CA FINAL - PAPER - 6

NEW SCHEME

INTEGRATED BUSINESS SOLUTIONS

(MULTI DISCIPLINARY CASE STUDY WITH STRATEGIC MANAGEMENT)

ꕥ Author ꕥ

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ABOUT

CA VINOD KUMAR AGARWAL

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

SUMMARY

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

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

PUBLICATIONS AND ACHIEVEMENTS

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

EDUCATION

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

TEACHING EXPERIENCE

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

TEACHING APPROACH

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

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CA VINOD KUMAR AGARWAL'S STUDENTS

FEEDBACK

Thank you so much VK sir,
Your teaching techniques helped me a lot to take 73 marks.

Regards,
Manjunath Doddamani

I scored 68 in SFM.. all thanks to you... From hating financial management in IPCC...to an exemption in CA final.. credits to you.

Thank you to Rakesh agrawal and VK sir.. I bought video lectures from A.S. Foundation. I got 59 marks in costing And 74 marks in FSCM. Thanks a lot

Regards,
Abarna J

Hello sir,Glad to share that I cleared CA final exam..Had cleared grp 2 in July attempt already..Scored exemption in FR & SFM..
Big big thanks to you !!
Thanks and regards,
CA Swapnil Kshirsagar

I took vinod sir's FR and SFM..scored exemption in both

Regards,
Shebin Sebastian

Sir today I cleared my CA final group 1 with exemption in all subjects I secured 63 in FR & 63 in SFM
Thanks a lot sir for your guidance :)

Please convey my message to Vinod Sir. Because of him I was able to pass when result is just 11%

I have done Vinod Sir's FR revision lecture's and able to score 55 Marks in FR. Thank you very much Vinod Sir. I cleared group 1

Regards,
Abhijit Mohan Lokhande

Hi Sir, I had secured exemptions in SFM(60) and FM(73) in previous attempts. SFM score helped me clear G1 this time.

Regards,
Kaushal

Sir, I cleared CA final in 1st attempt. Special thanks to VK Agarwal Sir for all his guidance and motivation ☺☺

Regards,
Siddhi Suman Parab

Hello sir I have taken CA final FR and SFM lectures from A.S Foundation. Now I have cleared both groups of CA Final

Regards,
Ashwani Kumar

I am very thankful to vinod sir. I cleared group 1 and scored 53 in SFM. Vinod sir's SFM class helps in clearing SFM.

Regards,
Ashutosh Kumar

I completed SFM revision it's good. Sir covered all concepts.
- Srinath Y.C

Dear Vinod Sir, Very well explained. In first 30 minutes sir has built the base with help of various examples.
-Milan Jeswani.

Hi sir. Good evening. I have taken SFM from you. I have cleared group-1.
I am very thankful to you sir.
I really loved the way you teach sir.
Regards
Sai Eshwar

I am also purchasing this sfm lectures and I have also done the FR from vinod sir by virtual classes ,it's really helpful and having easy understanding methods.

Ye sir hai jinke wajah se CA intermediate students ko bahut help milti hai. Aur to aur maine Vinod sir ke classes kiye hai. Inke jaise padhanewale kash hi koi ho sakate hai.
- Laxman Patil

Dear Vinod Sir, I've attended your FR and SFM regular classes. I liked it very much and I've recommended the same to my friends too. Many of my friends have already watched your class. Thank you so much sir.
Regards,
Anu

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▸ CASE STUDY - 115 ◂
(MTP SEPT 2024)

Journey of Rahul & Raj Films Ltd.

– The journey of Rahul & Raj Films Ltd. ("R & R") began in 1994, weaving captivating tales that unfolded on small screen, followed by hitting the big screen in 2000. At the helm of this creative enterprise, is Mr. Shah Ratan Kumar, Ms. Rani Kapoor and Ms. Nutan Dubey orchestrated a symphony of talent and vision, propelling R & R to the forefront of India's entertainment industry. Recognized as pioneers in movie production,

– The company have carved a niche for itself, enchanting viewers with an array of captivating narratives across various mediums and genres.

1994 First appearance in movie business → **2000** Major breakthrough with many hits → **2014** Cemented leadership position → **2023** Launched streaming platform

– The company has established strong Board of Directors comprising seasoned professionals from diverse backgrounds, who bring their expertise and guidance to steer the company towards sustainable growth.

– The Board exercises prudent oversight, ensuring strategic alignment, risk management and adherence to corporate governance standards. The Board of Directors and senior management details are given as per Annexure -A.

India's Film Industry: A Growing Giant

– India's film industry is one of the largest in the world with more than 2,000 motion picture films ('movies') release per year viewed by over 3 billion moviegoers annually. It is ` 260 billion industry and is expected to grow to ` 600 billion by 2039. The Indian Film Industry comprises of motion picture films produced across India.

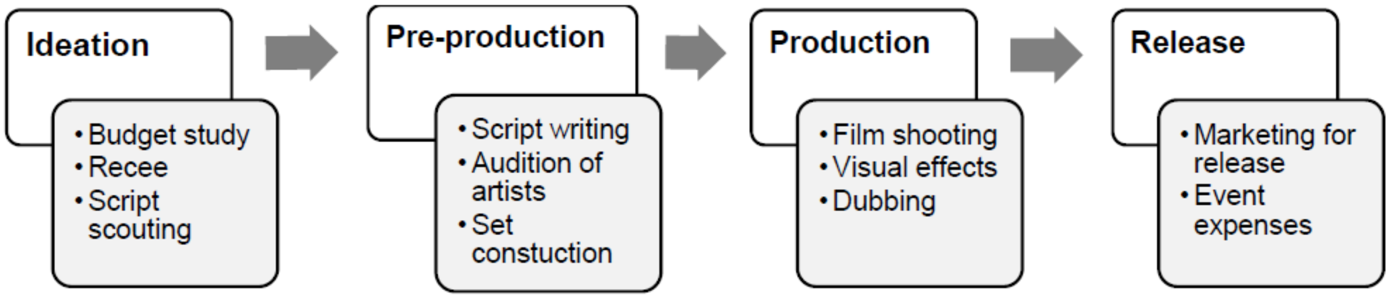
– This industry enjoys mass appeal and is probably the most important content feeder to other businesses in the Media & Entertainment space. Opportunity in the industry lies in meeting the demands of the new age consumer who seeks customized content tailored to their preferences. This shift in consumer behaviour presents a favourable environment for the company to thrive and capitalize on emerging opportunities. The industry is witnessing the following megatrends:

Megatrend 1: Witnessing the adoption of emerging technologies to offer immersive viewing experiences. Virtual Reality and Augmented Reality are being leveraged.

Megatrend 2: With the rise of digitalized communities, brands and platforms are actively incorporating features like 'go live' to build online communities.

Megatrend 3: The globalization of media and entertainment services presents new opportunities for content creators, distributors and advertisers.

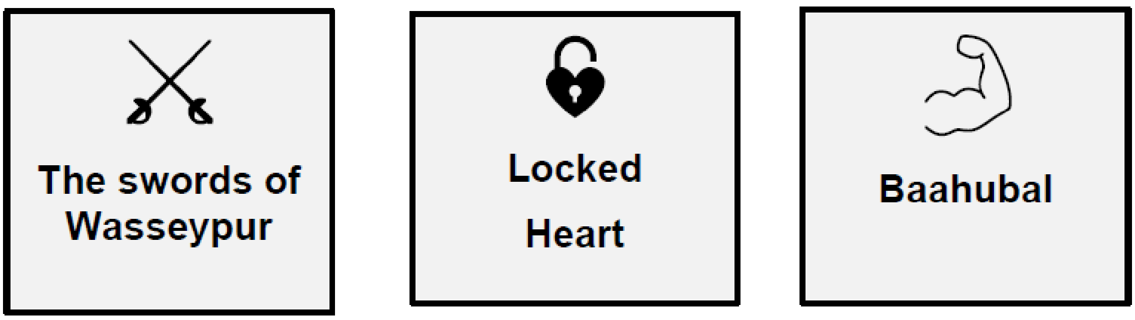
– R & R, remains committed to producing engaging content, leveraging experience and expertise and expanding customer base. The focus on quality, adaptability and innovation continues to drive success in the dynamic world of entertainment. Movie making broadly involves the following steps:



The key business strategies of R & R are as follows:

- **Expanding into Non-Fiction:** The company also enhances its focus towards non-fiction content and successfully launched 'Locked in' in the current year, which emerged as the highest-watched movie, showcasing the extensive reach of its business. This success encourages to continue emphasizing transforming passive audiences into engaged prospects by striving to bring more out-of-the-box content-led movies.
- **Quality over Quantity:** The company driven by fundamental principle of choosing quality over quantity when it comes to content. With decades of experience, the enhanced industry knowledge and ability to gauge ongoing and emerging trends have helped the company serve better. The company have built a better understanding of the choices and preferences of audience, enabling it to consistently deliver content that resonates with them.
- **Enhancing User Experience:** While the emphasis remains on connecting with more people in better way The company also stay aligned with the need of the time to adapt to the surrounding changes. Technological upgradation has become an integral part of our business as the company continue to cater to the entertainment needs of audiences through digital platforms. Refer Annexure B for customer feedback.

Box office hits of the current year



New Projects and Strategic Decisions

- The movie 'Simran' is currently being conceptualised, where the primary focus is on gathering detailed information and developing a solid foundation for the storyline. The project aims to explore the theme of woman empowerment. The objective at this stage is to ensure the story is grounded in accurate, relevant, and engaging content. This includes examining historical contexts, cultural elements, scientific data, or other relevant fields to enhance the authenticity and depth of the narrative.
- The next steps involve synthesizing the gathered information into a coherent storyline, developing character profiles, and creating a detailed plot outline. Collaboration with subject matter experts will continue to ensure the highest level of accuracy and authenticity in the portrayal of the chosen themes.
- The company decided to abandon the movie 'Kaleen Bhaiya'. The decision to abandon the movie project was primarily due to the story not meeting the desired standards.
- Despite multiple revisions and considerable effort from the writing team, the narrative failed to captivate and engage in the way that was envisioned. The lack of a compelling and cohesive storyline made it difficult to move forward with production. The team agreed that it would be best to discontinue the project rather than invest further resources into a script that did not meet the creative expectations.

Music Rights and Revenue Growth

- In India, music is an important feature of motion picture films. Music rights are generally sold to music companies during the production stage itself. As music plays an important role in the marketing of a motion picture film, music companies release the soundtrack prior to the theatrical release. These rights are generally assigned to the music company in perpetuity for a fixed fee. Where the producer has right to future royalty after achievement of threshold sales by the music company, royalty income is recognized as earned, when communicated/ confirmed by the music company.
- On 1st September 2023, the company grants music rights of its three upcoming movies to 'GOLD', a music company for ` 3,000 lakhs receivable on date of contract signing. The contract condition stipulates that proportionate amount shall be

refunded in case of non-release of music of any of the three movies. The music rights are made available to the music company for the first film on 1st December 2023, second film on 1st January, 2024 and for the third film on 1st July, 2024.

– During the F.Y. 2023-24, R & R continued to thrive across various mediums, delivering captivating content that resonated with the audiences. The Group reported 76% increase in revenue to ` 593 crores vis-à-vis ` 337 crores in the previous financial year. Cost of production also increased to ` 511 crores vis-à-vis ` 327 crores in the previous financial year in line with increase in production hours, crossing the milestone of producing more than 1,000 hours of content during the fiscal year. EBIDTA loss at ` 19 crores was narrowed by 84% in the current financial year over loss of ` 122 crores in the previous financial year. The company has improved its accounts receivable collection efficiency, reducing the sales outstanding from 164 to 160 days

Auditor Engagement and Concerns

– Ranveer and Ranbir LLP are appointed as auditors of the company since last 4 years. The firm's audit & assurance practise in different sectors including Media & Telecommunications is dedicated to delivering exceptional quality and innovative solutions with team of experienced professionals who offer in-depth industry expertise and insightful audits, ensuring that clients receive the highest level of assurance. The firm is an auditor to many of the country's most recognizable brands in the market today.

– Considering the continuance of audit, the engagement partner is deliberating whether a new engagement letter should be sent for the audit of the current F.Y. ended 31st March, 2024. Till last year, an engagement letter was sent for audit of every F.Y. despite no change of laws and regulations, auditors/management responsibilities.

– During the audit engagement, the auditor observed that the days outstanding are significantly higher than industry averages and decided to obtain independent balance confirmations of trade receivables. The confirmation letter requests the customer to respond directly to the auditor indicating whether the party agrees or disagrees with the information in the request or provide the requested information. Based on previous experience, the auditor believed that the responses to the confirmation requests would be insufficient. This is primarily due to the fact the company works in an unorganised sector and every customer may not readily maintain updated books and records. Also due to lack of interest, customers may generally be reluctant in confirming balances.

Subsidiary Operations and Market Position

– R & R operates movie theatres in different parts of the country through the following group entities:

Mangla Talkies Ltd.

– Established 10 years ago in Mumbai with the strategic objective to identify movie theatres at different parts of the country and secure time slot of exhibitions and other logistical aspects. At the moment logistical related aspects of about 50% of the movies exhibited by R & R is handled by this subsidiary. In recent years, competition between theatre owners has intensified. It has been estimated that total annual turnover for the movie exhibition in the country has fallen by 5% in the past two years. The estimated market share of Mangla Talkies, which operates the fifth largest movie logistics management company, has fallen from 14% to 13% in the same period. It has a low-profit margin.

– Prospects for the entertainment industry is uncertain, partly because of lower box office collections but also because of availability of alternate entertainment avenues. OTT platforms have limited the number of movies that are released each year. There is concern that the OTT platform will reduce movie production over time.

Sangam Theatres Ltd.

– Sangam Theatres was acquired about 20 years ago when it was a newly established company. At the moment about 50% of the movies released by R & R is exhibited by Sangam Theatres. R & R used government grants, available at the time (but no longer) to invest in modernisation of the theatre. Sangam Theatres is now a leading theatre operator, and it attracts a large amount of its business from other companies, partly because of its operating capabilities but also because of its relatively low costs. The low costs are achievable because Sangam Theatres uses relatively modern equipments having larger capacities. The market is fairly static, increased in size by just 2% in the past two years. Annual turnover for Sangam Theatres has risen by 8% in the same period, and its profits are also rising. Sangam Theatre also exhibits movies of other movie producers.

Payal Movies Ltd.

– Payal was acquired 7 years ago as a strategic response to the declining regional movie market. It operates several movie theatres at various states. R & R has experienced problems with Payal Movies since its acquisition. Operating costs have been higher than expected. Over the past 2 years the market has increased by 20%. Annual revenue of has risen by 12% in the same period, but its annual profits have risen only slightly.

Vijay Screens Ltd.

– R & R established a subsidiary company - Vijay Screens to create a platform for documentaries and similar movies created by the upcoming directors. Competition in the business is strong, and profit margins for Vijay Screens are narrow, but R & R considered that owning a platform for documentary movies would give it greater control over its movies' portfolio.

