

**Case Study – 1**

Raman Bal, a young IT engineer and an MBA with flair for writing started a small net based business of content writing in the year 2001 by the name - *Quality Contents*. Initially, his business focused on website copywriting and business blog writing. Riding the wave of sourcing work from India by western countries, his business grew quite rapidly.

Raman Bal was also able to easily establish his business on account of high quality original content produced by him. He produced contents that scored high in the subject matter; he would extensively study a subject and write content that was directed to the target readers. With increase in business he gradually engaged freelancers and shared a part of his revenue as compensation to them.

However, he continued to do editing himself before delivering contents to the clients. With the increase in the business his focus shifted from writing contents himself to have a team to write content. He personally monitored them to ensure quality. In the year 2006 he had a team of twenty persons who were working with him on regular basis. Out of these twenty persons eight were assigned responsibility to coordinate with the clients and content writers and four worked on checking quality. Remaining persons looked after other sundry matters in business. There are also good number of external experts who were available on the basis of need. The business benefited through its unique network organization structure that comprised of separate small expert groups in each subject area. These individuals were not on regular payroll and were compensated according to their contribution. The structure helped the company define short term goals and deploy manpower when an assignment was initiated.

In the year 2008, the global economic environment went into recessionary phase. The overall business environment became quite difficult and many businesses found it tough to survive. However, recession had little impact on the business of Raman Bal. His major

customers were in United States and European countries. Half of his sales were to the customers in United States.

He also helped the clients during recession by providing free designs. He engaged seven designers and delivered contents in attractive designs. He would normally design the contents free of cost as an additional service. Sometimes when a complex design was requested by the client, he would charge a nominal price to cover cost. This became a huge selling point for his business as foreign clients found it really cheap to get the content designed from the same organisation. It also saved them time and hardship of getting the matter designed separately. Raman Bal also got assignments that were highly technical in nature and required services of outside experts.

In the year 2008-09 his total annual turnover increased to Rs 7 crores with a profit of Rs 3.15 crores. His portfolio of activities also increased to the following:

- Marketing emails and letters
- Brochures, pamphlets, fliers
- Press Releases
- Creating miscellaneous corporate communications
- Preparation of marketing presentations.
- Writing Case studies
- Creation of White papers
- Research / Industry / Market report writing

His business grew further. In April, 2011 his business was incorporated as a private limited company with the name *Quality e-Contents India (P) Ltd.* The authorized share capital was kept as Rs 80 crores consisting of 8 crore shares of Rs 10 each. Out of which shares worth 11 crores were subscribed by seven of his friends. His previous business was valued at 30 crores by an independent valuer –Delhi based firm of Chartered Accountants. He was issued shares for the same amount. A Japanese venture Capital Firm Japan

Offshore Venture invested a sum of 2 million dollar into the company. (\$ 1=Rs 65).

Raman Bal became the Managing Director of the company. To manage the affairs of the company, different divisions were created as operations, marketing, finance and human resources. The biggest department was operations that Raman decided to handle himself. Under him he recruited a general physician, a Chartered Accountant and an engineer to look after different technical areas. The assignments were often in the areas of medicine, finance or related to engineering. The total employee strength increased to 125. At this time Raman Bal also proposed to constitute the following committees that was kept pending:

- A. Audit Committee
- B. Stakeholders Relationship Committee
- C. Corporate Social Responsibility Committee

The following is the financial performance of the company in last five years.

Particulars	2016-17	2015-16	2014-15	2013-14	2012-13
Net Sales (Rs Crores)	22	25	29	27	17
EBITDA (Rs Crores)	13	14	15	10	9
Net Profit (Rs Crores)	9	10	11	6	4

Raman Bal was very positive about his business and wanted to expand it further. He also desired to enter into the business of printing. With existing client base he felt that he can easily achieve success by exporting printed material to the foreign clients. He called a meeting of senior company executives in May, 2017 to consider expansion into printing business. The following is the excerpt of discussion:

***Raman Bal***

*Our company has been growing steadily. Copywriting and creation of designs have given us significant growth. Now it is time for next leap. Let us install a state of Art printing press.*

The Japanese venture capitalist has agreed to make further investments in the company. They have assured another 2 million dollars. They are also ready to put in more if we convert Quality e-Contents India (P) Ltd to a public company listed in major bourses in country. It is time for us to make a killing.

**Shridhar, Head Finance**

Printing is totally a new area for the company. In Delhi and in adjoining cities there are several printing presses. We can take printing assignment. However, instead of creating our own infrastructure, we may test the concept by outsourcing it to outside printing presses. This way we will reduce risk.

