



TPE 2023 – Practice Case Study

Andka – Case Study Part 2

Comprehensive Case Study
Case Study Description and Question

You have **3 hours** to complete this paper

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This assessment is taking place remotely.

ICAS would remind you to continue to be ethical and observe the exam conditions applicable to the TPE exam.

CASE STUDY

It has been two weeks since your meeting with Chloe. You have just logged in for a meeting with the directors. You submitted your briefing paper and it was well received.

“Good morning, Lee,” says Hamad. “Sorry I missed your last meeting.”

Chloe joins the meeting - “Hello Lee, good to see you again. Thank you again for the briefing paper. It gave us quite a few points to think about and was very useful. But things have moved quickly in the last couple of weeks and we have some other issues we need your help with.”

“We would like you to prepare a report for us, as directors of Andka, covering a number of different topics. Firstly, we’ve been in contact with a property developer who has made a preliminary offer of £3 million for our depot in Chelmsford. The cash on offer would be a useful way of funding our new venture. If we were to sell the Chelmsford depot, we would focus solely on van rental from the Romford depot, irrespective of whether we proceed with the new venture which I’ll come to in a minute.

“The report should include your advice on the impact of the potential sale of the Chelmsford depot on the remaining business, the impact on funding requirements, as well as a clear recommendation on how you think we should proceed. We initially purchased that depot in June Yr49 for £2 million and refurbished it immediately for £150,000. We haven’t had it valued since then”.

Hamad adds, “This new venture Chloe mentioned is a change in car rental strategy. Currently, in the UK, we operate car rental from our two depots at Romford and Chelmsford. However, given that this part of the business is not particularly profitable, we think we need to adapt our strategy. We have been approached by a mobile car rental business, RightNowCar Rentals (‘RNC’) to ask whether we would like to purchase a franchise in Birmingham, England.

“Mobile car rental requires the rental vehicles to be parked in spaces leased from the local council. We need one space per vehicle. Renters use an app on their mobile device to rent a car and once the purchase is completed, they can use the mobile device to unlock the vehicle. The vehicles are usually returned to a space in the same area at the end of the rental, although there could also be an option to offer more flexible “one-way” rentals. There are several companies offering this type of service in London, but there is not currently anyone operating in Birmingham. Here are details of the franchise offer (Appendix 1).

“We need you to appraise the offer and advise us of the major risks if we were to accept it. We would also like you to consider the possible benefits of entering into a franchise and evaluate the potential profitability of the franchise, including a basic cashflow forecast. RNC is happy to wait until travel restrictions in the target market have been removed before launching the franchise, so hopefully COVID 19 should not be a big issue. We estimate that, on average, we would receive £5,600 per car if we were to sell our UK car fleet. Please recommend whether you think we should proceed with this venture.”

“That is quite a change in direction,” you remark. “Are you still also planning to expand into luxury rentals in Dubai right now?”

“Not right now, given these potentially significant changes in the UK,” replies Chloe. “Plus, we’ve also had some IT issues.”

“IT issues?” you query.

“Our IT manager has discovered that one of our former employees has managed to gain access to our systems after they were dismissed. This former employee has managed to download reports of car rentals on two separate occasions.”

“What details did those reports contain?” you ask.

“Just details of customer names and addresses and their Andka ID numbers,” says Chloe. “Obviously, we are relieved it wasn’t credit card details or anything like that. I’ve had Josh, the IT manager, block the account of the ex-employee and now we need to draw a line underneath the issue. I’ve asked Josh to prepare a note of the IT security improvements that we should consider, but it would be useful to also get your professional advice on this as well.”

You make a mental note to remind them of their responsibilities under the General Data Protection Regulation in the report as you say, “Of course I’ll include suggested improvements in the report. Any data breach is serious business.”

The meeting seems to be ending and, after wishing you well, Hamad logs off. You are about to click ‘leave’ yourself when Chloe says, “Before you go, I have something else where I need your advice. There are a few things that have come to light in Dubai that we need to get a handle on sooner rather than later. I asked the Dubai depot manager for some more information on some of the Dubai figures, and I’ll let you see his email (Appendix 2). He’s got a proposed scheme that Hamad and I need your advice on.

“I’ve also just received an email from the accounts assistant in Dubai with some worrying information which I’ll forward on to you (Appendix 3). Please look at both emails and let me have your advice and recommendations as to how to proceed.”

“Of course,” you reply. “So, to summarise, you would like a report covering the potential sale of the Chelmsford depot, the RNC franchise offer and the data breach. You’d also like me to provide advice and recommendations as to how to proceed with the two emails from Dubai. Given the timescales, I’ll aim to get all this to you by the close of business today.”

Required:

- Prepare the information as requested by Chloe; and
- Complete your ethics file note for this client.

APPENDIX 1

Mobile car rental franchise offer

RightNowCar Rentals
RNC House
London
W1 3XL
14th May Yr59

Dear Ms Andrews and Mr Kapoor,

Following our recent meeting, I would like to formally set out details for the Birmingham RightNowCar Rentals ('RNC') franchise. The official legal franchise documents will be sent in due course from our legal team, should you wish to proceed.

