equivalent to ₹ 1,44,000) per unit. However, Diamond Limited is exploring the feasibility of transferring its item (i.e., product), suitably adapted to meet Italian cultural preferences, from the Ahmedabad Division to Retail Gems. The cost to the Italy division for such a transfer would be €1,700 (equivalent to ₹ 1,53,000) per unit. This price includes all associated costs, such as duties, taxes, and handling charges. For external sales in India, Gem-Indo is priced at ₹ 1,08,000 per unit. When sold to Retail Gems in its suitably modified version, the transaction is carried out at an arm's length price of €1,400 per unit. A total of 50,000 units of Gem-Milano are being transferred to Retail Gems, representing a significant portion of the Ahmedabad Division's annual production capacity. The current sales volume of the Ahmedabad Division is 1,00,000 units. The per-unit variable cost for Gem-Indo in India is ₹ 80,000 for

external sales. However, for the transfer of Gem-Indo to Retail Gems, the variable cost per unit is ₹ 74,000, reflecting potential efficiencies or savings from the internal transfer arrangement. Additionally, an adoption cost of ₹ 24,000 per unit is incurred to modify the item for Italian cultural preferences, primarily due to minor design changes. The tax rates applicable to both entities differ and significantly influence the profitability of the transaction. The Ahmedabad Division is subject to a tax rate of 30%, while Retail Gems in Italy operates under a higher tax rate of 40%. These tax rate differences could impact the financial outcomes for both entities, particularly with respect to profitability and tax liabilities. It is assumed that the exchange rate will remain consistent in the near short term.

Sustainability and Life Cycle Costing

Aligned with its commitment to sustainability, Diamond Limited integrates life cycle costing into its product strategies. This methodology accounts for all costs throughout an item's life cycle, including investment, operation, maintenance, and disposal. For its flagship item "Aurora," the Company employs a comprehensive life cycle costing approach, covering all costs incurred throughout the item's lifecycle. These costs include ₹ 460 lakh for materials, ₹ 100 lakh for research, ₹ 50 lakh for distribution, ₹ 300 lakh for development, ₹ 380 lakh for labour, ₹ 500 lakh for overheads, ₹ 30 lakh for disposal, ₹ 500 lakh for training, ₹ 170 lakh for maintenance, ₹ 85 lakh for warranty claims, ₹ 200 lakh for design and testing, and ₹ 70 lakh for environmental cleanup. This holistic approach underscores the company's commitment to sustainability, innovation, and operational excellence.

Audit and Financial Oversight

Amit and Amod LLP, Chartered Accountants, have been appointed as the statutory auditors of Diamond Limited for the financial year 2024-25. Amit and Amod LLP recognize that related party transactions, common in business operations, pose potential risks of material misstatement or fraud in financial reporting. To address these risks, the auditor sent an email to Ms. Ratna Mullick, the CFO of Diamond Limited, requesting a comprehensive list of related parties and the Company's related party policy.

The following response was received via email:

Ratna Mullick/ Chief Finance Officer / Diamond Limited

From: "Ratna Mullick" <ratna@dltd.com >
Sent: 15th April 2025 10:00
To: "partner-1" <amit@aallp.in >
Cc: "Manik Paul" <paul@dltd.com>
Subject: Related Party Disclosure
Attachments: Group Chart - Ind AS 24.pdf; Related party policy.pdf

CA. Amit Gupta,

Trust you are doing well!

We have received your email relating to related parties and related party transactions of our Company.

Diamond Limited, in ordinary course of business, enters into transactions with a Related Party or parties. These related parties have been identified as per applicable laws/ accounting requirements. Please refer to the attachment for the Group Chart as per the requirements of Ind AS 24.

The Company has also formulated a policy on Related Party Transactions which regulates all transactions between the Company and its Related Parties. Relevant excerpts from the related party policy of the Company are enclosed.

We hope that the above email provides the necessary information. You can also connect with Mr. Manik Paul, Senior Finance Officer if you have any further queries.

Regards,

Ratna Mullick

The following day, the auditors met with Mr. Manik Paul and requested a comprehensive list of related party transactions undertaken during the current and previous financial years. Mr. Paul promptly provided the requested details, which are included in the attached Annexure. Subsequently, the auditors designed and executed procedures to gather sufficient and appropriate audit evidence to verify that the related party relationships and transactions were properly identified, accounted for, and disclosed in the entity's financial statements, in compliance with the requirements of Ind AS 24. Upon completing these procedures, the auditors sent an email to Mr. Manik Paul and Ms. Ratna Mullick.

CA. Amit Gupta/ Partner / Amit and Amod LLP

From: "partner-1" < amit@aallp.in >
Sent: 20th April 2025 10:00
To: "Ratna Mullick" < ratna@dltd.com >
Cc: "Manik Paul" < paul@dltd.com>; "Team 1" <audit_1@aallp.in>
Subject: Preliminary Audit Observations: Related Party
Date: 20th April 2025

Ms. Ratna Mullick and Team,

We appreciate the support provided by your team in our audit of financial statements. During our audit, we have observed the following matters:



Sapphire Limited not identified as a related party

From the Group Chart shared, we understand that Sapphire Limited is a subsidiary of Coral Limited (i.e. joint venture). Under Ind AS 24 a subsidiary of a joint venture is a related party. Request you to please consider the requirements of Ind AS 24 - especially paragraph 12 of Ind AS 24.



Audit Committee approval not obtained

The above analogy should be extended to Jade Limited – a step-down associate of Emerald Limited (company’s associate). The company though its associate (Emerald Limited) would be able to exercise significant influence on the step-down associate - Jade Limited, as well. During the year, the Company has purchased stone items worth ₹ 595 lakhs from Jade Limited. These related party transactions should have been entered into with prior approval of the Audit Committee as provided under Regulation 23 of SEBI Listing Regulations. The approval would be required despite that Jade Limited is not material entity for Emerald Limited.



