PAPER – 5 : ADVANCED ACCOUNTING

*Question No.**1** is compulsory.*

*Candidates are also required to answer any **five** questions from the remaining **six** questions.*

Working notes should form part of the respective answers.

Wherever necessary, candidates are permitted to make suitable assumptions which should be disclosed by way of a note.

Question 1

(a) Bansal Company Ltd. imported raw material worth US Dollars 12,000 on 15th Jan, 2019 when the exchange rate was ₹ 68 per US Dollar. The payment for the transaction was made on 5th May, 2019 when exchange rate was ₹ 64 per US Dollar. At the year end, 31st March, 2019, the rate of exchange was ₹ 65 per US Dollar. The accountant of the company passed entry on 31st March, 2019 adjusting the cost of raw material consumed for the difference between ₹ 64 and ₹ 68 per US Dollar. Discuss whether this treatment is justified as per the provisions of AS-11 (Revised).

(b) State with reasons, how the following events would be dealt with in the financial statements of Hari Ltd. for the year ended 31st March, 2019 (accounts were approved on 25th July, 2019):

(1) Negotiations with another company for acquisition of its business was started on 21st January, 2019. Hari Ltd. invested ₹ 40 lakh on 22nd April, 2019.

(2) The company made a provision for bad debts @ 4% of its total debtors (as per trend followed from the previous years). In the second week of March 2019, a debtor for ₹ 2,50,000 had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In May, 2019 the debtor became bankrupt.

(3) During the year 2018-2019, Hari Ltd. was sued by a competitor for ₹ 13 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Hari Ltd. provided for a sum of ₹ 8 lakhs in its financial statements for the year ended 31st March, 2019. On 26th May, 2019, the Court decided in favour of the party alleging infringement of the trademark and ordered Hari Ltd. to pay the aggrieved party a sum of ₹ 12 lakhs.

(4) Cashier of Hari Ltd. embezzled cash amounting to ₹ 3,00,000 during March, 2019. However the same comes to the notice of Company management during August, 2019.

(5) Cheques dated 31st March, 2019 collected in the month of April, 2019. All cheques are presented to the bank in the month of April, 2019 and are also realized in the same month in the normal course after deposit in the bank.

(c) Honey Ltd. is in the process of developing a new production method. During the financial year ended 31st March, 2018, total expenditure incurred on development of this production method was ₹ 98,00,000. On 1st Jan, 2018, the production method met the criteria as an intangible asset and expenditure incurred till this date was ₹ 68,00,000. Further expenditure incurred on the new method was ₹ 72,00,000 for the year ended 31st March, 2019 and recoverable amount of the know how embodied in the new method for this financial year is ₹ 52,00,000.

You are required to calculate:

(1) The carrying amount of the Intangible asset on 31st March, 2018.

(2) The expenditure to be shown in Statement of Profit and Loss Account for the year ended 31st March, 2019.

(3) The carrying amount of the Intangible asset on 31st March, 2019.

(d) From the following information, compute unearned finance income as per AS-19.

Fair value of Machine	*₹ 65 lakh*
Lease Term	*5 years*
Lease Rent	*₹ 10 lakh per annum*
Guaranteed Residual Value	*₹ 1.4 lakh*
Expected Residual Value	*₹ 2.3 lakh*
Internal Rate of Return	*10%*

Discount rates from 1st to 5th year are 0.909, 0.826, 0.751, 0.683 and 0.621 respectively.

(4 Parts x 5 Marks = 20 Marks)

Answer

(a) As per AS 11, 'The Effects of Changes in Foreign Exchange Rates', initial recognition of a foreign currency transaction is done in the reporting currency by applying the exchange rate at the date of the transaction. Accordingly, on 15th January, 2019, the raw material purchased and its creditors will be recorded at US dollar 12,000 × ₹ 68 = ₹ 8,16,000.

Also, on balance sheet date such transaction is reported at closing rate of exchange, hence it will be valued at the closing rate i.e. ₹ 65 per US dollar (USD 12,000 x ₹ 65 = ₹ 7,80,000) at 31st March, 2019, irrespective of the payment made for the same subsequently at lower rate in the next financial year.

The difference of ₹ 3 (65 – 68) per US dollar i.e. ₹ 36,000 (USD 12,000 x ₹ 3) will be shown as an exchange gain in the profit and loss account for the year ended 31st March, 2019 and will not be adjusted against the cost of raw materials.

In the subsequent year on settlement date, the company would recognize or provide in the Profit and Loss account an exchange gain of ₹ 1 per US dollar, i.e. the difference

from balance sheet date to the date of settlement between ₹ 65 and ₹ 64 per US dollar i.e. ₹ 12,000.

Hence, the accounting treatment adopted by the Accountant of the company is incorrect i.e. it is not in accordance with the provisions of AS 11.

(b) **(i)** As per AS 4'Contingencies and Events Occurring After the Balance Sheet Date', disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise, the investment of ₹ 40 lakhs in April, 2019 in the acquisition of another company should be disclosed in the report of the Board of Directors to enable users of financial statements to make proper evaluations and decisions.

(ii) As per AS 4, adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date. A debtor for ₹ 2,50,000 suffered heavy loss due to earthquake in the second week of March, 2019 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in May, 2019 (after the balance sheet date) is only an additional information related to the existing condition on the balance sheet date. Accordingly, full provision for bad debts amounting ₹ 2,50,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2019.

(iii) As per AS 4, adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. In the given case, since Hari Ltd. was sued by a competitor for infringement of a trademark during the year 2018-19 for which the provision was also made by it, the decision of the Court on 26th May, 2019, for payment of the penalty will constitute as an adjusting event because it is an event occurred before approval of the financial statements. Therefore, Hari Ltd. should adjust the provision upward by ₹ 4 lakhs to reflect the award decreed by the Court to be paid by them to its competitor.

(iv) As the embezzlement of cash comes to the notice of company management only after approval of financial statements by board of directors of the company, then the treatment will be done as per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" and the same will not be adjusted in the financial statements for the year ended 31st March, 2019. This being an extra-ordinary item should be disclosed in the statement of profit and loss as a part of loss for the year ending March, 2020, in a manner, that its impact on current profit or loss can be perceived.

(v) Collection of cheques after balance sheet date is not an adjusting event even if the cheques bear the date of 31st March. Recognition of cheques in hand is therefore not consistent with requirements of AS 4. Moreover, the collection of cheques after balance sheet date does not represent any material change or commitments affecting financial position of the enterprise and no disclosure of such collections in the Directors' Report is necessary.

(c) As per AS 26 'Intangible Assets'

(i) **Carrying value of intangible asset as on 31.03.2018**

At the end of financial year, on 31st March 2018, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ₹ 30 (98-68 [1]) lacs (expenditure incurred since the date the recognition criteria were met, i.e., from 1st January, 2018).

(ii) **Expenditure to be charged to Profit and Loss account for the year ended 31.03.2019**

	(₹ in lacs)
Carrying Amount as on 31.03.2018	30
Expenditure during 2018 – 2019	72
Book Value	102
Recoverable Amount	(52)
Impairment loss	50

₹ 50 lakhs to be charged to Profit and loss account for the year ending 31.03.2019.

(iii) **Carrying value of intangible asset as on 31.03.2019**

	(₹ in lacs)
Book Value	102
Less: Impairment loss	(50)
Carrying amount as on 31.03.2019	52

(d) As per AS 19 on Leases, ***unearned finance income*** is the difference between (a) the ***gross investment*** in the lease and (b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

---

[1] *₹ 68 lakhs is recognized as an expense because the recognition criteria were not met until 31st December 2017. This expenditure will not form part of the cost of the production process recognized as an intangible asset in the balance sheet.*

Where:

(a) ***Gross investment*** in the lease is the aggregate of (i) minimum lease payments from the stand point of the lessor and (ii) any unguaranteed residual value accruing to the lessor.

Gross investment = Minimum lease payments + Unguaranteed residual value

= [Total lease rent + Guaranteed residual value (GRV)] + Unguaranteed residual value (URV)

= [(₹ 10,00,000 × 5 years) + ₹ 1,40,000] + ₹ 90,000 = ₹ 52,30,000 (a)

(b) Table showing present value of (i) Minimum lease payments (MLP) and (ii) Unguaranteed residual value (URV).

Year	*MLP inclusive of URV ₹*	*Internal rate of return (Discount factor @ 15%)*	*Present Value ₹*
1	10,00,000	0.909	9,09,000
2	10,00,000	0.826	8,26,000
3	10,00,000	0.751	7,51,000
4	10,00,000	0.683	6,83,000
5	10,00,000	0.621	6,21,000
	(GRV)1,40,000	0.621	86,940
	51,40,000		(i) 38,76,940
	(URV)90,000	0.621	(ii) 55,890
	52,30,000	(i)+ (ii)	39,32,830 (b)

Unearned Finance Income (a) - (b) = ₹ 52,30,000 – ₹ 39,32,830=₹ 12,97,170.

Question 2

Sagar & Sons is a partnership firm consisting of Mr. X, Mr. Y and Mr. Z who share profits and losses in the ratio of 2:2:1 and UTS Ltd. is a company doing similar business.

Following is the summarized Balance Sheet of the firm and that of the company as at 31.3.2019:

Liabilities	*Sagar & Sons (₹)*	*UTS Ltd. (₹)*	*Assets*	*Sagar & Sons (₹)*	*UTS Ltd. (₹)*
Equity share capital:			*Plant & Machinery*	*5,00,000*	*16,00,000*
Equity shares of ₹ 10 each		*20,00,000*	*Furniture & Fixtures*	*50,000*	*2,25,000*
Partners' capitals:			*Inventories*	*2,00,000*	*8,50,000*

X	*2,00,000*		*Trade receivables*	*2,00,000*	*8,25,000*
Y	*3,00,000*		*Cash at bank*	*10,000*	*4,00,000*
Z	*1,00,000*		*Cash hand in*	*40,000*	*1,00,000*
General reserve	*1,00,000*	*7,00,000*			
Trade payables	*3,00,000*	*13,00,000*			
	10,00,000	*40,00,000*		*10,00,000*	*40,00,000*

On the Balance Sheet date it was decided that the firm M/s Sagar & Sons be dissolved and all the assets (except cash in hand and cash at bank) and all the liabilities of the firm be taken over by UTS Ltd. by issuing 50,000 shares of ₹ 10 each at a premium of ₹ 2 per share.

Partners of Sagar & Sons agreed to divide the shares issued by UTS Ltd. in the profit sharing ratio and bring necessary cash for settlement of their capital.

