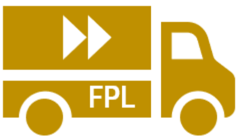
PAPER – 6
INTEGRATED BUSINESS SOLUTIONS

QUESTIONS

CASE STUDY-1

ABOUT CASE STUDY	
Industry	Logistics and Transportation
Subjects	Financial Reporting, Direct Tax, Indirect Tax, Strategic Cost & Performance Management
Topics	Ind AS 116, Reverse Charge/ GTA Section 2(98), Sec. 44AE of Income Tax Act, Customer Relationship Management, Osterwelder's Business Model Canvas, Mckinsey's 7S, Lynch and Cross's Performance Pyramid, TPM & TQM



Company Background

FrontRunner Pvt. Ltd. (FPL) traces its origins back to its beginnings as a proprietorship firm founded by Hansraj several decades ago. What started as a modest venture has grown steadily over the years, evolving into a prominent trucking company specializing in transporting commercial goods across various destinations within the state of Gujarat. FPL is a registered Goods Transport Agency (GTA). Recognizing the competitive landscape in which it operates, FPL has consistently aimed at maintaining high-quality delivery standards to establish its reputation in the market.

Due to its sustained growth and expanding operations, FPL transitioned from a proprietorship firm to a registered private limited company. This transformation allowed the company to formalize its structure, enhance operational efficiency, and position itself strategically within the logistics and transportation industry in Gujarat. Today, FPL continues to uphold its commitment to excellence in service delivery, leveraging its experience and infrastructure to meet the logistical needs of its diverse clientele effectively. This historical evolution underscores FPL's journey from humble beginnings to its current standing as a respected player in the competitive transportation sector of Gujarat, driven by a dedication to quality and customer satisfaction.

Overview of FPL's Current Operations

FPL operates its fleet of 9 trucks from Ahmedabad (Refer Annexure for the information about the 9 trucks it owns). The shipments are primarily focused on B2B deliveries, that is one business enterprise to another business enterprise within the state of Gujarat. The business enterprises are mid-size companies that have to make frequent shipments to their clients. Once the goods are delivered at the destination, the company uses the services of agents who can arrange to have a shipment for the return journey back to Ahmedabad.

In trucking jargon, a truck on the road without carrying any load is called "deadheading". A trucking company will try to minimize the kilometres covered in a deadhead because it is unproductive. Therefore, the company has agents on the ground, who can find appropriate shipments within a few days' time. This way the utility of the truck and productivity of each shipment journey improves.

All shipments thus far have been "Full Truck Load" (FTL) shipments. This means that the entire truck is booked for the shipment of goods of just one client. The goods collected from the client are delivered directly to the destination. Advantages of FTL shipments are→ minimum handling of goods, loading and unloading will be from that single vehicle and fast delivery of goods with minimum damage. Due to low fuel prices, the company has been enjoying reasonable profits from this business. However, fuel prices have increased over the last few months. Due to stiff competition, the number of shipments have been stagnant for a while. Clients have different transporters to choose from, resulting in a possibility downtrend in the number of shipments for FPL in the coming year.

Introducing LTL Shipments for Competitive Advantage

To gain a competitive edge, FPL plans to offer "Less than Truck Load" (LTL) shipments to many of its clients. Here, shipments by the clients will be larger than a parcel carrier can handle, but not enough to require an FTL shipment. Shipment loads from various clients will be collected at a common collection area in Ahmedabad. Once the truck load is filled, shipments will be made to the respective destinations of each of the clients. Given the piecemeal orders that are aggregated to form a full truck load (FTL), typically an LTL client is willing to wait for maximum 7 days from the time goods are handed over for delivery to the actual delivery at the designated destination. Like the FTL model, the LTL model also focuses on mid-sized companies that need to make small shipments to their clients on a regular basis.

The advantage of LTL of shipment is that it facilitates smaller consignments to be shipped at economical cost to the company. This brings flexibility in operations to the business. At the same time smaller shipments provide an opportunity of widening the clientele base. Presently, it typically takes 4 days to get an FTL order. Due to the increase in volume of shipments on account of a wider clientele base under the LTL model, the full truck load capacity is achieved in 3 days' time instead.

This decision to introduce LTL shipments in addition to FTL shipments has been a strategic change for the business. At present, FPL handles about 15% of the total consignments that are made from within Gujarat. It wants to maintain and if possible, grow its market share using both the FTL as well as LTL models. However, competition is stiff in this sector. To get a larger clientele base, it has increased its advertising spend to make its presence known in the market. Advertisement in specific trade publications, membership on trucking load boards that help to find clientele online, participating in trade association events etc. The company plans to target mid-sized companies as customers that can give shipment loads at regular intervals. Where the client requires, FPL can provide packing services to help the client manage its outbound shipments efficiently. Also, where the client requires, FPL is also planning to offer transport insurance advisory services that will help its clients choose an appropriate plan as per its requirements. This will be done for a small fee payable to FPL along with the invoice value for transportation.

For both FTL and LTL shipments, the senior management has targeted:

- ♦ Cost-per-kilometre rate of ₹ 500.
- ♦ Revenue per kilometre rate of ₹ 800.
- ♦ Average accounts receivables collection period of 10 working days.
- ♦ Average customer lifetime value: ₹ 20 lakhs and above.

The senior management acknowledges the need to track non-financial metrics to sustain and improve the business. Proposed operational metrics to be collated separately for FTL and LTL include:

(a) Customer claims filed for damaged goods (absolute numbers and % of shipments).

(b) Time taken to resolve the above claims (days from date of customer filing claim).

(c) Delays in delivery beyond the agreed delivery time (% of shipments made).

(d) Number of days truck was not on the road (due to maintenance or insufficient load).

(e) Average time taken to get exclusive FTL orders as well as full truck load under LTL (days).

(f) Deadheads (kilometres): Kilometres during journeys when the truck had no load to carry.

(g) Number of orders turned down due to non-availability of trucks.

(h) Ability to deliver within 7 days from the date of receiving client's goods under the LTL system (% of shipments under the LTL system).

Lease Agreement

To manage increasing rental costs, FPL had on April 1, 2020, entered into a 5-year lease with Spaces Pvt. Limited (SPL) for 2,000 square meters of area to be used as parking lot for its trucks. The lease payments of ₹10,00,000 is payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. FPL's incremental borrowing rate at the commencement date is 6% p.a. At the beginning of Year 4, FPL and SPL agree to amend the original lease by extending the contractual lease term by 3 years. The annual lease payments are unchanged (i.e. ₹10,00,000 payable at the end of each year from Year 4 to Year 8). FPL's incremental borrowing rate at the beginning of Year 4 is 7% p.a. FPL wants to reduce the administrative burden of maintaining books of account for Income Tax purpose.

Operational Challenges

It has now been a few years since the implementation of FTL and LTL shipments, and business volumes for FrontRunner have picked up. Two years ago, the company hired R. Venkatesh to manage the truck operations. The operations team, which consists of truck drivers, laborers for loading and unloading deliveries, and maintenance personnel, currently has 20 members.

R. Venkatesh implemented Total Quality Management (TQM) within the operations to meet internal performance benchmarks and service delivery quality standards. However, adherence to these benchmarks for truck utilization and delivery standards has left very little time for periodic truck maintenance and repair. Minimizing downtime and deadheads requires the trucks to be constantly on the road. Due to the small size of the operations team, there is only one person available who can handle maintenance: Mr. Soni. Because of the lack of appropriate training and tools, truck drivers are not equipped to handle maintenance work themselves, creating a high dependence on Mr. Soni's availability.

It has also been observed that R. Venkatesh was not always available to oversee the truck loading process. Consequently, truck drivers tended to overload the trucks to expedite deliveries, which has led to some negative publicity and put the company in a less favorable light. Refer to Annexure for the news article about this issue.

The management has called an urgent meeting, and the Chairman has asked R. Venkatesh to attend as well. During the meeting, the Chairman says, *"I understand that you have successfully implemented TQM in our operations. If that is the case, why are we still facing breakdown problems despite having TQM in place?"*

R. Venkatesh replies, *"Since the operations have been running smoothly, there was no perceived need for preventive maintenance. Such activities incur costs and result in loss of time, which could otherwise be used to keep the trucks on the road."*

ANNEXURE

AHMEDABAD DAILY

Motorway chaos disrupts travelers' plans

Beware! Travelers heading to Ahmedabad Airport should prepare for potential delays caused by oversized trucks blocking the motorway. These moving obstacles belong to FrontRunner, the logistics company, and are frequently seen on National Highway 8, the crucial route connecting the city to the airport.

Yesterday, passengers faced an excruciating two-hour wait due to a major traffic jam caused by two FrontRunner trucks carrying oversized loads. The delay occurred because the trucks, which were scheduled to depart at 5:30 AM, experienced a mechanical issue that postponed their departure by two hours. This unexpected breakdown not only delayed their journey but also caused a significant ripple effect on the surrounding traffic. As a result, the trucks and their escorts were on the road during the busy morning rush hour, exacerbating traffic congestion near the airport. The situation was further compounded by the fact that the oversized loads required special escort vehicles, which took additional time to navigate through the already congested area. Consequently, the influx of vehicles and the slow-moving convoys created a bottleneck that impacted travelers and local businesses alike.