Non-monetary benefit to KMP

Ms. Ratna Mullick, key managerial personnel, uses company owned car and should be disclosed as a related party transaction in the financial statements. Relevant details are as follows:

- Purchase price of the car - ₹ 380 lakhs
- Value of perquisite under the Income Tax Act, 1961 - ₹ 35 lakhs
- Depreciation recognised in the financial statements i.e. ₹ 76 lakhs

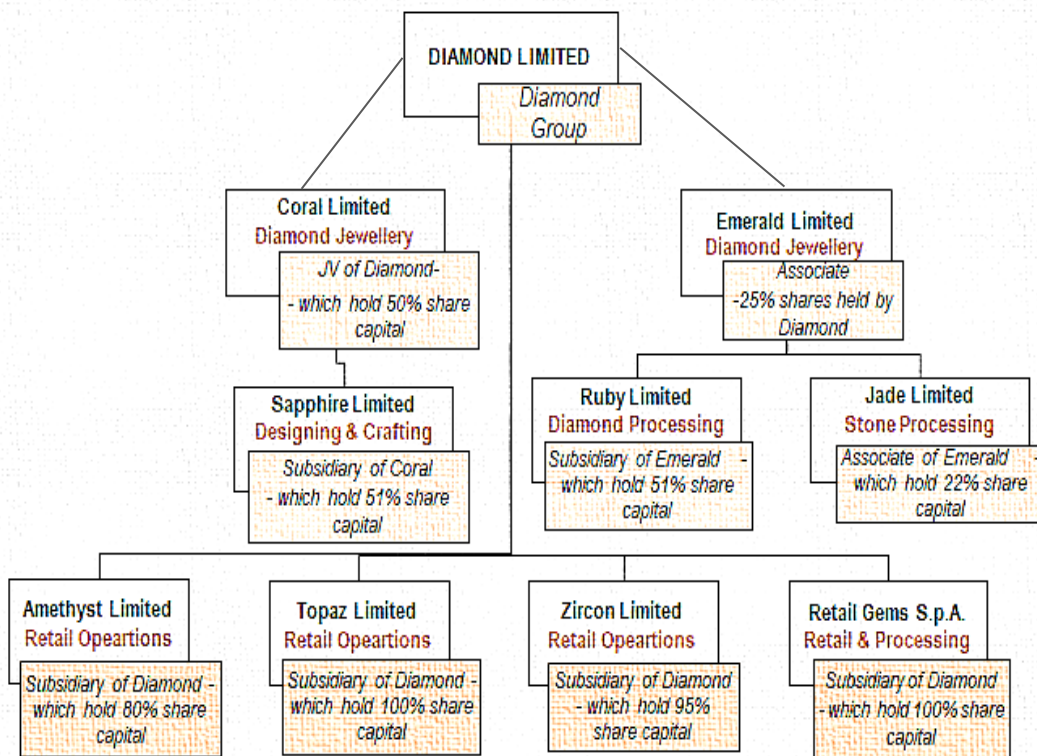


Sales not at market rate

During the year the company has sold diamond-studded jewellery items amounting to ₹ 20 lakhs to Zircon Limited – a subsidiary. During the year sales of the same quantity of items made to unrelated party amount to ₹ 25 lakhs. It appears that the related party transaction was not at arm’s length. Further, it is important to note that Zircon Limited is not eligible for a full input tax credit (ITC).



We solicit your responses to the above at the earliest, so that we can proceed further.
Regards,
Amit Gupta

Group Chart - Ind AS 24.pdf



There has been no change in the shareholding structure during the current and previous financial years.

Related party policy.pdf

 <p>Identification of Related Parties and Related Party Transactions</p>	<p>Every promoter, director and key managerial personnel (KMP) of the Company and its subsidiaries/ associate/ Joint venture shall:</p> <ul style="list-style-type: none"> • at the time of appointment; • periodically – as required by the company or applicable law • whenever there is any change in the information already submitted, <p>provide requisite information about his / her relatives and all firms, companies, body corporates, or other association of individuals, in which such promoter, director or KMP is interested, whether directly or indirectly, to the company or the subsidiary/ associate/ Joint venture (as the case may be). Every such promoter, director and KMP shall also provide any additional information about the transaction, that the Board/ Audit Committee may reasonably request.</p>
 <p>Review and approval of Related Party Transactions</p>	<p>All the transactions which are identified as Related Party Transactions and subsequent modifications thereof, shall be approved by the Audit Committee in the manner specified under the applicable laws and regulations. The Audit Committee shall consider all relevant factors while deliberating the Related Party Transactions for its approval. Any member of the Audit Committee who has a potential interest in any Related Party Transaction shall recuse himself and abstain from discussion and voting on the approval of the Related Party transaction. A Related Party Transaction which is (i) not in the ordinary course of business, or (ii) not at arm's length basis, would require approval of the Board or of shareholders.</p> <p>In case any Related Party Transactions are referred by the Company to the Board for its approval due to the transaction being (i) not in the ordinary course of business, or (ii) not at an arm's length basis, the Board will inter alia consider factors such as, nature of the transaction, material terms, the manner of determining the pricing and the business rationale for entering into such transaction and any other information the Board may deem important/ relevant for taking decision on a proposed transaction. On such consideration, the Board may approve the transaction or may require such modifications to transaction terms as it deems appropriate under the circumstances. Any member of the Board who has any interest in any Related Party Transaction will recuse himself and abstain from discussion and voting on the approval of the Related Party Transaction.</p>

If a Related Party Transaction is (i) a material transaction as per the Listing Regulations, or (ii) not in the ordinary course of business, or not at arm's length basis and exceeds certain thresholds prescribed under the Companies Act, then such Related Party Transaction and any subsequent Material modification thereto, shall require shareholders' approval by a resolution. In such case, any member of the Company who is a Related Party, irrespective of being related to the said transaction or not, shall not vote on resolution passed for approving such Related Party Transaction.

Annexure: Details Provided by Mr. Manik Paul

	31 March 2025 (₹ lakhs)	31 March 2024 (₹ lakhs)
Sales of diamond-studded jewellery items to Topaz Limited – Subsidiary	17,076	14,340
Sales of diamond-studded jewellery items to Zircon Limited- Subsidiary	20	25
Sales of diamond-studded jewellery items to Amethyst Limited- Subsidiary	36	15
Purchase of diamond-studded jewellery items from Emerald Limited – Associate	11,990 – including purchase of equipment for ₹6,960	Nil
Purchase of stone items from Jade Limited – Associate of Emerald Limited which is an associate of the company	595	Nil
Purchase of diamond items from Ruby Limited – Subsidiary of Emerald Limited which is an associate of the company	80	75
Purchase of diamond-studded jewellery items from Coral Limited – Joint venture	1,416	Nil
Sale of diamond-studded jewellery items to Sapphire Limited – Subsidiary of the Joint Venture (i.e. Coral Limited)	186	230