The trade payables of Sagar & Sons includes ₹ 1,00,000 payable to UTS Ltd. An unrecorded liability of ₹ 25,000 of Sagar & Sons must also be taken over by UTS Ltd.

Prepare:

(1) Realisation account, Partners' capital accounts and Cash in hand/Bank account in the books of Sagar & Sons.

(2) Pass journal entries in the books of UTS Ltd. for acquisition of Sagar & Sons and draw the Balance Sheet of UTS Ltd. after the takeover. ***(16 Marks)***

Answers

(i) **In the books of Sagar & Sons**

Realisation Account

	₹			₹
To Plant & Machinery	5,00,000	By Trade payable		3,00,000
To Furniture & Fixture	50,000	By UTS Ltd. (Refer W.N.)		6,00,000
To Inventories	2,00,000	By Partners' Capital Accounts (loss):		
To Trade receivables	2,00,000	X's Capital A/c	20,000	
		Y's Capital A/c	20,000	
		Z's Capital A/c	10,000	50,000
	9,50,000			9,50,000

Partners' Capital Accounts

	X	Y	Z		X	Y	Z
	₹	₹	₹		₹	₹	₹
To Realisation A/c	20,000	20,000	10,000	By Balance b/d	2,00,000	3,00,000	1,00,000
To Shares in UTS Ltd.	2,40,000	2,40,000	1,20,000	By General Reserve	40,000	40,000	20,000
To Cash	-	80,000	-	By Cash	20,000	-	10,000
	2,60,000	3,40,000	1,30,000		2,60,000	3,40,000	1,30,000

Cash and Bank Account

	Cash ₹	Bank ₹		Cash ₹	Bank ₹
To Balance b/d	40,000	10,000	By Cash A/c (Contra)*		10,000
To Bank A/c (Contra)*	10,000		By Y	80,000	
To X	20,000				
To Z	10,000				
	80,000	10,000		80,000	10,000

(ii) Journal Entries in the Books of UTS Ltd.

		Dr. (₹)	Cr. (₹)
1.	Business Purchase Account Dr.	6,00,000	
	To Liquidators of Sagar & Sons		6,00,000
	(Being business of Sagar & Sons purchased and payment due)		
2.	Plant and Machinery A/c Dr.	5,00,000	
	Furniture and Fixture A/c Dr.	50,000	
	Inventories A/c Dr.	2,00,000	
	Trade Receivables A/c Dr.	2,00,000	
	To Trade Payables		3,00,000

It is assumed that cash at bank has been withdrawn to pay to Partner Y.

	To Unrecorded Liability		25,000
	To Business Purchase Account		6,00,000
	To Capital Reserve (B.F.)		25,000
	(Being take over of all assets and liabilities)		
3.	Liquidators of Sagar & Sons Dr.	6,00,000	
	To Equity Share Capital Account		5,00,000
	To Securities Premium Account		1,00,000
	(Being purchase consideration discharged in the form of shares of ₹ 10 each issued at a premium of ₹ 2 each)		
4.	Trade Payables Account Dr.	1,00,000	
	To Trade Receivables Account		1,00,000
	(Being mutual owing eliminated)		

Working Note:

Computation of purchase consideration:

50,000 Equity shares of ₹ 12 each = ₹ 6,00,000

Equity shares to be given to partners :

X	=	20,000 Shares @ ₹ 12 = ₹ 2,40,000
Y	=	20,000 shares @ ₹ 12 = ₹ 2,40,000
Z	=	10,000 shares @ ₹ 12 = ₹ 1,20,000

Balance Sheet of UTS Ltd. (After takeover of Sagar & Sons)

As on 31st March, 2019

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	25,00,000
	B	Reserves and Surplus	2	8,25,000
2		Non-current liabilities		
3		Current liabilities		
	A	Trade Payables		15,00,000
		Others (Unrecorded liability)		25,000
		Total		48,50,000

		Assets		
1		Non-current assets		
	A	Property, Plant and Equipment	3	23,75,000
2		Current assets		
	A	Inventories		10,50,000
	B	Trade receivables		9,25,000
	C	Cash and cash equivalent	4	5,00,000
		Total		48,50,000

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	2,50,000 Equity Shares of ₹ 10 each fully paid (50,000 shares were issued in consideration other than for cash)		25,00,000
2	Reserves and Surplus		
	Securities Premium		1,00,000
	General Reserve		7,00,000
	Capital Reserve		25,000
			8,25,000
3	Property, Plant and Equipment		
	Plant & Machinery		21,00,000
	Furniture & Fixtures		2,75,000
			23,75,000
4.	Cash & Cash Equivalent		4,00,000
	Cash at Bank		1,00,000
	Cash in Hand		5,00,000

Question 3

(a) *A Limited grants 5,000 options to its employees on 1.04.2015 at ₹ 90/-, when the market price was ₹ 150/-. The vesting period is 3 years. The maximum exercise period is one year. 4,500 options were exercised on 31.03.2019, the remaining options lapsed. Journalize the transactions, if the face value of equity shares is ₹ 10/- per share.*

(b) *On 1st April, 2018 Star Ltd. had 9,000, 9% debentures of ₹ 100 each. On 30th September, 2018 ₹ 1,500 own debentures @ 96 each were purchased by the company in the open market. Debenture interest is payable half yearly on 30th September and 31st March. The company cancelled all the purchased debentures on 31st March, 2019. There was a*

balance of ₹ 3,25,000 in the Debenture Redemption Reserve Account. Accounts are closed on 31st March every year.

Pass necessary journal entries for the year ended 31st March, 2019 ignoring tax.

(8+8= 16Marks)

Answers

(a) **Journal Entries in the books of A Ltd.**

Date	*Particulars*	*Dr. (₹)*	*Cr. (₹)*
31.3.2016	Employees compensation expenses account Dr. To Employee stock option outstanding account (Being compensation expenses recognized in respect of the employee stock option i.e. 5,000 options granted to employees at a discount of ₹ 60 each, amortized on straight line basis over 3 years - 5,000 stock options x ₹ 60/3 years)	1,00,000	1,00,000
	Profit and loss account Dr. To Employees compensation expenses account (Being expenses transferred to profit and loss account at year end)	1,00,000	1,00,000
31.3.2017	Employees compensation expenses account Dr. To Employee stock option outstanding account (Being compensation expense recognized in respect of the employee stock option i.e. 5,000 options granted to employees at a discount of ₹ 60 each, amortised on straight line basis over 3 years - 5,000 stock options x ₹ 60/3 years)	1,00,000	1,00,000
	Profit and loss account Dr. To Employees compensation expenses account (Being expenses transferred to profit and loss account at year end)	1,00,000	1,00,000
31.3.2018	Employees compensation expenses account To Employee stock option outstanding account	1,00,000	1,00,000

	(Being compensation expenses recognized in respect of the employee stock option i.e. 5,000 options granted to employees at a discount of ₹ 60 each, amortized on straight line basis over 3 years - 5,000 stock options x ₹ 60/3 years)		
	Profit and loss account To Employees compensation expenses account (Being expenses transferred to profit and loss account at year end)	1,00,000	1,00,000
31.3.2019	Bank A/c (4,500 × ₹ 90) Dr. Employee stock option outstanding account (4,500 × ₹ 60) Dr. To Equity share capital account (4,500 × ₹ 10) To Securities premium account (4,500 x ₹ 140) (Being 4,500 employee stock option exercised at an exercise price of ₹ 90 each)	4,05,000 2,70,000	 45,000 6,30,000
31.3.2019	Employee stock option outstanding account (500x ₹60) Dr. To General reserve account (Being ESOS outstanding A/c on lapse of 500 options at the end of exercise of option period transferred to General Reserve A/c)	30,000	 30,000

(b) **In the books of Star Ltd.**
Journal Entries

Date	*Particulars*		*Dr.*	*Cr.*
			₹	₹
30.09.2018				
(i)	Debenture interest A/c [9,000 × 100 × 9% × (1/2)] To Debenture holders A/c (Being interest accrued on 9,000 debentures and credited to debenture holders account)	Dr.	40,500	 40,500
(ii)	Debenture holders A/c	Dr.	40,500	

	To Bank A/c (Being interest amount paid)			40,500
(iii)	Bank A/c To DRR Investments A/c (Sale of investments for purchase of own debentures – 1,50,000 x 15%)	Dr.	22,500	 22,500
(iv)	Own Debentures A/c To Bank A/c (Purchase of 1,500 Debentures @ ₹ 96 for cancellation*)	Dr.	1,44,000	 1,44,000
31.3.2019 (v)	9% Debentures A/c (1,500 x 100) To Own Debentures A/c To Profit on cancellation of debentures (or Capital Reserve) (Being profit on cancellation of 1,500 Debentures transferred to capital reserve account)	Dr.	1,50,000	 1,44,000 6,000
(vi)	Debentures Interest A/c [7,500 × 100 × 9% × (1/2)] + 1,500 × 100 × 9% × (1/2)] To Debenture holders A/c To Interest on Own Debentures (Being interest accrued on 9,000 debentures and credited to debenture holders account)	Dr.	40,500	 33,750 6,750
(vii)	Debenture holders A/c To Bank A/c (Being amount paid)	Dr.	33,750	 33,750
(viii)	Profit and Loss A/c Interest on Own Debentures A/c To Debentures Interest A/c (Being Interest on Debentures and Interest on Own Debentures transferred to Profit & Loss A/c	Dr. Dr.	74,250 6,750	 81,000
(ix)	Debenture Redemption Reserve A/c To General reserve (Debenture redemption reserve pertaining to debentures cancelled being released to general reserve) (1,50,000 x 25%)	Dr.	37,500	 37,500

* *Assumed that these debentures are purchased after interest payment.*

Note: The company is having balance of ₹ 3,25,000 in Debenture Redemption Reserve account as per the information given in the question. It has been considered that the company is also having sufficient corresponding amount of DRR Investment also. Hence, the entry for sale of required amount of investments has been made at the time of redemption of debentures in the above answer. At the time of cancellation of debentures DRR has been transferred to General Reserve which pertains to 1500 cancelled debentures in the given answer, as it is no longer required. Alternatively, DRR can also be transferred for excess amount as the balance of DRR ie. ₹ 2,87,500 (3,25,000 less 37,500) is higher than prescribed amount for the remaining debentures, as required by law.