The Board of Directors of R&R comprises of following persons:

Mr. Shah Ratan Kumar ***Promoter and Non-Executive Chairman***	A celebrated movie star and starring in more than 200 movies in his career of 50 years. He is particularly popular as a romantic lead. He is also a reputed film producer. He has won a number of prestigious awards, including the Lifetime Achievement Award, as well as Dadasaheb Phalke Academy Award
Ms. Rani Kapoor ***Promoter and Managing Director***	Has been in charge of company's operational management and efficiency and in controlling 'on set' activity. She has won a number of prestigious awards including CEO of the Year and Businesswoman of the Year. Earlier the position was held by Mr. A. Suleiman.
Ms. Nutan Dubey ***Promoter and Joint Managing Director***	Undertakes the day-to-day creative direction of movies produced by the company. She has won a number of prestigious awards, including the Businesswoman of the Year and Entrepreneur of the Year.
Ms. Sanna Mukherjee ***Independent Director***	An industry veteran with over three decades of experience in the media and entertainment business. Appointed as CEO of Vianet19 to drive its transition into a truly integrated media company across broadcast and digital, and across entertainment and sports in over 8 languages. Her initial appointment as an Independent Director was for 1 year and was then reappointed for another term of 5 years which would end on 30th July, 2024. The Board proposes to appoint her for another term of 5 years. If her appointment proposal is accepted as per applicable laws and regulations, Ms. Sanna will attain 68 years of age on completion of her third term.
Mr. S. Dutt ***Independent Director***	Chartered Accountant by profession and is a Life & Fellow Member of the Institute of Chartered Accountants in England and Wales and a Fellow Member of the Institute of Chartered Accountants of India. He was a partner at CA firm, Salman & Aamir from 1969 and was the Senior Partner (Chairman) of the firm from 1989 till 1999.
Mr. Prem Naryan Chopra ***Group CFO***	A Chartered Accountant by profession and is a Life & Fellow Member of the Institute of Chartered Accountants in Australia and a Fellow Member of the Institute of Chartered Accountants of India. He also served as the Chairman of the Direct Taxation Committee of the Southern India Chamber of Commerce & Industry and was a member of the Board of Governors of the Doon School, Dehradun. Earlier this position was held by Amrish Nath till last year.
Ms. Juliya Jain ***Group Head – Secretarial***	Joined the company in the current year and holds a Bachelor's Degree in Commerce and a Bachelor's Degree in Law from the University of Delhi. She has over 36 years of rich experience in the Finance, Capital Markets, Banking, General Corporate Advice and Regulatory Practices. She was a Senior Partner at BZA Legal, Executive Vice President and Head of Legal & Compliance Department at Credit Bank Ltd. Previously this position was held by Ms. Deepika Singhal.

Annexure-B Extracts From Customer's Feedback

Yusuf J., Friday, 4:00 p.m., August 15, 2024

– At Rahul & Raj, I believe that the movie-going experience doesn't end when the credits roll. Every visit to Sangam Theatres is an opportunity to create lasting memories, and I'm committed to making each one better than the last.

– Thank you so much for your kind words! We're thrilled to hear that you had such a positive experience at Sangam Theatres. We've worked hard to make sure every visit is as seamless and enjoyable as possible; from the moment you park to the end.

Tina M., Friday, 2:30 p.m., August 15, 2024

– While I've always enjoyed watching movies at Mangla Talkies, my recent visit left me with mixed feelings. The movie itself was fantastic, but I noticed that the service quality has slipped a bit. The concession stand took longer than usual, and the seating wasn't as comfortable as I remembered.

– Thank you for sharing your experience. We truly appreciate your loyalty to Mangla Talkies and sorry to hear that your recent visit didn't meet your expectations. Your feedback is invaluable, and we want you to know that we're taking it seriously. We're already looking into the service delays at the concession stand and the seating comfort, and we're committed to making improvements. We hope you'll notice the difference on your next visit, and We look forward to welcoming you back to a better experience soon.

I. Multiple Choice Questions

1. Should the auditor send an engagement letter for the audit of the current financial year of R & R? Choose the correct statement.

   (a) New engagement letter should be sent if there is recent change of senior management or similar at R & R.

(b) New engagement letter should be sent every year including recurring audit engagements under the Companies Act, 2013.

(c) It is optional to obtain to new engagement letter for recurring audit engagements as envisaged under SA 210.

(d) The Companies Act, 2013 mandates auditors to obtain engagement letter for every audit. **2 Marks**

2. What type of confirmation request have been designed by the auditor while auditing trade receivables?

(a) Negative confirmation request (b) Positive confirmation request

(c) Hybrid confirmation request (d) Blank confirmation request **2 Marks**

3. What amount of revenue from music rights be recognised in the financial statements of FY 2023-2024?

(a) ` 2,000 lakhs (b) ` 3,000 lakhs (c) ` 1,000 lakhs (d) ` 593 crores

4. Can Ms. Sanna Mukherjee be reappointed as an independent director for another term of 5 years?

(a) Under the Companies Act, 2013, an independent director can be appointed for a maximum period of 10 years. Ms. Sanna Mukherjee can be reappointed as an independent director for the remaining period of 4 years.

(b) Under the Companies Act, 2013, an independent director can be appointed for 2 consecutive terms – each term being 5 years (i.e. 10 years). Ms. Sanna Mukherjee can be reappointed as an independent director for another term of 5 years since her first term was lesser period (i.e. 1 year instead of 5 years) as provided under the Companies Act, 2013.

(c) Under the Companies Act, 2013, an independent director can be appointed for maximum 2 consecutive terms – each term can be upto 5 years (i.e. 10 years). Ms. Sanna Mukherjee cannot be reappointed as an independent director since she would attain 68 years of age on completion of the proposed term of 5 years. Any person attaining 68 years of age cannot be appointed as an independent director.

(d) Under the Companies Act, 2013, an independent director can be appointed for maximum 2 consecutive terms – each term can be upto 5 years (i.e. 10 years). Ms. Sanna Mukherjee cannot be reappointed as an independent director since she has completed 2 consecutive terms. Appointment for a term less than 5 years is treated as one term. **2 Marks**

5. Whether the cost of production of 'Kaleen Bhaiya' can be claimed as a deduction while filing ITR by the company?

(a) Cost of production of abandoned movie can be claimed as a deduction while filing ITR by the company as a capital expenditure.

(b) Cost of production of abandoned movie can be claimed as a deduction while filing ITR by the company as revenue expenditure.

(c) Deduction of cost of production cannot be claimed under Rule 9A of the Income Tax Rules 1962, since the movie was not certified for release by Board of Censors.

(d) Deduction of cost of production can be claimed under Rule 9A of the Income Tax Rules 1962, since the cost of production did not exceed the monetary limit of ` 500 crores prescribed in aforesaid Rule. **2 Marks**

II. Descriptive Questions

6. EVALUATE the intricate value chain of R & R, focusing on the production, acquisition, distribution, and exhibition of movies. DISCUSS the operational challenges in each stage and how they affect the company's efficiency and overall success. **6 Marks**

7. Whether the production of the movie 'Simran' is at the research or development stage under the relevant Ind AS. Explain the accounting treatment for the cost incurred till date with respect to the said movie? **4 Marks**

8. Explain the reason for obtaining independent confirmation prescribed under SA 505? What alternate procedures should the auditors, Ranveer and Ranvir LLP, perform if the response of independent confirmation of trade receivable was inadequate? **5 Marks**

ANSWERS TO THE CASE STUDY - 115

I. Answers to the Multiple Choice Questions

1.(a) New engagement letter should be sent if there is recent change of senior management or similar at R & R.

Reason: Paragraph A29 of SA 210 provide that the auditor may decide not to send a new audit engagement letter or other written agreement each period unless factors exist (e.g. a recent change of senior management) to make it appropriate to revise the terms of audit engagement.

2.(b) Positive confirmation request

Reason: The auditor has designed a positive confirmation request. A positive external confirmation request asks the confirming party to reply to the auditor in all cases, either by indicating the confirming party's agreement with the given information, or by asking the confirming party to provide information. A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence

3(a)` 2,000 lakhs

Reason:

Accounting year	Particulars	Revenue (` in lakhs)
YE 31 March 2024	Music of first and second movie made available during the year ended 31st March, 2024	2,000
YE 31 March 2025	Music of third movie made available to the music company on 1st July, 2024*	1,000

– *Had the third movie been shelved during the year ended 31 March 2024, the amount of ` 1,000 lakhs would have been refundable to the music company.

4(d) Under the Companies Act, 2013, an independent director can be appointed for maximum 2 consecutive terms – each term can be upto 5 years (i.e. 10 years). Ms. Sanna Mukherjee cannot be reappointed as an independent director since she has completed 2 consecutive terms. Appointment for a term less than 5 years is treated as one term.

– **Reason:** MCA has clarified that an independent director can be appointed for a term of less than 5 years. However, any appointment whether of 5 or less than 5 years will be regarded as 'one term'. Section 149 (11) of the Companies Act, 2013 clearly stipulates that no person can hold office as an independent director for more than 'two consecutive terms'.

– Thus, irrespective of the duration of each of the two terms (whether the same aggregates to 10 years or less) a person holding office for two consecutive terms shall be eligible for re-appointment only after the expiry of three years of ceasing to become an independent director.

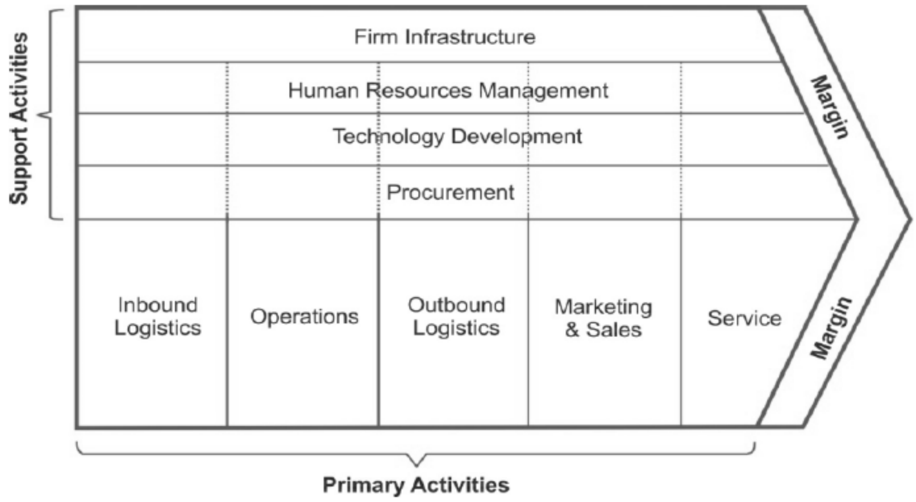
5(b) Cost of production of abandoned movie can be claimed as a deduction while filing ITR by the company as revenue expenditure.

Reason: CBDT has clarified vide *Circular No. 16, dated 6.10.2015* that Rule 9A does not apply to abandoned feature films and that the expenditure incurred on such abandoned feature films is not to be treated as a capital expenditure. The cost of production of an abandoned feature film is to be treated as revenue expenditure and allowed as per the provisions of section 37 of the Income-tax Act, 1961.

II. Answers to the Descriptive Questions

6 Evaluation of the Value Chain of Rahul & Raj Films Ltd.

– The value chain of R & R can be assessed by analyzing its primary and support activities that contribute to creating value and maintaining a competitive advantage in the entertainment industry. R & R engages in the production and acquisition of movies as well as distribution and exhibition.



Primary Activities

Inbound Logistics

– In the context of R & R, inbound logistics plays a critical role in the company's ability *to consistently deliver high-quality content*.

– The company's strategy of prioritizing quality over quantity is reflected in their meticulous approach to inbound logistics, where *careful planning and resource allocation are paramount*. Efficient management of these resources allows R & R to maintain a streamlined production process, minimizing delays and optimizing costs, which is crucial in an industry where time-to-market can significantly impact a film's success. This robust inbound logistics framework supports the company's overarching strategy of delivering captivating and innovative content, thereby strengthening its position in the competitive Indian film industry.

Operations

– R & R has a strong presence in movie production and exhibition, largely due to its ownership of Sangam Theatres and Mangla Talkies. Sangam Theatres, a successful acquisition, has been modernized to improve profitability, while Mangla

Talkies handles logistical operations for movie exhibitions (Outbound Logistics). The vertical integration of these operations ensures smooth transitions from production to exhibition, enhancing the company's control over its value chain.

Outbound Logistics

- R & R's outbound logistics are crucial, particularly in the **distribution of movies** through its theatre chains and digital platforms. A key player in this process is Mangla Talkies, which manages the distribution logistics and ensures that movies are released on time and in an efficient manner. The company's integration across different stages of the value chain has significantly enhanced its ability to oversee and manage the distribution process effectively.
- However, despite the strong performance of Sangam Theatres, the decline in Mangla Talkies' market share indicates a need for the company to reassess its distribution strategies. This reassessment is vital not only for maintaining its current market coverage but also for expanding it in the increasingly competitive landscape.
- The rise of OTT platforms further complicates the situation, posing a substantial challenge to traditional movie exhibition operations. To maintain relevance and effectively compete with online platforms, it is crucial for the company to modernize its theatres and integrate digital technology into its operations. This modernization will ensure that R & R remains competitive in a rapidly evolving industry.

Marketing and Sales

- R & R has built a strong brand in the Indian film industry, particularly through its focus on quality content and diversification into regional and niche markets. The company's strategic positioning in the movie exhibition space allows it to leverage its brand for both mainstream and niche content.
- The company's ventures into niche markets through Vijay Screens demonstrate an effort to cater to diverse audience preferences. However, with the growing influence of OTT platforms, the company needs to enhance its marketing strategies, possibly integrating digital marketing and *partnerships with online platforms* to reach broader audiences.

Service

- For R & R, the after-sale service value chain is a strategic tool that not only enhances customer satisfaction but also differentiates the brand in a competitive landscape. Maintaining an ongoing dialogue with customers through personalized communication, whether via email newsletters or social media interactions, helps in keeping them connected with the brand. This engagement fosters a loyal customer base that is more likely to return for future screenings.
- The feedback from customers like Yusuf J. and Tina M. highlights the critical role that after-sales service plays in the overall value chain at R & R. At Sangam Theatres, the commitment to enhancing the movie-going experience from start to finish has resulted in positive customer experiences, reinforcing the importance of maintaining high standards in service quality, convenience, and comfort. However, the feedback from Mangla Talkies suggests areas where service can be strengthened, particularly in addressing service delays and seating comfort. These insights underscore the need for continuous improvement in customer engagement, issue resolution, and facility upgrades.
- By actively responding to customer feedback and making necessary adjustments, R & R can ensure that every visit, whether to Sangam Theatres or Mangla Talkies, leaves a lasting positive impression, ultimately strengthening its position in the competitive entertainment industry.

Support Activities

Firm Infrastructure

- The company's strategic acquisitions and vertical integration are key components of its infrastructure. However, the management must address inefficiencies in regional operations and adapt to the changing technological landscape to sustain growth.
- The modernization of Sangam Theatres has been successful, but similar efforts may be needed across other subsidiaries, particularly those struggling with operational inefficiencies. While the company has seen revenue growth, particularly in regional markets, the higher-than-expected operating costs suggest a need for better financial management practices, especially in cost control and resource allocation.

Human Resource Management

- The success of R & R's operations depend on its ability to attract and retain skilled professionals in movie acquisition, production, distribution, and exhibition. Investment in training and development is crucial for maintaining high operational standards and adapting to industry changes.
- With challenges in managing operating costs at Payal Movies, there may be a need for improved human resource management practices to enhance employee efficiency and reduce costs.

Technology Development

- The company's ability to integrate new technologies into its operations, such as digital projectors in theatres and partnerships with OTT platforms, is critical for maintaining competitiveness. Investment in R&D for innovative exhibition formats and digital platforms could create additional value.

Procurement

- The process begins with ***securing top-tier scripts and story ideas, which serve as the foundation for the company's productions***. Given the company's focus on both fiction and non-fiction genres, the selection and acquisition of compelling narratives are vital. This includes purchasing rights to intellectual properties, collaborating with accomplished directors, and bringing on board renowned actors, all of which are essential inputs in the filmmaking process.
- The company's procurement strategies for acquiring content and technology are essential for maintaining quality standards. Developing strong relationships with content producers and technology suppliers can ensure access to high-quality inputs at competitive prices.
- The higher operating costs at Payal Movies highlight the importance of effective procurement strategies in managing expenses and maximizing profitability.

Conclusion

- R & R has established a comprehensive value chain that integrates multiple stages of the film industry, from content acquisition to exhibition. The company's strategic acquisitions and modernization efforts have created value across its primary and support activities. However, challenges in managing operational costs, particularly in regional markets, and adapting to technological shifts suggest areas for improvement.
- By enhancing its technology development, human resource management, and procurement strategies, Rahul & Raj can strengthen its value chain and sustain its competitive advantage in the evolving entertainment industry.