Multiple Choice Questions

- 2.1 Is Sapphire Limited a related party of Diamond Limited as per Ind AS 24?
- (a) Yes, under Ind AS 24, a subsidiary (i.e., Sapphire Limited) of a joint venture (i.e., Coral Limited) is a related party of Diamond Limited.
 - (b) Yes, under Ind AS 24, all step-down (second level) entities are related parties.
 - (c) Yes, under Ind AS 24, all step-down (second level) subsidiaries (i.e., Sapphire Limited) are related parties.
 - (d) Yes, under Ind AS 24, Diamond Limited controls the subsidiary (i.e., Sapphire Limited) of a joint venture (i.e., Coral Limited).
- 2.2 At what amount should Diamond Limited disclose the non-monetary benefit (i.e. company owned car) provided to the key managerial personnel in its related party disclosures?
- (a) Purchase price of the car - ₹ 380 lakhs
 - (b) Value of perquisite under the Income Tax Act, 1961 – ₹ 35 lakhs
 - (c) Nil since on the car is used primarily for the performance of official duties
 - (d) Depreciation recognised in the financial statements i.e. ₹ 76 lakhs
- 2.3 Diamond Limited needs to determine the value of supply of diamond-studded jewellery to compute GST on its sale to Zircon Limited for the financial year ending March 31, 2025 based on the given data:
- i. Invoice Value – ₹ 20 lakhs
 - ii. Value of supply of goods of like kind and quality – ₹ 19 lakhs
 - iii. Open Market Value – ₹ 25 lakhs
 - iv. 90% of the Price Charged for supply of goods of like kind and quality – ₹ 17.1 lakhs
 - v. 110% of cost of supplies – ₹ 17.6 lakhs
- The value of supply of diamond-studded jewellery is _____, at the option of the supplier - Diamond Limited.
- (a) i or ii
 - (b) ii or iii
 - (c) iii or iv
 - (d) iv or v

- 2.4 The Company is expected to incur certain cost throughout its life cycle. Choose the correct statement?
- (a) Design stage (₹ 600 lakhs); Manufacturing stage (₹ 2,000 lakhs), Operations stage (₹ 100 lakhs) and End of Life stage (₹ 245 lakhs)
 - (b) Design stage (₹ 600 lakhs); Manufacturing stage (₹ 2,010 lakhs), Operations stage (₹ 135 lakhs) and End of Life stage (₹ 100 lakhs)
 - (c) Design stage (₹ 580 lakhs); Manufacturing stage (₹ 1,880 lakhs), Operations stage (₹ 15 lakhs) and End of Life stage (₹ 470 lakhs)
 - (d) Design stage (₹ 80 lakhs); Manufacturing stage (₹ 110 lakhs), Operations stage (₹ 1,500 lakhs) and End of Life stage (₹ 1,255 lakhs)
- 2.5 Which of the following is most likely to be true about Diamond Limited's management structure and strategy?
- (a) Reduces top management's operational burden while aligning divisional goals with strategic objectives.
 - (b) The decentralized management structure promotes autonomy and accountability, enabling divisional managers to align their decisions with the Company's strategic goals.
 - (c) Responsibility centres operate independently of the company's strategic vision, with managers focusing solely on achieving short-term profitability targets.
 - (d) By delegating operational responsibilities, Diamond Limited most likely achieves a balance between regional adaptability and the alignment of divisional objectives with its overarching strategic goals.

Descriptive Questions

- 2.6 PREPARE the disclosure of related party transactions in compliance with the requirements of Ind AS 24.
- 2.7 Provide a brief summary of audit procedures to mitigate the risk of unidentified or undisclosed related parties?
- 2.8 Do transactions with Jade Limited require the approval of the Audit Committee? ANALYSE.
- 2.9 Would Diamond Limited benefit if Italy branch purchases from India branch? COMMENT.



SUGGESTED ANSWERS

Answers to the Multiple Choice Questions

1.1 (a) Statements (i) and (iii) are true.

Reason:

Statement (i) the successful marketing campaign by SAL that reached out directly to customers had resulted in a higher than anticipated sales volume. This would have put pressure on procurement and production systems to cater to this demand immediately. Due to JIT systems, they do not hold any stock to meet sudden spike in demand. Statement (iii) where the production department has to plan the annual production schedule based on demand forecasts. This will allow them to coordinate with procurement suppliers who provide raw material in order to operate smoothly. Any unexpected seasonal demand spike due cannot be foreseen, in which case JIT production system may not be suitable.

Statement (ii) is incorrect as Mr. Ray is in charge on only sale of the 3 grades of fertilizers and is not in charge of any other function or operation in the manufacturing process. Hence, he cannot be held accountable for the sudden increase in raw material prices which has led to decrease in actual contribution.

Statement (iv) is incorrect as JIT procurement and production system can function independent of each other. Raw material can be stocked while production can follow JIT system. Similarly, raw material can be procured on a JIT system while production can be made to stock.

1.2 (c) (i) and (iii)

Reason:

Statements (i) and (iii) are considerations that the auditors of SAL and PAL need to consider for their audits of financial statements.

Statements (ii): Incorrect. Even if explicitly banned, the auditor's responsibility for considering compliance remains.

Statement (iv): Incorrect. While evaluating the implications of non-compliance is important, it's not the primary responsibility of the auditor in this specific context.

- 1.3 (d) Grade 1 only as that is the only product that is both price sensitive as well as has the capability of yielding positive contribution due to high margins.**

Reason:

Grade 1 only as the increase in volume was 25% for a 10% discount offered on the price and it contributed positively as the net contribution is ₹ 130. As a high margin product, it could buffer any unexpected cost escalation.

	Grade 1	Grade 2	Grade 3
Reduction in selling price per kg	50	20	20
Reduction in selling price %	10%	7%	10%
Increase in sales (in kgs)	500	100	400
Increase in sales in %	25.00%	3.33%	8.00%
Net contribution per kg (actual)	130	60	-

While Grade 3 can be considered as price sensitive using the 5% threshold limit, the actual net contribution per kg was nil. Hence, it might not be prudent to offer much discount for Grade 3, being a lower margin product. Similarly, Grade 2 is also less price sensitive using the 5% threshold limit. Here a 7% discount in selling price resulted in only a 3.33% increase in sales volume. Hence, Grade 2 sales will not necessarily increase much by price discounts alone.

- 1.4 (b) The takeover of UUL by SAL is invalid as even after the Tribunal dismissed the application made by the dissenting shareholders, UUL acquired the shares of only 5% out of the total 8% dissenting shareholders.**

Reason:

In the given case, since the application made by the dissenting shareholders has been dismissed by the Tribunal, SAL was bound to acquire all the shares of the dissenting shareholders i.e. the entire 8% shareholding. Since SAL acquired only 5% shareholding of the dissenting shareholders, this is in contravention to Section 235 of the Companies Act, 2013. Hence the takeover of UUL by SAL is invalid.