Strict regulations govern the transport of oversized loads on public roads. These include requirements for drivers to be accompanied by attendants, trucks to be equipped with marker boards and additional lighting, and the provision of escort vehicles to ensure road users maintain a safe distance from the load. There are also specific limits on the maximum size and weight of loads.

Ahmedabad Police confirmed they were aware of the situation and noted that FrontRunner had complied with all relevant regulations. Despite no reported accidents, there is growing public concern about frequent road congestion and safety issues caused by these oversized trucks. A traveler remarked, when “FrontRunner” runs in “front” we are left to lag behind!

Fleet of Trucks

Truck	Gross Vehicle Weight (in Kilograms)	Number of trucks	Date of purchase
	7,000 kilograms	3	April 1, 2020
	10,000 kilograms	2	April 1, 2020
	15,000 kilograms	3	April 1, 2021
	20,000 kilograms	1	April 1, 2023

The 20,000 kilogram truck needed some modifications to be done. It was put to use on June 1, 2023.

Multiple Choice Questions

(Provide the correct option to the following questions)

1.1 Which of the following statements would be correct for the services that FPL provides to its mid-sized companies, all of whom are registered under the GST law?

(i) Where FPL exercises the option to pay GST itself and it pays the tax under forward charge at the rate of 12%, there is no restriction on availing ITC on the goods and services used in supplying the GTA service.

(ii) Where FPL exercises the option to pay GST itself and it pays the tax under forward charge at the rate of 5%, there is no restriction on availing ITC on the goods and services used in supplying the GTA service.

(iii) Where FPL opts for the reverse charge mechanism, the recipient of the service shall pay GST at 5% which can be availed as ITC by the recipient.

(iv) Where FPL opts for the reverse charge mechanism, the recipient of the service shall pay GST at 5% which can be availed as ITC by the FPL.

Options

(a) (i) and (iii)

(b) (i) and (iv)

(c) (ii) and (iii)

(d) (ii) and (iv)

1.2 Calculate the presumptive income of FPL chargeable to tax for A.Y. 2024-25.

(a) ₹ 810,000

(b) ₹ 468,000

(c) ₹ 11,90,000

(d) ₹ 12,30,000

1.3 An example of value-added service by FPL would be:

(a) Maintenance of the goods for orders already accepted while waiting the truck to be filled under LTL shipments

(b) Periodic inspection and maintenance of trucks

(c) Offering packing and insurance advisory services to clients for a fee whenever required

(d) Goods delivery time to their final destination

1.4 Based on the above scenario and using McKinsey's 7S Framework, which element should Frontrunner Pvt. Ltd. focus on to ensure its strategic change to introduce LTL shipments is successful and meets customer expectations effectively?

(a) Modifying the organizational structure to support both FTL and LTL operations efficiently

(b) Implementing robust systems to track operational metrics and improve delivery times

(c) Enhancing the skills of agents to secure return shipments and reduce deadheading

(d) Aligning the company's values towards customer satisfaction and flexibility in service offerings

1.5 Match FPL's decisions to various components of Customer Relationship Management (CRM):

Sr. No.	FPL's decisions	Sr. No.	Component of CRM
1	Target customers whose CLV is ₹ 20 lakh and above	I	Customer Acquisition
2	Advertising on trucking load boards, trade publications	II	Customer Retention
3	On time delivery with nil to minimum damage	III	Customer Selection
4	Packaging and Transport insurance advisory services	IV	Customer Extension

Options

(a) 1-III, 2-I, 3-II and 4-IV

(b) 1-II, 2-I, 3-IV and 4-III

(c) 1-II, 2-III, 3-IV and 4-I

(d) 1-III, 2-IV, 3-II and 4-II

Descriptive Questions

1.6 The management wishes to link business strategy with the day-to-day operations of the business. As a management consultant for the company, you plan to present the above information APPLYING the Performance Pyramid model suggested by Lynch and Cross.

(i) Identify the Level 1 – Corporate Vision and Level 2 – Market and Financial measures that the company plans to follow to sustain business. Briefly explain the rationale of the decisions taken at the Market and Financial business unit level.

(ii) Classify the operational level (measures a to f) into Quality, Delivery, Cycle Time and Waste metrics. Also link them to the Level 3 measures of Customer Satisfaction and Productivity.

(iii) Briefly assess how measures (g) and (h) impact business.

1.7 How should the modification in the lease agreement with SPL be accounted for?

1.8 (i) SUGGEST a few financial and non-financial considerations arising due to frequent breakdown of trucks.

(ii) IDENTIFY the error in R. Venkatesh's current management of operations by implementing TQM.

(iii) ADVISE on the lean management philosophy that R. Venkatesh can implement to address the issue of unexpected breakdown of trucks.

(iv) DISCUSS how the recommended lean management philosophy aligns with and supports the objectives of TQM.

CASE STUDY-2

ABOUT CASE STUDY	
Industry	Pharmaceutical
Subjects	Financial Reporting, Indirect Tax, Auditing, Corporate and Economic Laws, Strategic Cost & Performance Management
Topics	Ind AS 8, Ind AS 20, Ind AS 38, Ind AS 103, SA 250, SA 706, Ind AS 110, Competitive Advantage, Clause (c) of rule 28, Pricing Strategy, Section 234 of the Companies Act, 2013, Rule 25A of the Companies (Compromise, Arrangements and Amalgamations) Rules, 2016

Suraj Pharma: A Leader in Global Pharmaceutical Innovation and Quality

Suraj Pharma stands tall as a leading player in the global pharmaceutical landscape. Founded in the 1960s by Dr. Anand Srinivasan, a brilliant scientist with a passion for affordable medicine, Suraj Pharma began as a small research lab focused on developing generic alternatives to expensive, brand-name drugs. Despite initial struggles with scarce funding and a nascent market for generics, Dr. Srinivasan's unwavering commitment and the team's innovative spirit fuelled their progress. The company has grown from humble beginnings to become the fourth-largest pharmaceutical company worldwide. Suraj Pharma focuses on developing and manufacturing complex, high-value medications that address specific therapeutic needs. With a global presence in over 100 countries and a diverse patient population, Suraj Pharma holds the top spot in the Indian domestic market, demonstrating their dominance in the region.

Suraj Pharma's core strength lies in specialty drugs, which often involve advanced technology and expertise for production. Their product basket caters to a vast array of therapeutic segments, including psychiatry, anti-bacterial, neurology, and diabetes management. This ensures they can address a wide range of medical needs. Furthermore, Suraj Pharma leverages a strong branded presence in India, particularly in high-growth chronic therapy areas, allowing them to cater to specific patient needs within the Indian market.

Understanding that quality is paramount in the pharmaceutical industry, Suraj Pharma has established a robust manufacturing infrastructure with over 43 facilities spread across six continents. This global footprint allows them to efficiently produce and distribute their medications. Maintaining high-quality standards throughout the manufacturing process is a top priority, with stringent quality control measures guaranteeing the safety and efficacy of their medicines for patients worldwide.

Suraj Pharma actively invests in research and development (R&D) to stay at the forefront of drug development. This commitment to innovation allows them to explore new therapeutic areas and cater to evolving healthcare needs. Their financial performance reflects their success, with global revenue exceeding US$ 80 million. Suraj Pharma holds a leading position within the Indian dermatology segment and ranks highly with several different doctor groups in India. This market leadership, coupled with their focus on innovation, positions them for continued growth and success in the global pharmaceutical industry.

Strategic Repositioning and Innovation in Pharmaceutical Development

In the drug development value chain, the ultimate valuable product is the drug or vaccine administered to patients. Most promising molecules fail to pass the testing phase. The value chain is defined by research, testing, and delivery, with major pharmaceutical companies typically involved in these activities. They engage either directly or, in the case of research, often through partnerships with research organizations like academic institutions or universities. These activities entail significant costs, ranging from drug discovery and testing to clinical trials, submission of applications to regulatory agencies, and promotion and education for stakeholders.

The incentive for bearing these costs is a grace period during which the original manufacturers have exclusive market access through patents. This period allows them to recoup their investments and potentially earn substantial profits. After the patent expires, other manufacturers can produce generic versions of the original product. These generics are crucial for the healthcare system as they ensure the availability of essential drugs at more affordable prices. Since the generic manufacturers did not incur the initial development costs, their manufacturing expenses are much lower, leading to reduced prices. The value they bring lies in creating competition in the market, which can drive down prices and improve accessibility. This competition ensures that price-sensitive consumers have access to necessary medications, contributing to better public health outcomes.

One of Suraj Pharma's drugs, Rifmn, is an antibiotic used to treat the contagious disease "Tbis." Rifmn is a patented medicine, but the patent is about to expire, and several competitors are expected to enter the market with similar products. In order to reposition itself, the company is reviewing its pricing policy considering the market change and other threats. Market research for Rifmn indicates that for every ₹ 4 decrease in price, demand would be expected to increase by 8,000 batches, with maximum demand being one million batches. Each batch of Rifmn is currently made using the following chemical salts:

- Salt X: 367.50 gm at ₹ 0.08 per gm
- Salt Y: 301.50 gm at ₹ 0.40 per gm

Each batch of Rifmn requires 30 minutes of machine time to make and the variable running costs for machine time are ₹ 40 per hour. The fixed production overhead cost is expected to be ₹ 35 per batch for the period, based on a budgeted production level of 3,00,000 batches. The skilled workforce who has been working on Rifmn until now is being shifted to the production of Suraj Pharma's new antiviral drug (injection) for Viral Disease-23. This new drug, costing millions to develop, has been patented by Suraj Pharma and is expected to save millions of lives worldwide. Its launch is eagerly anticipated, although its demand is currently unknown, and no similar specific drug exists. The average labor cost (outsourcing) per batch of Rifmn is ₹ 38.60. The management of Suraj Pharma considers that the pricing decision of Rifmn should be based on each batch.