7. Determination of research and development assumes significance for self - generated intangible assets as capitalisation of cost are permitted only from such time as recognition criteria Ind AS 38 are met. Under Ind AS 38, research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Whereas development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

- As per paragraph 57 of Ind AS 38, no intangible asset arising out of research phase of an internal project should be recognised. Thus, an intangible asset can be recognised only on the commencement of the development stage where the intangible asset can be identified, and the entity can demonstrate that future economic benefits are probable from the asset. Further, as per para 58 of Ind AS 38, an intangible asset arising from development or from the development phase of an internal project demonstrates that the asset will generate future economic benefits because development phase is further advanced than the research phase.
- In a movie production cycle, the ideation phase is likely to be 'research' that is undertaken with the prospect of understanding the potential market for such a movie. Expenses, incurred prior to the date of the finalization of concept should be expensed considering the same as a cost in the research phase. This is because in the research phase of a project, it cannot be demonstrated that an intangible asset exists from which future economic benefits are probable.
- In the extant case, there is no identification of key cast and crew or the location. The filming set is also being deliberated and have not yet been finalised. Booking of the lead star cast is pending. Date of shooting has not been frozen. Accordingly, the production of movie 'Simran' is at the research phase. Thus, cost incurred till date cannot be capitalised and should be expensed out in the statement of Profit and Loss when it is incurred.

8. External confirmation procedures are an effective and efficient way to obtain audit evidence about financial statement assertions such as trade receivable with number of days outstanding – being significantly higher than industry average. External confirmations also help auditor obtain audit evidence from third parties with a high level of reliability when responding to significant risks. Decision whether to use external confirmation procedures requires significant judgement as envisaged in SA 505 including the objectivity of the confirming party and the willingness of the confirming party to respond.

- The auditor should exercise an appropriate level of professional skepticism throughout the confirmation process. Professional skepticism is important in designing the confirmation request, performing the confirmation procedures and evaluating the results of the confirmation procedures.
- When the auditor do not receive replies to positive confirmation requests, the auditor as required under SA 505 apply alternative procedures to the non-responses to obtain the evidence necessary to reduce audit risk to an acceptably low level. The nature of alternative procedures to be performed varies according to the account and assertion.
- Alternative procedures related to the confirmation of trade receivables may include examination of subsequent cash receipts or other entity documentation to provide evidence for the existence assertion. The auditor should evaluate the combined evidence provided by the confirmations and the alternative procedures performed to determine whether it is sufficient to achieve our audit objectives and if it is relevant and reliable.
- If the combined evidence provided by the confirmations, alternative procedures and other procedures is not sufficient, the auditor should request additional confirmations or perform other tests, such as tests of details or analytical procedures, to the extent needed to obtain the desired audit evidence.

⏵ CASE STUDY - 116 ⏴
(MTP SEPT 2024)

Dev Products Ltd. (DPL): A Journey of Strategic Growth

– Founded in the heart of India's industrial hub, Lucknow, in the early 1980s, Dev Products Ltd. (DPL) began its journey as a modest manufacturing unit specializing in agricultural implements. The company's entrepreneurial spirit and a keen understanding of rural India's needs propelled its initial growth. Recognizing the burgeoning construction sector, DPL expanded its product line in the late 1990s to include basic building materials. This strategic move proved to be a cornerstone in solidifying the company's position in the market.

– Over the decades, DPL consistently reinvested its profits into research and development, enabling it to diversify its product portfolio. The early 2000s witnessed DPL's foray into the consumer durables market with the introduction of essential home appliances.

– This expansion was driven by the growing middle class and the increasing demand for modern conveniences. The company's commitment to quality and affordability quickly garnered a loyal customer base. By the mid-2010s, DPL had established itself as a formidable force in the Indian manufacturing industry. The company's ability to adapt to evolving market trends and consumer preferences allowed it to navigate economic challenges and emerge stronger. A strategic focus on building a robust distribution network and prioritizing customer satisfaction further cemented DPL's position as a trusted brand.

– The company’s product portfolio is strategically categorized to cater to different market segments, offering a comprehensive range of building materials essential for various construction projects, including pipes, wires, electrical fittings, and prefabricated building components. In the home appliances sector, DPL meets the needs of modern households with a selection of essential appliances like refrigerators, washing machines, and water purifiers, potentially expanding to include smaller appliances like kettles or toasters.

– Recognizing the importance of long-lasting consumer durables, DPL’s offerings in this category include products like bicycles, furniture, and even electronics like televisions. Beyond product diversification, DPL prioritizes exceptional customer service and has established a robust distribution network across North India, ensuring easy product availability for retailers and consumers. Additionally, DPL emphasizes responsive after-sales support through a network of service centres, fostering customer satisfaction and brand loyalty.

Strategic Acquisition of BDM Ltd.

– In a strategic move to enhance synergy and expand its market presence, Dev Products Ltd. (DPL) acquired BDM Ltd. BDM Ltd. is projected to generate an expected free cash flow of ` 2 crores for the upcoming year, with a forecasted growth rate of 5%. The company's cost of equity is calculated at 12%, while the after-tax cost of debt stands at 6%. Notably, the market value of BDM Ltd.'s equity is estimated to be three times its book value, whereas the book value as well as the market value of its debt is equivalent to book value of equity.

– The acquisition process saw significant milestones, beginning with the receipt of the certified copy of the order of amalgamation from the National Company Law Tribunal (NCLT) on 26th April 2023. This document, dated 25th April 2023, was subsequently filed with the Registrar of Companies (ROC) for registration on 2nd May 2023, within the stipulated timeline. The amalgamation was officially registered by the ROC on 10th May 2023, with the scheme of amalgamation indicating an appointed date of 5th May 2023.

– Initially, BDM Ltd. was valued at `50 crores by an analyst for the purpose of amalgamation. However, a registered valuer of DPL later discovered that the analyst had utilized the book values of debt and equity in his calculations, which necessitated a revision of BDM Ltd.’s value in the amalgamation scheme. As a part of the acquisition, DPL also gained two valuable trade secrets from BDM Ltd. — 'Design A,' a patented interlocking bricks design, and 'Design B,' which pertains to the internal component design of bricks but lacks legal protection.

Legal Challenges and Risk Management

– To commemorate two significant milestones—the successful acquisition of BDM Ltd. and the 25th anniversary of its founding—Dev Products Ltd. (DPL) hosted a grand celebration for the major shareholders of both companies. However, the festive atmosphere was soon overshadowed by a controversy that emerged in the media, shedding light on legal issues involving a former director of BDM Ltd. This unexpected revelation posed a significant legal challenge for DPL, as the company had to address the complexities surrounding the personal liability of directors for actions taken before the acquisition.

– Following the acquisition, DPL’s management prioritized strengthening its internal controls to ensure smooth integration of the merged entities and to mitigate potential risks. As part of this initiative, DPL's management met with their statutory auditors, LR & Co., to discuss implementing a risk-based audit approach. To further bolster its internal controls, particularly in Accounts & Finance, DPL purchased standardized finance software at a list price of `15 lakhs, paying `0.25 lakh towards non-refundable purchase tax. The company was also granted a trade discount of 5% on the initial list price and incurred a cost of `3.5 lakhs for customizing the software for its intended use. Additionally, DPL secured a 5-year maintenance contract with the vendor company for ` 1 lakh.

Audit and Financial Reporting

- During the audit of DPL's consolidated financial statements for the year 2023-24, which are required to be prepared in accordance with Division II of Schedule III to the Companies Act, 2013, CA Lokesh, the engagement partner from LR & Co., noticed important details. The notes to the accounts in respect of consolidated financial statements disclosed additional information pertaining to the holding company and its subsidiaries. This included percentages of consolidated net assets, consolidated profit and loss, and total comprehensive income, along with their respective amounts. Additionally, during the year 2023-24, goodwill of `10 crores arose from the acquisition of a subsidiary, with no impairment loss as of the balance sheet date. Adjustments were made in the consolidated financial statements concerning intra-group indebtedness and harmonizing different accounting policies adopted by the parent and its subsidiaries.
- DPL's journey from a small manufacturing unit to a leading player in multiple sectors showcases its strategic foresight and adaptability. The recent acquisition of BDM Ltd. and the company's ongoing efforts to strengthen internal controls reflect DPL's commitment to sustainable growth and strong governance.

ANNEXURE

City Times
– *Lucknow, May 15, 2024* — In the aftermath of a high-profile corporate amalgamation, Mr. Ashok, a former director of BDM Ltd., finds himself embroiled in a legal controversy that could have significant implications for corporate governance and accountability. The amalgamation, which saw BDM Ltd. being acquired by Dev Products Ltd. (DPL), has brought to light a series of alleged offenses committed by Mr. Ashok in violation of the Companies Act, 2013. – Mr. Ashok, who was a key figure in BDM Ltd. before the company's amalgamation with DPL, is now under scrutiny for actions that reportedly breached corporate regulations. The offenses, which include several violations of the Companies Act, 2013 were committed prior to the completion of the amalgamation. However, Mr. Ashok is attempting to distance himself from the legal consequences of these actions, arguing that since the offenses occurred before the amalgamation, he should not be held liable for any resulting penalties or punishments. – Legal experts are closely watching the case, as it raises important questions about the extent of personal liability for directors in the context of corporate mergers and acquisitions. The key issue at hand is whether a director can be absolved of responsibility for actions taken before a amalgamation simply because the company has changed ownership or structure.

I. Multiple Choice Questions

1. From the following options you are required to choose the correct 'effective date' of amalgamation:

   (a) 25/04/2023 (b) 26/04/2023 (c) 10/05/2023 (d) 05/05/2023 **2 Marks**

2. Under McKinsey's 7S framework, DPL's acquisition of BDM Ltd. and subsequent efforts to strengthen internal controls would most likely be classified under:

   (a) Strategy and Systems (b) Shared Values and Skills

   (c) Structure and Staff (d) Style and Strategy **2 Marks**

3. At what cost the intangible asset i.e. the finance software will be recognised by DPL?

   (a) ` 17.95 lakhs (b) ` 18 lakhs (c) ` 18.2 lakhs (d) ` 17.75 lakhs **2 Marks**

4. Considering disclosure of additional information in consolidated financial statements, which of the following statements is correct?

   (a) The said disclosure is not proper as percentage of consolidated revenue from operations along with respective amount pertaining to holding company and its subsidiaries is also required.

   (b) The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.

   (c) The said disclosure is not proper as percentages of consolidated revenue from operations as well as other comprehensive income along with their respective amounts pertaining to holding company and its subsidiaries are also required.

   (d) The said disclosure is proper. **2 Marks**

5. Which of the following statements best reflects the proper treatment of goodwill and the other consolidation adjustments within the context of these financial statements?

(a) Goodwill represents current period consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments.

(b) Adjustments relating to goodwill, intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by parent and its subsidiaries represent current period consolidation adjustments.

(c) Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments.

(d) Goodwill and adjustments relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent permanent consolidation adjustments. Adjustments relating to intra-group indebtedness represent current period consolidation adjustments. **2 Marks**

II. Descriptive Questions

6. How should DPL APPLY the relevant Indian Accounting Standards (Ind AS) to account for the acquisition of Design A and Design B and at what amount? **5 Marks**
7. Determine the accurate valuation of BDM Ltd. as calculated by the registered valuer of DPL, and provide an ANALYSIS based on the revised valuation. **6 Marks**
8. Can Mr. Ashok be absolved of responsibility for actions taken prior to the acquisition solely because the company has undergone a change in ownership or structure? COMMENT. **4 Marks**

ANSWERS TO THE CASE STUDY - 116

I. Answers to the Multiple Choice Questions

1.(d) 05/05/2023

Reason: Section 232(6) of the Companies Act, 2013, the scheme under this section shall clearly indicate an appointed date from which it shall be effective and the scheme shall be deemed to be effective from such date and not at a date subsequent to the appointed date.

Here, the scheme of such amalgamation had indicated an 'appointed date' - 05/05/2023 and accordingly, the effective date' of amalgamation would be 05/05/2023.

2.(a) Strategy and Systems

– **Reason:** Under McKinsey's 7S framework, "Strategy" refers to the plan devised to maintain and build a competitive advantage over the competition. DPL's acquisition of BDM Ltd. is a strategic move aimed at enhancing synergy, expanding market presence, and strengthening its product portfolio. This aligns with the "Strategy" aspect of the 7S framework.

– "Systems" refers to the processes and procedures used to manage the organization. The efforts to strengthen internal controls post-acquisition—such as implementing a risk-based audit approach and purchasing standardized finance software—are related to the "Systems" aspect. These efforts are aimed at ensuring smooth integration of the merged entities and improving governance.

– Therefore, the acquisition and subsequent focus on internal controls fit within the "Strategy and Systems" elements of McKinsey's 7S framework.

3.(b) ` 18 lakhs

– **Reason:** In accordance with Ind AS 38 'Intangible Assets', the cost of a separately acquired intangible asset is its purchases price and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use. Therefore, the initial cost of the intangible asset should be:

Particulars	`
List price	15,00,000
Less: Trade discount (5%)	(75,000)
Non-refundable purchase tax	25,000
Customisation cost	3,50,000
Total cost	18,00,000

– The maintenance contract of ` 1,00,000 is an expense and therefore should be taken as a prepaid expense and charged to profit and loss over a period of 5 years.

4.(b) The said disclosure is not proper as percentage of other comprehensive income along with respective amount pertaining to holding company and its subsidiaries is also required.

– **Reason:** In addition to the information required pursuant to Schedule III to the Companies Act, 2013 ('general instructions for the preparation of consolidated financial statements') following information is also required to be disclosed in the consolidated financial statements separately for the parent and each of its components (including foreign component) which has been consolidated:

(i) amount of net assets and net assets as a percentage of consolidated net assets;

(ii) amount of share in profit or loss and the percentage share in profit or loss as a percentage of consolidated profit or loss;

(iii) amount in other comprehensive income (OCI) and the percentage of OCI as a percentage of Consolidated OCI.

5(c) Goodwill represents permanent consolidation adjustments. Adjustments relating to intra-group indebtedness and those relating to harmonizing different accounting policies being adopted by the parent and its subsidiaries represent current-period consolidation adjustments.

– **Reason:** Permanent consolidation adjustments are those adjustments that are made only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity which is consolidated. Examples are determination of goodwill or capital reserve, equity attributable to minority shareholders.

– Current period adjustments are those adjustments that are made in the accounting period for which the consolidation of financial statements is done like elimination of intra-group transactions and account balances.

II. Answers to the Descriptive Questions

6 Ind AS 38, "Intangible Assets," provides detailed guidance on the recognition, measurement, and disclosure of intangible assets, which are non-monetary assets without physical substance. The standard emphasizes the importance of identifying intangible assets distinctly from goodwill, particularly in the context of a business combination.

Identifiability of Intangible Assets

Paragraphs 11 and 12 of Ind AS 38 set out the criteria for an asset to be recognized as an intangible asset:

1. Separable Criterion: An asset is considered identifiable if it is separable, meaning it can be separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset, or liability, regardless of whether the entity intends to do so.
2. Contractual-Legal Criterion: An asset can also be identifiable if it arises from contractual or other legal rights, irrespective of whether those rights are transferable or separable from the entity or from other rights and obligations.

Application to Design A and Design B

– In the context of a business combination, the identification of intangible assets is critical because they must be recognized separately from goodwill. Goodwill represents the future economic benefits that arise from other assets acquired in a business combination that are not individually identified and separately recognized.

Design A:

– Contractual-Legal Criterion: Design A is protected by a patent, which means it arises from legal rights that are enforceable. According to Ind AS 38, an asset that arises from contractual or other legal rights is identifiable as an intangible asset, regardless of whether these rights are transferable or separable. Therefore, Design A meets the contractual-legal criterion and must be recognized as a separate intangible asset in the business combination.