- 1.5 (d) Legal fees for filing patents for enhanced formulations designed to improve nutrient efficiency, reduce environmental impact, and promote sustainable agricultural practices.**

Reason:

Option (d) represents a strategic investment in intellectual property protection and innovation. By filing patents for enhanced formulations, SAL can secure exclusive rights to advanced technologies that not only improve product performance and sustainability but also strengthen its market position over the long term. In contrast, the other options describe activities that either indicate inefficiencies or focus solely on routine operational tasks without delivering significant strategic value.

- 1.6 (c) The income does not qualify as agricultural income and is taxable as business income under "Profits and Gains of Business or Profession," despite acquiring agricultural land.**

Reason:

Under Section 2(1A) of the Income Tax Act, 1961, Agricultural income in India primarily encompasses earnings derived from activities related to farming. This includes income generated from renting out agricultural land, cultivating and selling crops, processing agricultural produce for market (such as drying,

cleaning, or simple processing), and income earned from farm buildings essential for agricultural operations.

Merely acquiring land to promote awareness or conduct demonstrations does not convert income from fertilizer sales into agricultural income. Land acquired by SAL is being used to promote awareness and conduct demonstrations about their applications of customized micronutrient mixture fertilizer. Farmers attending such promotional events purchase fertilizers that are customized for the crop that it is required for. Sale of such fertilizers is not derived directly from any agricultural activities on the land. Further, the case clearly mentions that no actual agricultural production occurs on this land. Therefore, SAL's sales from such fertilizers are taxable as business income under "Profits and Gains of Business or Profession".

Answers to the Descriptive Questions

1.7 Accounting treatment as per IND AS 20, Accounting for Government Grants and Disclosure of Government Assistance:

1. First Grant of ₹ 5 crore – research on "Soil degradation due to misuse of fertilizers"

The first grant for "Soil degradation due to misuse of fertilizers" involving research into effects of excessive use of fertilizers on soil quality (acidification, hardening and pollution) based on a specific area from a predominantly agricultural belt in Punjab. Since, the grant is unconditional and no details regarding its refund have been mentioned. Even though research has not started, nor major steps have been completed by SAL to commence the research, yet the grant will be immediately recognized in the profit and loss for the year ended March 31, 2025.

2. Second Grant of ₹ 5 crore - relates to the commercial development of crop-specific nutrition solution that will provide each crop variety with specific nutrients that it will need to grow. As per the information given in the case study, these solutions will be available in the market by April 2026. Hence, by that time, grant relates to the development of new technological solution (which is an asset) and should be initially recognized as deferred income. The deferred income should be recognized as income on a systematic and rational basis over the useful life of this new technology.

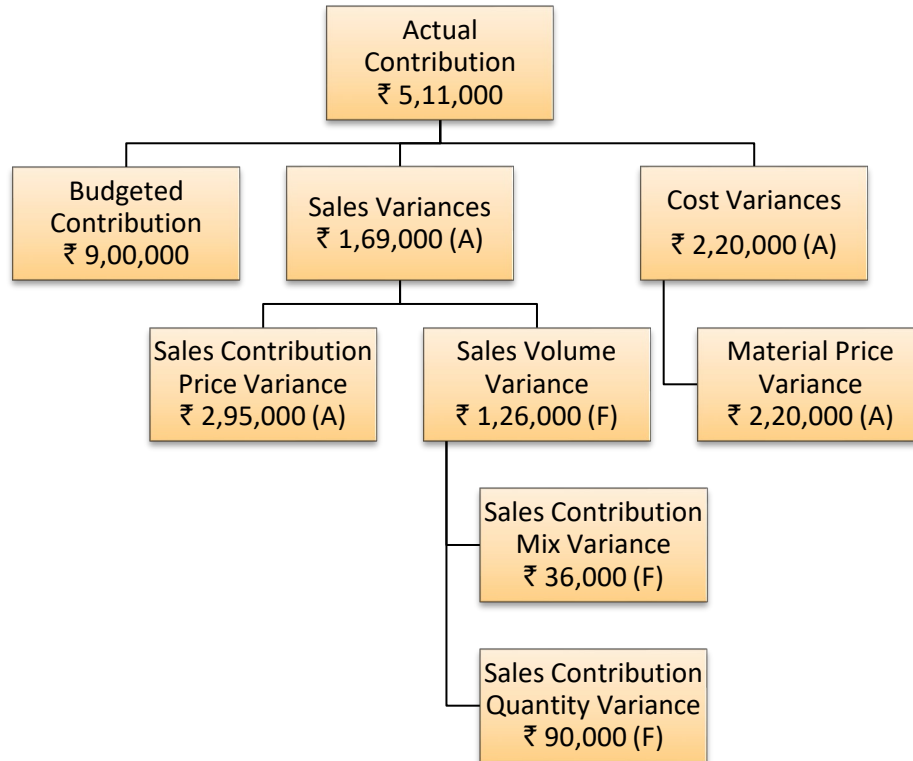
For the grant received of ₹ 5 crores, SAL should recognize a liability in the balance sheet as of March 31, 2025, and March 31, 2026. Once the technology is used in the commercial development of crop-specific nutrition, the deferred grant income of ₹ 5 crores should be recognized over the useful life of this new technology to compensate for depreciation costs.

Alternatively, as per Ind AS 20 SAL would be permitted to offset the deferred income of ₹ 5 crores against the cost of development of this technology as at April 1, 2026.

3. Earthquake related compensation – SAL will be able to submit an application form only after May 31, 2025 i.e. in the F.Y. 2025-26. Although the earthquake happened in September 2024 relating to the financial year 2024-25, SAL should recognize the income from the government grant in the year the application is submitted and approved by the government for compensation.

Since in the F.Y. 2024-25, the application form could not be submitted due to adoption of financials with respect to sales figure before earthquake occurred, SAL should not recognize the grant income as it has not become receivable as at March 31, 2025.

1.8 Reconciliation



Budgeted vs. Actual Contribution

Referring to working notes, the total budgeted contribution for the year 2024-25 was ₹ 9,00,000 while the actual contribution was ₹ 5,11,000. There is hence an adverse variance in terms of contribution = budgeted contribution – actual contribution = ₹ 9,00,000 - ₹ 5,11,000 = ₹ 3,89,000 (Adverse).