Question 4

The financial position of two companies Orange Ltd. and Yellow Ltd. as on 31st March, 2019 was as under:

Assets	*Orange Ltd. (₹)*	*Yellow Ltd. (₹)*
Goodwill	*2,10,000*	*90,000*
Building	*7,90,000*	*2,50,000*
Machinery	*12,50,000*	*3,80,000*
Inventory	*6,60,000*	*3,30,000*
Trade receivables	*4,80,000*	*3,60,000*
Cash at Bank	*2,40,000*	*85,000*
	36,30,000	*14,95,000*
Liabilities	*Orange Ltd. (₹)*	*Yellow Ltd. (₹)*
Share Capital:		
Equity shares of ₹10 each	*25,00,000*	*9,00,000*
8% Preference Shares of ₹ 100 each	*2,50,000*	*-*
10% Preference Shares of ₹100 each	*-*	*3,00,000*
General Reserve	*3,05,000*	*1,15,000*
Retirement Gratuity fund	*1,50,000*	*35,000*
Trade· Payables	*4,25,000*	*1,45,000*
	36,30,000	*14,95,000*

Yellow Ltd. is absorbed by Orange Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid, at 10% premium, by issue of 9% Preference Shares of Orange Ltd.

(b) Goodwill of Yellow Ltd. is valued at ₹ 1,50,000, Buildings is worth ₹ 3,50,000, and Machinery ₹ 4,25,000.

(c) Inventory of Yellow Ltd. has been shown at 10% above its cost and expected realization from Trade Receivables is ₹ 3,33,000.

(d) Equity Shareholders of Yellow Ltd. will be issued Equity Shares of Orange Ltd., at 10% premium.

You are required to

(1) Prepare necessary Ledger Accounts to close the books of Yellow Ltd.

(2) Show the acquisition entries in the books of Orange Ltd.

(3) Also draft the Balance Sheet of Orange Ltd. after putting through the scheme assuming that the assets and liabilities of Yellow Ltd. are incorporated at fair value and assets and liabilities of Orange Ltd. are incorporated at carrying values only as at 31st March, 2019.

(16 Marks)

Answer

In the Books of Yellow Ltd.
Realization Account

	₹		₹
To Sundry Assets	14,95,000	By Retirement Gratuity Fund	35,000
To Preference Shareholders (Premium on Redemption)	30,000	By Trade payables	1,45,000
		By Orange Ltd. (Purchase Consideration)	14,63,000
To Equity Shareholders (Profit on Realization)	1,18,000		
	16,43,000		16,43,000

Equity Shareholders Account

	₹		₹
To Equity Shares of Orange Ltd.	11,33,000	By Share Capital	9,00,000
		By General Reserve	1,15,000
		By Realization Account (Profit on Realization)	1,18,000
	11,33,000		11,33,000

Preference Shareholders Account

	₹		₹
To 9% Preference Shares of Orange Ltd.	3,30,000	By Preference Share Capital	3,00,000
		By Realization Account (Premium on Redemption of Preference Shares)	30,000
	3,30,000		3,30,000

Orange Ltd. Account

	₹		₹
To Realization Account	14,63,000	By 9% Preference Shares	3,30,000
		By Equity Shares	11,33,000
	14,63,000		14,63,000

In the Books of Orange Ltd.
Journal Entries

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	14,63,000	
To Liquidators of Yellow Ltd. Account			14,63,000
Being business of Yellow Ltd. taken over)			
Goodwill Account	Dr.	1,50,000	
Building Account	Dr.	3,50,000	
Machinery Account	Dr.	4,25,000	
Inventory Account (3,33,000 x 100/10)	Dr.	3,00,000	
Trade receivables Account	Dr.	3,33,000	
Bank Account	Dr.	85,000	
To Retirement Gratuity Fund Account			35,000
To Trade payables Account			1,45,000
To Business Purchase A/c			14,63,000
(Being Assets and Liabilities taken over as per agreed valuation)			
Liquidators of Yellow Ltd. A/c	Dr.	14,63,000	
To 9% Preference Share Capital A/c			3,30,000
To Equity Share Capital A/c			10,30,000
To Securities Premium A/c (10%)			1,03,000
(Being Purchase Consideration satisfied as above).			

Balance Sheet of Orange Ltd. (after absorption)
as at 31st March, 2019

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	41,10,000
	B	Reserves and Surplus	2	4,08,000
2		Non-current liabilities		
	A	Long-term provisions	3	1,85,000
3		Current liabilities		
	A	Trade Payables (4,25,000 + 1,45,000)		5,70,000
		Total		52,73,000
		Assets		
1		Non-current assets		
	A	Property, Plant and Equipment	4	28,15,000
	B	Intangible assets	5	3,60,000
2		Current assets		
	A	Inventories (6,60,000 + 3,00,000)		9,60,000
	B	Trade receivables	6	8,13,000
	C	Cash and cash equivalents (2,40,000 + 85,000)		3,25,000
		Total		52,73,000

Notes to accounts:

		₹
1	**Share Capital**	
	Equity share capital	
	3,53,000 Equity Shares of ₹ 10 each fully paid (out of above 1,03,000 Equity Shares were issued in consideration other than for cash)	35,30,000
	Preference share capital	
	5,800 9% Preference Shares of ₹ 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)	5,80,000
	Total	41,10,000

2	**Reserves and Surplus**		
	Securities Premium		1,03,000
	General Reserve		3,05,000
	Total		4,08,000
3	**Long-term provisions**		
	Gratuity fund (1,50,000 + 35,000)		1,85,000
4	**Property, Plant and Equipment**		
	Buildings (7,90,000 + 3,50,000)		11,40,000
	Machinery (12,50,000 + 4,25,000)		16,75,000
	Total		28,15,000
5	**Intangible assets**		
	Goodwill (2,10,000 + 1,50,000)		3,60,000
6	**Trade receivables** (4,80,000 + 3,33,000)		8,13,000

Working Notes:

Purchase Consideration:	₹
Goodwill	1,50,000
Building	3,50,000
Machinery	4,25,000
Inventory	3,00,000
Trade receivables	3,33,000
Cash at Bank	85,000
	16,43,000
Less: Liabilities:	
Retirement Gratuity	(35,000)
Trade payables	(1,45,000)
Net Assets/ Purchase Consideration	14,63,000
To be satisfied as under:	
10% Preference Shareholders of Yellow Ltd.	3,00,000
Add: 10% Premium	30,000
3,300 9% Preference Shares of Orange Ltd.	3,30,000
Equity Shareholders of Yellow Ltd. to be satisfied by issue of 1,03,000 equity Shares of Orange Ltd. at 10% Premium	11,33,000
Total	14,63,000

Question 5

(a) *From the following information of Royal Bank, compute the amount of provisions to be made in the Profit and Loss account.*

Assets	*₹ (In Lakhs)*
Standard Assets	*25,000*
Sub-Standard Assets (including Unsecured ₹ 8,000 lakhs)	*15,000*
Doubtful Assets	
a. Upto 1 year [Realisable value of Security ₹ 2,200)	*4,500*
b. 1 to 3 years [Realisable value of Security ₹ 1,200)	*3,200*
c. More than 3 years (no Security)	*1,300*
Loss Assets	*530*

(b) *The books of account of Assurance Company provide the following information as on 31st March, 2019.*

Particulars	*Amount (₹)*
Reserve for Unexpired Risks on March 31, 2018	*4,00,000*
Additional Reserve for Unexpired Risks on March 31, 2018	*80,000*
Premiums	*12,50,000*
Claims Paid	*5,90,000*
Outstanding Claims:	
On 31st March, 2018	*55,000*
On 31st March, 2019	*85,000*
Expenses of management	*2,50,000*
Legal Expenses for claims	*30,000*
Interest and Dividend	*74,750*
Income Tax on the above	*7,920*
Profit on sale of Investment	*12,000*
Commission paid	*1,75,000*
Reserve for Unexpired Risks on March 31, 2019	*6,10,000*
Additional Reserve for Unexpired Risks on March 31, 2019	*78,000*

You are required to prepare the Fire Insurance Revenue Account as per the regulations of IRDA for the year ended 31st March, 2019. ***(6+10 = 16 Marks)***

Answer

(a) Statement showing provisions on various performing and non-performing assets

	Amount	*% of*	Provision
	₹ in lakhs	*provision*	₹ in lakhs
Standard	25,000	0.40	100
Sub-standard (Secured)	7,000	15	1,050
(Unsecured)	8,000	25	2,000
Doubtful (less than one year)			
On secured portion	2,200	25	550
On unsecured portion	2,300	100	2,300
Doubtful (more than one year but less than three years)			
On secured portion	1,200	40	480
On unsecured portion	2,000	100	2,000
Doubtful Unsecured (more than three years)	1,300	100	1,300
Loss Assets	530	100	530
Total provision			10,310

(b) Fire Revenue Account for the year ended 31st March, 2019

Particulars	*Schedule*	*Amount (₹)*
Premium earned (net)	1	10,42,000
Profit or loss on sale/redemption of investment*		12,000
Others		–
Interest and dividend* (gross)		74,750
Total (A)		11,28,750
Claims incurred (Net)	2	6,50,000
Commission	3	1,75,000
Operating expenses related to insurance	4	2,50,000
Total (B)		10,75,000
Operating profit/loss from insurance business (B) – (A)		53,750

** Considered to be linked with fire insurance business specifically, otherwise to be shown in Profit and Loss statement and not in Revenue account.*

Schedule –1 Premium earned (net)

	₹
Premium received	12,50,000

Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	(2,08,000)
Total premium earned	10,42,000

Schedule -2 Claims incurred (net)

	₹
Claims paid	5,90,000
Add: Legal expenses regarding claims	30,000
	6,20,000
Add: Claims outstanding as on 31st March, 2019	85,000
	7,05,000
Less: Claims outstanding as on 31st March, 2018	(55,000)
	6,50,000

Schedule -3 Commission

	₹
Commission paid	1,75,000

Schedule-4

	₹
Operating expenses related to Insurance Business:	
Expenses of management	2,50,000

Working Note:

Calculation for change in Reserve for Unexpired risk:

		₹
Reserve for Unexpired Risk as on 31st March, 2019	6,10,000	
Additional Reserve as on 31st March, 2019	78,000	6,88,000
Less: Reserve for Unexpired Risk as on 31st March, 2018	4,00,000	
Additional Reserve as on 31st March, 2018	80,000	(4,80,000)
Transfer to reserve for unexpired risk on 31st March 2019		2,08,000

Note: Interest and dividends are shown at gross value in Revenue account. Amount of ₹ 74,750 given in the question has been considered as the gross amount (before deduction of tax). Income tax on it will not be shown in the Revenue account as it is the part of Profit and Loss account of an insurance company.

Question 6

(a) Rohit of Delhi has a branch at Nagpur. Following is the information of Nagpur Branch for the year ending 31st March, 2019.