Design B:

– Separable Criterion: Although Design B is not protected by a patent and does not meet the contractual-legal criterion, it still qualifies as an intangible asset under the separable criterion. The separable criterion emphasizes that an asset is identifiable if it can be separated from the entity and sold, transferred, licensed, or exchanged. In practice, unpatented designs like Design B can often be exchanged, licensed, or leased to others. This ability to be separated and dealt with independently of the entity fulfills the separable criterion. Consequently, Design B should also be recognized as a separate intangible asset in the business combination.

Measurement

– Once identified, these intangible assets must be measured at their fair value at the acquisition date, as per Ind AS 103, "Business Combinations," which is closely aligned with Ind AS 38. The fair value reflects the price that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

7. **Step 1: Calculate Correct Weights**

– Let E = Market value of equity and D = Market value of debt = Book value of equity

– Total market value (V) = E + D = 3B + B = 4B (where B is book value of equity)

– Weight of equity (W_e) = E / V = 3B / 4B = 0.75

– Weight of debt (W_d) = D / V = B / 4B = 0.25

Step 2: Calculate Correct WACC

– WACC = $W_e \times K_e + W_d \times K_d$ = 0.75 × 12% + 0.25 × 6% = 10.5%

Step 3: Calculate Correct Firm Value

– Firm value (V_0) = $FCFF_1$ / (WACC - g) = `2 crores / (0.105 - 0.05) = ` 36.36 crores

Conclusion

- The correct valuation of BDM Ltd. is ` 36.36 crores. This figure is notably lower than the initial valuation of ` 50 crores provided by the analyst, who incorrectly relied on book values rather than market values in the Weighted Average Cost of Capital (WACC) calculation. This discrepancy underscores the critical importance of using accurate market value weights when determining the value of a company, especially in strategic acquisitions like that of BDM Ltd. by DPL.
- The revised valuation provides a more realistic assessment, aligning with DPL's commitment to prudent financial management and informed decision-making during the acquisition process.

8. Section 240 of the Companies Act, 2013 states that notwithstanding anything in any other law for the time being in force, the liability in respect of offences committed under this Act by the officers in default, of the transferor company prior to its merger, amalgamation or acquisition shall continue after such merger, amalgamation or acquisition.

- In the given case, Mr. Ashok, who was a key figure in BDM Ltd. before the company's amalgamation with DPL, is under scrutiny for actions that reportedly breached corporate regulations. The offenses, which include several violations of the Companies Act, were committed prior to the completion of the amalgamation. However, Mr. Ashok is attempting to distance himself from the legal consequences of these actions, arguing that since the offenses occurred before the amalgamation, he should not be held liable for any resulting penalties or punishments.
- With reference to the above quoted section and the given case, the contention of Mr. Ashok is not correct since the liability in respect of offences committed under the Companies Act 2013 by the officers in default, of the transferor company prior to its merger, amalgamation or acquisition shall continue after such merger, amalgamation or acquisition.

► CASE STUDY - 117 ◄
(MTP SEPT 2024)

Company Overview

- Founded by Manish Jha and Keyur Vasai in 2006, Doormato is a public company whose shares are traded on a stock exchange. The company has developed a multifaceted business model within the food and restaurant industry, incorporating various revenue streams and services. Despite facing stiff competition both domestically and internationally, Doormato's ability to adapt, diversify its services, and leverage technology has secured its strong position in the market. The company utilizes AI across multiple aspects of its operations.
- Understanding that trust is paramount in the online food delivery business, Doormato has introduced the "food soldier" program. This initiative goes beyond data security, involving representatives who personally interact with restaurant partners to address concerns and foster positive relationships. Additionally, Doormato's user-driven review system creates a sense of community where users can share their food experiences and engage in creating stories. This engagement builds a community centered around shared culinary experiences, encouraging users to return to the platform and explore new restaurants.
- Doormato's user base of over 20 million, which includes both restaurants and individual consumers, fuels a powerful network effect. The platform's value to each user increases as more participants join. For users, a vast pool of restaurants ensures a diverse selection of cuisines, while restaurants benefit from a wider customer reach and increased order volume. This cycle of growth and satisfaction enhances user loyalty and enables Doormato to negotiate better deals with restaurants, offering more competitive options to customers.

Revenue Streams

- One of Doormato's primary revenue streams is the commission it charges restaurants for each order placed through its food delivery service. When a user orders food from a restaurant via the Doormato app, the restaurant pays a percentage of the order value as a commission to Doormato. This commission varies but is typically in the range of 15% to 25% of the order amount, depending on the restaurant's agreement with Doormato. Also, Doormato earns a commission from the restaurant for each successful reservation made through its platform.
- In addition to the commission received from restaurants, Doormato imposes delivery fees charged directly to customers at checkout. These fees are not a flat rate, but rather a calculated amount that considers several factors to ensure fairness and affordability. The primary determinant is the order value itself. Larger orders, with a higher order subtotal, typically incur proportionally lower delivery fees compared to smaller orders.
- Furthermore, Doormato recognizes the impact of location on delivery logistics. Delivery fees may be slightly higher in areas with greater geographical spread or limited delivery personnel, reflecting the additional cost of fulfilling the order. This dynamic pricing approach allows Doormato to maintain a competitive edge while ensuring the sustainability of their extensive delivery network. Ultimately, transparency in delivery fee calculation fosters trust with customers, who can make informed decisions based on their order details and location.
- Beyond connecting users with restaurants, Doormato offers a robust suite of advertising and promotional services designed to enhance a restaurant's presence on the platform. Restaurants can leverage these services to gain a competitive edge by featuring their listings more prominently in search results, running targeted ad campaigns to specific customer segments, and offering enticing deals to attract new patrons. This focus on restaurant visibility translates into a significant revenue stream for Doormato, as restaurants are willing to invest in promoting themselves to the platform's vast user base.
- One such customer-centric initiative by Doormato is the voucher program. Here, users can purchase a voucher for `1,000 that unlocks a value of `1,200 worth of food credit. This effectively provides a 20% discount on any food items from participating restaurants within a 3-month validity period. This program incentivizes users to explore new restaurants and potentially spend more due to the increased credit value, ultimately benefiting both Doormato and participating restaurants by increasing order volume.
- Furthermore, many restaurants listed on Doormato operate their own loyalty programs, allowing customers to earn points on each order. These points can then be redeemed for future discounts, further enhancing customer loyalty and encouraging repeat business. Imagine a scenario where a customer has accumulated enough points through Doormato's loyalty program with a specific restaurant to earn ` 200 discount on their next order.
- If their current bill amount at the same restaurant is `900, they can seamlessly combine the discount with the Doormato voucher, effectively reducing their final bill to just `700. This combination of promotional efforts by Doormato and individual restaurants creates a win-win situation for all parties involved – users enjoy significant savings, restaurants attract new customers and retain existing ones, and Doormato benefits from increased platform activity.
- Doormato Gold is a subscription-based loyalty program that offers members exclusive discounts and perks at partner restaurants. Users pay a subscription fee to access these benefits. While a portion of this fee is passed on to the partner restaurants, Doormato retains a share, contributing to its revenue. Subscription to Doormato Silver provides customers with

a printed copy a high-quality magazine focusing on food and health, that will be delivered to their doorstep each month and access to the magazine's online content.

Strategic Expansion Consideration

- In lieu of strategic expansion, management wants to place an agenda in its coming meeting to acquire a company **"African Eats"**. African Eats is an online food ordering and delivery platform. The meals are delivered by couriers using various methods, including cars, scooters, bikes, or on foot. It is operational in over 60 cities in 5 African countries. These countries use common currency 'African Rand'. In 2023, the company was sued for antitrust price manipulation, from forcing restaurants to charge the same price for delivery as for dine-in if the restaurant wants to be listed on the African Eats app, along with charging fees of 13–40% of revenue. The exchange rate for the African Rands is extremely volatile. The rate of inflation in this African Region is presently 10% a year. Inflation in India is currently 5% a year. Management of Doormato expects these rates likely to continue for the foreseeable future. Estimated projected cashflows, in real terms, for the first three years of the project are as follows:

	Year – 0	**Year – 1**	**Year – 2**	**Year - 3**
Cash flows in Indian ` (000)	-1,00,000	-3,00,000	-4,00,000	-50,000
Cash flows in African Rand (000)	-4,00,000	+5,00,000	+6,50,000	+7,50,000

- Doormato assumes the year 3 nominal cash flows will continue to be earned each year indefinitely. It evaluates all investments using nominal cash flows and a nominal discounting rate. The present exchange rate is African Rand 4.5 to ` 1.

Audit Considerations

- JS & Associates are at a crossroads regarding their audit approach for Doormato for the financial year ending March 31st, 2024. Historically, they have identified management override of controls and revenue recognition as significant risks. However, their audits in the past 2 financial years yielded clean reports with no issues detected in these areas.
- This absence of recent red flags presents a dilemma. On one hand, maintaining a conservative approach suggests continuing to assess these areas as significant risks. This ensures a thorough examination and mitigates the chance of missing potential issues that could arise due to unforeseen circumstances or changes within Doormato.
- On the other hand, consistently clean reports raise the question of continued significance. JS & Associates might consider performing a more focused assessment or reducing the emphasis on these risks while still acknowledging their potential impact. This could streamline the audit process without compromising effectiveness.
- As part of a risk-based audit approach, JS & Associates focus on areas with a higher likelihood of material misstatement.

ANNEXURE

The New Age

Food Presentation Discrepancy Sparks Trust Concerns Among Customers on Doormato App

- In a recent development, Shyam, a loyal customer of Doormato, has raised concerns about the disparity between the food images displayed on the Doormato app and the actual dishes served by restaurants. This issue, which has been described as a breach of trust between customers and restaurants, has sparked a broader discussion on the authenticity of food presentation in online food delivery services.
- Ravi, a prominent figure in the culinary industry, expressed his concerns over the misleading nature of these images. He pointed out that while the images were initially intended to enhance the visual appeal of dishes and attract customers, they have inadvertently led to dissatisfaction and disappointment when the reality does not match expectations. Doormato is yet to comment on the issue, but industry experts believe that addressing this concern promptly will be crucial in preserving customer loyalty and trust.

I. Multiple Choice Questions

1. Assuming Doormato is planning to acquire hyper-local delivery company "Kit-Kit', which enables to order grocery, fruits & vegetables, and other daily essential products with intention to diversify in this field. "Kit-Kit' has over the period 10 million registered users throughout the country. However, "Kit-Kit' does not have any intention to sell the customer list. Should this customer list be recorded as an intangible in such a business combination?
   (a) Such customer list should be recorded as an intangible in a business combination as "Kit-Kit' has the ability to transfer it.
   (b) Such customer list should not be recorded as an intangible in a business combination as "Kit-Kit' has not the ability to transfer it.
   (c) Such customer list should be recorded as an intangible in a business combination as it gives rise to legal or contractual right.
   (d) The recording of such customer list depends upon the business combination agreement between both the companies.

2 Marks

2. As part of a risk-based audit approach, JS & Associates focus on areas with a higher likelihood of material misstatement. Which of the following statements best describes the concept of significant auditor attention in the context of scenario given in the case study?
   (a) JS & Associates will spend an equal amount of time reviewing all sections of Doormato's financial statements
   (b) JS & Associates will prioritize audit procedures for areas with a lower risk of material misstatement.
   (c) JS & Associates will design the audit procedures based on their assessment of risks that could potentially cause errors in the financial statements of Doormato.
   (d) JS & Associates will rely solely on past audit results to determine the scope of their procedures. **2 Marks**
3. Under GST, what is the time of supply and taxable value for Doormato at the time of voucher purchase of ` 1,000?
   (a) Time of supply is date of issue of the voucher and taxable value is ` 1,000 (face value of voucher)
   (b) Time of supply is date of issue of the voucher and taxable value is ` 1,200 (credit value of voucher)
   (c) Time of supply is date of redemption of the voucher and taxable value is ` 1,200 (credit value of voucher)
   (d) Time of supply is date of redemption of the voucher and taxable value is ` 1,000 (face value of voucher) **2 Marks**
4. Considering the above scenario, which of the following statements is MOST ACCURATE regarding the dynamic QR code and invoice for ` 900 meal order, where a customer has accumulated enough points through Doormato's loyalty program with a specific restaurant to earn a ` 200 discount on their next order?
   (a) The QR code will only display the final payable amount of ` 700 (after ` 200 discount). No mention of the original bill amount or discount details will be shown.
   (b) The QR code will display the final payable amount of ` 700 and reference of ` 200 discount on a separate invoice, but the invoice won't mention the original bill amount.
   (c) The QR code will display the final payable amount of ` 700. The invoice will mention the original bill amount of ` 900, ` 200 discount details (including reference to the loyalty program), and the final payable amount.
   (d) The QR code cannot be generated in this scenario because the discount reduces the taxable value, requiring a revised invoice without the discount information. **2 Marks**
5. According to Ind AS 115 - Revenue from Contracts with Customers, how many performance obligations does Doormato have relating to the Doormato Silver subscription?
   (a) One performance obligation: The overall subscription service.
   (b) Two performance obligations: The delivery of the printed magazine and providing access to online content.
   (c) Three performance obligations: Delivery of the printed magazine, access to online content, and customer support.
   (d) No performance obligations, as the services are not distinct. **2 Marks**

II. Descriptive Questions

6. To place agenda regarding Strategic Acquisition African Eats before the board it was required to:
   i. To CALCULATE the net present value (NPV) of the proposed investment. While the nominal discount rate used by Doormato is 8% but considering risk nature of the project, 6% risk premium is required to be considered. Notes - (1) Taxation to be ignored in this calculation (2) PVF and exchange rates to be considered upto four decimal (3) final calculations to be rounded off the whole number. **4 Marks**
   ii. EVALUATE the external environment for Doormato's strategic acquisition of African Eats, considering the non-financial factors. (HINT- How do political, economic, social, cultural, technological, legal, and ethical factors influence the success of this investment? What strategies should Doormato implement to address these challenges and ensure a successful acquisition?) **3 Marks**
7. i. ADVISE on how to address and maintain customer trust and relationships in response to the concerns raised in the recent newspaper article. **2 Marks**
   ii. How can blockchain technology be APPLIED by Doormato and finance professionals in the following areas:
      (a) Supply chain operations
      (b) Audit processes
      (c) Managing sensitive customer data **3 Marks**
8. DRAW a Business Model Canvas of Doormato. **3 Marks**

ANSWERS TO THE CASE STUDY - 117

I. Answers to the Multiple Choice Questions

1(a) Such customer list should be recorded as an intangible in a business combination as "Kit-Kit' has the ability to transfer it.

– **Reason:** In this situation, the customer database does not give rise to legal or contractual right. Accordingly, the assessment of its separability will be assessed. The database can be useful to other players and "Kit-Kit' has the ability to transfer this to them. Accordingly, the intention not to transfer will not affect the assessment whether to record this as an intangible or not. Hence customer list should be recorded as an intangible in a business combination.

2(c) JS & Associates will design the audit procedures based on their assessment of risks that could potentially cause errors in the financial statements of Doormato.

Reason: As per SA 701

The concept of significant auditor attention recognizes that an audit is risk-based and focuses on identifying and assessing the risks of material misstatement of the financial statements, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. Options (a), (b), and (d) do not accurately represent the emphasis on risk assessment in a significant auditor attention approach.

3(c) Time of supply is date of redemption of the voucher and taxable value is ` 1,200 (credit value of voucher)

Reason: As per section 13(4) of the CGST Act, 2017, the time of supply of vouchers is -

– Date of issue of the voucher, if the supply that it covers is identifiable, at that point, or
– Date of redemption of the voucher in other case
– Here, food ordering credit voucher can be used on any food items and so the time of supply of vouchers is the date of redemption of the voucher.
– In terms of rule 32(6) of the CGST Rules, 2017 relating to valuation, the value of a voucher is equal to the money value of the goods or services redeemable against it. Therefore, though the voucher is sold for `1,000, its value is `1,200

4(c) The QR code will display the final payable amount of ` 700. The invoice will mention the original bill amount of ` 900, ` 200 discount details (including reference to the loyalty program), and the final payable amount.