In addition to these developments, Suraj Pharma has received a government grant of ₹ 80 crores for the research and development (R&D) of a low-cost CN1 vaccine. Existing vaccines are expensive, and the government aims to make them more affordable. The grant agreement stipulates that Suraj Pharma must develop a manufacturing process within two years to reduce production costs by at least 40%.

Suraj Pharma also supplies a drug intermediate to its own unit located in another state for the purpose of converting it into formulations. This drug intermediate is unique to the company, and there is no market sale of this drug intermediate in India. Additionally, there are no goods of like kind and quality available in the market. After the conversion process, the finished product is sold directly from the said unit by the company, completing the entire manufacturing and sales cycle internally. This process ensures the company's control over the quality and distribution of the final product.

Strategic Moves Amid Legal Setbacks and Acquisitions

Suraj Pharma had filed a petition with the National Company Law Tribunal seeking sanction of scheme of arrangement in nature of demerger and transfer of its 'Specified Investment Undertakings' to two overseas companies which were directly and indirectly wholly owned subsidiary of petitioner company. However, the NCLT rejected the said petition.

In parallel, Suraj Pharma recently acquired two pharmaceutical companies, Indu Pharma Ltd. and Biraj Lifesciences Ltd. Indu Pharma Ltd. has been conducting in-house research and development activities through its skilled workforce since its inception and has recently obtained intellectual property rights (IPR) in the form of patents over certain drugs. Additionally, Indu Pharma has a production plant that has recently obtained regulatory approvals. However, the company has not earned any revenue so far and does not have any customer contracts for the sale of goods. On the other hand, Biraj Lifesciences Ltd. has incurred significant research costs in connection with two new drugs that have been undergoing clinical trials. Out of the two drugs, one has not been granted the necessary regulatory approvals yet; however, Suraj Pharma expects that approval will be given within two years. The other drug has recently received regulatory approval. The revenue-earning potential of these drugs was one of the principal reasons why Suraj Pharma decided to acquire Biraj Lifesciences Ltd.

Compliances and Consolidation Challenges

Suraj Pharma has another subsidiary, MKS Ltd. (MKS), in UK. The Company had outstanding trade receivables amounting to ₹ 14 crore from MKS. Suraj Pharma observed that there have been some FEMA (Foreign Exchange Management Act) non-compliances on the part of Suraj Pharma, but the management had an action plan which they had initiated and on the basis of which management was sure that the non-compliance would be done good and there would be no penalty on the company. In case the penalty arises in future, the impact would be significant for Suraj Pharma. The auditors of Suraj Pharma also evaluated this matter by involving a regulatory matters expert and agreed with the management's view.

Suraj Pharma prepared its consolidated financial statements, but they do not consolidate the financial statements of MKS. This is because the financial year followed by MKS is January to December as against April to March followed by Suraj Pharma.

Multiple Choice Questions

2.1 Given Suraj Pharma's strategic positioning and recent developments, which of the following statements best describes the role of patent protection in gaining and maintaining competitive advantage in the pharmaceutical industry?

(a) Patent protection allows pharmaceutical companies to reduce production costs and increase profit margins by avoiding competition

(b) Patent protection enables pharmaceutical companies to exclusively capture the benefits from their investment in new drug development for several years

(c) Patent protection ensures that pharmaceutical companies can outsource their drug production to low-cost countries without losing intellectual property rights

(d) Patent protection provides pharmaceutical companies with perpetual rights to their inventions, ensuring a permanent competitive advantage

2.2 How should Suraj Pharma account for this government grant assuming reasonable assurance exists that they can meet the stipulated conditions?

(a) Recognize the entire grant amount (₹ 80 crores) as immediate income in the statement of profit and loss

(b) Recognize the entire grant amount (₹ 80 crores) as deferred income and recognize it in P/L over the two-year period

(c) Recognize the entire grant amount (₹ 80 crores) as a separate item in the other comprehensive income section

(d) Recognize the grant amount upon successful development of the low-cost manufacturing process

2.3 Can Indu Pharma Ltd. be considered a business for acquisition accounting purposes?

(a) No, because the said company A lacks customer contracts and hasn't generated revenue

(b) No, because the said company focuses solely on R&D and hasn't started production

(c) Yes, because the said company possesses the necessary resources (workforce, patents, plant, IPR, etc.) to produce drugs

(d) Yes, because Suraj Pharma's acquisition finalizes Indu Pharma Ltd.'s business model

2.4 Do you agree with the way auditors have handled the matter related to FEMA non-compliances? How would you deal with this matter?

(a) Auditors didn't handle this matter appropriately. Auditors should have informed about this matter to the RBI (Reserve Bank of India) within a period of 30 days from date this matter came to their knowledge

(b) Auditors handled this matter appropriately. The management would need to include this matter in the notes to accounts to the financial statements

(c) Auditors handled this matter appropriately. But they would also need to include modification in their report because the impact of penalty, if levied, can be material

(d) Auditors could have handled this matter in a better manner by also involving a tax expert because this might result in a penalty and that may have some taxation impact for the Company

2.5 Suggest the auditor's responsibility in respect of non-consolidation of financial statements of MKS.

(a) Suraj Pharma needs to prepare consolidated financial statements by also consolidating MKS. In case this is not done, the auditors need to qualify their report on consolidated financial statements.

(b) Suraj Pharma needs to prepare consolidated financial statements by also consolidating MKS. In case this is not done, the auditors need to give emphasis of matter in their report on consolidated financial statements.

(c) Suraj Pharma's management's view is right because MKS is a foreign company and hence no consolidation may be done while preparing consolidated financial statements in India.

(d) Auditors of Suraj Pharma should have done materiality assessment in respect of non-consolidation of MKS in the consolidated financial statements. The auditors should ask the management to include a note in the consolidated financial statements and also take management representation letter for the same.

Descriptive Questions

2.6 How will the value of the supply of this drug intermediate be determined under GST law?

2.7 CALCULATE the optimum (profit-maximizing) selling price for Rifmn and the resulting annual profit which Suraj Pharma will make from charging this price. RECOMMEND the pricing strategy for launching of new antiviral drug.

2.8 Based on the case study and the cited Companies Act, 2013 provisions cited, why was the demerger scheme disapproved by the NCLT?

2.9 Whether the research and development on either of the drugs be recognized as an intangible asset in the books of Suraj Pharma?

CASE STUDY-3

ABOUT CASE STUDY	
Industry	Travel
Subjects	Financial Reporting, Indirect Tax, Auditing, Corporate and Economic Laws, Strategic Cost & Performance Management
Topics	Section 143(12) of the Companies Act, 2013, SEBI Insider Trading Regulations, CARO [Paragraph 3(xi)(a)], Section 14(b)(ii) of The Central Goods and Services Act, 2017, Ind AS 38, TQM

IndyaDekho

IndyaDekho: Pioneering Innovation and Customer Experience in the Digital Travel Landscape

The travel industry has undergone a significant transformation in recent years, driven by technological advancements and changing consumer preferences. Today, the sector is characterized by a digital-first approach that emphasizes convenience, customization, and customer experience. As more travelers turn to online platforms to plan and book their trips, companies leveraging technology effectively are gaining a competitive edge. This digital revolution has led to the emergence of numerous travel tech companies offering a wide array of services, from hotel and flight bookings to complete holiday packages, all accessible with just a few clicks.

In this evolving landscape, IndyaDekho Limited has positioned itself as a pioneering new-age tech company. Founded with the vision of simplifying the travel planning and booking process, IndyaDekho has distinguished itself through its innovative approach and comprehensive service offerings. Its proprietary app, “IndyaDekho,” is central to this strategy, designed to cater to the needs of the modern traveler by offering services like hotel bookings, flight bookings, curated holiday deals, and other allied services. Incorporated in the year 20X0, IndyaDekho was listed on recognized stock exchanges in India in November 20X1.

Customer centricity is deeply embedded in IndyaDekho's culture and business operations. Over the years, the company has tapped into existing market potential and forged new growth avenues through a customer-focused approach and commitment to operational excellence. This customer-centric approach serves as a catalyst for innovation, driving the company to seek timely solutions that cater to the evolving preferences of customers. By leveraging an insight-driven and research-based framework, IndyaDekho enhances tech-enabled growth and identifies areas for improvement, facilitating the development of innovative packages and services that foster client satisfaction.

Brand Affinity and Omnichannel Strategy

IndyaDekho’s brand affinity, customer centricity, innovative packages, and omnichannel approach have positioned it as the preferred partner for its discerning patrons. Building on its strengths, IndyaDekho continues to navigate disruptions in the operating environment with agility, delivering innovative offerings and embracing best-of-breed technologies. The first step to meet these objectives was the recruitment of a sports celebrity as an employee. This sports celebrity would help IndyaDekho in maintaining and further developing its brand by participating in local sports events, select cultural events, and advertising campaigns. As per the terms of the contract, the sports celebrity is prohibited from playing for any other team and cannot leave the company without mutual agreement. The amount paid by the company to acquire this right is derived from the skills and fame of the sports celebrity.