Franchise business

RNC is a mobile car rental business. Customers locate nearby vehicles from our app and select the rental period, which can be on an hourly or daily basis. The maximum rental period is seven days. Upon payment of the rental charge, the vehicle details are released, and the customer would use the Bluetooth technology on their mobile device to unlock the key box attached to each vehicle. The rental period starts when the key box is opened. The customer has use of the car for the agreed rental period and must return the car to an RNC parking space at the same location. Full insurance is included in the rental price.

You must arrange the lease of parking spaces from the local council and supply vehicles. All vehicles must carry the RNC logo and be fitted with a tamper-proof GPS tracking device to allow customers to locate and access the vehicle. Vehicles must be checked after each rental and cleaned and/or repaired if necessary.

Franchise location

The franchise is for the city of Birmingham, which is the second largest city in the UK, about 100 miles north of London. We are successfully operating this model ourselves in London and have started to offer franchises in other major UK cities.

Term

The franchise would run for four years from the acceptance of the offer. RNC accepts your proposal that the contracted franchise term should not commence until legal restrictions on travel in the Birmingham area have been removed.

Our initial obligation

RNC would provide the booking technology (mobile app), including training and integration with your existing systems as well as the GPS tracking devices for each vehicle. We would also provide a marketing budget and assist with marketing.

Your initial obligation

Andka would be responsible for liaising with Birmingham City Council to lease parking spaces.

You would also be responsible for providing and maintaining all vehicles. RNC will provide you with an approved list of manufacturers and models. You must have a minimum of 500 vehicles and a maximum of 800 vehicles for the duration of the franchise. Vehicles should be replaced regularly and no vehicle should be more than four years old.

Franchise cost

The initial franchise cost, including the annual fee and booking technology is £800,000. For years 2 to 4 of the franchise, there would be an annual fee of £250,000, payable at the start of each year. RNC would take commission of 20% on all rentals, with the balance of 80% transferred to Andka upon commencement of each rental.

Financial information based on our London operations

- Average rental income received per vehicle per year: £20,000
- Average annual lease cost for a parking space: £12,000
- Average cost of fitting new vehicles with RNC technology/logo: £500
- Average list price of approved cars: £16,000. We use our cars for 4 years and then replace
- Average annual mileage: 12,500 miles
- All figures exclude VAT

One-way rentals

RNC is currently trialling a 'one-way' rental model, where customers rent a vehicle from one location and return it to a different location. The trial is taking place in London, with an additional charge of 25% added to the usual rental cost. The trial appears to have been successful and this service could be added to the franchise agreement if required.

I trust these details provide you with sufficient information to make a decision. I look forward to hearing from you in due course.

Yours sincerely,

Elle Koh
Sales director, RNC

APPENDIX 2

Email from Dubai depot manager

To: Chloe.Andrews@andkarental.co.uk

From: Viraj.Kapoor@andkarental.ae

Date: 16 May Yr59

Subject: Great opportunity!

Dear Chloe

Following our telephone call earlier, hopefully you are as excited about the sports cars as I am! My friend here has built the business from scratch and he is now manufacturing and selling around 500 sports cars a year. He's offering to sell me 50 of them for 900,000 AED each, which is only just more than cost. It would make sense to keep some here and send some over to the UK. They're great cars and would rent or sell for really good money. I estimate that the cost of shipping to the UK, including insurance, would be about 15% of the cost, but still a great deal. He's got about 10 ready for me now, so just let me know when and where you want them sent! I understand from one of my contacts that UK import duty is likely to be around 10%.

I'll keep trying to get more information to you on these numbers. I'm currently trying to work out administrative expenses, although most of that seems to come from your management charges in Q2 and Q4!

I've asked the accounts assistant to send you over the invoices you asked for too.

Please do let me know about the sports cars, as soon as you can.

Kind regards,

Viraj

APPENDIX 3

Email from Dubai accounts assistant

To: Chloe.Andrews@andkarental.co.uk

From: accounts@andkarental.ae

Date: 20 May Yr59

Subject: Unknown deposits

Dear Ms Andrews,

My name is Jayesh and I am the new accounts assistant in Dubai. I know you asked Mr Viraj Kapoor, the depot manager, for more information about our accounts. I hope I am doing the right thing by emailing you.

There have been five deposits into our bank account during Yr59, for which I can't find any paperwork. Each deposit is for exactly 200,000 AED. Mr Kapoor told me to record these as revenue. He has now asked me to create false invoices to send to you about these amounts from a customer that isn't on our system and I don't know what to do. He won't give me any information about the customer.

As you know, our car rentals here are almost all made via third-party rental websites who deposit rental income, less commission, into our account. Unless there is another source of income, that I don't know about, I don't know where these amounts have come from. The record keeping here is a bit haphazard. There is paperwork everywhere in the office, and although I've only been here a few weeks, I'm trying to make some sense of it all, but it is taking a while.

I hope you don't mind me emailing you about this matter.

Jayesh

END OF PAPER