Reason: When the part-payment for any supply has already been received from the customer/ recipient, either in advance or by adjustment (e.g. using a voucher, discount coupon etc.), before the dynamic QR Code is generated, then the dynamic QR code may provide only the remaining amount payable by the customer/ recipient against "invoice value". The details of total invoice value, along with details/ cross reference of the part payment/ advance/ adjustment done, and the remaining amount to be paid, should be provided on the invoice.

– Accordingly, the QR code will display the final payable amount of ` 700. The invoice will mention the original bill amount of ` 900, ` 200 discount details (including reference to the loyalty program), and the final payable amount.

5(b) Two performance obligations: The delivery of the printed magazine and providing access to online content.

Reason: Under **Ind AS 115 - Revenue from Contracts with Customers**, a performance obligation is defined as a promise to transfer a distinct good or service to the customer.

– A good or service that is promised to a customer is distinct if both of the following criteria are met:
  (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and
  (b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

In the case of the Doormato Silver subscription:

– **Monthly delivery of the printed magazine** is a distinct good, as customers can benefit from the magazine independently each month.
– **Access to the online content** is a distinct service that provides additional value separate from the physical magazine.

Since both the printed magazine and online content meet the criteria for being distinct goods or services, they are considered separate performance obligations under **Ind AS 115**.

Therefore, Doormato has **two performance obligations** related to the Doormato Silver subscription:

1. Delivery of the printed magazine.
2. Providing access to the online content.

– This approach ensures that each distinct service is accounted for and recognized in line with the benefits provided to the customer.

II. Answers to the Descriptive Questions

6(i) Calculation of NPV

Year	0	1	2	3
Inflation factor in India	1.00	1.05	1.1025	1.1576
Inflation factor in Africa	1.00	1.10	1.21	1.331

Year	0	1	2	3
Exchange Rate (as perIRP)	4.50	4.7143	4.9388	5.1741
Cash Flows in ` 000				
Real	-1,00,000	-3,00,000	-4,00,000	-50,000
Nominal (1)	**-1,00,000**	**-3,15,000**	**-4,41,000**	**-57,880**
Cash Flows in AfricanRand'000				
Real	-4,00,000	5,00,000	6,50,000	7,50,000
Nominal	-4,00,000	5,50,000	7,86,500	9,98,250
In Indian `'000 (2)	**-88,889**	**1,16,666**	**1,59,249**	**1,92,932**
Net Cash Flow in `'000(1) + (2)	**-1,88,889**	**-1,98,334**	**-2,81,751**	**1,35,052**
PVF@14%	1	0.8772	0.7695	0.6750
PV	**-1,88,889**	**-1,73,979**	**-2,16,807**	**91,160**

NPV of Terminal value = 1,35,052/ 0.14 × 0.6750 = 6,51,144 (` '000)

NPV of 3 years = -4,88,515 (₹ '000)

Total NPV of the Project = -4,88,515 (₹ '000) + 6,51,144 (₹ '000) = 1,62,629 (₹ '000)

– **Note:** There can be a slight difference in exchange rate in 3rd year. Accordingly, the final answer may be slightly varied.

(ii) Recommendations for Strategic Consideration

– When evaluating the strategic acquisition of African Eats, Doormato must consider a range of non-financial factors that could impact the success of the investment. These factors are crucial for understanding the broader implications of the acquisition beyond the immediate financial metrics. Below is an elaboration on each relevant point:

Political Environment

– The political environment in the countries where African Eats operates can significantly influence the business's operational stability. Doormato needs to *assess the risk of political instability, such as changes in government, civil unrest, or policy shifts that could disrupt business operations*.

– In countries with unstable governments, there is a *higher risk of unexpected regulatory changes*. A thorough understanding of the regulatory landscape in each country is necessary. This includes the ease of doing business, regulatory requirements for foreign investments, and potential barriers to entry. Uncertain or frequently changing regulations can create challenges in compliance and increase operational costs.

Economic Factors

– The extreme volatility of the exchange rate in the African country where African Eats operates poses a significant risk. Currency fluctuations can erode profit margins, especially when revenues are earned in a depreciating currency while costs or financial obligations are in a stronger currency. Doormato should consider hedging strategies or other financial instruments to mitigate this risk.

– With an inflation rate of 10% in the African Region and 5% in India, Doormato must assess how these rates will affect both the costs and revenues of African Eats. High inflation can lead to increased operational costs, reduce consumer purchasing power, and impact demand for services. The company should explore pricing strategies that account for inflation while maintaining competitiveness.

– Moreover, evaluating the broader economic environment in the target countries is essential. This includes assessing the potential for economic growth, consumer spending trends, and the overall demand for online food delivery services. Economic downturns or recessions could reduce disposable income, impacting the frequency and volume of orders on the platform.

Social and Cultural Factors

– Understanding the cultural distinctions in each of the countries where African Eats operates is crucial for customer engagement and brand positioning. Doormato must ensure that its marketing strategies, customer service, and overall business approach are culturally sensitive and resonate with local consumers. Misunderstanding cultural norms or preferences can lead to reputational damage and lost market opportunities. Language plays a significant role in communication with customers, partners, and employees. Ensuring that the platform is available in local languages and that customer support can effectively communicate in these languages is critical for building trust and loyalty.

– Doormato should also consider how social trends, such as consumer attitudes toward food delivery, and health consciousness, might vary across the region. Understanding these trends can help tailor the service offerings to meet local preferences and increase market penetration.

Technological Considerations

- African Eats' business model relies heavily on technology, including mobile apps, online payment systems, and delivery logistics. Doormato needs to evaluate the technological infrastructure in each country, such as internet penetration rates, mobile network coverage, and availability of reliable payment gateways. Poor infrastructure can lead to operational inefficiencies and limit the platform's reach.
- The success of an online food delivery platform depends on the willingness of consumers and restaurants to adopt and use the technology. Doormato should assess the level of technological adoption among the target population, including the prevalence of smartphones and familiarity with online ordering systems.
- Moreover, operating in multiple countries exposes African Eats to a range of cybersecurity threats. Doormato should ensure robust cybersecurity measures are in place to protect sensitive data, including customer information and payment details. Data breaches or cyber-attacks could severely damage the platform's reputation and lead to legal liabilities.

Legal and Regulatory Environment

- Each country may have its own set of laws and regulations governing online businesses, consumer protection, labor practices, and competition. Doormato must ensure that African Eats complies with all relevant legal requirements in each market. Failure to comply could result in fines, legal disputes, or even the suspension of operations.
- African Eats was previously sued for antitrust price manipulation, which highlights the importance of understanding and complying with competition laws in the target countries. Doormato needs to evaluate the legal implications of continuing or altering African Eats' pricing strategies and business practices to avoid future legal challenges.
- In addition, Doormato should also consider the local labor laws, including those related to employment contracts, worker rights, and minimum wage requirements. Given that African Eats employs delivery personnel in various countries, it is crucial to ensure compliance with these laws to avoid legal disputes and maintain a positive relationship with the workforce.
- Moreover, some African countries may impose restrictions on the repatriation of profits, making it challenging to transfer earnings back to India. Doormato needs to understand the legal and regulatory framework governing profit repatriation and plan accordingly. This might involve exploring alternative methods of moving funds, such as reinvesting profits locally or negotiating special agreements with the host government. While taxation has been ignored in the NPV calculation, it is important to consider the local tax laws for repatriating profits. Double taxation treaties, withholding taxes, and local tax rates could all affect the net returns from the investment.

Ethical Considerations

- In some African countries, issues like child labor or poor working conditions may be prevalent. Doormato must ensure that African Eats adheres to ethical labor practices, not only to comply with international standards but also to maintain its corporate social responsibility (CSR) image. Moreover, this can help mitigate the risk of reputational damage. Engaging in CSR activities that benefit local communities can enhance
- Doormato's brand image and foster goodwill among consumers. This could include initiatives such as supporting local farmers, reducing the environmental impact of delivery operations, or contributing to social causes in the regions where African Eats operates.

Conclusion

- While the financial analysis indicates a positive NPV for the acquisition, the strategic benefits of entering the African market may still be compelling. However, Doormato must carefully consider the non-financial risks and challenges associated with this acquisition. Conducting thorough due diligence, addressing potential legal, cultural, and ethical issues, and implementing robust risk management strategies will be critical for the success of the acquisition. A comprehensive understanding of the external environment will enable Doormato to make an informed decision and potentially mitigate the risks associated with expanding into the African market.

7(i) This situation serves as a reminder that while marketing and presentation are vital, maintaining customer trust through authenticity is equally, if not more, important. Customers expect honesty, and when there is a significant difference between what they see and what they receive, it can damage the relationship between the restaurant and the customer. The company should plan to actively remove AI-generated images (if any) from menus by as earliest as possible and should also reject new submissions of such images. CEO should urge restaurant partners and Doormato's internal marketing team to cease using AI-generated images for promotional purposes. Instead, Doormato's should provide free real food photography service and encourage restaurants to avail this service. This service may be given at no profit or loss basis. In addition, Doormato should give a clarification like “At Doormato, we use various forms of AI, to make our workflows efficient. However, one place where we strongly discourage the use of AI is images for dishes in restaurant menus. AI-generated food/dish images are misleading” This decision highlights the growing concern surrounding the ethical implications, particularly in contexts where authenticity and accuracy are paramount. Doormato's proactive approach aims to restore trust and ensure a more transparent experience for its users.

(ii)(a) With blockchain technology, Doormato can create a decentralized ledger that records every step of the supply chain process, from picking food package from the restaurants to final product delivery. Each transaction is securely recorded on the blockchain, providing real-time visibility and transparency to all stakeholders involved. The finance professional can easily access the blockchain to verify the authenticity and accuracy of transactions, ensuring compliance with regulatory requirements and building trust with customers, investors, and auditors.

(b) Traditionally, audits involve manually reviewing numerous financial transactions and reconciling data from different sources, which can be time-consuming and prone to errors. However, with blockchain technology, the e-commerce platform, Doormato, can implement a blockchain-based payment system that automatically records and timestamps every transaction. During the audit process, the finance professional can access the blockchain ledger to instantly verify transaction details, reconcile data, and ensure compliance with accounting standards and regulatory guidelines. This streamlined approach improves audit efficiency, reduces the risk of human error, and enhances the accuracy of financial reporting.

(c) By utilizing blockchain technology, Doormato can implement a secure and encrypted blockchain network to store and share customer data. The finance professional can ensure the integrity and security of the data by leveraging blockchain's cryptographic algorithms and consensus mechanisms. This eliminates the risk of unauthorized access, data tampering, or data loss. With blockchain, the finance professional can confidently handle customer data, knowing that it is protected by a robust and transparent system, enhancing data privacy, and maintaining the trust of customers and regulatory bodies.

8. Business Model Canvas of Doormato

<table>
<tr><th>Key Partners</th><th>Key Activities</th><th>Value Proposition</th><th>Customer Relationship</th><th>Customer Segments</th></tr>
<tr>
<td rowspan="3">
▪ Partnership with restaurants for food delivery
▪ Delivery personnel
▪ Technology companies offering payment gateways, app development, and data security
▪ Restaurants offering loyalty programs and deals via Gold and Silver Subscription (Subscription Partners)
</td>
<td>
▪ Platform Management to ensure smooth operation of the Doormato app and website
▪ Managing logistics and delivery of food orders
▪ Addressing customer and restaurant partner concerns
▪ Promoting restaurants and running targeted ad campaigns
▪ Fostering a user-driven review system and customer engagement
</td>
<td rowspan="3">
▪ Convenience i.e., easy and quick food ordering, reliable delivery, transparent delivery fee calculation
▪ Wide selection of cuisines and restaurant options
▪ Discounts through vouchers, loyalty programs, and subscription benefits
</td>
<td>
▪ User-generated reviews and stories
▪ Responsive customer service
▪ Personal interaction through "Food Soldiers"
</td>
<td rowspan="3">
▪ Users ordering food
▪ Companies looking to reach Doormato's extensive user base
▪ Businesses seeking visibility
</td>
</tr>
<tr><th>Key Resources</th><th>Channels</th></tr>
<tr>
<td>
▪ Over 20 million users (restaurants and individual consumers)
▪ Technology Infrastructure i.e., robust app and website platform
▪ Trusted name in the food delivery industry
</td>
<td>
▪ Desktop/ Mobile/ Laptops
▪ Push notifications, and in-app messages
</td>
</tr>
<tr><th colspan="2">Cost Structure</th><th colspan="3">Revenue Streams</th></tr>
<tr><td colspan="2">₹</td><td colspan="3">₹</td></tr>
</table>

Maintaining and upgrading the app and website ▪ Costs associated with delivery personnel and operations ▪ Operating a customer service team ▪ Costs related to the "Food Soldier" program and partner relationships	Commission from restaurants on food delivery orders ▪ Charged to customers, varying based on order size and location ▪ Revenue from restaurants promoting their listings ▪ From Doormato Gold and Doormato Silver memberships ▪ Revenue from users purchasing vouchers for discounts on food orders ▪ Commission from the restaurant for each successful reservation

– This Business Model Canvas outlines how Doormato operates, generates revenue, and delivers value to its customers and partners. The company's focus on trust, community, and variety, along with its multifaceted business model, positions it strongly in the competitive food delivery and restaurant aggregation market.

▸ CASE STUDY - 118 ◂
(MTP SEPT 2024)

Emergence of Green Entrepreneurship

– India's remarkable economic progress, marked by its position as the fastest-growing major economy, has been driven by a comprehensive strategy that emphasizes entrepreneurship and self-employment. The government’s policies have fostered an environment conducive to starting businesses, particularly in emerging sectors like sustainability and renewable energy.

– Amidst this entrepreneurial renaissance, the story of Priya and Arjun stands out. Both graduates from a prestigious engineering college, they shared a passion for environmental conservation and a desire to contribute to a greener future. Inspired by the government’s initiatives to promote clean technologies and the growing global demand for eco-friendly solutions, Priya and Arjun decided to take the entrepreneurial leap. In 2021, they founded EcoTech Innovations Pvt. Ltd., a company dedicated to developing cutting-edge technologies for sustainable energy generation and waste management.

– Guided by their mission **"to pioneer innovative, sustainable technologies that drive environmental conservation, enhance waste management efficiency, and contribute to a cleaner future for all,"** and their **vision "to become a global leader in sustainable energy and waste management solutions"** Priya and Arjun aimed to build their company that not only thrived in the market but also made a significant positive impact on the environment.

Growth, Expansion, and Strategic Partnerships

– The waste management industry, where EcoTech operates, is on a robust growth trajectory, projected to exceed $500 billion globally by 2025. With urbanization and industrialization surging, the industry is witnessing rapid advancements in AI, IoT, and recycling technologies. In 2023, the global waste management market was valued at approximately $380 billion, highlighting significant expansion potential. Government regulations and initiatives, such as the European Union's Circular Economy Action Plan and India's Swachh Bharat Mission, are driving improvements in waste desegregation, recycling rates, and plastic waste reduction. Public-private partnerships are also increasing, enhancing infrastructure and innovation. This sector is becoming crucial in achieving global environmental sustainability and resource efficiency goals.

– Initially, Priya and Arjun were the sole shareholders and directors of EcoTech Innovations Pvt. Ltd. However, as the business grew, they brought on board their friend, a sustainability expert, Rahul, as a co-shareholder with a 15% stake. Priya and Arjun each retained 42.5% ownership. To navigate the complexities of finance, accounting, and compliance, they appointed their trusted friend Megha as the Chief Financial Officer (CFO).

– As EcoTech experienced rapid growth and expansion, the need for a new state-of-the-art head office became evident. The construction of the new office building commenced on 1st September, 2023 and continued until 31st December 2023. At the beginning of September month, the directly attributable expenditure on this asset was ` 1,00,000. However, as construction progressed, the costs increased, with the company incurring ` 2,50,000 in each of the subsequent months from October to December 2023. Although EcoTech Innovations Pvt. Ltd. did not take any specific borrowings to finance the construction, the company incurred finance costs on its general borrowings during the construction period. To meet its capital requirements, EcoTech issued 10% debentures with a face value of ` 20 lakhs during the year.