IndyaDekho continues to invest heavily in maintaining and developing its brand, sponsoring select cultural events, and advertising. This strong brand presence allows the company to charge a premium from its customers. The company believes that it will reap the benefits of this expenditure over a long period and prefers to amortize the expenditure over future periods rather than charging it to profit or loss in a single year.

As the industry evolves with the adoption of new technologies, so does IndyaDekho's product and service portfolio. Digitization has transformed how the company extends its offerings to customers, empowering itself digitally to enhance productivity and operational efficiency while serving clients through both physical and digital channels.

Stakeholder Engagement and Total Quality Management

IndyaDekho appreciates the crucial role of stakeholders in ensuring long-term success. Through effective stakeholder engagement, the company gains valuable insights into their material concerns and expectations. By addressing these concerns and developing mutually beneficial solutions, IndyaDekho strives for inclusive progress that balances growth aspirations with a steadfast commitment to stakeholder integrity. Stakeholder feedback led to the assessment of a holistic quality improvement mechanism based on the principles of Total Quality Management. Refer Extract of Minutes of the 59th Meeting of the Board held on 31st May 2024 at New Delhi (Annexure).

Pressing Matters Discussed by the Board of Directors

A few weeks later, an urgent meeting of the Board of Directors was called to discuss the following pressing matters:

Matter 1: Unauthorized Payments

The company's services include bookings via its app/platform. To facilitate customer service for travel business, the company had engaged a third-party service provider, InstPay Technology Private Limited, to deploy its employees/agents to perform services specifically for the company. Each transaction generates a unique order ID, and all such order IDs and related transaction details are stored on the company's Seller ERP. Access to the company's Seller ERP was granted to InstPay and its employees solely to enable them to provide services and discharge their obligations under the contract, including processing refunds. On 25 May 20X3, a customer notified the company that they hadn't received a payout/settlement for 15 orders. The operations team reviewed the matter and noted that InstPay's nine employees misused their access to fraudulently initiate cancellations of payouts in the Seller ERP. Consequently, the airline/hotel received payment from the company, and the amount was also refunded to the customer's account. The operations team informed the management that these employees had initiated the payment cancellation of 1,905 orders, aggregating to ₹ 5 crores, where payments were made to respective airlines/hotels, in addition to crediting these refunds to the customers.

Matter 2: Cancel Payment Functionality Abuse

The company also facilitates payments and other services for its users through the IndyaDekho app, which includes a credit card bill payment facility. The system is integrated with the credit card issuer bank via different payment rails (e.g., IMPS, NEFT). The app provides a 'cancel payment' functionality intended to cover technical glitches (e.g., where the payment is stuck in the bank's online system). This functionality allowed app users to cancel credit card payment transactions after 4 hours of payment. Some app users repeatedly abused this functionality by initiating multiple credit card payments and subsequently cancelling those transactions after 4 hours. The company refunded the payments to fraudulent users' credit card accounts and transferred cash to the credit card issuer bank. It was discovered that 4,200 app users had abused the "cancel payment" functionality, causing a loss of ₹ 33 crores to the company.

The company initiated a forensic investigation supported by a well-known law firm. The investigation was supervised by the ex-head of the CBI, who had years of experience dealing with financial crime. The forensic investigator reviewed the change management process for configuring the 'cancellation' functionality, analyzed the transaction dump of orders refunded to identify any patterns/trends, interviewed selected people, assessed the refunds and evaluated for anomalies, and reviewed the HR data and relevant email communications of select employees. The forensic team concluded that there was no collusion with any of the company's employees. The forensic report was submitted to the Board for consideration.

Audit and Forensic Report

While auditing the company, the auditor performed relevant inquiries with the management as required under the Standards on Auditing. The management updated the auditor on the developments during the year, including the above matters. The auditor requested the forensic report, as it summarizes the findings and can be used as a reference for further action. The management explained that the forensic report is comprehensive, identifies the perpetrators involved, quantifies the financial loss suffered, and provides advice to prevent the recurrence of similar instances.

The auditor deliberated internally on whether the unauthorized payment matter would trigger reporting under CARO 2020, especially since the matter was identified by the management. The fraud was not identified by the auditor while performing the audit procedures. He considered whether reporting under CARO would be duplicative since the matter is known to the management and key stakeholders. However, he is also conscious of the reporting threshold under section 143(12) of the Companies Act, 2013, i.e., fraud in excess of ₹ 1 crore.

The management also informed the auditor that being a listed company, due care should be taken while handling unpublished price-sensitive information. The auditor reiterated that adequate care is exercised while handling such information. He explained that a robust framework is in place to define unpublished price-sensitive information, the manner of handling it, and the names of recipients. Periodic certificates are obtained from team members confirming that unpublished price-sensitive information acquired during the audit is not misused.

GST Rate Revision and Impact

During the current year, the company moved to a new head office, entailing the purchase of modular furniture from Office Living LLP.

The rates of GST on various dates of the transaction are as follows:

Date	Particulars	Rate of IGST
15th October, 20X3	Date of issue of invoice	18%
18th October, 20X3	Date of delivery and installation of Modular Furniture upon the availability of the technician	18%
19th October, 20X3	Payment is entered in the books of Office Living LLP	18%
26th October, 20X3	Payment is credited to the bank account of Office Living LLP	28%
(Note: The rate has been changed from 18% to 28% with effect from 20th October)		

Annexure

IndyaDekho

Extract of Minutes of the 59th Meeting of the Board held on 31st May 2024 at New Delhi

Item: Discussion on Quality Improvement at IndyaDekho

Independent Director:

The concept of quality management has been acknowledged since ancient times. Several manufacturing firms have focused on improving quality and using tools explicitly aimed at quality control. The concept of quality management has been widely accepted in various worldwide standards such as ISO. Therefore, I propose to employ this in IndyaDekho.

Managing Director:

Quality management is generally understood to enhance the quality of products as an integrated organizational tool. It aims to optimize an organization's competitiveness by improving the quality of its goods. Moreover, TQM includes core team members in meeting consumer needs by employing problem-solving methods to increase the quality of goods. This relates to only manufacturing industry and hence I am not in favour of quality management. In addition, it involves a lot of funds and hence waste of resources in employing service industry like ours.

Independent Director: (heatedly)

I must disagree, Managing Director. The principles of quality management are not confined to manufacturing alone. Service industries worldwide have successfully adopted these standards to great benefit.

Managing Director: (heatedly)

That's easy to say, but the practicalities and financial implications for a service industry like ours are vastly different. We cannot afford to invest heavily in a system that might not yield proportional benefits.

Chief Management Accountant:

The key objective is to achieve a holistic alignment between organizational personnel and their roles to achieve better development, improvement, and protection of the standard of goods and also services to attain consumer satisfaction. TQM philosophy focuses on enhancing business quality and manage satisfaction by maximizing employee participation in decision-making activities. Though the primary aim is to satisfy external customers, TQM acknowledges the challenge of fulfilling external customers' expectations without meeting the needs of internal customers. It aims to surpass the needs of both.

CEO: (intervening to calm the discussion)

Let's take a step back. Adopting TQM entails a significant shift in organizational culture and structure. Therefore, it is advisable to tailor the application method to fit the company. An objective evaluation of the internal and external environment in which the company functions is recommended to assess the impact areas. We need a balanced approach that considers the unique aspects of our service industry.

Multiple Choice Questions

3.1 Considering both instances of fraud, the audit in-charge drafted Form ADT-4, i.e. Form used to report frauds to the Central Government, as prescribed under Section 143(12) Companies Act, 2013 read with related Rules. The engagement partner believes that the Form need not be filed with the Central Government. Do you agree?

(a) Yes. Each instance of fraud is less than the qualifying threshold of ₹ 1 crore for individual frauds.

(b) Yes. Employees/ officers of the Company are not involved in the frauds.

(c) No. Auditor to report all frauds to the Central Government, irrespective of materiality.

(d) No. Auditor to report frauds to the Central Government, since the aggregate loss exceeds qualifying threshold of ₹ 1 crore.

3.2 The Company secretary is of the view that the auditors handle unpublished price sensitive information. Accordingly, the auditor should maintain a database containing relevant information including names of the person with whom information is shared and PAN. Do you agree?

(a) Yes. SEBI (Prohibition of Insider Trading) Regulations, 2015 requires auditors to maintain Structured Digital Database with prescribed data and information.

(b) No. SEBI (Prohibition of Insider Trading) Regulations, 2015 do not apply to auditors.

(c) No. Statutory auditor appointed have unrestricted access to all information for the purpose of audit. Maintenance of database of information would not align with the powers of the auditor.

(d) No. SEBI (Prohibition of Insider Trading) Regulations, 2015 does not require any Structured Digital Database.

3.3 The auditor's request for a copy of forensic audit report was denied by the management citing client attorney privilege. This privilege safeguards confidential communications between a client and their attorney. Is the management correct?

(a) No. Auditor should be provided a copy of the forensic audit report since the amount is material to the financial statements.

(b) Yes. Auditor should not be provided a copy of the forensic audit report since the information is sensitive and susceptible to misuse by the any member of the audit team.

(c) Yes. Auditor should be provided a copy of the forensic audit report since the amount is material to the financial statements from management's perspective.

(d) No. Companies Act, 2013 and Standard on Auditing provide unrestricted access to any information to an auditor of the financial statements.