(1) Goods are invoiced to the branch at cost plus 25%.

(2) Sale Price is cost plus 40%.

(3) Goods sent during the year at invoice price ₹ 13,50,000

(4) Sales during the year ₹ 14,70,000

(5) Branch Expenses ₹ 55,000

(6) Stock as on 1st April, 2018 at Invoice Price ₹ 3,20,000

Calculate the profit earned by the branch during the year and Branch Stock Reserve in respect of unrealized profit.

(b) Deepa Ltd. has three departments A, B and C, details of which are given below:

Particulars	A (₹)	B (₹)	C (₹)
Stock as on 1-1-2018	35,000	45,000	20,000
Purchases	1,80,000	1,40,000	75,000
Actual Sales	1,95,000	1,72,000	99,000
Gross Profit on Sales price	18%	25%	35%

During the year 2018, some items were sold at discount and These discounts were reflected in the above sales value. The details are given below:

Particulars	A (₹)	B (₹)	C (₹)
Sales at normal price	18,000	14,000	4,500
Sales at actual price	14,000	13,000	2,500

Compute:

(1) Departmental Results

(2) The value of stock as on 31st December, 2018 ***(6+10 =16 Marks)***

Answers

(a) (i) **Calculation of profit earned by the branch**

In the books of Nagpur Branch
Trading Account for the year ended 31st March, 2019

Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	3,20,000	By Sales	14,70,000

To Goods received by Head office	13,50,000	By Closing stock (Refer W.N.)	3,57,500
To Expenses	55,000		
To Gross profit	1,02,500		
	18,27,500		18,27,500

(ii) Branch Stock reserve in respect of Unrealized profit

= ₹ 3,57,500 x (25/125) = ₹ 71,500

Working Note:

	₹	
Cost Price	100	
Invoice Price	125	
Sale Price	140	
Calculation of closing stock at invoice price:		
Opening stock at invoice price	3,20,000	
Goods received during the year at invoice price	13,50,000	
	16,70,000	
Less: Cost of goods sold at invoice price	(13,12,500)	[14,70,000 x (125/140)]
Closing stock	3,57,500	

(b) Calculation of Departmental Results:

	A (₹)	B (₹)	C (₹)
Actual Sales	1,95,000	1,72,000	99,000
Add: Discount (Refer W.N.)	4,000	1,000	2,000
Normal sale	1,99,000	1,73,000	1,01,000
Gross profit % on normal sales	18%	25%	35%
Normal gross profit	35,820	43,250	35,350
Less: Discount	(4,000)	(1,000)	(2,000)
Actual gross profit	31,820	42,250	33,350

Computation of value of stock as on 31st Dec. 2018

Departments	A (₹)	B (₹)	C (₹)
Stock (on 1.1. 2018)	35,000	45,000	20,000

Add: Purchases	1,80,000	1,40,000	75,000
	2,15,000	1,85,000	95,000
Add: Actual gross profit	31,820	42,250	33,350
	2,46,820	2,27,250	1,28,350
Less: Actual Sales	(1,95,000)	(1,72,000)	(99,000)
Closing stock as on 31.12.2018 (bal. fig.)	51,820	55,250	29,350

Working Note:

Calculation of discount on sales:

Departments	A (₹)	B (₹)	C (₹)
Sales at normal price	18,000	14,000	4,500
Less: Sales at actual price	(14,000)	(13,000)	(2,500)
	4,000	1,000	2,000

Question 7

*Answer any **four** of the following:*

(a) ABC Limited went into voluntary liquidation. Details are as follows :

1,000 - 10% Preference Shares of ₹ 100 each fully paid up

Class A - 1,200 equity shares of ₹ 100 each (₹ 80 paid up)

Class B - 800 equity shares of ₹ 100 each (₹ 65 paid up)

Assets realized ₹ 3,50,000 and liquidation expenses is ₹ 8,000. Company has secured Bank Loan of ₹ 60,000 and salary of 3 clerks for 3 months at a rate of ₹ 500 per month are outstanding. Creditors are ₹ 70,000.

Calculate amount receivable from / or returnable to equity shareholders.

(b) Opening Balance Sheet of Mr. A is showing the aggregate value of assets, liabilities and equity ₹ 8 lakh, ₹ 3 lakh and ₹ 5 lakh respectively.

During accounting period, Mr. A has the following transactions:

(1) Earned 10% dividend on 2,000 equity shares held of ₹ 100 each

(2) Paid ₹ 50,000 to creditors for settlement of ₹ 70,000

(3) Rent of the premises is outstanding ₹ 10,000

(4) Mr. A withdrew ₹ 9,000 for his personal use.

You are required to show the effect of above transactions on Balance Sheet in the form of Assets - Liabilities = Equity after each transaction.

(c) For a banking company, bills for collection was ₹ 21 lakhs as on 1st April, 2018. During 2018-19, bills received for collection amounted to ₹ 193.50 lakhs. Bills collected were ₹ 141 lakhs. Bills dishonoured was ₹ 16.50 lakhs. Prepare Bills for Collection (Assets) and Bills for Collection (Liabilities) Account.

(d) Under what circumstances, an LLP can be wound up by the Tribunal?

(e) Explain in brief Non-Integral Foreign Operation (NFO) and Integral Foreign Operation (IFO) as per AS-11. ***(4 Parts x 4 Marks= 16 Marks)***

Answer

(a) Amount receivable from/returnable to Equity Shareholders

Total equity capital - paid up	₹ 1,48,000
Less: Balance available after payment to unsecured and preference shares (3,50,000 — 2,42,500)	₹ (1,07,500)
Loss to be born by 2,000 equity shares	₹ 40,500
Loss per share	₹ 20.25

Hence,

Amount refunded on ₹ 65 paid share	65 - 20.25 per share = ₹ 44.75
Amount refunded on ₹ 80 paid share	80 - 20.25 per share= ₹ 59.75

Working note:

Liquidator's Statement of Account

	₹			₹
To Assets realized	3,50,000	By Liquidation Expenses		8,000
		By Secured bank loan		60,000
		By Preferential creditors (salary of 3 clerks at ₹ 500 per month for three months)		4,500
		By Unsecured creditors		70,000
		By Preference Shareholders		1,00,000
				2,42,500
		By Equity Shareholders		
		₹ 59.75 on 1,200 shares		71,700
		₹ 44.75 on 800 shares		35,800
	3,50,000			3,50,000

(b) Effects of each transaction on Balance sheet of the trader is shown below:

Transactions	*Assets ₹ lakh*	–	*Liabilities ₹ lakh*	=	*Equity ₹ lakh*
Opening	8.00	–	3.00	=	5.00
(1) Dividend earned	8.20	–	3.00	=	5.20
(2) Settlement of Creditors	7.70	-	2.30	=	5.40
(3) Rent Outstanding	7.70	–	2.40	=	5.30
(4) Drawings	7.61	–	2.40	=	5.21

(c) Bills for Collection (Assets) Account

	₹ in lacs		₹ in lacs
To Balance b/d	21	By Bills for collection	141
To Bills for collection	193.5	By Bills dishonoured	16.5
		By Balance c/d	57
	214.5		214.5

Bills for Collection (Liabilities) Account

	₹ in lacs		₹ in lacs
To Bills for collection	141	By Balance b/d	21
To Bills dishonoured	16.5	By Bills for collection	193.5
To Balance c/d	57		
	214.5		214.5

(d) An LLP may be wound up by the Tribunal in the following circumstances:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;

- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

(e) As per AS 11, Integral foreign operation (IFO) is a foreign operation, the activities of which are an integral part of those of the reporting enterprise. A foreign operation that is integral to the operations of the reporting enterprise carries on its business as if it were an extension of the reporting enterprise's operations. For example, such a foreign operation might only sell goods imported from the reporting enterprise and remit the proceeds to the reporting enterprise. In such cases, a change in the exchange rate between the reporting currency and the currency in the country of foreign operation has an almost immediate effect on the reporting enterprise's cash flow from operations. Therefore, the change in the exchange rate affects the individual monetary items held by the foreign operation rather than the reporting enterprise's net investment in that operation.

In contrast, a non-integral foreign operation (NFO) is a foreign operation that is not an integral operation. NFO accumulates cash and other monetary items, incurs expenses, generates income and perhaps arranges borrowings, all substantially in its local currency. It may also enter into transactions in foreign currencies, including transactions in the reporting currency. When there is a change in the exchange rate between the reporting currency and the local currency, there is little or no direct effect on the present and future cash flows from operations of either the non-integral foreign operation or the reporting enterprise. The change in the exchange rate affects the reporting enterprise's net investment in the non-integral foreign operation rather than the individual monetary and non-monetary items held by the non-integral foreign operation.

PAPER – 6 : AUDITING AND ASSURANCE

*Question No.**1** is compulsory.*

*Attempt any **five** questions from the remaining **six** questions.*

Question 1

*State with reasons (in short) whether the following statements are correct or incorrect: (Answer any **Seven**)*

(a) A Company while preparing financial statements as prescribed under Division I of Schedule III of Companies Act, 2013 for the year ended 31.03.2019 has disclosed value of imports calculated on F.O.B. basis and earnings in foreign exchange (on exports of goods) on C.I.F. basis.

(b) All Non-Governmental Organisations (NGOs) are allowed to maintain accounts either on accrual basis or cash basis.

(c) A compilation engagement will also include engagement to provide limited assistance to a client in the preparation of financial statements.

(d) The frequency of surprise checks may be determined by the auditor in the circumstances of each audit but should normally be atleast twice in the course of an audit.

(e) Decline in the market value of investments between the Balance sheet date and the date on which the financial statements are approved is an example of adjusting event.

(f) Communicating key Audit matters is not a substitute for disclosure in the financial statements.

(g) There are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being conclusive rather than persuasive.

(h) If appointment of a new auditor other than the existing auditor is void-ab-initio, then it should be treated as a casual vacancy. ***(2 x 7 = 14 Marks)***

Answer

(a) **Incorrect:** As per Division I of Schedule III of Companies Act, 2013, the value of imports should be calculated on C.I.F. basis and earning in foreign exchange (on export of goods) on F.O.B. basis.

(b) **Incorrect:** NGOs registered under the Companies Act, 2013 must maintain their books of account under the accrual basis as required by the provisions of section 128 of the said Act. If the accounts are not maintained on accrual basis, it would amount to non-compliance of the provision of the Companies Act, 2013. The NGOs which are not registered under the Companies Act, 2013 are allowed to maintain accounts either an accrual basis or cash basis.