The actual contribution for all three grades of fertilizers is lower than the budgeted contribution. This is because of 2 reasons: Discount policy (b) Raw material procurement cost. Now let us analyse the variances in detail.

Sales variances (in terms of contribution)

Sales variances in terms of contribution can be classified as sales contribution price variance and sales contribution volume variance.

Sales contribution price variance is calculated as ₹2,95,000 (Adverse).

Sr. No.	Sales Contribution Price Variance	Grade 1	Grade 2	Grade 3	Total
1	Actual Contribution (per kg) * Based on standard cost	150 [450-300*]	80 [280-200*]	20 [180-160*]	-
2	Standard Contribution (per kg)	200	100	40	-
3	Actual Quantity (kg)	2,500	3,100	5,400	11,000
4	Sales Contribution Price Variance = (Actual Contribution - Standard Contribution) × Actual Quantity [(1 - 2) × 3]	(1,25,000)	(62,000)	(1,08,000)	(2,95,000)

SAL's sales and marketing campaign allowed for slightly higher discounts were given on bulk purchases beyond a certain limit. This policy for additional discount was not factored in the standard price (budget), resulting in a difference between actual and budgeted contribution.

Sales contribution volume variance is calculated as ₹1,26,000 (Fav).

Sr. No.	Sales Contribution Volume Variance	Grade 1	Grade 2	Grade 3	Total
1	Actual Quantity (kg)	2,500	3,100	5,400	11,000
2	Budget Quantity (kg)	2,000	3,000	5,000	10,000
3	Standard Contribution (per kg)	200	100	40	-
4	Sales Contribution Volume Variance = (Actual Quantity - Budget Quantity) × Standard Contribution [(1 - 2) × 3]	1,00,000	10,000	16,000	1,26,000

This is another fundamental metric to assess sales performance. By comparing the actual sales with the budget sales, the company can understand (a) market conditions in which it operates (b) success of any sales and marketing campaigns or even (c) the reasonableness of the company's forecasting capabilities.

In the case of SAL, for the year 2024-25 the actual sales volume of 11,000 units has been higher than the budgeted sales of 10,000 units. A possible reason for this could be the spurt in demand due to its successful sales and marketing campaign for the three new grades that were introduced. This resulted in a favourable variance of ₹ 1,26,000 for the year.

Sales variance in terms of contribution = Sales contribution price variance ₹ 2,95,000 (Adverse) + Sales contribution volume variance ₹ 1,26,000 (Favourable) = ₹ 1,69,000 (Adverse).

This tallies with the overall results as explained above. It can be concluded that while volumes helped buffer the fall, SAL may have given deeper discounts that eventually impacted its profitability. For example, Grade 3 fertilizer, where the actual contribution is nil. Although SAL sold 400 units more than budget of Grade 3 fertilizer, the contribution towards actual profits was nil. This is equally due to discounts that were given as part of the sales and marketing campaign (the impact of material price discussed later). SAL’s sales team should realize that such discounts may be unfeasible in the long run. Price sensitivity analysis of how the selling price of each grade impact demand is an exercise the SAL’s team can undertake to understand how much discount to give in future.

Analysing sales contribution volume variance in depth

To analyse sales contribution volume variance better, it can be further split up as sales contribution mix variance and sales contribution quantity variance.

Sales contribution mix variance is ₹ 36,000 Favourable.

Products	Actual Quantity (AQ)	Actual Sales in Budgeted Proportion (RAQ)	Difference AQ - RAQ	Standard Contribution per kg	Mix Variance Difference × Standard Contribution
Grade 1	2,500	2,200	300	200	60,000
Grade 2	3,100	3,300	(200)	100	(20,000)
Grade 3	5,400	5,500	(100)	40	(4,000)
Total	11,000	11,000	-		36,000

Sales mix variance helps identify which product or product lines are performing well. As per the budget proportion sales volume composition was Grade 1: 20%, Grade 2: 30% and Grade 3: 50%. When applied to actual volume of 11,000 units, the distribution appears in the column RAQ – Revised Actual Quantity. The difference between actual quantity sold and the RAQ shows the variation in the mix / proportion of actual sales as compared to the budgeted proportion.

Accordingly, Grade 1 has sold 300 units more, having a higher proportion in the mix. It also has the highest contribution of ₹ 200 per kg as compared to the other 2 grades. This swings the variance to a favourable side. On the contrary, Grade 2 and Grade 3 have a lower proportion in the sales mix, contributing adversely to the sales mix ratio. Overall, the sales mix is positive because SAL sold more of Grade 1 fertilizer which also has a higher contribution as compared to the other 2 grades. Hence, it can be concluded the Grade 1 trends better than the other grades and contributes better towards the profitability of the business.

Sales contribution quantity variance is ₹90,000 Favourable.

Products	Budget Quantity (BQ)	Actual Quantity in Budgeted Proportion (RAQ)	Difference RAQ - BQ	Standard Contribution per kg	Quantity Variance Difference × Standard Contribution
Grade 1	2,000	2,200	200	200	40,000
Grade 2	3,000	3,300	300	100	30,000
Grade 3	5,000	5,500	500	40	20,000
Total	10,000	11,000	1,000	-	90,000

A favourable sales contribution quantity variance indicates by how much the contribution has risen exclusively on account of actual sales in a predetermined proportion (i.e. budgeted) being higher than expectations as per budget. This does not consider any impact on account of variation in sale price and hence is measured with relation to standard contribution.

The actual sales are redistributed in proportion of their budget estimates to get a revised actual quantity (RAQ) mix. Hence, had the budget sales

been 11,000 units, what would have been the proportion of sales of each of these grades of fertilizers? This is shown in the RAQ column. When compared with the original budget estimate of 10,000 units, it can show the impact on standard contribution due to change in the proportion of quantity of units sold.

A rise in the demand side for each grade of fertilizer resulted in positively contributing to the profitability of the company.

Sales contribution volume variance = Sales contribution mix variance is ₹ 36,000 Favourable + Sales contribution quantity variance is ₹ 90,000 Favourable = ₹ 1,26,000 (Favourable)

Higher sales due to spurt in demand (indicated from favourable sales contribution quantity variance of ₹ 90,000) combined with a higher proportion of these sales coming from the profitable Grade 1 fertilizer (indicated from favourable sales mix variance of ₹ 36,000), resulted in a favourable sales contribution volume variance of ₹ 1,26,000.

Cost variances

Increase in costs due to unplanned material procurement at higher rates also adversely contributed.

Material Price variance is ₹ 2,20,000 Adverse.