3.4 Whether these unauthorised payments be reported by the auditor under CARO 2020?

(a) Yes. CARO envisages comment by auditor on outcome of a forensic audit.

(b) No. Since no fraud is reported to the Central Government under section 143(12) of the Companies Act, 2013 and the amount is not material.

(c) Yes. CARO envisages comment by auditor for frauds which came to notice during audit.

(d) No. Since no fraud is reported to the Central Government under section 143(12) of the Companies Act, 2013.

3.5 What is the 'date of payment' for modular furniture supplied by Office Living LLP to Indya Dekho Travel Limited? Determine time of supply in said case.

(a) 19th October; 15th October

(b) 26th October; 15th October

(c) 19th October; 18th October

(d) 26th October; 18th October

Descriptive Questions

3.6 Whether the cost incurred to obtain the right regarding the sports celebrity cum employee can be recognised as an intangible asset as per Ind AS 38?

3.7 How can IndyaDekho effectively implement Total Quality Management (TQM) to enhance service quality and ensure long-term business sustainability, considering the 6Cs of TQM—Commitment, Culture, Continuous Improvement, Cooperation, Customer Focus, and Control, especially in light of the diverse viewpoints expressed in the minutes of the 59th Board Meeting held on 31st May 2024, where the Independent Director emphasized the widespread acceptance of quality management, the Managing Director expressed concerns about its applicability and financial impact on the service industry, and the CEO highlighted the need for a tailored approach and objective evaluation of the company's internal and external environment?

3.8 Can IndyaDekho defer and amortise the expenditure over brand building incurred over future years?

SUGGESTED ANSWERS

1.1 The correct answer is (a) Statements (i) and (iii) are correct.

Reason: If FPL chooses to pay the GST itself, in order to avail ITC on the goods and services used in supplying the GTA service, it has to pay the GST at the rate of 12% and not 5% as forward charge. If FPL chooses to pay GST under the reverse charge mechanism, the recipient of service who pays the GST on behalf of the GTA can avail ITC on that amount. Reverse charge means that the liability to pay the tax is on the recipient of service and not on the GTA. Therefore, the ITC can accordingly be availed by the recipient of service and not the GTA.

1.2 The correct answer is (d) ₹ 12,30,000.

Reason: Since FPL does not own more than 10 trucks during the P.Y. 2023-24, it is eligible to pay tax under presumptive taxation scheme under section 44AE.

As per section 44AE, any truck weighing above 12 tons (12,000 kgs) would be considered a heavy goods vehicle. For each such heavy goods vehicle, ₹ 1,000 per ton of gross vehicle weight or unladen weight for every month or part of a month during which such vehicle is owned by the assessee would be the deemed profits.

Any truck weighing 12 tons (12,000 kgs) or less would be other than heavy goods vehicle. For each such vehicle, presumptive income would be deemed to be ₹ 7,500 for every month or part of a month for which the vehicle is owned by the assessee.

The relevant date here is the date of owning and not the date on which the truck is put to use.

The calculations would be as under:

Goods vehicle other than heavy goods vehicle

No. of Vehicles	Date of Purchase	No. of Months for Which the Vehicle is Owned	No. of Months × No. of Vehicles
3	April 1, 2020	12	36
2	April 1, 2020	12	24
			60

Heavy goods vehicle

No. of Vehicles	Date of Purchase	No. of Months for Which the Vehicle is Owned	No. of Months × No. of Vehicles
3	April 1, 2021	12	36
1	April 1, 2023	12	12
			48

Presumptive Income

Sr. No.	Particulars	Presumptive Income
1	Other than heavy vehicles 60 × ₹ 7,500	4,50,000
2	3 Heavy vehicles purchased on April 1, 2021 36 × ₹ 1,000 × 15 tons	5,40,000

3	1 heavy vehicle purchased on April 1, 2023 12 × ₹ 1,000 × 20 tons	2,40,000
	Total	**12,30,000**

1.3 **The correct option is (c)** Offering packing and insurance advisory services to clients for a fee whenever required.

Reason: Offering packing and insurance advisory services to clients where the client has such requirements adds value to the service that the transporter is providing. If executed competently, the client would be willing to avail these services for a fee. This adds value to FPL's overall services.

1.4 **The correct answer is (b)** Implementing robust systems to track operational metrics and improve delivery times.

Reason: The success of introducing LTL shipments largely depends on effective tracking and managing of operational metrics, which directly impacts customer satisfaction and delivery performance. Robust systems will ensure that FPL can meet the 7-day delivery expectation, efficiently handle the increased volume of shipments, and minimize deadheading, thereby enhancing overall productivity and flexibility in operations. This aligns with McKinsey's 7S element of **Systems**, which is crucial for operational effectiveness and strategic change implementation.

1.5 **The correct answer is (a)** 1-III, 2-I, 3-II and 4-IV.

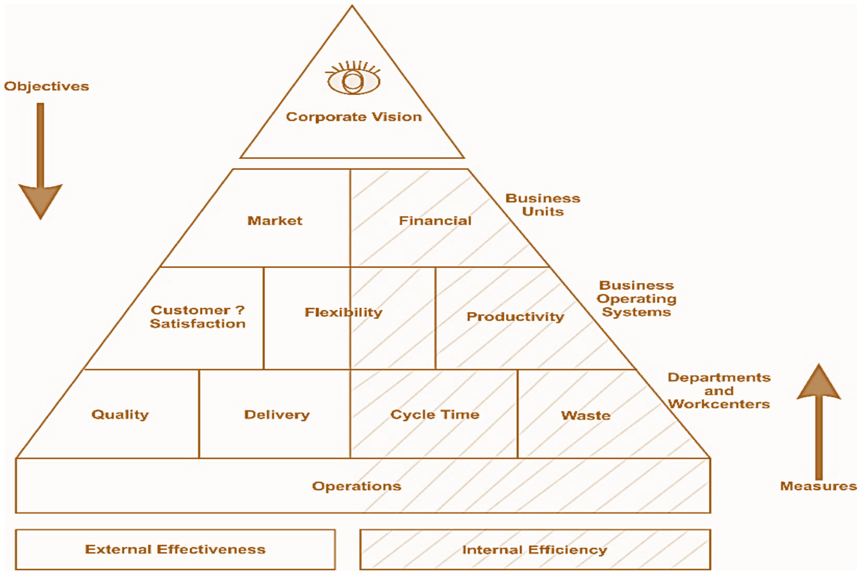
Reason: Target customers whose CLV is ₹20 lakh and above - Customer Selection.

Advertising on trucking load boards, trade publications - Customer Acquisition.

On time delivery with nil to minimum damage - Customer Retention.

Packaging and Transport insurance advisory services - Customer Extension.

1.6 (i) **Identification of Corporation Vision and Market and Financial measures for company's success**



Level 1- Corporate Vision:

Corporation Vision of Road runner is that "The company aims at maintaining good quality delivery standards to make its mark in the competitive environment it operates*."

*Alternative is also possible.

Level 2- Market related measures:

To increase its ***market growth*** and enlarge its clientele base, the company plans to increase its advertising spend to make its presence known in the market. It is resorting to off-line print media, online media as well as by participating in relevant trade association events. It has a target clientele of mid-sized companies that have shipments to make at regular intervals. It has to track ***customer satisfaction*** of its service with relation to the quality and delivery of its service. Ancillary services like packaging services on outbound shipments and transport insurance advisory services based on customer requirements are aimed at increasing the value proposition of service offered to the clients. This can help maintain, if not grow, FPL's market share.

Level 2- Financial measures:

Within the specter of rising costs, to maintain ***financial sustenance***, the senior management has put in place metrics that will track profitability. Difference between the revenue per kilometre and cost per kilometre would be the profit earned per kilometre. The target profit per kilometre = ₹ 800 - ₹ 500 = ₹ 300 per kilometre. Also, the company is clear that it wants a quick turnover of its accounts receivable. For getting credit worthy customers, it has targeted clientele whose customer lifetime value is at least ₹ 20 lakh or more. The presumption made is that these mid-sized companies are less likely to default on their bills. For quick turnover of its accounts receivable, it proposes to give a 10-day credit period to its client to settle the bill. Quick conversion of accounts receivable into cash helps maintain liquidity. This is especially important for FPL to maintain since its costs of operations, especially fuel costs, are going up.

(ii) <u>Operational level measures and their link to customer satisfaction and productivity</u>

The operations level measures can be classified as follows:

(a) Customer claims filed for damaged goods (absolute numbers and % of shipments made) – *Quality of service*.

Incidents of such claims should be maintained at the very minimum to have good customer satisfaction.

(b) Time taken to resolve the above claims (days from date of customer filing claim) – *Quality of service*.

Quick resolution of claims leads to better customer satisfaction.

(c) Delays in delivery beyond the agreed delivery time (% of shipments made) – *Delivery of service*.

Incidents of such delays in delivery should be maintained at the very minimum to have good customer satisfaction.

(d) Number of days truck was not on the road (due to maintenance or insufficient load) – *Waste* of resource.

Utilization of resources impacts productivity. Trucks have to be used efficiently in order to improve productivity.

(e) Average time taken to get exclusive FTL orders as well as full truck load under LTL (days) – *Cycle time*, time taken to complete the task.