**Raman Bal**

We should not be pessimistic and kill the idea as soon as it is floated. Let us analyse it and if this group feels to drop the idea we can drop it. I have no objections. My average revenue per client will increase to five times. I already have an industrial plot in Noida. The same can be transferred at the market rate.

**Shridhar, Head Finance**

I never tried to reject the idea. I wanted to suggest a conscious approach on account of the homework that I have done. Handing a printing press would be an altogether new experience for the company. It is a capital intensive project. The project requires huge capital and running expenses. At least 20 crores for a basic setup is required. A single sheet fed four colour offset machine of a reputed brand will cost us upward of rupees 2.5 crores. I am talking about a second hand machine and not a new machine which will be at least 7 to 8 crores. If we go for faster web offsets or increase the paper size the rates would be still more. Then we also need other infrastructure. We need to install pre-press and post press units. The company will need machines such as computer to plate machine, folding machines, perfect binders, etc.

**Sulekha, Head – Marketing**

There is nobody to handle such infrastructure in the company.

**Vikrant, Head – Operations**

*It would be totally new experience for all of us. We should install a new machine. I am sure venture capitalist will agree for more investments. I started my career in a pre-press department of a large press and have worked there for five years.*

**Sulekha, Head – Marketing**

*We also need to consider environmental issues. Recently, a lot of factories have been given notices to close their operations. We need to have a macro view of the matter. There is also new environmental policy of Government.*

**Raman Bal**

*Any project needs to be considered from all angles. I agree we need to consider the environment and the government policies on its safeguard.*

**Shridhar, Head Finance**

*As an option we may also consider acquisition of a firm located in Gurgaon. They have all the infrastructure for pre-press and post-press work. They have existing clients for such kind of work in Gurgaon. We can buy our own machinery and install in its premises that has ample space.*

**Raman Bal**

*My focus is not on Indian clients. I know the firm and it has obsolete machines.*

Raman Bal was able to convince all the members of group on purchase of new machine and installation of other infrastructure. The same was also approved by the board later which sanctioned an outlay of thirty crores. They also decided to increase the Share Capital and invite Japanese venture Capitalist to invest more in the company.

The company also decided to import two new printing machines. One of the machine was imported from *Iceberg* in Germany. A contract was made with *Iceberg* on CIF basis. However, on account of delayed implementation of the contract on part of the *Quality e-Contents India (P) Ltd* and increase in the prices, *Iceberg* refused to supply the machine at

the price decided earlier. There were detailed discussions between the two parties. As a result of several negotiations, the parties agreed for a negotiated price payable as follows:

<b>Particulars</b>	<b>Contract Price (€)</b>	<b>Changed Price (€)</b>	<b>Negotiated Price (€)</b>
<i>CIF Value</i>	7,50,000	7,80,000	7,60,000
<i>Air Freight*</i>	10000	10000	10000
<i>Insurance</i>	3750	3900	3800

*\*Air freight includes include loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation.*

Further there were vendor inspection charges (not required for making the machine ready for shipment) amounting to € 7500. There was also commission payable to local agent of the exporter at the rate of one per cent of FOB in local currency. The Inter-bank rate 1 € = Rs. 105. The other particulars relating to rate of duties and date of filing of bill of entry etc. are as follows:

<b>Date of bill of entry</b>	<b>Basic customs duty</b>	<b>Exchange rate in Rs. (notified by CBEC)</b>
18.09.2017	10%	102
<b>Date of arrival of aircraft</b>	<b>Basic custom duty</b>	<b>Exchange rate in Rs. (notified by CBEC)</b>
15.09.2017	15%	98

*The machine was not liable to GST compensation cess. Rate of integrated tax is 18%.*

## QUESTIONS

### Multiple Choice (2 Marks each).

1. The factor which are largely considered in outsourcing decisions is/are :
  - (a) Quality of Suppliers
  - (b) Reliability of Suppliers
  - (c) Design Secrecy
  - (d) All of them
  
2. Company shall directly or indirectly give loan or guarantee to any person/other body corporate —
  - (a) not exceeding 60 % of Paid up share capital and free reserves or 100% of its free reserves and securities premium account, whichever is more
  - (b) Exceeding 60% of paid up share capital , free reserves and securities premium account or 100% of its free reserves and securities premium account, whichever is less
  - (c) exceeding 60% of its paid-up share capital, free reserves and securities premium account or 100% of its free reserves and securities premium account, whichever is more
  - (d) not exceeding 60% of its paid-up share capital, free reserves and securities premium account or one hundred per cent. of its free reserves and securities premium account, whichever is more
  