(c) **Incorrect:** A compilation engagement would ordinarily include the preparation of financial statements (which may or may not be a complete set of financial statements) but may also include the collection, classification and summarisation of other financial information. Engagements to provide limited assistance to a client in the preparation of financial statements (for example, on the selection of an appropriate accounting policy) do not constitute an engagement to compile financial information.

(d) **Incorrect:** The need for and frequency of surprise checks is obviously a matter to be decided having regard to the circumstances of each audit. It would depend upon the extent to which the auditor considers the internal control system as adequate, the nature of the clients' transaction, the locations from which he operates and the relative importance of items like cash, investments, stores etc. However, wherever feasible a surprise check should be made at least once in the course of an audit.

(e) **Incorrect:** Adjusting events are those significant events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date whereas non-adjusting events are those events which do not relate to conditions existing at the balance sheet date. Decline in the market value of investments between the balance sheet date and the date on which the financial statements are approved is example of non-adjusting events.

(f) **Correct: As per SA 701,** "Communicating Key Audit Matters in the Independent Auditor's Report", communicating key audit matters in the auditor's report is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation.

(g) **Incorrect:** As per SA 200, the auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.

(h) **Incorrect:** If appointment of a person as an auditor is *void ab initio,* it should not be treated as casual vacancy, rather the existing auditor shall continue to be an auditor of the company as per Section 139(10) of the Companies Act, 2013.

Question 2

(a) APQ Ltd. deals in real estate and classifies all of its land holding under current assets as inventory. The same is, therefore valued at cost or market value whichever is less. How would you verify profit or loss arising on sale of plots of land by such a dealer? ***(4 Marks)***

(b) You have been approached by HK Ltd. to be appointed as Cost Auditor for the F.Y. 2019-20. Company has requested you to provide a certificate confirming your eligibility as per the provisions of Companies Act, 2013. List down the matters to be included in the certificate. ***(4 Marks)***

(c) *The working papers of the branch auditor are also the property of the Principal Auditor and the Management of the Company, so they have right to access them. State the relevant SA and comment.* ***(3 Marks)***

(d) *Under what circumstances, the external auditor should not use the work of the internal audit function?* ***(3 Marks)***

Answer

(a) Verification of Profit & Loss Arising on sale of Plots by real estate dealer: The land holding in the case of real estate dealer will be a current asset and not a fixed asset. The same should, therefore, be valued at cost or market value whichever is less. The amount of profit or loss arising on sale of plots of land by such a dealer should be verified as follows:

(i) Each property account should be examined from the beginning of the development with special reference to the nature of charges so as to find out that only the appropriate cost and charges have been debited to the account and the total cost of the property has been set off against the price realised for it.

(ii) This basis of distribution of the common charges between different plots of land developed during the period, and basis for allocation of cost to individual properties comprised in a particular piece of land should be scrutinised.

(iii) If land price lists are available, these should be compared with actual selling prices obtained. And it should be verified that contracts entered into in respect of sale have been duly sanctioned by appropriate authorities.

(iv) Where part of the sale price is intended to reimburse taxes or expenses, suitable provisions should be maintained for the purpose.

(v) The prices obtained for various plots of land sold should be checked with the plan map of the entire tract and any discrepancy or unreasonable price variations should be inquired into. The sale price of different plots of land should be verified on a reference to certified copies of sale deeds executed.

(vi) Out of the sale proceeds, provision should be made for the expenditure incurred on improvement of land, which so far has been accounted for.

(b) Appointment of Cost Auditor: The Companies (Cost Records and Audit) Rules, 2014 requires the companies prescribed under the said Rules to appoint an Auditor within 180 days of the commencement of every financial year. However, before such appointment is made, the written consent of the cost auditor to such appointment and a certificate from him or it shall be obtained.

The certificate to be obtained from the cost auditor shall certify that the-

(i) the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Companies Act, 2013, the Cost and Works Accountants Act, 1959 and the rules or regulations made thereunder;

(ii) the individual or the firm, as the case may be, satisfies the criteria provided in section 141 of the Companies Act, 2013 so far as may be applicable;

(iii) the proposed appointment is within the limits laid down by or under the authority of the Companies Act, 2013; and

(iv) the list of proceedings against the cost auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.

(c) **Ownership of Working Papers:** As per SA 230 "Audit Documentation", working papers are the property of the auditor. He may at his discretion, make available portions or extracts from his working paper to his client. The auditor should adopt reasonable procedures for custody and confidentiality of his working papers.

An auditor is not required to provide the management/ clients or other auditors' access to his working papers. Main auditor of the company does not have right of access to the working papers of the branch auditor.

In the case of a company, the main auditor has to consider the report of the branch auditor and has a right to seek clarification and to visit the branch but cannot ask for the copy of working paper and therefore, the branch auditor is under no compulsion to give photocopies of his working paper to the principal auditor.

From above, it is clear that working papers of the branch auditor are his property only and neither the Principal auditor not management has right to access that. Therefore, statement given in the question is incorrect.

(d) As per SA 610, "Using the work of Internal Auditors", the external auditor shall not use the work of the internal audit function if the external auditor determines that:

(i) The function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors;

(ii) The function lacks sufficient competence; or

(iii) The function does not apply a systematic and disciplined approach, including quality control.

(iv) There is no effective communication between the internal auditor and external auditor.

Question 3

(a) How will you vouch/verify the remuneration paid (including Commission on Profits and Sitting fees) to the Directors of the Company? ***(4 Marks)***

(b) What does a system of internal check imply with reference to accounting? Also, list down the essential elements of a good system of internal check. ***(4 Marks)***

(c) Mr. N has been appointed as an auditor of KB Sources Ltd. How as an auditor he can identify and assess the risk of material misstatement? ***(3 Marks)***

(d) "Public moneys should not be utilised for the benefit of a particular person or section of the community". List out the exceptions to this rule while audit against propriety. ***(3 Marks)***

Answer

(a) Remuneration (including Commission on Profit and Sitting Fees) Paid to Directors:

(i) Refer to General Meeting or Board meeting resolution for the appointment and terms of appointment of the director as per Section 196 of the Companies Act, 2013.

(ii) Examine Articles of Association and general meeting resolution to determine the manner of payment- monthly or at a specified percentage of the net profits of the company or partly by one way and partly by the other as per the provisions of Section 197(6) of the Companies Act, 2013.

(iii) Check agreement with the director.

(iv) Verify director's attendance in the board meetings.

(v) Ensure compliance with the provisions of Sections 197, 198 and Schedule V to the Companies Act, 2013, where appropriate.

(vi) Check computation of the net profits and the commission payable to directors in terms of Schedule III to the Companies Act, 2013.

(vii) Computation of net profit under section 198 with details of the commission payable as percentage of profits to the directors including Managing Directors/Manager (if any) should be stated by way of a note.

(b) System of Internal Check with reference to Accounting :

A system of internal check in accounting implies organisation of system of book keeping and arrangement of staff duties in such a manner that no one person can completely carry through a transaction and record every aspect thereof.

The essential elements of a goods system of internal check are:

(i) Existence of checks on the day-to-day transaction.

(ii) Which operate continuously as a part of the routine system.

(iii) Whereby the work of each person is either proved independently or is made complementary to the work of another.

(c) Identifying and Assessing the Risks of Material Misstatement:

For the purpose of Identifying and Assessing the Risks of Material Misstatement, the Auditor shall:

(i) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements;

(ii) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;

(iii) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and

(iv) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.

(d) Exceptions to the rule – Audit Against Propriety: Public moneys should not be utilised for the benefit of a particular person or section of the community unless:

(i) the amount of expenditure involved is insignificant; or

(ii) a claim for the amount could be enforced in a Court of law; or

(iii) the expenditure is in pursuance of a recognised policy or custom; and

(iv) the amount of allowances, such as travelling allowances, granted to meet expenditure of a particular type should be so regulated that the allowances are not, on the whole, sources of profit to the recipients.

Question 4

(a) While vouching, Aman auditor of Vee Ltd., found that some goods are lying with third party *for a long period. Advise Aman how will he vouch/verify them.* ***(4 Marks)***

(b) Written representations are to be provided by the management to the auditor when requested. Comment. ***(4 Marks)***

(c) Write a short note on classification of commercial accounts maintained by the public enterprises. ***(3 Marks)***

(d) State the matters to be included in auditor's report as per CARO, 2016 regarding:

(i) Default in repayment of loan or borrowing to a financial institution, bank etc.

(ii) Fraud by the company or on the company by its officers or employees. ***(3 Marks)***

Answer

(a) Goods Lying with Third Party: The auditor should check that the materiality of the item under this caption included in inventories.

(i) He should obtain confirmation of the amount of goods lying with them. The confirmation may be directly obtained by auditor or be produced by client depending upon the situation.

(ii) He should inquire into the necessity of sub contractor retaining the inventory. He should ensure the process that they do are related to the business requirement and there is no ground for suspicion on this score.

(iii) The goods lying with them for the very long period would merit auditors' special attention for making provision.

(iv) The records, voucher/slips for the regulating the movement of inventory into and out of entity for sub-contracting work be reviewed by vouching for few transaction for ensuring existence and working of internal control system for them.

(v) The excise gate pass, entry in such records, information in returns, be also cross-verified.

(vi) The valuation of inventories should be correctly made for including material cost on appropriate inventory valuation formulae and also for inclusion of proportionate processing charges for the work in process with the contractors.

(vii) The provision should be created for work done, billed for processing and also for incidence of any applicable levy like service tax payable.

(viii) Evaluate condition of goods and see whether adequate provision has been made.

(ix) Check whether subsequently the goods lying with third party were sold or received back after the expiry of stipulated time period.

(x) Ensure that the goods have been included in the closing inventory though lying with third party.

(b) Management from Whom Written Representations Requested: SA-580, "Written Representations", the auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned.

Written representations are requested from those responsible for the preparation and presentation of the financial statements. Those individuals may vary depending on the governance structure of the entity, and relevant law or regulation; however, management (rather than those charged with governance) is often the responsible party. Written representations may therefore be requested from the entity's chief executive officer and chief financial officer, or other equivalent persons in entities that do not use such titles. In some circumstances, however, other parties, such as those charged with governance, are also responsible for the preparation and presentation of the financial statements.

If management does not provide one or more of the requested written representations, the auditor shall-

(i) discuss the matter with management;

(ii) re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and

(iii) take appropriate actions, including determining the possible effect on the opinion in the auditor's report.

The auditor shall disclaim an opinion on the financial statements if management does not provide the written representations.