Currently, time taken is 4 days for FTL shipments and expected to be 3 days for LTL shipments. This should be kept at a minimum level to improve productivity. Faster the ability to fill up the truck, improves the utilization of resource and enhances productivity.

(f) Deadheads (kilometres): Kilometres the truck is on the road with no load to carry– *Waste of resource*.

When a truck runs on the road without any load, it incurs a cost but earns no revenue to recoup it. Therefore, the number of kilometre deadheads is a waste and should be kept to a minimum.

(iii) <u>Impact of measures (g) and (h) on business</u>

(g) Number of orders turned down due to non-availability of trucks – *Flexibility of service*.

This metric has to be maintained at the very minimum. The business must be able to cater to as many orders as possible. Tracking this metric can indicate if the current capacity of trucks is sufficient to cater to the demand from customers.

(h) Ability to deliver within 7 days from the date of receiving client's goods under the LTL system (% of shipments under the LTL system) – *Flexibility of service*.

It is given that under the LTL system, given the piecemeal orders that are aggregated to form a full truck load, on an average the client is willing to wait for maximum 7 days from the date of handing over goods until delivery. It is expected that it would take 3 days to fill up to full truck load capacity under the LTL system. Hence, the company has only 4 days left to ensure that the goods reach their destination. The ability to meet this expectation of the customer is very important to maintain and sustain business. Therefore, the company has to have sufficient capacity to cater to customers' expectations. It must have enough flexibility (capacity) in its operations to accommodate any exigencies to ensure that this expectation is met.

1.7 Ind AS 116 on leases provides guidelines on accounting for lease modifications. Lease modification includes change in scope of the lease e.g. extending the contractual lease term. In this case, modification increases the scope of the lease by extending the contractual lease term from original term of 5 years to a total of 8 years. At the effective date of the modification (at the beginning of Year 4), FPL would remeasure the lease liability based on:

(a) A five-year remaining lease term

(b) Annual payments of ₹10,00,000 payable at the end of each year and

(c) FPL's incremental borrowing rate of 7% p.a.

The modified lease liability equals ₹41,00,000 (refer working note 3). The lease liability immediately before the modification (including the recognition of interest expense until the end of Year 3) is ₹18,32,959.

FPL will account for the modification in the lease agreement with SPL as follows:-

At the beginning of Year 4, on the effective date of modification FPL will recognize the difference between the carrying amount of lease liability ₹ 18,32,959 (immediately before the modification) and the carrying amount of the modified lease liability ₹ 41,00,000.

Modified lease liability	₹ 41,00,000.
Less: Original lease liability as at the modification date (beginning of Year 4)	₹ 18,32,959
This difference would result in an increase in lease liability and carrying amount of ROU asset by	₹ 22,67,041

Working Note 1: Calculation of the Lease at the commencement of the lease

Year	Lease Payment (A)	PV Factor @6% (B)	Present Value of Lease Payments C = A × B
1	10,00,000	0.943	9,43,000
2	10,00,000	0.89	8,90,000
3	10,00,000	0.84	8,40,000
4	10,00,000	0.792	7,92,000
5	10,00,000	0.747	7,47,000
Total	50,00,000		42,12,000

Working Note 2: Calculation of Lease liability immediately before modification date

Year	Opening Lease Liability (A)	Interest @ 6% B = (A) × 6%	Lease Payments	Closing Liability = A + B - C
1	42,12,000	2,52,720	10,00,000	34,64,720
2	34,64,720	2,07,883	10,00,000	26,72,603
3	26,72,603	1,60,356	10,00,000	18,32,959

Working Note 3: Calculation of modified lease liability on date of modification

Year	Lease Payment (A)	PV Factor @7% (B)	Present Value of Lease Payments C = A ×B
4	10,00,000	0.935	9,35,000
5	10,00,000	0.873	8,73,000
6	10,00,000	0.816	8,16,000
7	10,00,000	0.763	7,63,000
8	10,00,000	0.713	7,13,000
Total	50,00,000		41,00,000

1.8 (i) Regularly flouting rules regarding maximum truck load size and weight can lead to significant reputational damage if these breaches are detected. There is also a risk of substantial financial loss if, for example, a valuable load is damaged, and it is found that weight limits were exceeded. The company's insurers would almost certainly refuse to accept liability, leaving FrontRunner to cover the compensation costs. Additionally, FrontRunner's ongoing operations could be impacted by increased scrutiny from authorities, with frequent police stops causing delays to convoys. This heightened attention could also result in increased fines and legal fees, further straining the company's finances. Furthermore, the negative publicity could erode customer trust, leading to a potential decline in business and loss of key contracts.

(ii) It appears that TQM at FrontRunner has high-quality delivery standards, focusing on the end product being supplied to the customer. The Chairman's message indicates that business operations are being conducted smoothly and to the satisfaction of customers. Business volumes have also increased over the years. However, the system implemented by R. Venkatesh overlooks the maintenance aspect of trucks, leading to breakdowns and unplanned repairs that must be carried out.

(iii) Total Productive Maintenance (TPM) is a lean management philosophy that helps maintain and improve the integrity of production and quality systems. TPM keeps all equipment in top working condition to avoid breakdowns and delays in operations. The TPM focuses on eight pillars, with the 5S as the foundation. Autonomous Maintenance is one of these eight pillars. The objective of this pillar is to operate equipment (trucks, in this case) without breakdowns and to eliminate defects at the source through active employee participation. For example, at FrontRunner, the driver might carry out maintenance activities like lubricating, tightening bolts, and changing tires. The maintenance team would be involved only for more sophisticated and highly technical maintenance. This approach ensures that trucks are in good working order most of the time. Truck drivers are trained to handle minor repairs and maintenance, freeing up Mr. Soni's time to attend to more complicated tasks that require his expertise.

(iv) Total Quality Management (TQM) and Total Productive Maintenance (TPM) are often used interchangeably. However, TQM and TPM are considered two different approaches. TQM aims to increase the quality of goods, services, and customer satisfaction by raising awareness of quality concerns across the organization. In other words, TQM focuses on the quality of the product, while TPM focuses on the equipment used to produce the products. By preventing equipment breakdowns, improving the quality of the equipment, and standardizing the equipment, the quality of the products increases. TQM and TPM can both result in an increase in quality; however, their approaches are different. TPM can be seen as a way to help achieve the goals of TQM.

Concept Insight Business Model Canvas*

Key Partners	Key Activities	Value Proposition	Customer Relationship	Customer Segments
▪ Agents for sourcing return shipments ▪ Suppliers of packing materials ▪ Insurance advisory firms for transport insurance services ▪ Spaces Pvt. Limited (SPL) for truck parking lease ▪ Fuel providers ▪ Truck manufacturers and leasing companies	▪ On Time delivery of commercial goods (B2B) across Gujarat without damages within 7 days of receiving order ▪ Client order management to maximize truck capacity utilization (FTL orders 4 days, LTL orders 3 days) ▪ Client order management to reduce deadheading ▪ Route planning to minimize order delivery times ▪ Coordination of FTL and new LTL shipments ▪ Improve flexibility in operations to reduce lost sales	▪ Reliable and efficient B2B transportation services within Gujarat ▪ Flexibility with FTL and LTL shipment options ▪ Competitive pricing with target cost-per-kilometer and revenue-per-kilometer rates ▪ Additional services like packing and transport insurance advisory	▪ Personalized customer service and support for shipment needs	▪ Mid-sized companies in Gujarat requiring regular and efficient shipment services with average customer lifetime value of ₹ 20 lakh and above. ▪ Businesses having large shipments needing FTL option ▪ Businesses smaller shipments needing LTL option

- due to non-availability of trucks
- Maintenance and management of truck fleet
- Offering packing and transport insurance advisory services
- Participation in trade association events
- Advertising and Marketing to expand customer base

Key Resources

- Fleet of 9 trucks with varying capacities (7,000 to 20,000 kilograms)
- Skilled workforce for operations and customer service
- Financial resources for operational expenses and lease payments

Channels

- Marketing outreach to customer base (through advertisements in print and online media)
- Direct interactions at trade association events
- Partner channels through agents

Cost Structure

₹

- Operational costs (fuel, maintenance, lease payments)

Revenue Streams

₹

- Revenue from transportation services (FTL and LTL).
- Additional revenue from packing and transport insurance advisory services

- Employee salaries and benefits
- Marketing and advertising expenses
- Agent commission charges
- Cost of goods sold (packing materials, insurance premiums)
- Lease payments
- Insurance and permits
- Taxes – Direct and Indirect taxes like GST, Income Tax
- Claim settlements for damaged goods

This Business Model Canvas outlines how FrontRunner Pvt. Ltd. operates its trucking business in Gujarat, focusing on both FTL and LTL shipments, along with additional services to enhance customer value and operational efficiency.

** Alternative Views are also possible.*

2.1 The correct answer is (b) Patent protection enables pharmaceutical companies to exclusively capture the benefits from their investment in new drug development for several years.

Reason: Suraj Pharma, as a leading player in the global pharmaceutical market, exemplifies the critical role of patent protection. The company's innovative approach and substantial investment in research and development (R&D) to develop complex medications, like the new antiviral drug for Viral Disease-23, highlight the importance of patents. The patent for Rifmn, an antibiotic, is about to expire, leading to increased competition from generic versions. Patent protection was essential for Suraj Pharma to recoup the significant costs of developing Rifmn and to maintain a competitive edge in the market during the patent period. Without this protection, competitors would have been able to offer similar products immediately, potentially eroding Suraj Pharma's market share and financial returns. Thus, patent protection plays a crucial role in allowing pharmaceutical companies to secure exclusive rights and capture the benefits from their investments in drug development, crucial for maintaining a competitive advantage in a rapidly evolving industry.