– Additionally, the company had an existing overdraft facility of ` 5,00,000, which was increased to ` 7,50,000 in December, 2023. The interest rate on the overdraft was 15% until 1st October, 2023, after which it was increased to 16%. Megha was tasked with ensuring proper accounting treatment and compliance with the relevant accounting standards for the capitalization of borrowing costs related to the construction of the new head office building during the construction period. Her expertise in finance was crucial in navigating these complex financial decisions.

– In addition to its domestic operations, EcoTech also exports its eco-friendly solutions to European and Middle Eastern countries. During FY 2023-24, EcoTech Innovations Pvt. Ltd. acquired a 55% equity stake in GreenWave Ltd., a company engaged in manufacturing and selling a product named ‘EcoClean.’ The fair value of GreenWave Ltd.’s identifiable net assets as per the relevant Ind AS is ` 12 crore, and its paid up share capital is ` 10.50 crore. For the acquistion, EcoTech paid a cash consideration of ` 10 crore, with the fair value of the non-controlling interest on the date of acquisition being ` 3 crore. GreenWave Ltd. appointed Mr. Rahul as its whole-time company secretary and Mr. Arjun as its managing director, positions they also held at EcoTech Innovations Pvt. Ltd. On 25th August, 2023, GreenWave Ltd. sold two of its machines to Mr. Arjun out of which one machinery was exchanged for a vehicle owned by Mr. Arjun, and the other was sold for cash consideration.

Compliance Challenges

– EcoTech Innovations Pvt. Ltd. has been self-funded since its inception, relying on the founders’ expertise, determination, and the support of environmentally conscious investors. The company’s innovative solutions have garnered recognition both domestically and internationally, exemplifying the potential of Indian entrepreneurship to drive sustainable development while contributing to the nation’s economic growth. To further expand their operations and accommodate their growing team, EcoTech Innovations Pvt. Ltd. entered into a lease agreement for a new office space in April 2023. The lease term is 10 years, with a single lease payment of ` 1,00,000 payable at the beginning of each year. According to the lease contract, the annual lease payments will increase by the rate of SOFR. Megha highlighted the importance of accurately measuring the lease liability as per the relevant Ind AS. This financial decision would play a crucial role in ensuring accurate financial reporting and compliance, which are vital for the company's continued success and growth.

– Priya and Arjun understood the intricate interplay between inflation, project costs, demand patterns, and financing implications. They realized the importance of conducting comprehensive project appraisals that account for these factors. They appreciated Megha's expertise in guiding them through the complexities of project evaluation, ensuring that EcoTech Innovations Pvt. Ltd. made well-informed decisions about its future growth strategies. During a board meeting in April 2023, Megha informed the directors that the company's financial statements for the current year would be prepared in accordance with the Indian Accounting Standards (Ind AS). Priya and Arjun expressed their growing concerns to Megha about the lack of progress following the company's recent decentralization efforts. Despite granting greater autonomy to local managers in hopes of boosting performance and fostering innovation, the anticipated improvements had not materialized. They sought Megha's expertise and strategic insight on how to navigate this complex situation, improve local managers' engagement, and ensure the company's growth trajectory remained on track. Megha's role as CFO and her understanding of the company's financial health and strategic goals positioned her uniquely to provide the guidance needed to overcome this significant hurdle.

– EcoTech Innovations Pvt. Ltd. had an outstanding interest liability of ` 1 crore towards a loan payable to GreenFinance Ltd., a public financial institution that had been a crucial supporter in the early stages of the company's growth. To manage this liability more effectively and preserve cash flow, EcoTech issued debentures of ` 275 lakhs carrying an interest of 7.5% to GreenFinance Ltd. in lieu of the outstanding interest as well as for the outstanding loan payable to it. This strategic move allowed the company to defer the immediate cash outflow and focus on its operational needs. While computing the profits and gains of business for the A.Y. 2024-25, EcoTech Innovations Pvt. Ltd. deducted the said interest, anticipating it would be a legitimate business expense. However, the Assessing Officer rejected the deduction of interest on the loan claimed by EcoTech, creating an unexpected challenge for the financial team.

– Additionally, EcoTech achieved a gross profit of ` 18 crores and incurred indirect expenses of ` 4 crores for the financial year, reflecting its robust financial performance despite the complexities in interest liability management. During the annual audit of EcoTech Innovations Pvt. Ltd., the tax consultant raised a concern regarding a notice issued by the Commissioner of Income-tax. The Commissioner had initially issued a notice to revise the order passed by an Assessing Officer under section 143. While the proceedings were ongoing before the Commissioner, based on material gathered during a survey under section 133A after the issuance of the first notice, the Commissioner of Income-tax issued a second notice with different contents from the first notice. The tax consultant questioned whether the action of the Commissioner in issuing the second notice with divergent contents was justified.

– Finally, in a separate event, EcoTech Innovations Pvt. Ltd. imported a machine from France for ` 180 lakh during March 2023, paying all duties of customs. Due to a technical manufacturing defect, the machine was sent back to the supplier for repairs in October 2023 and re-imported in August 2024 without any re-manufacturing or reprocessing, after repairs. Since the machine was under warranty, the repairs were carried out free of cost, although the fair cost of repairs would have been ` 5 lakh (excluding the cost of material, which was ` 10 lakh). The actual insurance and freight charges (to and from) were ` 5 lakh (` 2.50 lakh each way). The ownership of the machinery did not change during this period.

I. Multiple Choice Questions

1. Referring to the lease transaction in the case study, at the date of commencement of the lease, SOFR is 2 percent and the interest rate implicit in the lease is 5 percent. The amount of lease liability to be recognized initially will be -

   (a) ` 8,60,789 (b) ` 8,80,889 (c) ` 8,75,645 (d) ` 8,74,889 **2 Marks**

2. Comment upon the validity of the action of the Assessing Officer on rejecting the deduction of interest on loan claimed by EcoTech.

   (a) The interest so converted into debentures shall be deemed as actual payment but would not be allowed as deduction while computing its profits and gains of business for A.Y.2024-25. The action of the Assessing Officer is correct.

   (b) The interest so converted into debentures shall be deemed as actual payment, and hence, would be allowed as deduction but while computing 'Income from other sources' for A.Y.2024-25 even though the liability to pay is deferred to a future date. Thus, the action of the Assessing Officer is partially correct, as the said interest though not allowed while computing profits and gains of business but would be allowed as deduction while computing 'Income from other sources'.

   (c) The interest so converted into debentures shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y.2024-25. The action of the Assessing Officer is correct.

   (d) The interest so converted into debentures shall be deemed as actual payment as in the given case loan is provided by a public financial institution and hence, would be allowed as deduction while computing its profits and gains of business for A.Y.2024-25. The action of the Assessing Officer is not correct. **2 Marks**

3. Whether there was any statutory requirement for GreenWave Ltd. to appoint a whole-time Company Secretary (CS) and whether Mr. Rahul was eligible to be appointed as its whole-time Company Secretary?
   (a) No, as its paid-up capital had not exceeded the prescribed limit and also Mr. Rahul was not eligible as he was already holding office as a whole-time CS in one other company i.e. EcoTech Innovations Pvt. Ltd.
   (b) Yes, as its paid-up capital had exceeded the prescribed limit and also Mr. Rahul was eligible to be appointed as its whole-time CS in GreenWave Ltd. as it was the subsidiary company of EcoTech Innovations Pvt. Ltd.
   (c) Yes, as its paid-up capital had exceeded the prescribed limit. However, Mr. Rahul was not eligible to be appointed as its whole-time CS as he was already holding office as a whole-time CS in one other company i.e. EcoTech Innovations Pvt. Ltd.
   (d) No, as its paid-up capital had not exceeded the prescribed limit. However, Mr. Rahul was eligible to be appointed as its whole-time CS as it was the subsidiary company of EcoTech Innovations Pvt. Ltd. **2 Marks**
4. What will be the capitalization rate for construction period of four months for computation of borrowing cost in accordance with the relevant Ind AS related to the construction of a new office building?
   (a) 3.987% (b) 3.756% (c) 2.607% (d) 3.188% **2 Marks**
5. What shall be the value of goodwill for EcoTech Innovations Pvt. Ltd. on the acquisition of 55% shares of GreenWave Ltd. as per the fair value method and proportionate share method?
   (a) ` 1,00,00,000, ` 7,40,00,000
   (b) ` 2,00,00,000, ` 3,40,00,000
   (c) There is no goodwill arising but there is a gain on bargain purchase of ` 1,00,00,000
   (d) ` 1,00,00,000, ` 3,40,00,000 **2 Marks**

II. Descriptive Questions

6. EcoTech Innovations Pvt. Ltd. owns 30% of the share capital in GreenTech Solutions Pvt. Ltd. and has the ability to exercise significant influence over it. GreenTech Solutions Pvt. Ltd. holds the following investments:
   70% of the share capital of its subsidiary, SustainCo Ltd., and 30% of the share capital of EcoEnergy Pvt. Ltd., with the ability to exercise significant influence. EcoTech Innovations Pvt. Ltd. transacts with SustainCo Ltd. and EcoEnergy Pvt. Ltd.
   Should EcoTech Innovations Pvt. Ltd. disclose these transactions as related party transactions in its separate financial statements? Also, explain the disclosure of such transactions in the financial statements of SustainCo Ltd. and EcoEnergy Pvt. Ltd. as related party transactions. **3 Marks**
7. Priya and Arjun, the founders of EcoTech Innovations Pvt. Ltd., were concerned about the potential implications of this notice on the company's tax compliance. They sought guidance from their Chief Financial Officer, Megha. Accordingly, examine whether the action of the Commissioner is justified as to the second notice. **5 Marks**
8. You are required to advice EcoTech Innovations Pvt. Ltd. on the concessions (if any) available for importation of the machinery after repairs, also state the conditions to be satisfied for availing such concession. Also compute the customs duty and integrated tax payable (if any) on the re-import of the machine after repairs. The rate of basic customs duty is 15% and integrated tax is 12%. Ignore Agriculture infrastructure and development cess. **4 Marks**
9. Whether there were any restrictions for GreenWave Ltd. to sell its machinery to Mr. Arjun in exchange for a vehicle and if yes, then what legal requirements would have been followed by it? **3 Marks**

ANSWERS TO THE CASE STUDY - 118

I. Answers to the Multiple Choice Questions

1(b) ` 8,80,889

Reason: As per Ind AS 116, the lease payments should initially be measured using SOFR of 2 percent as at the commencement date. Therefore, while measuring the lease liability, each year the payments will be increased by 2 per cent, as follows:

Year	Lease Payment	Discount Factor	PV of lease payments (`)
1	1,00,000	1	1,00,000
2	1,02,000	0.952	97,104
3	1,04,040	0.907	94,364
4	1,06,121	0.864	91,689
5	1,08,243	0.823	89,084
6	1,10,408	0.784	86,560
7	1,12,616	0.746	84,012

8	1,14,869	0.711	81,672
9	1,17,166	0.677	79,321
10	1,19,509	0.645	77,083
			8,80,889

Therefore, the lease liability will initially be measured at ` 8,80,889.

2(c) The interest so converted into debentures shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y.2024-25. The action of the Assessing Officer is correct.

Reason: The interest so converted into debentures and not actually paid shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y. 2024-25. The action of the Assessing Officer is correct.

– As per section 43B, interest payable by the assessee on interest on loan from a public financial institution is allowable as deduction only in the year in which such interest is actually paid by the assessee. The proviso to section 43B permits deduction if such sum is paid on or before the due date of filing of return under section 139(1) in respect of the previous year in which the liability to pay such sum was incurred. Explanation 3C to section 43B clarifies that if any sum payable by the assessee as interest on any such loan is converted into a loan or borrowing or debenture or any other instrument by which the liability to pay is deferred to a future date, the interest so converted shall not be deemed as actual payment, and hence, would not be allowed as deduction. In this case, since EcoTech has converted the interest of ` 1 crore payable to GreenFinance Ltd. on loan borrowed from it, the interest so converted into debentures shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y.2024-25. Accordingly, the action of the Assessing Officer in rejecting the deduction of interest on the loan claimed by EcoTech while computing its profits and gains of business for A.Y. 2024-25, is correct.

3(b) Yes, as its paid-up capital had exceeded the prescribed limit and also Mr. Rahul was eligible to be appointed as its whole-time CS in GreenWave Ltd. as it was the subsidiary company of EcoTech Innovations Pvt. Ltd.

Reason: Requirement of Company Secretary in certain other companies Section 203 read with Rule 8 and Rule 8A of Companies (Appointment and Managerial Personnel) Rules 2014, as amended provides that every–

Listed company or

– Public company having paid up share capital ` 10 crore or more or

– Private company having paid up share capital of ` 10 crore or more shall have a Whole time Company Secretary.

– Bar on multiple appointments- A whole-time key managerial personnel shall not hold office in more than one company at the same time except in its subsidiary company. [Section 203(3)]

4(c) 2.607%

Reason: Since the entity has only general borrowing, hence first step will be to compute the capitalisation rate. The capitalisation rate of the general borrowings during the period of construction is calculated as follows-

Particulars	Amount (in `)
Finance cost on ` 275 lakhs 7.5% debentures during September-December 2023	6,87,500
Finance cost on ` 20 lakhs 10% debentures during September-December 2023	66,667
Interest @15% on overdraft of ` 5,00,000 in September 2023	6,250
Interest @16% on overdraft of `5,00,000 in October and November 2023	13,333
Interest @16% on overdraft of ` 7,50,000 in December 2023	10,000
Total finance cost during September-December 2023	**7,83,750**

Weighted average borrowings during period

= [(2,75,00,000 × 4) + (20,00,000 × 4) + (5,00,000 × 3) +(7,50,000 × 1)]/4

= ` 3,00,62,500

Capitalisation Rate for 4 months period = Total finance costs during the construction period/ Weighted average borrowing cost during the construction period

= 7,83,750 /3,00,62,500

= 2.607%

5(d) ` 1,00,00,000, ` 3,40,00,000

Reason:

Fair Value Method	**Amount (in `)**
Fair value of cash consideration transferred	10,00,00,000
Fair value of non-controlling interest	3,00,00,000
	13,00,00,000
Less: Value of subsidiary's identifiable net assets as per Ind AS 103	12,00,00,000
Goodwill	**1,00,00,000**

Proportionate Share Method	**Amount (in `)**
Fair value of cash consideration transferred	10,00,00,000
Proportional share of non-controlling interest in the net identifiable assets of acquiree (12,00,00,000 x 45%)	5,40,00,000
	15,40,00,000
Less: Value of subsidiary's identifiable net assets as per Ind AS 103	12,00,00,000
Goodwill	**3,40,00,000**

II. Answers to the Descriptive Questions

6. **Disclosure by EcoTech Innovations Pvt. Ltd.:** Under Ind AS 24, "Related Party Disclosures," related parties are defined as entities or individuals that have the ability to exercise control or significant influence over the reporting entity, or vice versa. In this scenario, EcoTech Innovations Pvt. Ltd. owns 30% of the share capital in GreenTech Solutions Pvt. Ltd., which gives it the ability to exercise significant influence over GreenTech. This significant influence extends to the subsidiaries of GreenTech as well, making SustainCo Ltd. a related party to EcoTech Innovations Pvt. Ltd. because SustainCo Ltd. is a subsidiary of GreenTech Solutions Pvt. Ltd. Therefore, any transactions between EcoTech Innovations Pvt. Ltd. and SustainCo Ltd. are considered related party transactions and must be disclosed in EcoTech Innovations Pvt. Ltd.'s separate financial statements.