Sr. No.	Material Price Variance	Grade 1	Grade 2	Grade 3	Total
1	Standard Price (per kg)	150	100	75	-
2	Actual Price (per kg)	170	120	95	-
3	Actual Quantity (kg)	2,500	3,100	5,400	11,000
4	Material Price Variance = (Standard Price - Actual Price) × Actual Quantity [(1) - (2) × 3]	(50,000)	(62,000)	(1,08,000)	(2,20,000)

The material procurement cost for all the grades was higher than standard. There have been times when there is a sudden spike in demand for a particular grade of fertilizer combined with a successful sales and marketing campaign that spurred sales volume. Higher

procurement cost from the open market than that agreed with the JIT supplier partners resulted in an adverse impact on actual contribution.

Working Notes

Budget Contribution for the year 2024-25

Sr. No.	Particulars	Grade 1	Grade 2	Grade 3	Total
1	Budget Quantity (kg)	2,000	3,000	5,000	10,000
2	Average Selling Price (per kg)	500	300	200	-
3	Direct Material Cost (per kg)	150	100	75	-
4	Direct Labour Cost (per kg)	100	60	75	-
5	Variable Overhead Cost (per kg)	50	40	10	-
6	Standard Contribution (per kg) [2-(3+4+5)]	200	100	40	-
7	Budgeted Contribution [1 × 6]	4,00,000	3,00,000	2,00,000	9,00,000

Actual Contribution for the year 2024-25

Sr. No.	Particulars	Grade 1	Grade 2	Grade 3	Total
1	Actual Quantity (kg)	2,500	3,100	5,400	11,000
2	Average Selling Price (per kg)	450	280	180	-
3	Direct Material Cost (per kg)	170	120	95	-
4	Direct Labour Cost (per kg)	100	60	75	-
5	Variable Overhead Cost (per kg)	50	40	10	-
6	Actual Contribution (per kg) [2-(3+4+5)]	130	60	40	-
7	Actual Contribution [1 × 6]	3,25,000	1,86,000	-	5,11,000

1.9 Evaluation of SAL's Financial Performance

The benchmark WACC that SAL's management wants to maintain is below 10%. The company's actual WACC is 7.636%. SAL has managed to maintain its WACC below the required benchmark primarily on account of its capital structure. Long term debt of ₹16 crores, which is the cheaper source of capital, makes up more than half of the total capital employed of ₹ 25 crores.

SAL's financial performance reflects a strong operational foundation, though its capital structure presents certain financial risks that require careful management.

With 64% of its capital sourced from debt financing, SAL carries a significant financial obligation in the form of ₹1.12 crores in interest payments. While leverage can enhance returns, it also increases financial risk, making strong cash flow management essential for ensuring timely debt repayment and mitigating the risk of financial distress.

Despite this high debt level, SAL has demonstrated strong operational efficiency, achieving an PBIT of ₹ 9 crores. This indicates the company's ability to generate substantial earnings before financial obligations. Additionally, its EVA of ₹ 4.391 crores shows that SAL is earning returns above its cost of capital, confirming that it is creating value for shareholders rather than merely covering financing costs.

To sustain this positive path, SAL must carefully assess new investment opportunities, ensuring they generate returns exceeding its benchmark 10% WACC to drive long-term value creation. Moreover, effective risk management strategies—such as hedging against interest rate fluctuations, optimizing capital allocation, and maintaining a financial buffer—will be crucial in mitigating potential risks and ensuring financial stability.

Overall, SAL's strong operational performance and positive EVA highlight its ability to generate value. However, its high reliance on debt necessitates vigilant financial management. To ensure sustainable growth and maximize shareholder value, SAL should focus on prudent debt management, strategic investment in high-return projects, and robust risk mitigation strategies to navigate potential financial challenges effectively.

Workings

$$\begin{aligned} \text{EVA} &= \text{NOPAT} - \text{WACC} \times \text{Capital Employed} \\ &= ₹6.3 \text{ Cr.} - 7.636\% \times ₹25 \text{ Cr.} \\ &= \mathbf{₹4.391 \text{ Cr.}} \\ \text{Capital Employed} &= ₹5 \text{ Cr.} + ₹4 \text{ Cr.} + ₹16 \text{ Cr.} \\ &= ₹25 \text{ Cr.} \\ \text{WACC} &= (5 + 4)/25 \times 12.5\% + 16/25 \times 4.9\% \\ &= 7.636\% \\ \text{NOPAT} &= [\text{PBIT} - \text{Interest} - \text{Tax}] + \text{Interest (net of tax)} \end{aligned}$$

	₹ in Cr.
PBIT	9.000
Less: Interest	(1.120)
PBT	7.880
Less: Tax @ 30%	(2.364)
PAT	5.516
Add: Interest (net of tax) [1.12 × (1 - 0.30)]	0.784
NOPAT	6.300

Answers to the Multiple Choice Questions

2.1 (a) Yes, under Ind AS 24, a subsidiary (i.e., Sapphire Limited) of a joint venture (i.e., Coral Limited) is a related party.

Reason:

As per para 9(b)(ii) of Ind AS 24, an entity is related to a reporting entity if one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

Furthermore, as per paragraph 12 of Ind AS 24, in the definition of a related party, a joint venture includes its subsidiaries. Therefore, the subsidiary of a joint venture and the investor that has joint control over such a joint venture are considered related parties under Ind AS 24.

Accordingly, Sapphire Limited (being a subsidiary of the joint venture - Coral Limited) and Diamond Limited (as an investor in Coral Limited) are related parties under Ind AS 24.

2.2 (d) Depreciation recognised in the financial statements i.e. ₹ 76 lakhs

Reason:

Para 9 of Ind AS 19 specifies employee benefits include non-monetary benefits. The cost of providing non-monetary benefits (including free or subsidised goods or services) should be recognised according to the same principles as benefits payable in cash.

Further, Para 9 of Ind AS 24 requires disclosure of compensation paid to key managerial personnel including non-monetary benefits. Such disclosure should include an estimation of the benefit to the key managerial personnel. This might be calculated, for example, by reference to the depreciation charge – i.e. ₹ 76 lakhs.

2.3 (c) iii or iv

Reason:

According to **Section 15(1) of CGST Act**, the transaction value should be the price actually paid or payable if the supply is between *unrelated parties* and the *price is the sole consideration*. Under section 15(4) where the value of the supply of goods or services or both cannot be determined under sub-section (1), the same shall be determined in such manner as may be prescribed.

Rule 28 outlines the valuation of transactions (goods or services supplied) between related persons or distinct persons as specified under Section 25(4) and (5). The value should be determined as follows:

- (a) The *Open Market Value* of such supply.