2.2 The correct answer is (b) Recognize the entire grant amount (₹ 80 crores) as deferred income and recognize it in P/L over the two-year period.

Reason: As per Ind AS 20, since the grant is linked to achieving a specific outcome (developing a cost-effective manufacturing process) over a defined period (two years) and reasonable assurance exist, it meets the criteria for deferred income recognition. Option (b) is the most appropriate approach as it spreads the grant recognition over the two-year period, reflecting the gradual fulfillment of the attached conditions.

2.3 The correct answer is (c) Yes, because the said company possesses the necessary resources (workforce, patents, plant, IPR, etc.) to produce drugs.

Reason: Ind AS 103 defines a business as an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return. While the lack of revenue and customer contracts is a factor, it's not the sole determinant.

In this case, Indu Pharma Ltd.possesses key elements of a business:

- Skilled workforce (input)
- Intellectual property (IPR) in the form of patents (input)
- Production plant with regulatory approvals (input)
- Processes for R&D and potentially future production (process)

These inputs and processes, when combined, are capable of producing outputs (drugs). The absence of current revenue doesn't negate this capability. As long as Indu Pharma Ltd. can potentially access customers, it meets the definition of a business under Ind AS 103.

2.4 The correct answer is (b) Auditors handled this matter appropriately. The management would need to include this matter in the notes to accounts to the financial statements.

Reason: According to SA 250 (Consideration of Laws and Regulations in an Audit of Financial Statements):

- **Paragraph 12 of SA 250** states that the auditor should obtain an understanding of the relevant laws and regulations applicable to the entity's business. In this case, FEMA regulations are relevant.
- **Paragraph 17 of SA 250** requires the auditor to consider the risk of material misstatement due to non-compliance with laws and regulations. The outstanding trade receivables from a subsidiary with potential FEMA non-compliance could be a risk of material misstatement.
- **Paragraph 20 of SA 250** states that when the auditor identifies a possible non-compliance, they should perform additional procedures to assess the effect on the financial statements. Involving a regulatory expert demonstrates such a procedure.
- **Paragraph 25 of SA 250** requires the auditor to communicate deficiencies in internal control to those charged with governance.

Based on these points, the auditors seem to have followed proper procedures:

- They identified the potential non-compliance with FEMA regulations.
- They involved a regulatory expert to assess the situation.
- They likely communicated the issue to Suraj Pharma's management.

However, SA 250 doesn't mandate informing regulatory bodies like the RBI directly unless specifically required by law.

Management's Responsibility:

Under SA 250, management is responsible for ensuring compliance with laws and regulations. In this case, it's their responsibility to:

- Take corrective action for the FEMA non-compliance.

- Disclose the potential impact (including any penalties) in the notes to the financial statements.

Therefore, the auditors have appropriately handled the situation by involving a regulatory expert and likely communicating the issue to management. The final responsibility for disclosure and rectification lies with Suraj Pharma's management.

2.5 **The correct answer is (a)** Suraj Pharma needs to prepare consolidated financial statements by also consolidating MKS. In case this is not done, the auditors need to qualify their report on consolidated financial statements.

Reason: Paragraph 4 of SA 706 states that the auditor's report should modify the opinion on the financial statements if they are not prepared in accordance with the applicable financial reporting framework (Ind AS in this case).

Ind AS 110 (Consolidated Financial Statements) requires a parent company to consolidate the financial statements of its subsidiaries unless control is temporary, or the subsidiary is insignificant.

In this case, there seems to be no mention of temporary control or insignificance of MKS. The difference in financial year-ends doesn't exempt consolidation.

Therefore, by not consolidating MKS, Suraj Pharma is not following the proper accounting standards. This would likely result in an **audit opinion qualification** by the auditors.

2.6 Since the supply is made to a distinct person, the same will be valued in accordance with rule 28 of the CGST Rules, 2017 relating to valuation. There is no open market value of the drug intermediate as also there are no like goods.

Therefore, value of supply of such drug intermediate will be determined in terms of clause (c) of rule 28 i.e., by using rule 30 of the CGST Rules, 2017. Thus, the value of supply of such drug intermediate will be 110% of its cost of production or manufacture. However, if the recipient unit is eligible for full ITC, the value declared in the invoice by the supplier will be deemed to be the open market value of the drug intermediate and thus, the invoice value will be the value of taxable supply.

2.7 Demand function

b = change in price/change in quantity b = ₹4/8,000 units = 0.0005

The maximum demand for Rifmn is 10,00,000 units, so where P = 0, Q = 10,00,000, so 'a' is established by substituting these values for P and Q into the demand function:

0 = a – (0.0005 × 10,00,000)

0 = a – 500

Therefore, a = 500

Demand function is therefore: P = 500 – 0.0005Q

Marginal cost

		Total ₹
Salt X	367.50g × ₹0.08	29.40
Salt Y	301.50g × ₹0.40	120.60
Labour	Given in ques	38.60
Machine running cost	(30/60 × ₹40.00)	20
Total marginal cost per batch		208.60

Marginal Revenue Function: MR = a – 2bQ

Equate MC and MR and insert the values for 'a' and 'b' from the demand function in step 1

⇒ 208.60 = 500 – (2 × 0.0005 × Q)

Solve the MR function (to determine optimum quantity, Q)

⇒ 208.60 = 500 – 0.001Q

⇒ 0.001Q = 291.4

⇒ Q = 291,400 batches

Calculate the optimum price

⇒ P = 500 – (0.0005 × 291,400)

⇒ P = ₹354.30

Calculate Profit

	₹
Revenue (2,91,400 batches × ₹354.3)	10,32,43,020
Less: Variable costs (2,91,400 batches × ₹208.60)	6,07,86,040
Less: Fixed costs (3,00,000 batches × ₹35)	1,05,00,000
Profit	3,19,56,980

Recommended Pring Strategy

Firms often use different pricing strategies when their products are first launched into the market. The most two common approaches are price skimming and penetration pricing.

In ***penetration pricing***, low price is charged initially, thought behind this is that low price will make the product accessible to large number of buyers, so high sales will compensate the low price being charged getting the benefits of economy of scale. This approach works best when customers are *price sensitive*, R & D and marketing expenses are low, or when competitors will quickly enter the market.

In this case, medicines are *highly inelastic* in nature so any reduction in price will not increase the demand of the drug, which clearly indicates that market penetration pricing will not help.

Skimming Pricing refers to charging high price initially than lower the prices. High price in the early stage of the product's life cycle is expected to generate high initial cash flows, which will help the company to recover high development cost. This would enable the company to take advantage of unique nature of the product.

In present case, the unique nature of drug, entry barrier (since company has taken patent) requires huge initial investment and

considering this market skimming pricing strategy would be more favorable pricing strategy. However, this strategy only works as long as drug is protected by patent.

In addition, a drug firm is required to consider the expected reactions from national price controllers who in turn may be influenced by political factors and public opinion.

Practical Insight

Most of the people in developing countries buy medicines through out-of-pocket payments, high prices of medicines might force people to forego treatment or go into debt. As a result, the price of the medicines may be regulated by the health organizations/ agencies.

2.8 The NCLT rejected Suraj Pharmaceutical's demerger scheme due to limitations within the legal framework. Here's a breakdown of the reasons:

Section 234 of the Companies Act, 2013: This section, as interpreted by the NCLT, did not explicitly permit cross-border demergers involving Indian companies and foreign companies (either as the transferring or resulting company).

Rule 25A of the Companies (Compromise, Arrangements and Amalgamations) Rules, 2016: This rule outlines the detailed procedures and requirements for cross-border mergers. However, the NCLT noted a crucial omission: the rule only mentioned "merger" and "amalgamation," not "demerger."

Therefore, due to the limitations within Section 234 and the specific wording of Rule 25A, the NCLT concluded that the legal framework at the time did not support Suraj Pharmaceutical's proposed cross-border demerger scheme.

2.9 Ind AS 38, Intangible Assets provides explicit guidance on recognition of acquired in-process research and development.

Paragraph 34 of Ind AS 38, provides that in accordance with this Standard and Ind AS 103, an acquirer recognises at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognised by the acquiree before the business combination. This means that the acquirer recognises as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset.

An acquiree's in-process research and development project meets the definition of an intangible asset when it:

(a) meets the definition of an asset; and

(b) is identifiable, i.e. is separable or arises from contractual or other legal rights.

In accordance with above,

(i) The fair value of the first drug reflects the probability and the timing of the regulatory approval being obtained. As per the standard, the recognition criterion of probable future economic benefits is considered to be satisfied in respect of the asset acquired accordingly an asset is recognised. Subsequent expenditure on an in-process research or development project acquired separately is to be dealt with in accordance with paragraph 43 of Ind AS 38.

(ii) The rights to the second drug also meet the recognition criteria in Ind AS 8 and are recognised. The approval means it is probable that future economic benefits will flow to Suraj Pharma. This will be reflected in the fair value assigned to the intangible asset.