Disclosure of Transactions with EcoEnergy Pvt. Ltd.: Although GreenTech Solutions Pvt. Ltd. holds 30% of the share capital in EcoEnergy Pvt. Ltd. and has significant influence over it, EcoTech Innovations Pvt. Ltd. neither directly own any share capital in EcoEnergy Pvt. Ltd. nor it have significant influence or control over EcoEnergy Pvt. Ltd. Therefore, according to Ind AS 24, EcoEnergy Pvt. Ltd. is not considered a related party to EcoTech Innovations Pvt. Ltd. The mere fact that EcoTech Innovations Pvt. Ltd. transacts with EcoEnergy Pvt. Ltd. through its associate GreenTech Solutions Pvt. Ltd. does not establish a related party relationship under Ind AS 24. Consequently, EcoTech Innovations Pvt. Ltd. is not required to disclose transactions with EcoEnergy Pvt. Ltd. as related party transactions in its financial statements.

Disclosure by SustainCo Ltd.: SustainCo Ltd. is required to disclose its transactions with EcoTech Innovations Pvt. Ltd. in its financial statements. According to Ind AS, a related party relationship exists between SustainCo Ltd. and EcoTech Innovations Pvt. Ltd. because EcoTech Innovations Pvt. Ltd. has significant influence over GreenTech Solutions Pvt. Ltd., which is the parent company of SustainCo Ltd. This creates a relationship where EcoTech Innovations Pvt. Ltd. can influence the decisions of SustainCo Ltd., making it a related party. As a result, any transactions between SustainCo Ltd. and EcoTech Innovations Pvt. Ltd. must be disclosed in SustainCo Ltd.'s financial statements as related party transactions.

Disclosure by EcoEnergy Pvt. Ltd.: EcoEnergy Pvt. Ltd. is not required to disclose its transactions with EcoTech Innovations Pvt. Ltd. as related party transactions. Under Ind AS, for entities to be considered related parties, there must be a direct or indirect control, joint control, or significant influence. In this case, EcoTech Innovations Pvt. Ltd. does not exert control or significant influence over EcoEnergy Pvt. Ltd. through GreenTech Solutions Pvt. Ltd. Therefore, no related party relationship is established between EcoEnergy Pvt. Ltd. and EcoTech Innovations Pvt. Ltd. As a result, EcoEnergy Pvt. Ltd. does not need to disclose its transactions with EcoTech Innovations Pvt. Ltd. as related party transactions in its financial statements.

7. The action of the Commissioner in issuing the second notice is not justified. The term "record" has been defined in clause (b) of Explanation 1 to section 263(1). According to this definition "record" shall include and shall be deemed always to have included all records relating to any proceeding under the Act available at the time of examination by the Commissioner. In other words, the information, material, report etc. which were not in existence at the time the assessment was made and came into existence afterwards can be taken into consideration by the Commissioner for the purpose of invoking his jurisdiction under section 263(1). However, at the same time, in view of the express provisions contained in clause (b) of the

Explanation 1 to section 263(1), such information, material, report etc. can be relied upon by the Commissioner only if the same forms part of record when the action under section 263 is taken by the Commissioner.

Issuance of a notice under section 263 succeeds the examination of record by Commissioner. In the present case, the Commissioner initially issued a notice under section 263, after the examination of the record available before him. The subsequent second notice was on the basis of material collected under section 133A, which was totally unrelated and irrelevant to the issues sought to be revised in the first notice. Accordingly, the material on the basis of which the second notice was issued could not be said to be "record" available at the time of examination as emphasized in clause (b) of the Explanation 1 to section 263(1).

8. As per *Notification No. 45/2017 Cus. dated 30.06.2017*, duty payable on re-importation of goods which had been exported for repairs abroad is the duty of customs which would be leviable if the value of re-imported goods after repairs were made up of the fair cost of repairs carried out including cost of materials used in repairs (whether such costs are actually incurred or not), insurance and freight charges, both ways. However, following conditions need to be satisfied for availing this concession:

(a) goods must be re-imported within 3 years, extendable by further 2 years, after their exportation;

(b) exported goods and the re-imported goods must be the same;

(c) ownership of the goods should not change.

Since all the conditions specified above are fulfilled in the given case, the customs duty payable on re-imported goods will be computed as under:

Particulars	`
Value of goods re-imported after exports [Cost of materials `10 Lakh + fair cost of repairs ` 5 Lakh + actual insurance and freight ` 5 lakh]	20,00,000
Add: Basic Customs duty @ 15% …(A)	3,00,000
Add: Social Welfare Surcharge @ 10% on ` 3,00,000 …(B)	30,000
Value for computing integrated tax	23,30,000
Integrated tax @ 12% (` 23,30,000 x 12 %) - …(C)	2,79,600
Customs Duty and integrated tax payable …[(A) + (B) + (C)]	**6,09,600**

9. According to Section 192(1) of the Companies Act, 2013, no company shall enter into an arrangement by which:

(a) A director of the company or its holding, subsidiary, or associate company, or a person connected with him, acquires or is to acquire assets for consideration other than cash from the company; or

(b) The company acquires or is to acquire assets for consideration other than cash from such director or person so connected.

The above restriction is relaxed under certain conditions. A company may enter into an arrangement involving non-cash transactions as stated above if prior approval for such arrangement is accorded by a resolution of the company in a general meeting. Furthermore, if the director or connected person is a director of its holding company, approval must also be obtained by passing a resolution in the general meeting of the holding company.

The notice for approval of the resolution in the general meeting issued by the company or holding company must include:

– The particulars of the arrangement.

– The value of the assets involved in such arrangement, duly calculated by a registered valuer.

In the given instance, GreenWave Ltd. entered into a non-cash transaction with its managing director, Mr. Arjun, by selling its machinery in exchange for a vehicle. To comply with Section 192(1) of the Companies Act, 2013, GreenWave Ltd. would have needed to:

Obtain prior approval for such an arrangement through a resolution in its general meeting.

Since Mr. Arjun is also a director of its holding company, EcoTech Innovations Pvt. Ltd., prior approval would also need to be obtained by passing a resolution in the general meeting of EcoTech Innovations Pvt. Ltd.

By following these legal requirements, GreenWave Ltd. and EcoTech Innovations Pvt. Ltd. would ensure compliance with the Companies Act, 2013, regarding non-cash transactions involving directors and connected persons.

▸ CASE STUDY - 119 ◂
(MTP SEPT 2024)

- A Ltd., an established player in the hospitality industry, oversees its subsidiary B Ltd., which specializes in the tourism sector, contributing to synergies between hospitality and tourism through interconnected services and offerings. In a strategic move to bolster its operational capabilities, A Ltd. undertook a significant expansion by purchasing a new building and pre-installed office furniture and fixtures from P Ltd., a well-known construction company that operates under two distinct divisions: commercial real estate and residential real estate, managed by Manager 1 and Manager 2 respectively.
- A Ltd.'s purchase of the new building from P Ltd. marks a significant enhancement in its infrastructure, directly impacting its ability to deliver superior services in the hospitality sector. The integration of state-of-the-art facilities and high-quality furnishings ensures that A Ltd. can offer a first-rate experience to its clients, setting a benchmark in the industry. This strategic move also positions A Ltd. to better accommodate the growing demands and complexities of the modern businesses, which increasingly values seamless, high-quality service delivery.
- Moreover, this also facilitates greater collaboration between A Ltd. and its subsidiary, B Ltd., fostering an ecosystem where both entities can thrive through mutual support and shared resources. For instance, the new building could also serve as a central hub for both managing operations and hosting client meetings, workshops, and corporate events, thereby enhancing the synergy between A Ltd.'s hospitality services and B Ltd.'s tourism offerings.
- P Ltd. is recognized for its diversified portfolio, catering to a broad spectrum of clients. The commercial real estate division, under the leadership of Manager 1, focuses on developing and selling properties tailored for businesses, such as office spaces and commercial complexes. This division is renowned for its turnkey solutions, providing clients with ready-to-use spaces that are modern, functional, and well-equipped. The residential real estate division, managed by Manager 2, deals with housing projects ranging from high-rise apartments to luxury villas, emphasizing comfort, aesthetics, and community living.
- P Ltd.'s ability to deliver such tailored real estate solutions stems from its robust relationships with suppliers like Q Ltd., whose high-quality materials are crucial for the construction and maintenance of premium properties. Their materials are pivotal in ensuring the structural integrity and aesthetic quality of buildings. This relationship highlights the importance of a reliable supply chain in maintaining the quality and reliability of real estate developments. P Ltd.'s strategic choice of materials ensures durability and aesthetic appeal, which are critical for properties serving the high expectations of the hospitality and tourism sectors. Q Ltd.'s commitment to quality and timely delivery helps P Ltd. maintain its reputation for reliability and excellence in the construction industry.
- As A Ltd. continues to grow and adapt to the changing dynamics of these industries, the strategic foresight demonstrated in such acquisitions will be pivotal. By aligning its physical assets with its service goals, A Ltd. enhances its competitive edge and cements its reputation as a leader in providing comprehensive hospitality and tourism experiences. This strategic alignment not only benefits A Ltd. but also sets a standard for operational excellence and integration within the industry, ultimately leading to sustained growth and success in a competitive marketplace.
- Overall, the interconnections between these companies exemplify a well-integrated supply chain and strategic business relationships that span different sectors, each contributing to the final delivery of quality real estate solutions tailored to the specific needs of industries such as hospitality and tourism.
- The case centres around A Ltd., where a cashier committed fraud by absconding with the company's funds. The Chief Accountant of A Ltd. was unaware of the fraudulent activity until the audit had been completed. The audit, conducted in an unfocussed and haphazard manner, failed to detect the fraud, which was only discovered by the Chief Accountant post-audit. An investigation later found that the auditor had not exercised proper skill and care.
- Soon, another scandal follows. The Income-tax department collected documents from ABC Bank which revealed that B Ltd. had remitted substantial amounts abroad. The documents collected include Form 15CB issued by the Chartered Accountant, list of passengers, copy of their passports, date of travel and invoice raised by the foreign party. On enquiring from the passengers and verifying their passports, it is found that they did not travel abroad during the dates mentioned in the documents. Further, the passengers denied any sort of transactions with B Ltd. The department, therefore, concluded that the amounts were remitted abroad on the basis of false invoices and for wrong reasons, leading to FEMA violations and that the Form 15CB issued by the Chartered Accountant facilitated such violations. During the nine-month period in question, the chartered accountant had issued 150 certificates in Form 15CB approximately involving remittances of 40 crores in favour of B Ltd.
- The Chartered Accountant submitted that he had issued Form 15CB based on invoices produced by the company and verifying the KYC documents of the signatory to the invoices. He however, failed to bring on record the invoices. He further submitted that since he was not the statutory auditor of the company, he did not examine the books of account before

issuance of Form 15CB or conduct due diligence of its business activities. He had charged ` 4,000 per certificate. Mostly, the fee was collected in cash. Some part of the fee was credited to his bank account.

- In the wake of such huge scandals, A Ltd. wants to know the provision for applicability to conduct secretarial audit as they never conducted secretarial audit thinking they don't have enough business transactions to consider these requirements earlier. Company provides you information: Paid-up Share Capital ` 45 crore, Turnover ` 170 crore and Outstanding Loans and Borrowings of ` 120 crore from banks.
- A Ltd has decided to appoint Mr. Anurag as Chief Internal Auditor to lead the internal audit function for the Company. The CEO of the Company has asked the HR head to define the reporting structure of the Chief Internal Auditor, so that he can discharge his duties objectively.
- Further, CEO is also sceptical regarding the provisions of the Companies Act, 2013, applicable with respect to the constitution of the audit committee, he accordingly discussed his understanding with you and asked him to rectify in case he is not correct. He told you that he has the following understanding with respect to the provisions applicable for Audit Committee.
- Any senior member of the company having expertise of accounting and financial management can be appointed as the chairperson of the Audit Committee.
- As discussed earlier, P Ltd. procures its raw materials from Q Ltd., a supplier specializing in metals. P Ltd. has recently decided to invest in an Electronic Data Interchange system that will enable P Ltd. to automatically place orders with its major suppliers. Currently, P Ltd.'s purchasing department staff have to place orders using postal mails and telephone to the company's suppliers, which is slow and inefficient.
- Q Ltd. began its operations in 1991, starting as a modest enterprise and gradually transforming into a key player in the metal supply sector. Over the years, it has become an essential resource for a variety of industries, now supporting more than twelve distinct sectors with its extensive range of metal products. These sectors include Wood & Panel Products Manufacturing, Hearth Products, Site Furnishings, and both Commercial and Residential Construction, among others. This diversity has not only broadened Q Ltd.'s market presence but has also enhanced its expertise in delivering tailored solutions across various fields.
- The growth of Q Ltd. can largely be attributed to its unwavering commitment to its clientele. The company has always prioritized customer satisfaction, ensuring that each client receives personalized service and support tailored to their specific industry needs. This customer-centric approach has been pivotal in fostering strong, long-lasting relationships and in securing a loyal customer base. Moreover, Q Ltd. prides itself on its dedication to quality. Each product in their extensive catalogue is a testament to meticulous craftsmanship, designed to meet the highest industry standards.
- Employing a team of experts, Q Ltd. ensures that each sector it serves is backed by professionals with deep knowledge and specialized skills. These experts not only understand the unique demands of their respective industries but are also equipped to advise and assist customers in selecting the best materials for their specific applications. This level of expertise is critical in industries where the quality and specifications of materials can significantly influence the overall success of a project.
- The operational structure of Q Ltd. is divided into two main divisions: Division 'F' and Division 'G'. Division 'F' focuses on serving industrial and commercial construction needs, providing robust materials that are essential for large-scale construction projects. This division is known for its ability to supply large volumes of materials reliably and efficiently, thereby supporting some of the most demanding construction timelines and project specifications.
- On the other hand, Division 'G' caters more to specialized industries like Hearth Products and Site Furnishings, offering bespoke solutions that often require a finer attention to detail and aesthetics. This division combines technical expertise with creative design, ensuring that even the most aesthetically driven projects benefit from the highest standards of structural integrity and material excellence.
- Each division works as an investment centre separately. The salary of each divisional manager is ` 7,20,000 per annum with the addition of an annual performance-related bonus based on divisional return on investment (ROI). A minimum ROI of 12% p.a. is expected to be achieved by each divisional manager. If a manager only achieves the 12% target, he will not be rewarded with a bonus. However, for every whole 1% point above 12% which the division achieves for the year, a bonus equal to 3% of annual salary will be paid subject to a maximum bonus of 20% of annual salary. The figures belonging to the year ended 31 March 2024 are given in Annexure. During the financial year 2023-24, PAO, manager of Division 'G' invested ` 13.6 million in new equipment including an advanced cutting machine, which will increase productivity by 10% per annum. BAO, manager Of Division 'F', has made no investment during the year, even though its computer system needs updation.

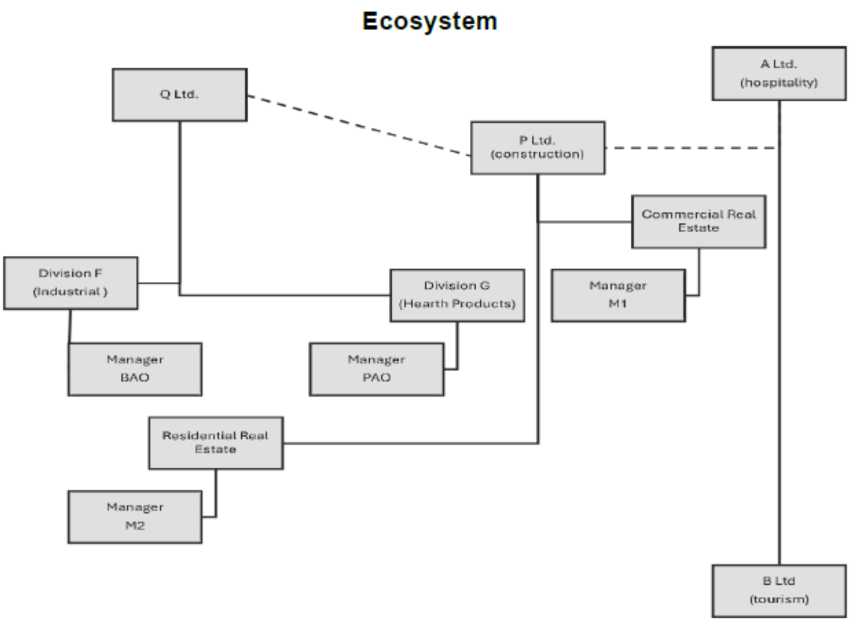
Division 'F's manager has already delayed payments of its suppliers due to limited cash & bank balance although the cash balance at Division 'F' is still better than that of Division 'G'.