- (b) If the open market value is unavailable, *the value of goods or services of like kind and quality* should be considered.
- (c) If neither of the above can be determined, valuation should be done as per *Rule 30 (e.g., cost of supply plus a 10% markup)* or *Rule 31 (e.g., by other reasonable means)*.

However, as per the **first proviso to Rule 28**, if the goods are intended for further *supply as such* by the recipient, the supplier has the option to value them at *90% of the price charged for the supply of goods of like kind and quality by the recipient to his customer, provided the customer is not a related person*.

Since Zircon Limited primarily operates in retail, it is evident from the divisional structure that the jewellery items are intended for further supply (as such). Therefore, Diamond Limited can opt for either:

- *The open market value of ₹25 lakhs*
- *90% of the price charged for the supply of diamond studded jewellery items (of like kind and quality) by Zircon Limited to its customers, i.e., ₹17.1 lakhs, not being a related person*

Furthermore, since Zircon Limited is not eligible for a full input tax credit, the *invoice value alone cannot be deemed the open market value* under the second proviso to Rule 28.

Conclusion

For GST computation, Diamond Limited can opt for either ₹25 lakhs (open market value) or ₹17.1 lakhs (90% of the price of like kind and quality), as per the valuation methods prescribed under Rule 28.

- 2.4 (b) **Design stage (₹ 600 lakhs); Manufacturing stage (₹ 2,010 lakhs), Operations stage (₹ 135 lakhs) and End of Life stage (₹ 100 lakhs)**

Reason:

Following is the computation of stage wise cost to be incurred across the life cycle of the "Aurora":

Design stage ₹ lakhs		
Research	100	
Development	300	
Design and testing	200	600
Manufacturing stage ₹ lakhs		
Material	460	
Labour and overheads	880	
Training	500	
Maintenance	170	2,010
Operations stage ₹ lakhs		
Distribution	50	
Warranty claims	85	135
End of life stage ₹ lakhs		
Environmental clean up	70	
Disposal	30	100
Total	2,845	2,845

- 2.5 (d) **By delegating operational responsibilities, Diamond Limited most likely achieves a balance between regional adaptability and the alignment of divisional objectives with its overarching strategic goals.**

Reason:

Diamond Limited's decentralized structure emphasizes regional adaptability while ensuring that divisions operate in alignment with the broader corporate strategy, making Option D the most likely scenario. Options C contradict the decentralized approach, and Option A and B are accurate but less comprehensive than Option D.

Answers to the Descriptive Questions

2.6 In accordance with the requirement of Indian Accounting Standard (Ind AS) 24 "Related Party Disclosures", name of the related parties, related party relationships, transactions and outstanding balances including commitments where control exist and with whom transactions have taken place during the reported period are as follows:

List of related parties**Subsidiaries**

Name	Principal Activities	Country of Incorporation	% Equity Interest	
			31 March 2025	31 March 2024
Amethyst Limited	Retail Operations	India	80	80
Zircon Limited	Retail Operations	India	95	95
Topaz Limited	Retail Operations	India	100	100
Retail Gems S.p.A.	Retail & Processing	Italy	100	100

Associate

Dimond Limited holds a 25% interest in Emerald Limited (as of 31 March 2024: 25%). Emerald Limited, in turn, owns a 51% stake in its subsidiary, Ruby Limited (as of 31 March 2024: 51%).

Joint Arrangement in which the Group is a Joint Venturer

Dimond Limited holds a 50% interest in a joint venture, Coral Limited (as of 31 March 2024: 50%). Coral Limited, in turn, owns a 51% stake in its subsidiary, Sapphire Limited (as of 31 March 2024: 51%).

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

Key management personnel (KMP)

Key Management Personnel (KMP) of Diamond Limited includes:

- Ms. Ratna Mullick, Chief Financial Officer (CFO).

Transactions and Outstanding Balances (including commitments where control exists and with whom transactions have taken place)

₹ lakhs

Related Party	Financial Year	Balance outstanding at the year end	Sales to related parties (diamond-studded jewellery items) *	Purchases from related parties (property plant and equipment)	Purchases from related parties (diamond-studded jewellery items)	Purchases from related parties (diamond Items)	Short Term Employee Benefits
Subsidiaries:							
Topaz Limited	31 March 2025	—	17,076	—	—	---	---
	31 March 2024	—	14,340	—	—	---	---
Other subsidiaries*	31 March 2025	—	56 (incl. ₹ 20 lakhs which is not at arm's length)	—	—	---	---
	31 March 2024	—	40	—	—	---	---
Associate and its subsidiary:							
Emerald Limited	31 March 2025	—	---	6,960	5,030	---	---
	31 March 2024	—	---	—	—	---	---
Ruby Limited	31 March 2025	—	---	---	---	80	---
	31 March 2024	—	---	---	---	75	---
Joint venture and its subsidiary:							
Coral Limited	31 March 2025	—	—	---	1,416	---	---

	31 March 2024	—	—	---	---	---	---
Sapphire Limited	31 March 2025	—	186	---	---	---	---
	31 March 2024	—	230	---	---	---	---
Key management personnel:							
Ms. Ratna Mullick	31 March 2025	—	—	—	—	---	76
	31 March 2024	—	—	—	—	---	---
Entities where significant influence is exercised by KP/ Directors and/ other relatives having transactions with the Company:							
---	31 March 2025	---	---	---	---	---	---
	31 March 2024	---	---	---	---	---	---

**As per Ind AS 24, Para 24, items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity. Further, Para 24A states that disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of property, plant and equipment. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure.*

Note- For the purpose of disclosure, transactions given in the Case Study have only been considered.

- 2.7** An entity might enter into arrangement that involve a formal or informal agreement between the entity and another party in order to establish a business relationship through vehicles or structures or conduct of certain types of transactions under specific terms and conditions. Arrangements that may indicate the existence of related party relationships or transactions that management has not identified or disclosed to auditors.

SA 550 requires the auditor to obtain sufficient appropriate audit evidence about whether the related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements. When performing audit procedures, auditor pays particular attention to related parties that are in a position to exercise dominant influence over the entity or its management, by virtue of their ability to exert control or significant influence.

During the audit, the auditor shall remain alert, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor. In particular, the auditor shall inspect the following for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor –

- Bank, legal and third-party confirmations obtained as part of the auditor's procedures;
- Minutes of meetings of shareholders and of those charged with governance; and
- Such other records or documents as the auditor considers necessary in the circumstances of the entity.