(c) **Audit of Commercial Accounts:** Public enterprises are required to maintain commercial accounts and are generally classified under three categories—

(i) departmental enterprises engaged in commercial and trading operations, which are subject to the same laws, financial and other regulations as other government departments and agencies;

(ii) statutory bodies, corporations, created by specific statutes mostly financed by government in the form of loans, grants, etc.; and

(iii) government companies set up under the Companies Act, 2013.

(d) **Matters to be included in Auditor's report as per CARO 2016:**

(i) Clause (viii) of Para 3 of CARO, 2016, requires the auditor to report whether the company has defaulted in repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders? If yes, the period and the amount of default to be reported (in case of defaults to banks, financial institutions, and Government, lender wise details to be provided).

(ii) Clause (x) of Para 3 of CARO, 2016, requires the auditor to report whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated;

Question 5

(a) From the auditing point of view, the auditor should verify that a proper disclosure about contingent liabilities is made in financial statements as required by AS 29. What type of disclosures should be made for each class of contingent liability as at the balance sheet date? ***(4 Marks)***

(b) What is meant by "Applicable financial reporting framework"? ***(4 Marks)***

(c) As required under Section-143(3)(i) of the Companies Act, 2013 an auditor is required to report in the auditor's report whether the company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls. State the Private companies to which the above provision is not applicable.

(3 Marks)

(d) What are the circumstances where auditing through computer must be used? ***(3 Marks)***

Answer

(a) **Disclosure for each class of Contingent Liability:** From the auditing point of view, the auditor should verify that a proper disclosure about contingent liabilities is made in financial statement as required by AS 29. As per, AS 29 an enterprise should disclose for each class of contingent liability at the balance sheet date.

(i) A brief description of the nature of the contingent liability and where practicable.

(ii) An estimate of the amount as per measurement principle as prescribed for provision in AS 29.

(iii) Indication of the uncertainty relating to outflow.

(iv) The possibility of any reimbursement.

Where any of the information as required above is not disclosed because it is not practicable to do so, that fact should be stated.

(b) **Applicable Financial Reporting Framework –** The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation and presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

The applicable financial reporting framework often encompasses financial reporting standards established by an authorised or recognised standards setting organisation, or legislative or regulatory requirements. In some cases, the financial reporting framework may encompass both financial reporting standards established by an authorised or recognised standards setting organisation and legislative or regulatory requirements.

(c) As per **section 143(3) (i),** the auditor's report shall state whether the company has adequate internal financial controls ***with reference to financial statements*** in place and the operating effectiveness of such controls. However, it may be noted that the reporting requirement on adequacy of internal financial controls (IFCs) with reference to financial statements shall <u>not</u> be applicable to a private company which is a–

(i) One person company; or

(ii) Small company; or

(iii) Company having turnover less than rupees 50 crore as per latest audited financial statement and having aggregate borrowings from banks or financial institutions or any body corporate at any point of time during the financial year less than rupees 25 crore.

(d) Following are several circumstances where auditing through the computer approach must be used:

(i) The application system processes large volumes of input and produces large volumes of output that make extensive direct examination of the validity of input and output difficult.

(ii) Significant parts of the internal control system are embodied in the computer system. For example, in an online banking system a computer program may batch transactions for individual tellers to provide control totals for reconciliation at the end of the day's processing.

(iii) The logic of the system is complex and there are large portions that facilitate use of the system for efficient processing.

(iv) Because of cost-benefit considerations, there are substantial gaps in the visible audit trail.

Question 6

(a) Specific reserves may sometimes be created under contractual obligation or legal compulsion. Explain with examples. ***(4 Marks)***

OR

(a) Audit of government expenditure is one of the major components of government audit conducted by the office of C & AG. The basic standards set for audit of expenditure are to ensure that there is provision of funds authorised by competent authority fixing the limits within which expenditure can be incurred. Explain those standards. ***(4 Marks)***

(b) As an auditor of listed company, what are the matters that the auditor should keep in mind while determining "Key Audit Matters". ***(4 Marks)***

(c) S. Ltd. is engaged in manufacturing and trading of hosiery garments. Its Books of accounts are not properly maintained and the control system is weak, so the possibility of frauds and errors are enormous and the auditor, even with the best of his efforts, may not be able to detect all of them. The fact is recognised by the Courts from a study of the various judgments. State the tests that would be applied by the courts to view the auditor's performance judicially. ***(3 Marks)***

(d) What are the audit procedures to be performed by the Auditor to obtain Audit Evidence to draw reasonable conclusions on which he can base the audit opinion? ***(3 Marks)***

Answer

(a) Specific Reserves: A specific reserve is created for some definite purpose out of the profits of the company. The purpose may be anything connected with the business which the Article of Association or the directors want to be provided for, such as replacement of fixed assets, expansion of the organisation, income-tax liability of the future, etc.

There may be slight confusion since some of the objects for which specified reserves are created, may also appear to be covered by a charge against revenue, for example, provision for bad and doubtful debts as well as reserve for bad and doubtful debts or a provision for repairs and renewals running along with a reserve for an identical purpose. The only distinction between the two is based on whether it is a charge against revenue or an appropriation of profits. To create any specific reserve existence of profit is essential. Any amount which the directors desire to retain or the Articles require the company to retain over and above provision, necessary for a true and fair disclosure of profit, is specific reserve unless the same is retained for a general purpose, when it would become a general reserve.

Normally, specific reserves are created to comply with the terms of the Articles of Association or in accordance with a decision of the Board to meet a particular situation which may arise in the future. Also some of the specific reserves may be required under contractual obligations or legal compulsion. An example of the former would be the fund for redemption of debentures; that of the latter would be the development rebate reserve which is compulsory if the advantage of the development rebate is to be enjoyed in respect of income-tax. Such specific reserves take on the character of capital reserves.

or

(a) **Expenditure Audit:** The audit of government expenditure is one of the major components of government audit. The basic standards set for audit of expenditure are to ensure that there is provision funds authorised by competent authority fixing the limits within which expenditure can be incurred. These standards are—

(i) that the expenditure incurred conforms to the relevant provisions of the statutory enactment and in accordance with the Financial Rules and Regulations framed by the competent authority. Such an audit is called as the audit against 'rules and orders'.

(ii) that there is sanction, either special or general, accorded by competent authority authorising the expenditure. Such an audit is called as the audit of sanctions.

(iii) that there is a provision of funds out of which expenditure can be incurred and the same has been authorised by competent authority. Such an audit is called as audit against provision of funds.

(iv) that the expenditure is incurred with due regard to broad and general principles of financial propriety. Such an audit is also called as propriety audit.

(v) that the various programmes, schemes and projects where large financial expenditure has been incurred are being run economically and are yielding results expected of them. Such an audit is termed as the performance audit.

(b) **Determining Key Audit Matters:** As per SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", the auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant

auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

(i) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.

(ii) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.

(iii) The effect on the audit of significant events or transactions that occurred during the period.

The auditor shall determine which of the matters determined in accordance with above were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.

(c) **Tests that courts applied to view the auditor's performance:** If the books of account are not properly maintained and if the control system is weak, the possibility of frauds and errors are enormous and the auditor, even with the best of his efforts, may not be able to detect all of them. The fact is recognised by the Courts as is obvious from a study of the various judgments. The auditor's performance is judicially viewed by applying the following tests:

(i) whether the auditor has exercised reasonable care and skill in carrying out his work;

(ii) whether the errors and frauds were such as could have been detected in the ordinary course of checking without the aid of any special efforts;

(iii) whether the auditor had any reason to suspect the existence of the errors and frauds; and

(iv) whether the error or fraud was so deep laid that the same might not have been detected by the application of normal audit procedures.

(d) **Audit Procedures to Obtain Audit Evidence:** Audit evidence to draw reasonable conclusions on which to base the auditor's opinion is obtained by performing:

(1) Risk assessment procedures; and

(2) Further audit procedures, which comprise:

(i) Tests of controls, when required by the SAs or when the auditor has chosen to do so; and

(ii) Substantive procedures, including tests of details and substantive analytical procedures.

The audit procedures inspection, observation, confirmation, recalculation, re-performance and analytical procedures, often in some combination, in addition to inquiry described below may be used as risk assessment procedures, tests of controls or substantive procedures, depending on the context in which they are applied by the auditor.

PAPER – 7: INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

SECTION – A: INFORMATION TECHNOLOGY

*Question No. **1** is compulsory.*

*Answer any **three** questions from the rest.*

Question 1

(A) Expert System allows non-experts to make decisions comparable to those of an expert. Briefly discuss different types of Expert Systems. ***(3 Marks)***

(B) Explain the issues involved in Client/Server network. ***(2 Marks)***

Answer

(A) Different types of Expert Systems (ES) can be Example-based, Rule-based or Frame-based and are explained as below:

- **Example-Based System:** In this system, the developers enter the case facts and results. Through induction, the Expert System converts the examples to a decision tree that is used to match the case at hand with those previously entered in the knowledge base.
- **Rule-Based System:** These are created by storing data and decision rules as If-Then rules. The system asks the user questions and applied the if-then rules to the answers to draw conclusions and make recommendations. Rule-based systems are appropriate when a history of case is unavailable or when a body of knowledge can be structured within a set of general rules.
- **Frame Based System:** It organizes all the information (data, description, rules etc.) about a topic into logical units called Frames, which are like linked records in data files. Rules are then established about how to assemble or inter-relate the frames to meet the user's needs.

(B) Issues involved in Client/Server Network are as follows:

- When the server goes down or crashes, all the computers connected to it become unavailable to use.
- Simultaneous access to data and services by the user takes little more time for server to process the task.

Question 2

(A) An enterprise wants to implement Business Process Reengineering (BPR) project, which would potentially impact every aspect of the business and the changes would be of a scale that could result in either substantial improvement or massive failures. As a consultant of this enterprise, you are required to explain the key factors for the success of their BPR project. ***(6 Marks)***

(B) Discuss any four (04) common examples of Unguided transmission media in a telecommunications network. ***(4 Marks)***

Answer

(A) Various factors for the success of Business Process Reengineering (BPR) projects are as follows:

(i) **Organization wide commitment:** Changes to business processes would have a direct impact on processes, organizational structures, work culture, information flows, infrastructure & technologies and job competencies. This requires strong leadership, support and sponsorship from the top management. Top management not only has to recognize the need for change but also must convince every affected group about the potential benefits of the change to the organization as a whole and secure their commitment.

(ii) **BPR team composition:** A BPR team is formed which would be responsible to take the BPR project forward and make key decisions and recommendations. The BPR team would include active representatives from top management, business process owners, technical experts and users. The teams must be kept of manageable size say 10 members to ensure well-coordinated, effective and efficient completion of the entire BPR process.

