

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

Case Study 6

Josch, a young IITian and an MBA with inclination towards writing started a small net based business of content writing in the year 2001 by the name – ‘21st Century Content’. 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.

Josch 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 Josch. 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. Josch 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).

Josch became the Managing Director of the company. Articles of Association of the Company prescribe the maximum number of directors as 9. To manage the affairs of the company, different divisions were created as operations, marketing, finance and human resources. The biggest department was operations that Josch 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 Josch also proposed to constitute the following committees that was kept pending:

- Audit Committee
- Stakeholders Relationship Committee
- 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)	44	50	58	54	34
EBITDA (Rs. Crores)	26	28	30	20	18
Net Profit (Rs. Crores)	18	20	22	12	8

Josch 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:

Josch

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.

Laxman, 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.

Josch

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.

Laxman, 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.

Namira, Head – Marketing

There is nobody to handle such infrastructure in the company.

Rajnish Bhargav, 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.

Namira, 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.

Josch

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

Laxman, 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.

Josch

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

Josch 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:

Particulars	Contract Price (€)	Changed Price (€)	Negotiated Price (€)
<i>CIF Value</i>	3,70,000	3,90,000	3,80,000
<i>Air Freight*</i>	5000	5000	5000
<i>Insurance</i>	1850	2000	1900

**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 € 5000. 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. 104. The other particulars relating to rate of duties and date of filing of bill of entry etc. are as follows:

Date of bill of entry	Basic customs duty	Exchange rate in Rs. (notified by CBEC)
22.01.2018	15%	102

Date of arrival of aircraft	Basic custom duty	Exchange rate in Rs. (notified by CBEC)
25.01.2018	10%	100

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

A. Multiple Choice Questions (2 Marks each).

- The company of Mr. Josch wanted to appoint Mr. Rajesh Thakker (an eminent fashion designer) as additional director. However, Mr. Rajesh Thakker was not having the Director Identification number (DIN). Thus, he applied for DIN. In how many days does Mr. Rajesh Thakker has to intimate his Director Identification Number to the company?
 - within 15 days from the receipt of DIN
 - within 30 days from the receipt of DIN
 - within 1 month from the receipt of DIN
 - None of the above
- 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:
 - 0.8 crores
 - 1.0 crores
 - 2.4 crores
 - 3.0 crores.
- Company shall directly or indirectly give loan or guarantee to any person/other body corporate—
 - not exceeding 60 % of Paid up share capital and free reserves or 100%. of its free reserves and securities premium account, whichever is more
 - 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
 - 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
 - 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

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. Z 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 05.10.20XX. 06.10.20XX is a public holiday. Mr. Z has not filed the bill of entry till the time the vessel arrived at the customs station. Mr. Z can file the bill of entry latest by:
- (a) 05.10.20XX
 - (b) 06.10.20XX
 - (c) 07.10.20XX
 - (d) 08.10.20XX

8. Which of the following statements are true in case of supply of goods by a Special Economic Zone (SEZ) unit to a unit in Domestic Tariff Area (DTA)?
- (1) No customs duty is leviable on the goods removed from SEZ to DTA.
 - (2) Goods removed from SEZ to DTA are leviable to customs duties, including anti-dumping, countervailing and safeguard duties under the Customs Tariff Act, 1975, as leviable on goods when imported into India.
 - (3) Goods removed from SEZ to DTA are leviable to customs duties, as leviable on goods when imported into India. However, anti-dumping, countervailing and safeguard duties cannot be imposed on such goods.
 - (4) The liability to pay the customs duties, as applicable, is on the SEZ unit.
 - (5) The liability to pay the customs duties, as applicable, is on the DTA unit.
- (a) (1)
 - (b) (2) and (4)
 - (c) (2) and (5)
 - (d) (3) and (5)
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)

B. Descriptive/Numerical Questions

11. (i) In this case the Articles of association of the Company has prescribed the maximum number of directors as 9. Suppose, the Board of Directors of the company proposes to increase the number of Directors to 15. Advise, whether Board of Directors can do so? **(5 Marks)**
- (ii) Mr. Josch, the director of the company goes abroad for a period of more than 3 months and an alternate director 'Mr. Neeraj' has been appointed in his place. During the period of his absence, a board meeting was called. In this connection, with reference to the provisions of the Companies Act, 2013, advise whom should the notice of Board meeting be served whether to Mr. Josch or to Mr. Neeraj? **(5 Marks)**
12. (a) Give your views on the approach of Josch to diversify to printing business? **(4 Marks)**
- (b) Namira 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)**
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)**