3. As per the provisions of the Companies Act, 2013, the Board of Directors of the company wants to contribute to charitable funds for the year 2017-18. What is the maximum amount of contribution that the company can make without prior permission from the company in general meeting:
  - (a) 0.4 crores

- (b) 0.5 crores
  - (c) 1.4 crores
  - (d) 1.5 crores.
4. Suppose the Quality –e content (Pvt) Ltd wants to get merged with the any other company. Who amongst the following are eligible to raise objections to the scheme of compromise and arrangement:
- (a) Persons holding less than 10% of shareholding or having debt amounting less than 5% of the total outstanding debt as per the latest audited financial statement
  - (b) Persons holding less than 10% of shareholding or having debt amounting 5% of the total outstanding debt as per the latest audited financial statement
  - (c) persons holding in 10% of shareholding or having debt amounting less 5% of the total outstanding debt as per the latest audited financial statement.
  - (d) persons holding 10% or more of shareholding or having debt amounting 5% of the total outstanding debt as per the latest audited financial statement.
5. As per the requirement of the Companies Act, 2013, which companies do not require the holding of at least one meeting of the Board of Directors to be conducted in each half of a calendar year with ninety days gap between the two meetings :
- (a) private company
  - (b) Private start-up company
  - (c) Both the company
  - (d) None of the above



6. Import and export under the Foreign Trade Policy without \_\_\_\_\_ number is not permitted unless specifically exempted.
- (a) IEC
  - (b) GSTN
  - (c) PAN
  - (d) All of the above
7. Mr. X has imported certain goods from Singapore. He intends to clear the goods from the customs station for home consumption. The vessel containing the goods arrives at customs station on 05.07.20XX. 06.07.20XX is a public holiday. Mr. X has not filed the bill of entry till the time the vessel arrived at the customs station. Mr. X can file the bill of entry latest by:
- (a) 05.07.20XX
  - (b) 06.07.20XX
  - (c) 07.07.20XX
  - (d) 08.07.20XX
8. Which of the following expenses is not includible in the assessable value of the imported goods?
- (a) Cost of the packing incurred by buyer but not included in the price paid for the imported goods.
  - (b) Royalty related to imported goods required to be paid as consideration of sale.
  - (c) Cost of transport to the place of importation
  - (d) Buying commission paid by the buyer but not included in the price paid for the imported goods

9. Who is/are related persons in terms of customs valuation rules for imported goods?
- (a) Members of the same family.
  - (b) One person indirectly controlling the other person.
  - (c) Employer and employee.
  - (d) All of the above
10. For export goods, the relevant rate of exchange for the purpose of conversion of the value of export goods is the rate prevalent on the date of:
- i. Filing shipping bill
  - ii. Filing bill of export
  - iii. Filing bill of entry
  - iv. Let export order
- Identify the correct option
- (a) (i) and (ii)
  - (b) (i) and (iv)
  - (c) (i), (ii) and (iv)
  - (d) (iii)

**Descriptive/Numerical**

11. (a) Give your views on the approach of Raman Bal to diversify to printing business? **(4 Marks)**
- (b) Sulekha has been asked to prepare an environmental report under the government's new environmental policy. Identify factors of environmental costs to be included in environmental report. **(6 Marks)**

12. In the given case study, suppose the company earns huge profits and falls within the purview of section 135 of the Companies Act, 2013 and has to necessarily constitute the Corporate Social Responsibility Committee. Mr. Raman Bal now seeks your advice on the following issues based on the provisions of the Companies Act, 2013.
- i. If Company finalised any project under its CSR initiatives which require funds @ 5 % of average net profit of the company for last three financial years. Will such excess expense be counted in subsequent financial years as a part of CSR expenditure?
  - ii. Assuming that if the company has already expanded its business in and outside India by opening its branches. If the branches located in India had not earned any profit since 2013 -2014, whether the provisions of the CSR will be applicable for 2016 -2017.
  - iii. Suppose if during the year 2016-17, the company has so far spent CSR expenses to the tune of 1.10 percent of the average net profits of the company made during the three preceding immediately financial years. Will there be any consequences that require special attention. **(10 Marks)**
13. The company seeks your advice for computing the applicable import duties/taxes on the machine imported from Iceberg Germany.
- The company also desires to know whether it can avail input tax credit of such duties/taxes paid by it?
- Further, the company seeks your assistance in optimizing the tax cost on the import of second machinery to be purchased next month. Suggest methods/ways, if any, by which the tax cost on the import of second machinery can be reduced/minimized. **(10 Marks)**