(iii) **Business needs analysis:** It is important to identify exactly what current processes need reengineering. This would help determine the strategy and goals for BPR. A series of sessions are held with the process owners and stakeholders and all the ideas would be evaluated to outline and conceptualize the desired business process. The outcome of this analysis would be BPR project plan – identifying specific problem areas, setting goals and relating them to key business objectives. This alignment of the BPR strategy with the enterprise strategy is one of the most important aspects.

(iv) **Adequate IT infrastructure:** Adequate investment in IT infrastructure in line is of vital importance to successful BPR implementation. An IT infrastructure is a set of hardware, software, networks, facilities, etc. in order to develop, test, deliver, monitor, control or support IT services. Effective alignment of IT infrastructure to BPR strategy would determine the success of BPR efforts.

(v) **Effective change management:** BPR involves changes in people behaviour and culture, processes and technologies. Hence, resistance would be a natural consequence which needs to be dealt with effectively. An effective change management process would consider the current culture to foster a change in the prevailing beliefs, attitudes and behaviours effectively. The success of BPR depends on how effectively management conveys the need for change to the people.

(vi) **Ongoing continuous improvement:** BPR is an ongoing process hence innovation and continuous improvement are key to the successful implementation of BPR.

(B) Some common examples of Unguided transmission media are as follows:

- **Terrestrial Microwave:** Terrestrial microwave involves earthbound microwave systems, which transmit high-speed radio signals in a line-of-sight path between relay stations spaced approximately 30 miles apart. Terrestrial microwave media uses the atmosphere as the medium through which to transmit signals and is used extensively for high-volume as well as long-distance communication of both data and voice in the form of electromagnetic waves. However major disadvantage of terrestrial microwave is that it cannot bend around the curvature of the earth.
- **Radio Waves:** Wireless networks do not require any physical media or cables for data transmission. Radio waves are an invisible form of electromagnetic radiation that varies in wavelength from around a millimetre to 100,000 km, making it one of the widest ranges in the electromagnetic spectrum. Radio waves are most commonly used transmission media in the wireless Local Area Networks.
- **Micro Waves:** Microwaves are radio waves with wavelengths ranging from as long as one meter to as short as one millimetre, or equivalently, with frequencies between 300 MHz (0.3 GHz) and 300 GHz. These are used for communication, radar systems, radio astronomy, navigation and spectroscopy.
- **Infrared Waves:** Infrared light is used in industrial, scientific, and medical applications. Night-vision devices using infrared illumination allow people or animals to be observed without the observer being detected. Infrared tracking, also known as infrared homing, refers to a passive missile guidance system which uses the emission from a target of electromagnetic radiation in the infrared part of the spectrum to track it.
- **Communication Satellites:** Communication satellites use the atmosphere (microwave radio waves) as the medium through which to transmit signals. A satellite is some solar-powered electronic device that receives, amplifies and retransmits signals; the satellite acts as a relay station between satellite transmissions stations on the ground (earth stations). They are used extensively for high-volume as well as long-distance communication of both data and voice. It is cost-effective method for moving large quantities of data over long distances. However, satellites are very expensive to develop and place in orbit and have an age limit of 7-10 years. Signals weaken over long distances; weather conditions and solar activity can also cause noise interference. Anyone can listen in on satellite signals, so sensitive data must be sent in a secret, or encrypted form.

Question 3

(A) "With the right user interface, accessing a Grid Computing system would look no different than accessing a local machine's resources". In light of the above statement, briefly explain Grid Computing and also discuss various types of resources used in a grid.

(1 + 5 = 6 Marks)

(B) Describe the four broad themes into which Network security threats are categorized.

(4 Marks)

Answer

(A) **Grid Computing** is defined as a computer network in which each computer's resources are shared with every other computer in the system. It is a distributed architecture of large numbers of computers connected within the same network share one or more resources to solve a complex problem. In the grid computing model, servers or personal computers run independent tasks and are loosely linked by the Internet or low-speed networks. Every authorized computer would have access to enormous processing power and storage capacity.

In other words, in a Grid Computing System, every resource is shared, turning a computer network into a powerful supercomputer. Every authorized computer would have access to enormous processing power and storage capacity. A grid computing system can be as simple as a collection of similar computers running on the same operating system or as complex as inter-networked systems comprised of every computer platform we can think of.

Various types of resources used in a Grid are as follows:

- **Computation:** The most common resource is Computing Cycle provided by the processors of the machines on the grid where processors can vary in speed, architecture, software platform and other associated factors such as memory, storage, and connectivity. There are three primary ways to exploit the computation resources of a grid.
  - To run an existing application on an available machine on the grid rather than locally;
  - To use an application designed to split its work in such a way that the separate parts can execute in parallel on different processors; and
  - To run an application that needs to be executed many times on many different machines in the grid.
- **Storage:** The second most common resource used in a grid is Data Storage. A grid providing an integrated view of data storage is sometimes called a Data Grid. Each machine on the grid usually provides some quantity of storage for grid use, even if temporary. Storage can be memory attached to the processor or it can be secondary storage using hard disk drives or other permanent storage media. More advanced file systems on a grid can automatically duplicate sets of data, to provide redundancy for increased reliability and increased performance.
- **Communications:** Communications within the grid are important for sending jobs and their required data to points within the grid. The bandwidth available for such communications can often be a critical resource that can limit utilization of the grid.

Redundant communication paths are sometimes needed to better handle potential network failures and excessive data traffic. In some cases, higher speed networks must be provided to meet the demands of jobs transferring larger amounts of data.

- **Software and Licenses:** The grid may have software installed that may be too expensive to install on every grid machine. Some software licensing arrangements permit the software to be installed on all the machines of a grid but may limit the number of installations that can be simultaneously used at any given instant. License management software keeps track of how many concurrent copies of the software are being used and prevents more than that number from executing at any given time.
- **Special equipment, capacities, architectures, and policies:** Platforms on the grid will often have different architectures, operating systems, devices, capacities, and equipment. Each of these items represents a different kind of resource that the grid can use as criteria for assigning jobs to machines. For example, some machines may be designated to only be used for medical research. These would be identified as having a medical research attribute and the scheduler could be configured to only assign jobs that require machines of the medical research resource.

(B) Network Security threats can be categorized into four broad themes:

- **Unstructured Threats** - These originate mostly from inexperienced individuals using easily available hacking tools from the Internet. Many tools available to anyone on the Internet can be used to discover weaknesses in a company's network. These include port-scanning tools, address-sweeping tools, and many others. Most of these kinds of probes are done more out of curiosity than with a malicious intent in mind.
- **Structured Threats** - These originate from individuals who are highly motivated and technically competent and usually understand network systems design and the vulnerabilities of those systems. They can understand as well as create hacking scripts to penetrate those network systems. An individual who presents a structured threat typically targets a specific destination or group. Usually, these hackers are hired by industry competitors, or state-sponsored intelligence organizations.
- **External Threats** - These originate from individuals or organizations working outside an organization, which does not have authorized access to organization's computer systems or network. They usually work their way into a network from the Internet or dialup access servers.
- **Internal Threats** - Typically, these threats originate from individuals who have authorized access to the network. These users either have an account on a server or physical access to the network. An internal threat may come from a discontented former or current employee or contractor. It has been seen that majority of security incidents originate from internal threats.

Question 4

(A) Application programs usually require an Operating System to function which provides a convenient environment to users for executing their programs. Explain the variety of activities executed by operating system, which makes it a vital component of the system software in a computer system. ***(6 Marks)***

(B) Briefly discuss any four (04) control objectives in Business Process Automation (BPA). ***(4 Marks)***

Answer

(A) Variety of activities executed by Operating System (OS) which makes it a vital component of the system software in a computer system includes the following:

- **Performing hardware functions:** Operating System facilitates application programs to perform tasks that must obtain input from keyboards, retrieve data from disk and display output on monitors. OS acts as an intermediary between the application program and the hardware.
- **User Interfaces:** An important function of any operating system is to provide user interface. Nowadays Graphic User Interface (GUI) is used which uses icons and menus like in the case of Windows. So, how we interface with our system will be provided by Operating system.
- **Hardware Independence:** Every computer could have different specifications and configurations of hardware. The operating system provides Application Program Interfaces (API), which can be used by application developers to create application software, thus obviating the need to understand the inner workings of OS and hardware. Thus, OS gives us hardware independence.
- **Memory Management:** Memory Management feature of Operating System allows controlling how memory is accessed and maximize available memory and storage. Operating System also provides Virtual Memory by carving an area of hard disk to supplement the functional memory capacity of Random-Access Memory (RAM). In this way, it augments memory by creating a virtual RAM.
- **Task Management:** Task Management feature of Operating system helps in allocating resources to make optimum utilization of resources. This facilitates a user to work with more than one application at a time i.e. multitasking and allows more than one user to use the system i.e. timesharing.
- **Networking Capability:** Operating systems can provide systems with features and capabilities to help connect computer networks. Like Linux and Windows 8 that give us an excellent capability to connect to internet.

- **Logical Access security:** Operating systems provide logical security by establishing a procedure for identification and authentication using a User ID and Password. It can log the user access thereby providing security control.
- **File management:** The operating system keeps a track of where each file is stored and who can access it, based on which it provides the file retrieval.

(B) Major Control objectives of Business Process Automation (BPA) are as follows:

- **Authorization:** This ensures that all transactions are approved by responsible personnel in accordance with their specific or general authority before the transaction is recorded.
- **Completeness:** This ensures that no valid transactions have been omitted from the accounting records.
- **Accuracy:** This ensures that all valid transactions are accurate, consistent with the originating transaction data and information is recorded in a timely manner.
- **Validity:** This ensures that all recorded transactions fairly represent the economic events that actually occurred are lawful in nature and have been executed in accordance with management's general authorization.
- **Physical Safeguards and Security:** This ensures that access to physical assets and information systems are controlled and properly restricted to authorized personnel.
- **Error Handling:** This ensures that errors detected at any stage of processing receive prompt corrective action and are reported to the appropriate level of management.
- **Segregation of Duties:** This ensures that duties are assigned to individuals in a manner that ensures that no one individual can control both the recording function and the procedures relative to processing a transaction.

Question 5

(A) Executive Information System (EIS) are designed for top management as they present information in condensed view. Explain the components of an EIS which make it so easy to use for top management. Also explain, why EIS are called high risk/high return systems? ***(4 + 2 = 6 Marks)***

(B) Describe any two (02) types of flowcharts. ***(2 Marks)***

(C) Write a short note on Ultra-Mobile PC (UMPC). ***(2 Marks)***

OR

Explain major concerns related to Mobile Computing.