Thus, recognising in-process research and development as an asset on acquisition applies different criteria to those that are required for internal projects. The research costs of internal R&D projects may under no circumstances be capitalised as an intangible asset. It may be pertinent to note that entities will be required to recognize on acquisition some research and development expenditure that they would not have been able to recognize if it had been an internal project. Although the amount attributed to the project is accounted for as an asset, Ind AS 38 requires that any subsequent expenditure incurred after the acquisition of the project is to be accounted for in accordance with Ind AS 38.

3.1 The correct answer is (b) Yes. Employees/ officers of the Company are not involved in the frauds.

Reason: Section 143(12) of the Companies Act, 2013 require auditor to report that an offence of fraud, which involves or is expected to involve individually an amount of ₹ one crore or above, is being or has been committed against the company by its officers or employees. Accordingly, in both the instances, employees/ officers of the Company were not involved and thus fraud reporting by auditor as prescribed under Section 143(12) Companies Act, 2013/ related Rules is not triggered.

3.2 The correct answer is (a) Yes. SEBI (Prohibition of Insider Trading) Regulations, 2015 requires auditors to maintain Structured Digital Database with prescribed data and information.

Reason: Fiduciaries are required to comply with SEBI (Prohibition of Insider Trading) Regulations, 2015:

▪ Professional firms such as auditors, accountancy firms, law firms, analysts, insolvency professional entities, consultants, banks etc., assisting or advising listed companies are considered as fiduciaries [Chapter IV.9(2)]

▪ Contents of the database - [Chapter II.3.5]

- Nature of unpublished price sensitive information
- Names of such persons who have shared the information
- Names of such persons with whom information is shared along with the PAN or any other identifier authorized by (where PAN is not available)

3.3 The correct answer is (d) No. Companies Act, 2013 and Standard on Auditing provide unrestricted access to any information to an auditor of the financial statements.

Reason: Companies Act, 2013 and Standard on Auditing envisage unrestricted access to relevant information while performing procedures in an audit of financial statements. The assertion of attorney-client cannot prevent necessary access to forensic report. If denied, would constitute a scope limitation.

3.4 **The correct answer is (c)** Yes. CARO envisages comment by auditor for frauds which came to notice during audit.

Reason: CARO [Paragraph 3(xi)(a)] requires the auditor to report whether any fraud has been noticed or reported either on the company or by the company during the year and is not limited to frauds by the officers or employees of the company. If any fraud is noticed / reported, the auditor is required to state the amount involved and the nature of fraud. The concept of materiality is fundamental to auditing. Therefore, even in reporting on frauds under the CARO, materiality of the fraud should be given due consideration.

3.5 **The correct answer is (b)** 26th October; 15th October.

Reason: The Proviso to section 14 of the CGST Act, 2017 provides that the date of receipt of payment shall be the date of credit in the bank account if such credit in the bank account is after four working days from the date of change in the rate of tax.

Hence, date of payment is date of credit in the bank account, 26th October.

Section 14(a)(ii) of the CGST Act, 2017 provides that in case the goods or services or both have been supplied before the change in rate of tax, where the invoice has been issued prior to the change in rate of tax but payment is received after the change in rate of tax, the time of supply shall be the date of issue of invoice; i.e. 15th October.

3.6 As per Ind AS 38, for an item to be recognised as an intangible asset, it must meet the definition of an intangible asset, i.e., identifiability, control over a resource and existence of future economic benefits and also recognition criteria.

Paragraph 15 of Ind AS 38 states that an entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from their training. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

Based on the facts provided in the given case, the player is prohibited from playing in other teams by the terms of the contract which legally binds the player to stay with IndyaDekho for a number of years. Accordingly, in the given case, the company would be able to demonstrate control. Future economic benefits are expected to arise from use of the player in matches. Further, cost of obtaining rights is also reliably measurable. Hence, it can recognise the costs incurred to obtain the right regarding the player as an intangible asset.

3.7 In light of the diverse viewpoints expressed in the minutes of the 59th Board Meeting held on 31st May 2024, it is critical for IndyaDekho Limited to focus on quality in their operations to meet customer requirements, minimize costs, and maximize profits. Enhancing service quality leads to increased customer satisfaction, which in turn boosts profitability and business sustainability. Quality is crucial not only in manufacturing but also in the service sector, where customers do not receive tangible products. In today's competitive and dynamic world, Total Quality Management (TQM) is key for organizations to achieve overall success. TQM's basic principles apply universally across both manufacturing and service industries.

In the service sector, TQM is essential for improving overall service quality, achieving desired customer satisfaction and loyalty, enhancing service delivery systems, and ultimately improving financial performance. Implementing TQM at IndyaDekho Limited can significantly enhance service quality, ensure customer satisfaction, and secure long-term business sustainability. TQM emphasizes continuous improvement, customer-centricity, and employee involvement, making it as vital in the service sector as in manufacturing.

A detailed overview of TQM implementation at IndyaDekho based on the 6Cs of TQM, considering the board's discussion, is as follows:

- The CEO and senior leadership at IndyaDekho must demonstrate a **strong Commitment** to TQM by actively participating in quality initiatives and setting a precedent for the entire organization. Top management should initiate, create, spread, and execute a comprehensive quality improvement program. The CEO needs to ensure a quality presence that is strong, highly evident, and widespread. This involves ***clear communication*** about the importance of quality and ensuring that all employees are aligned with this vision.

  Additionally, the development and communication of a ***comprehensive quality policy*** that aligns with IndyaDekho's mission to enhance customer satisfaction through innovative travel solutions is essential. This policy should be embedded in all aspects of the company's operations.

- The CEO stated that adopting TQM entails a significant shift in organizational culture and structure. To achieve this, it is crucial to **instill a Culture of quality** where every employee feels responsible for maintaining and improving service standards. Encouraging a mindset where quality is seen as ***everyone's responsibility***, not just that of a specific department, is essential. Implementing regular ***training programs*** to educate employees about TQM principles and practices will equip them with the necessary tools and knowledge to contribute effectively to quality improvement initiatives.

- Adopt a **Continuous improvement** approach by encouraging employees to suggest small, incremental changes that can lead to significant improvements over time. Promote a culture where ***feedback*** is valued and used constructively. Establish robust systems to gather feedback from customers and employees. Use this feedback to identify areas for improvement and make necessary adjustments to enhance service quality.
- The Independent Director pointed out that TQM includes core team members in meeting consumer needs by employing problem-solving methods. However, the application of ***total employee involvement*** principles is paramount. The Chief Management Accountant emphasized the need for a holistic alignment between organizational personnel and their roles. To achieve this, it is essential to form cross-functional teams to address quality issues and implement improvement initiatives. Encouraging **Co-operation** and collaboration across departments will ensure a comprehensive approach to quality management.
- The Chief Management Accountant informed the board that, while the primary aim of TQM is to satisfy external customers, it also acknowledges the challenge of fulfilling external customers' expectations without meeting the needs of internal customers. In practice, TQM implementations that focus exclusively on the external customer will not survive unless they also foster the mutual respect necessary to preserve employee morale and participation. To maintain a strong **Customer focus**, regular market research and customer surveys should be conducted to understand evolving customer preferences. These insights should be used to tailor services and enhance customer satisfaction. Mechanisms must be implemented to collect, analyze, and act on customer feedback, ensuring prompt and effective responses to customer concerns to build trust and loyalty.
- The CEO recommended an objective evaluation of the internal and external environment in which the company functions. As part of

this evaluation, the company must ***review its current policies, documentation, and monitoring processes***, and develop new effective measures that incorporate customer feedback when determining quality measures. Additionally, clear processes and procedures for all aspects of service delivery should be developed, using control charts and other quality control tools to monitor performance and identify deviations from standards. Regular quality audits should be conducted. The audit results should be used to make informed decisions about areas needing improvement, thereby maintaining effective **Control over quality management processes**.

In conclusion, implementing Total Quality Management (TQM) at IndyaDekho Limited is essential for enhancing service quality, achieving customer satisfaction, and ensuring long-term business sustainability. By focusing on the 6Cs of TQM—Commitment, Culture, Continuous Improvement, Cooperation, Customer Focus, and Control—the company can create a robust framework for quality management. This approach will enable IndyaDekho to stay competitive in the dynamic travel industry, foster a culture of excellence, and drive continuous improvement in all aspects of its operations. Through dedicated leadership, employee involvement, and customer-centric strategies, IndyaDekho can build a strong reputation for quality, loyalty among customers, and sustained financial performance.

3.8 Paragraph 69 of Ind AS 38 provides that, in some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. Paragraph 69 of Ind AS 38 provide that expenditure on research, training, advertising and start up activities (unless start-up costs are includible in the cost of an item of property, plant and equipment in accordance with Ind AS 16) will not result in the creation of an intangible asset that can be recognised in the financial statements. Further, paragraphs 48 and 63 of Ind AS 38 also specifically prohibit recognition of internally generated goodwill and brands as an intangible asset.

Advertising and promotional activities enhance or create brands or customer relationships, which in turn generate revenues. In some cases, such costs cannot be distinguished from the cost of maintaining or enhancing the entity's internally generated goodwill or developing the business as a whole or running day to day operations. Further, it is also difficult to determine whether there is an internally generated intangible asset distinguishable from internally generated goodwill.

In the present case, the expenditure that IndyaDekho has incurred on promotional and advertising activities is to develop or enhance branding, goodwill building or customer relationship and, therefore, should not be amortised over future years and should be charged off to the profit or loss as incurred.