ANNEXURE

The News

A Ltd. Expands Infrastructure with Strategic Acquisition of State-of-the-Art Building from P Ltd.

- *Gurugram, 20th April 2024* – In a major step towards enhancing its infrastructure and broadening its service offerings, A Ltd. has successfully acquired a state-of-the-art building from P Ltd. This acquisition is a key element of A Ltd.'s Future Ready Action Plan, aimed at revolutionizing its ability to deliver top-tier services in the hospitality sector and reinforcing its status as an industry leader.
- The newly acquired building will house modern conference spaces, food labs, beverage research and development facilities, and versatile common areas. These cutting-edge additions will make conferences, virtual offices, and collaborative workspaces more accessible, affordable, and relevant, providing businesses with the tools they need to thrive in an increasingly competitive market.
- With these advanced facilities and high-quality furnishings, A Ltd. is set to offer an unparalleled experience to its clients, setting new standards in the hospitality industry. This strategic investment not only reflects A Ltd.'s unwavering commitment to excellence in service delivery but also positions the company to meet the evolving demands of the modern business market.
- As the complexities of the hospitality industry grow, A Ltd. is well-prepared to address the needs of today's businesses, who prioritize seamless and high-quality service. This expansion marks a pivotal moment in A Ltd.'s growth journey, underscoring its dedication to providing exceptional hospitality experiences and solidifying its future-ready approach.



Financial Performance and Asset Overview of Division F and Division G **(` in '000)**

	Division F	Division G
Revenue	30,000	17,500
Profit	5,200	4,000
Less: head office cost	(2,500)	(1,400)
Net profit	2,700	2,600

Non-current assets	19,500	30,000
Cash, inventory and trade receivables	5,000	6,500
Trade payable	6,200	2,800
Manager responsible	**BAO**	**PAO**

I. Multiple Choice Questions

1. Which of the following statements accurately characterize the situation of fraud committed by the cashier and the subsequent action:
   (i) The auditor exhibited due diligence and careful conduct.
   (ii) Clause (7) Of Part I of Second Schedule to the 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 to be guilty of professional misconduct based on clause (7) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.

Options

(a) Only (iv) (b) Both (ii) & (iv) (c) Both (ii) & (iii) (d) Both (i) & (iii) **2 Marks**

2. The Board of director of A Ltd. appointed you to analyse the business of the organisation and advise whether they are contravening the provision of the Companies Act, 2013 with respect to Secretarial Audit.
   (a) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of outstanding loans and borrowings of rupees 100 crore or more.
   (b) No, A Ltd. is not required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. does not cross the threshold limit of outstanding loans and borrowings of rupees 200 crore or more.
   (c) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of Paid-up share capital of rupees 25 crore or more.
   (d) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of Turnover of rupees 100 crore or more. **2 Marks**

3. Whether the understanding of CEO of A Ltd. is correct with respect to the appointment of chairperson of the Audit Committee?
   (a) No, as only the company secretary of the company can be appointed as the chairperson of the Audit Committee.
   (b) No, as the Chairperson of the Audit Committee shall be an independent director.
   (c) Yes
   (d) Partly correct as the chairperson should have expertise of accounting and financial management, however he should be a Chartered Accountant also. **2 Marks**

4. With respect to the purchases made by A Ltd. from P Ltd., which of the following is correct regarding the GST liability?
   (a) There will be no GST liability on purchase of building while Office furniture and fixtures will be liable to GST.
   (b) There will be no GST liability on purchase of building and Office furniture and fixtures.
   (c) There will be GST liability on both purchase of building and Office furniture and fixtures.
   (d) There will be GST liability on purchase of building while Office furniture and fixtures will be not liable to GST. **2 Marks**

5. Given the diverse functionalities of EDI systems in automating and standardizing transactional data across different departments and stakeholders, which specific area within P Ltd.'s value chain is expected to see the most significant improvement due to the implementation of this new EDI system?
   (a) Infrastructure since it supports to perform primary activities.
   (b) Inbound Logistic since it is directly involved in the transformation of a product or provisioning of a service.
   (c) Procurement since it supports to perform primary activities.
   (d) Outbound Logistic since it is directly involved in the transformation of a product or provisioning of a service. **2 Marks**

II. Descriptive Questions

6. ADVISE the ideal reporting structure of the Chief Internal Auditor that HR head may propose to the Managing Director? **4 Marks**

7. EXAMINE the ethical implications of the chartered accountant's issuance of Form 15CB without proper verification and due diligence in this case. **3 Marks**

8. For each division of Q Ltd., COMPUTE, ROI for the year ending 31 March 2024. JUSTIFY the figures used in your calculation also COMPUTE bonus of each manager for the year ended 31 March 2024. DISCUSS whether ROI provides a justifiable basis for computing the bonuses of managers and the problems arising from its use at Q Ltd. for the year ended 31 March 2024. **5 Marks**

9. DISCUSS how the strategic acquisition of a state-of-the-art building from P Ltd. will provide A Ltd. with a competitive advantage in the hospitality industry. **3 Marks**

ANSWERS TO THE CASE STUDY - 119

I. Answers to the Multiple Choice Questions

1(c) Both (ii) & (iii).

Reason: In the given case, during the 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 the Clause (7) of Part I of Second Schedule of the 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 scepticism. 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 the Chartered Accountants Act, 1949 and SA 240, it is clear that the auditor is guilty of professional misconduct.

2(a) Yes, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013 since A Ltd. crosses the threshold limit of outstanding loans and borrowings of rupees 100 crore or more.

Reason: In given case, A Ltd. crosses the threshold limit of outstanding loans and borrowings of rupees 100 crore or more for getting Secretarial Audit conducted. Accordingly, A Ltd. is required to conduct secretarial audit under the Companies Act, 2013.

[In terms of Rule 9(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, for the purposes of sub-section (1) of section 204, Every Company having outstanding loans or borrowings from banks or public financial institutions of 100 crore rupees or more.]

3(b) No, as the Chairperson of the Audit Committee shall be an independent director.

Reason: As per Regulation 18(1) of LODR Regulations, the chairperson of the Audit Committee shall be an independent director and he shall be present at Annual General Meeting to answer shareholder queries.

4(a) There will be no GST liability on purchase of building while office furniture and fixtures will be liable to GST.

Reason: There will be no GST liability on purchase of building as sale of building is covered under Schedule III to the CGST Act, 2017. However, Office furniture and fixtures will be liable to GST.

5(c) Procurement since it supports to perform primary activities.

Reason: The EDI system will improve the system for sourcing and purchasing materials. This is procurement. Note that inbound logistics refers to inventory management - not the purchasing of inventory itself.

II. Answers to the Descriptive Questions

6. HR Head needs to evaluate multiple options and identify the most suitable option in light of the relevant provisions, guidance and overall governance of the organization. HR head also needs to evaluate different options for his administrative reporting and various options for functional reporting of Chief Internal Auditor. The possible options to be considered and evaluated may include the Board of Directors, Audit Committee, Managing Director of the Company, Chief Executive Officer or Chief Financial Officer.

As per section 138 of the Companies Act 2013, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in the practice or not), or such other professional as may be decided by the Board to conduct an internal audit of the functions and activities of the company.

As per the revised definition of the term 'Internal Audit' as per para 3 of the ICAI's Framework Governing Internal Audits, "Internal audit provides independent assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives".

The Internal Auditor shall be free from any undue influences which force him to deviate from the truth. This independence shall be not only in mind but also in appearance. Also, the internal auditor shall resist any undue pressure or

interference in establishing the scope of the assignments or the manner in which these are conducted and reported, in case these deviate from set objectives.

As per the requirement of the above stated provision, Chief Internal Auditor needs to be independent of the operational activities and report of Audit Committee / Board of Directors to enjoy his true status of independent auditor. He may administratively report to CEO or Managing Director for his administrative reporting purpose or any other similar authority till the time it is approved by Board of Directors, and it does not impact his independence to be able to perform his duties and report to audit committee / Board of Director independently.

7. Form 15CB is a certificate of an accountant wherein he certifies that he has examined the agreement between the remitter and the beneficiary requiring such remittance as well as the relevant documents and books of account required for ascertaining the nature of remittance and for determining the rate of deduction of tax at source. The chartered accountant certifying the form undertakes to have verified the agreement between the remitter and the beneficiary as well as the relevant documents and books of account to ascertain the nature of remittance and determine the rate of TDS. In this case, however, the chartered accountant mentioned that he had only verified KYC of signatory to invoice and the invoices thereof, He had not only failed to justify as to how verification of invoices was considered as sufficient compliance for certifying the forms but also failed to bring on record the said invoices. Thus, he failed to provide any basis on which he relied for issuing Form 15CB certificates to the company. On account of such failure, clauses (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 for failure to exercise due diligence in discharging his professional responsibilities and failure to obtain sufficient information may be invoked.

8. ROI

ROI expresses divisional profit as a percentage of the assets employed in the division. Assets employed can be defined as total divisional assets, assets controllable by the divisional manager, or net assets. ROI is a common measure and thus ideal for comparison across corporate divisions for companies of similar size and in similar sectors.

Division 'F'

controllable profit = ` 5,200K

Net Assets = `19,500k + ` 5,000K - ` 6,200K = `18,300K

ROI = 28.42%

Division 'G'

Controllable profit = ` 4,000K

Net Assets = ` 30,000K + ` 6,500K - ` 2,800K = ` 33,700K

ROI = 11.87%

Responsibility accounting advocates that managers performance shall be judged based upon how well he or she manages the items under his or her control, hence in computation Of ROI of division, controllable profit has been taken into consideration, because head Office costs are not controllable by divisional managers. Figures of non-current and current assets apart from the current liabilities have been taken into consideration as they are such items over which divisional managers have complete control.

Bonus

- Bonus to be paid for each whole percentage point is ` 21,600 ` 7,20,000 x 3%). But there is ceiling limit as well, i.e. 20% of salary hence the maximum Bonus be ` 1,44,000 (` 7,20,000 x 20%).

Division 'F'

- Divisional ROI is 28.42%, which results in 16 whole percentage points above the minimum required ROI of 12%. Hence the bonus according to each whole percent of excess ROI will be ` 3,45,600 (16 x ` 21,600). But there is upper cap of ` 1,44,000. Therefore, BAO be paid the bonus of ` 1,44,000.

Division 'G'

- Divisional ROI is 11.87%, since same is less than the minimum required ROI of 12%, hence PAO will not be rewarded with a bonus.
- PAO will not receive any bonus since he has not earned any point above minimum percentage. This is due to the larger investment base on which the ROI figure has been computed. Total investment of Division 'G' is almost 1.84 times to that of Division 'F'. The major reason behind this is that Division 'G' invested 13.6 million (` 13,600K) in new equipment during the year. Ignoring this investment of division D is just 0.91 times to that of division 'F' and net Investments would have been only ` 20,100K and the ROI for Division 'G' would have been 19.9% resulting in payment of a bonus ` 1,44,000 (7 × ` 21, 600 i.e. ` 1,51,200 but subject to upper cap of ` 1,44,000) rather than the nothing. So, PAO is being penalized for making investment decisions which are in the best interests of his division and company, because new investment enhance productivity which will support customer loyalty, dedication to customer services and quality, the CSFs for Q Ltd. It is very surprising that he decided to invest where he knew that he would receive a lesser bonus subsequently. On the other hand, BAO has benefited from the fact that he has not invested in anything even though it was needed for computer system updation. This is an example of sub-optimal decision making.
- Further, Division 'F''s trade payables are more than double those of Division 'G'. In part, one would expect this due to higher sales (almost 71% more than Division 'G') and low cash levels at Division 'F'. Higher trade payable leads to a reduction in net assets figures. The fact that Q Ltd. is rewarding BAO with a bonus, even though relationships with suppliers may be badly affected, is again a case of sub-optimal decision making.
- If the profit margin (excluding head office cost) as percentage of sales is calculated, it comes to 17.33% (` 5,200 / ` 30,000) for division 'F' and 22.86% (` 4,000 / ` 17,500) for division 'G'. Therefore, it can be seen that division 'G' is performing better if capital employed is ignored. ROI is simply distorting the division 'G''s performance.

- PAO might feel extremely disappointed by getting nothing and in the future, he may opt to postpone the investment to increase the bonus. Non- investing in new technology and equipment will mean that the Q Ltd. will not be kept updated with industry changes and its overall future competitiveness will be affected.
- Briefly, the use of ROI results in sub-optimal decision making and a lack of goal congruence i.e. what is good for the managers is not necessarily good for the company too and vice versa. Hence ROI is not a justifiable basis to for computing the bonuses of divisional managers and also cause problem for Q Ltd.

9. The acquisition of the state-of-the-art building from P Ltd. offers A Ltd. several competitive advantages that can significantly enhance its position in the hospitality industry:

1. **Enhanced Service Offerings**: The new building will include modern conference spaces, food labs, beverage research and development facilities, and common areas. These additions allow A Ltd. to diversify its services, catering to a broader range of clients, including business travellers, corporate clients, and event organizers. By offering comprehensive, high-quality amenities, A Ltd. can attract new customer segments and retain existing ones, giving it a competitive edge over other players in the market.
2. **Differentiation in the Market**: The integration of cutting-edge facilities and high-quality furnishings sets A Ltd. apart from its competitors. In an industry where customer experience is paramount, the ability to provide state-of-the-art accommodations and services positions A Ltd. as a premium provider. This differentiation can lead to increased brand loyalty and the ability to command higher prices, further strengthening the company's market position.
3. **Future-Proofing and Innovation**: By incorporating food labs and beverage R&D facilities, A Ltd. is positioning itself as a leader in hospitality innovation. These facilities enable the company to experiment with new offerings and trends, staying ahead of market demands and setting trends rather than following them. This proactive approach to innovation helps A Ltd. maintain relevance in a rapidly evolving market.
4. **Operational Efficiency and Cost Savings**: The acquisition allows A Ltd. to consolidate its operations into a single, well-equipped location, leading to potential cost savings in terms of logistics, maintenance, and management. Efficient operations can improve profit margins and provide the financial flexibility needed to invest in further growth or offer competitive pricing.
5. **Attracting High-Profile Clients and Events**: The availability of modern conference spaces and advanced facilities makes A Ltd. an attractive venue for high-profile clients and large-scale events. Hosting such events not only generates significant revenue but also enhances the company's reputation, leading to positive word-of-mouth and further business opportunities. 6. **Scalability and Growth Opportunities**: With an expanded and upgraded infrastructure, A Ltd. can scale its operations more effectively. Whether it's expanding into new markets, launching new services, or increasing capacity, the acquisition provides the physical and operational foundation needed for sustained growth.
7. **Strategic Positioning**: As part of A Ltd.'s Future Ready Action Plan, this acquisition aligns with the company's long-term strategy of making conferences, virtual offices, and collaborative workspaces more accessible. This strategic alignment ensures that A Ltd. remains competitive in the face of evolving market trends, particularly in response to the increasing demand for hybrid and virtual work environments.

   In summary, the acquisition offers A Ltd. a comprehensive set of competitive advantages, from enhanced service offerings and market differentiation to innovation, operational efficiency, and strategic growth. These factors collectively strengthen A Ltd.'s market position, ensuring it remains a leader in the hospitality industry.

- **The suggested answers provided here includes a variety of potential solutions/ alternative points *where applicable*. This is intended to assist students by offering multiple perspectives and approaches to problem-solving.**