Answer

(A) The components of an Executive Information Systems (EIS) can typically be classified as under:

- **Hardware:** This includes Input data-entry devices, CPU, Data Storage files and Output Devices.
- **Software:** This includes Text base software, Database, and Graphic types such as time series charts, scatter diagrams, maps, motion graphics, sequence charts, and comparison-oriented graphs (i.e., bar charts) Model base.
- **User Interface:** This includes hardware (physical) and software (logical) components by which people (users) interact with a machine. Several types of interfaces can be available to the EIS structure, such as scheduled reports, questions/answers, menu driven, command language, natural language, and input/output.
- **Telecommunication:** This involves transmitting data from one place to another in a reliable networked system.

Executive Information Systems (EIS) are high-risk/high-return systems principally because the clientele these systems serve, are not merely important in the unyielding, but encompass information needs that are extremely easier said than done to provide through computer-based information systems. Consequently, it is significant to appreciate the explanation to EIS development and constant operation.

(B) Different types of Flowchart are as below:

- **Document Flowchart:** This flowchart traces the physical flow of documents through an organization – that is, the flow of documents from the departments, groups, or individuals who first created them to their final destinations.
- **System Flowchart:** This typically depicts the electronic flow of data and processing steps in an Information System. While Document Flowcharts focus on tangible documents, system flowchart concentrates on the computerized data flows of Information systems.
- **Program Flowchart:** It is most detailed and is concerned with the logical/arithmetic operations on data within the CPU and flow of data between the CPU on one hand and the input/output peripherals on the other.

(C) **Ultra-Mobile PC (UMPC):** An Ultra-Mobile PC is a small form factor version of a pen computer, which is a class of laptop smaller than subnotebooks. It has a Thin Film Transistor (TFT) display measuring (diagonally) about 12.7 to 17.8 cm (5 to 7-inch screen) and operate like tablet PCs using a touch screen or a stylus and can also have a physical keyboard. However, there is no clear boundary between subnotebooks and UMPCs.

Or

Major concerns relating to Mobile Computing are as follows:

- Mobile computing has its fair share of security concerns as any other technology.
- Dangers of misrepresentation: Another problem plaguing mobile computing are credential verification.
- Power consumption: When a power outlet or portable generator is not available, mobile computers must rely entirely on battery power.
- Potential health hazards.

SECTION –B: STRATEGIC MANAGEMENT

*Question No. **6** is compulsory*

*Answer any **four** questions from the rest.*

Question 6

Do you think it is necessary for an organization to have a vision and a mission? Elucidate.

(1 + 4 = 5 Marks)

Answer

Yes, it is necessary for all organisations to have vision and mission. Organisations, irrespective of their size and nature need vision and mission to give direction to business.

Identifying vision, mission, objectives, and strategies is the starting point for strategic management process. In order to grow and prosper and move ahead in a competitive environment organisation needs to have clear vision and mission. Every organization has these elements, even when they are not consciously designed, written, or communicated.

A vision statement outlines what the organization wants to be. It concentrates on the future. It is a source of inspiration for the organisation. A strategic vision steers an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity. At the same time, a mission statement defines the fundamental purpose of the organization. It concentrates on the present. It defines the customer and the critical processes. It gives information about the desired level of performance.

Overall vision and mission help an organisation to:

(i) Give a direction to organisational efforts.

(ii) Form a basis for finalisation of objectives and creation of strategies.

(iii) Allocation of organizational resources.

(iv) Provide a basis for motivation to organisational resources.

Question 7

(A) Competitive pressures operate as a composite in five areas of the overall market. Elaborate. ***(5 Marks)***

(B) State the four strategic options described in BCG Growth-Share matrix. Briefly explain the scenario in which each strategic option is suitable to pursue. ***(1 + 4 = 5 Marks)***

Answer

(A) Competition makes organizations work harder, however, it is neither a coincidence nor bad luck. All organizations have competition and its benefit are enjoyed by the markets. The customers are able to get better products at lower costs. They get better value for their money because of competition. A powerful and widely used tool for systematically

diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market as follows:

(i) **Rivalry among current players:** Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry.

(ii) **Threat of new entrants:** Competitive pressures associated with the threat of new entrants into the market.

(iii) **Threats from substitutes:** Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.

(iv) **Bargaining power of suppliers:** Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration.

(v) **Bargaining power of customers:** Competitive pressures stemming from buyer bargaining power and seller-buyer collaboration**.**

(B) In the BCG growth-share matrix portfolio of investments are represented in two dimensional space. The vertical axis represents market growth rate and the horizontal axis represents relative market share. Using the matrix, organizations can identify four different types of products or SBU as stars, question marks, cash cows and dogs.

In the light of BCG Growth Share Matrix, four strategic options that can be pursued by an organization are: build, hold, harvest and divest. Different strategic options can be pursued in different situations as follows:

(i) **Build:** Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share. It is done by increasing investment. For example, investments can be made to push question marks into stars.

(ii) **Hold**: Here the objective is to preserve market share. It can be in a situation where the organization is not in position to invest or has other commitments.

(iii) **Harvest**: A relevant situation can be when the product or SBU is in position of being cash cow. Here the objective is to increase short-term cash flow regardless of long-term effect.

(iv) **Divest:** Divest is relevant in case of dog quadrant. Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

Question 8

(A) What is Supply Chain Management? How can you say that it is conceptually wider than Logistic Management? ***(5 Marks)***

(B) Justify the statement "Stability Strategy is opposite of Expansion Strategy". ***(5 Marks)***

Answer

(A) Supply Chain Management: Supply chain management helps in integrating all major business activities and business processes within and across organisations. It is defined as the process of planning, implementing, and controlling the supply chain operations. Management of supply chains include closely working with channel partners – suppliers, intermediaries, other service providers and customers. It refers to the linkages between suppliers, manufacturers and customers. Supply chains involve all activities like sourcing and procurement of material, conversion, and logistics.

Supply chain management is an extension of logistic management. However, there are differences between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, and handling of material, fulfilment of orders, inventory management and supply/demand planning. Although these activities also form part of supply chain management, the latter is much broader. Logistic management can be termed as one of its part that is related to planning, implementing, and controlling the movement and storage of goods, services and related information between the point of origin and the point of consumption.

Supply chain management includes more aspects apart from logistics function. It is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs of organizations and enhances customer service.

(B) Stability Strategies, as name suggests, are intended to safeguard the existing interests and strengths of business. It involves organisations to pursue established and tested objectives, continue on the chosen path, maintain operational efficiency and so on. A stability strategy is pursued when a firm continues to serve in the same or similar markets and deals in same products and services. In stability strategy, few functional changes are made in the products or markets, however, it is not a 'do nothing' strategy. This strategy is typical for mature business organizations. Some small organizations also frequently use stability as a strategic focus to maintain comfortable market or profit position.

On the other hand, expansion strategy is aggressive strategy as it involves redefining the business by adding the scope of business substantially, increasing efforts of the current business. In this sense, it becomes opposite to stability strategy. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success. Expansion also includes diversifying, acquiring and merging businesses. This strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

Question 9

(A) How can management communicate that it is committed to creating a new culture assuming that the old culture was problematic and not aligned with the company strategy?

(5 Marks)

(B) What do you understand by Six Sigma as a process of quality management? Name any 2 companies who are pioneers in this field. How is six sigma different from traditional TQM processes? ***(5 Marks)***

Answer

(A) Corporate culture refers to company's values, beliefs, business principles, traditions, ways of operating and internal work environment. Changing problem cultures is very difficult because of deeply held values and habits. It takes concerted management action over a period of time to replace an unhealthy culture with a healthy culture or to root out certain unwanted cultural obstacles and instil ones that are more strategy-supportive.

- The first step is to diagnose which facets of the present culture are strategy supportive and which are not.
- Then, managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed.
- The talk has to be followed swiftly by visible, aggressive actions to modify the culture-actions that everyone will understand are intended to establish a new culture more in tune with the strategy.

Management through communication has to create a shared vision to manage changes. The menu of culture-changing actions includes revising policies and procedures, altering incentive compensation, shifting budgetary allocations for substantial resources to new strategy projects, recruiting and hiring new managers and employees, replacing key executives, communication on need and benefit to employees and so on.

(B) **Concept of six sigma:** Six sigma is a highly disciplined process that helps in developing and delivering near-perfect products and services. It strives to meet and improve organizational outputs in terms of quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones. It aims at improving quality and reducing cost by taking systemic and integrated efforts.

Names of pioneer companies:

Six sigma is often related to Motorola, the company that has invented it in the eighth decade of the 20th century. Many giants like Xerox, Boeing, GE, Kodak followed Motorola's lead.

Three key characteristic that separate Six Sigma from other quality programs of the past are:

1. **Six Sigma is customer focused**. There is a lot of emphasis to keep external customer needs in plain sight, driving the improvement effort.
2. **Six Sigma projects produce major returns on investment.** Six sigma leads to considerable savings, reduction in wastage and improvement in returns.
3. **Six Sigma changes how management operates**. Six Sigma is much more than improvement project. Senior executives and leaders throughout business learn tools and concepts of Six Sigma to bring new approaches in thinking, planning, and executing. It is about putting into practice the notions of working smarter, not harder.

Question 10

(A) Why is Strategic Control important for organizations? Discuss briefly 4 types of strategic control that can be implemented to achieve the enterprise goals. ***(5 Marks)***

(B) Write short notes on Synchro-Marketing and Demarketing. ***(5 Marks)***

OR

Concept of experience curve.

Answer

(A) Importance of strategic control: Strategic control is an important process that keeps organisation on its desired path. It involves evaluating strategy as it is formulated and implemented. It is directed towards identifying problems and changes in premises and making necessary adjustments. Strategic control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.

There are four types of strategic control:

- **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the environment. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.
- **Strategic surveillance:** Strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.
- **Special alert control:** At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.

- **Implementation control:** Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results.

(B) **Synchro-marketing:** When the demand for the product is irregular due to season, some parts of the day, or on hourly basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the same pattern of demand through flexible pricing, promotion, and other incentives. For example, products such as movie tickets can be sold at lower price over week days to generate demand.

Demarketing: Marketing strategies are created to reduce demand temporarily or permanently through demarketing. The aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

OR

Concept of experience curve: Experience curve concept is akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. The implication is that larger firms in an industry would tend to have lower unit costs as compared to those for smaller companies, thereby gaining a competitive cost advantage.

Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production. The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered a barrier for new firms contemplating entry in an industry. It is also used to build market share and discourage competition.