

Project –Applied Financial Statement Analysis

Identify the impacts of News, Misleading Advertisement, Rumours or Inside Information on a company's financial and operational wellbeing. Impacts can be negative or positive based on the buzz created by such news, misleading advertisement, rumours or inside Information circulating in the market.

Following Points could be considered while Such evaluating the impacts on -

- Sales and revenue.
- Company's Assets
- Company's Liabilities
- Company's Goodwill and reputation
- Company's Share Price
- Legal Implications
- Public at Large
- Investor (Retail)

Note – Above mentioned points are just basics points, Other Points not mentioned above can also be considered while such evaluation for supporting your answers depending upon the case or scenario taken up the candidate

Refer the example below to take an Idea

*Case Study: Impact of Misleading Advertisements on Patanjali Ayurved Limited's Financial Statements*

*Background:*

Company: Patanjali Ayurved Limited

Industry: Consumer Goods (Ayurvedic and Herbal Products)

Period: FY 2024

Context: Patanjali Ayurved Limited was involved in a controversy regarding misleading advertisements for one of its popular health products, "Patanjali SuperBoost," which claimed to have benefits not supported by scientific evidence.

*1. Impact of Misleading Advertisements*

Scenario:

Patanjali Ayurved Limited ran a series of advertisements claiming that “Patanjali SuperBoost” could cure chronic diseases, a statement not supported by clinical evidence. The advertisements were widely criticized, and regulatory authorities took action against the company.

Financial Statement Impacts:

a. Revenue:

- ***Initial Boost:*** The misleading advertisements led to a surge in sales as consumers bought the product believing in its exaggerated claims. For the quarter in which the ads were most prominent, sales of “Patanjali SuperBoost” increased by 30%.
- ***Subsequent Decline:*** Following the controversy, sales plummeted. Consumer trust eroded, and the company faced a significant decline in revenue from this product. This decline was evident in the following quarters, resulting in a 20% reduction in overall revenue.

b. Marketing and Advertising Expenses:

- ***Increased Costs:*** The company invested heavily in the advertising campaign, leading to higher marketing expenses. These expenses were recorded as an increase in operating costs, impacting the company’s profitability.

c. Legal and Regulatory Costs:

- ***Fines and Penalties:*** The regulatory authorities imposed fines and penalties for false advertising. The company incurred substantial legal fees and settlement costs, which were recorded as extraordinary expenses.
- ***Provision for Liabilities:*** The company may need to recognize a provision for potential future liabilities if lawsuits from consumers or competitors are filed, impacting the financial statements.

d. Brand Reputation and Consumer Trust:

- ***Long-Term Impact:*** The negative publicity affected the company’s brand reputation, leading to a long-term decline in consumer trust. This impact can result in a reduced customer base and decreased future revenue.

e. Stock Price Volatility:

- ***Stock Price Drop:*** The controversy led to a decline in investor confidence, causing a drop in the company's stock price by 15%. This drop affects the company's market capitalization and its ability to raise capital.

f. Inventory Write-Downs:

- ***Excess Inventory:*** Due to the sudden drop in demand, the company might have to write down excess inventory of "Patanjali SuperBoost," which affects the cost of goods sold and overall profitability.

Conclusion:

The misleading advertisement campaign initially boosted revenue but led to significant negative consequences, including:

- ***Increased Marketing Costs:*** Higher expenses related to the advertising campaign.
- ***Decline in Revenue:*** A substantial drop in revenue following the controversy.
- ***Legal and Regulatory Costs:*** Fines, penalties, and legal expenses impacting net income.
- ***Brand and Trust Damage:*** Long-term effects on brand reputation and consumer trust.
- ***Stock Price Decline:*** Negative impact on stock price and market capitalization.
- ***Inventory Write-Downs:*** Losses due to excess unsold inventory.

*Summary:*

Misleading advertisements can have severe financial repercussions. In the case of Patanjali Ayurved Limited:

- ***Short-Term Gains:*** Misleading ads may lead to short-term revenue increases.
 - ***Long-Term Costs:*** The long-term financial impact includes reduced sales, higher legal costs, and damage to brand reputation.
- ***Regulatory and Legal Expenses:*** Companies can face substantial fines and legal costs.

- ***Investor Impact:** Decline in stock price and market confidence can affect the company's financial stability and ability to raise capital.

This case study illustrates the importance of ethical advertising practices and the potential risks associated with misleading claims. For companies, it highlights the need for accurate and truthful communication to maintain consumer trust and financial health.