If the auditor identifies arrangements or information that suggests the existence of unidentified related party relationships or transactions, the auditor should determine whether the underlying circumstances confirm the existence of those relationships or transactions. If the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor should –

- Promptly communicate the relevant information to the other members of the engagement team.
- Request management to identify all transactions with the newly identified related parties for the auditor's further evaluation.
- Inquire as to why the entity's controls over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions.

- Perform appropriate substantive audit procedures relating to such newly identified related parties or significant related party transactions.
- Reconsider the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary; and
- If the non-disclosure by management appears intentional (and therefore indicative of a risk of material misstatement due to fraud), evaluate the implications for the audit.

2.8 As per the SEBI (LODR) Regulations, 2015, a “related party” is defined as:

- A related party under sub-section (76) of Section 2 of the Companies Act, 2013; *or*
- A related party under the applicable accounting standards.

Additionally, it considers:

- (a) Any person or entity forming part of the promoter or promoter group of the listed entity; *or*
- (b) Any person or any entity, holding equity shares:
 - (i) of 20% or more, *or*
 - (ii) of 10% or more (effective April 1, 2023),

in the listed entity, either directly or indirectly, on a beneficial basis as per Section 89 of the Companies Act, 2013, at any time, during the immediate preceding financial year; shall be deemed to be a related party.

Analysis

As per the Companies Act, 2013

Section 2(76)(viii) defines a related party to include:

- A holding, subsidiary, or associate company of the listed entity;
- A subsidiary of a holding company to which the listed entity is also a subsidiary;

- An investing company or the venturer of the listed entity.

However, this clause does **not** extend the definition to include an *associate of an associate*.

- Emerald Limited, being a direct associate of Diamond Limited (holding 25%), qualifies as a related party.
- Jade Limited, being an associate of Emerald Limited (holding 22%), does **not** qualify as a related party to Diamond Limited under the Companies Act, 2013, as the definition under Section 2(76)(viii) does not extend to include an *associate of an associate*.

As per Regulation 2(1)(zb) of SEBI LODR) Regulations, 2015

The regulation specifies that any entity holding 10% or more equity shares in the listed entity (effective April 1, 2023) is deemed as a related party.

- There is no indication that Jade Limited holds any equity in Diamond Limited.
- Furthermore, there is no mention of whether Jade Limited is a listed entity. Therefore, Jade Limited does not meet the criteria for being classified as a related party under this regulation.

As per Ind AS 24

Paragraph 9(b)(ii) of Ind AS 24 states that an entity is related to a reporting entity if one entity is an associate or joint venture of the other entity or an associate/ joint venture of a member of the group of which the other entity is a member.

Paragraph 12 clarifies that an associate includes subsidiaries of the associate. However, an *associate of an associate* does not fall under the definition of a related party under Ind AS 24.

Accordingly, Jade Limited (being an associate of Emerald Limited, which is itself an associate of Diamond Limited) is **not** a related party to Diamond Limited under Ind AS 24.

Conclusion

Since Jade Limited is not a related party under the Companies Act, 2013, Ind AS 24, or Regulation 2(1)(zb) of the SEBI LODR) Regulations, 2015, the proposed transaction does **not** require the approval of the Audit Committee of Jade Limited.

2.9 Problem Definition: If Retail Gems buys from Division Ahmedabad, will it benefit the company as a whole?

Key Considerations: Contribution p.u. under external and internal sale options and the tax impact.

Methodology:

Part 1: Benefit to Division Ahmedabad

Currently external sales are 1,00,000 units. If Division Ahmedabad accepts to cater to Retail Gems's requirements, external sales have to be curtailed by 30,000 units. The sales mix would be external sales 70,000 units and internal transfer 50,000 units. (refer working note 1).

Division Ahmedabad was previous producing 1,00,000 units. On accepting Retail Gems's order, it is operating at full capacity of 1,20,000 units, an additional 20,000 units are being produced. As per working note 2, contribution from each option is the same at ₹ 28,000 p.u.

Additional Contribution

$$\begin{aligned} &= 20,000 \text{ units} \times ₹ 28,000 \text{ p.u.} \\ &= ₹ 56,00,00,000 \end{aligned}$$

Division Ahmedabad pays tax in India at 30%.

Hence, the Net Tax Contribution

$$\begin{aligned} &= ₹ 56,00,00,000 \times (100\% - 30\%) \\ &= ₹ 39,20,00,000 \end{aligned}$$

Part 2: Net Additional Cost to Retail Gems

Retail Gems is currently purchasing item similar to Gem-Milano within Italy at ₹ 1,44,000 p.u. (₹ equivalent value). If it purchases from Division Ahmedabad, it will pay ₹ 9,000 p.u. extra.

Additional Purchase Cost

$$\begin{aligned} &= 50,000 \text{ units} \times (₹ 1,53,000 - ₹ 1,44,000) \\ &= ₹ 45,00,00,000 \end{aligned}$$

However, this extra cost is tax deductible at a rate of 40%, the tax rate in Italy. Hence Additional Cost (net of tax)

$$= ₹ 45,00,00,000 \times (100\% - 40\%)$$

$$= ₹ 27,00,00,000$$

Part 3: Overall benefit (after tax) to the company

Division Ahmedabad benefits by ₹ 39,20,00,000 while Retail Gems incurs an extra cost of ₹ 27,00,00,000. Hence, the net after tax benefit to the company is ₹ 12,20,00,000. Therefore, Retail Gems should purchase Gem-Milano internally from Division Ahmedabad.

Working Notes

- Statement of Capacity Utilization of Division Ahmedabad

Sr. No.	Particulars	Number of units
1	Maximum Capacity	1,20,000
2	External Sales	1,00,000
3 = 1 - 2	Spare Capacity	20,000
4	Retail Gems's Requirement	50,000
5 = 4 - 3	External Sales Curtailed to meet Retail Gems 's Demand = Retail Gems 's Requirement - Spare Capacity Available = 50,000 units - 20,000 units	30,000

From the above table it can be seen that Division Ahmedabad has a spare capacity of 20,000 units currently. However, if it has to cater to Retail Gems's requirements, external sales have to be curtailed by 30,000 units.

- Statement of Contribution p.u. Figures in ₹

Sr. No.	Options	External Sale	Internal Sale
1	Selling Price p.u.	1,08,000	1,26,000
2	Variable Cost p.u.	80,000	74,000
3	Modification Cost p.u.	---	24,000
4 = 1 - 2 - 3	Contribution p.u.	28,000	28,000