Test Series: September, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – II

PAPER – 5 : ADVANCED ACCOUNTING

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

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

Wherever necessary suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answer.

Time Allowed – 3 Hours **Maximum Marks – 100**

1. (a) Yogya Ltd. received a specific grant of Rs. 300 lakhs for acquiring the plant of Rs. 1,500 lakhs during 2011-12 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet during 2014-15 and due to non-compliance of conditions laid down for the grant of Rs. 300 lakhs, the company had to refund the grant to the Government. Balance in the deferred income on that date was Rs. 210 lakhs and written down value of plant was Rs. 1,050 lakhs.

   (i) What should be the treatment for the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2014-15 in profit and loss account? Assume that depreciation is charged on assets as per straight line method.

   (ii) What should be the treatment of the refund if grant was deducted from the cost of the plant during 2011-12?

   (b) A company capitalizes interest cost of holding investments and adds to cost of investment every year, thereby understating interest cost in profit and loss account. Comment on the accounting treatment done by the company in context of the relevant AS.

   (c) Shyam Ltd. (a Public Sector Company) provides consultancy and engineering services to its clients. In the year 2014-15, the Government has set up a commission to decide about the pay revision. The pay will be revised with effect from 1-1-2008 based on the recommendations of the commission. The company makes the provision of Rs. 680 lakhs for pay revision in the financial year 2014-2015 on the estimated basis as the report of the commission is yet to come. As per the contracts with the client on cost plus job, the billing is done on the actual payment made to the employees and allocated to jobs based on hours booked by these employees on each job.

The company gives the following disclosures in its notes to accounts:

"Salaries and benefits include the provision of Rs. 680 lakhs in respect of pay revision. The amount chargeable from reimbursable jobs will be billed as per the contract when the actual payment is made". Comment.

The accountant feels that the company should also recognise the income by Rs. 680 lakhs in Profit and Loss Account as per the terms of the contract. Otherwise, it will be the violation of matching concept and it will lead to understatement of profit.

(d) From the following information relating to Y Ltd. Calculate Earnings Per Share (EPS):

	Rs. in crores
Profit before V.R.S. payments but after depreciation	75.00
Depreciation	10.00
VRS payments	32.10
Provision for taxation	10.00
Fringe benefit tax	5.00
Paid up share capital (shares of Rs. 10 each fully paid)	93.00

(4x 5= 20 Marks)

2. X, Y and Z were in partnership sharing profits and losses in the ratio of 3:2:1 respectively. They decided to dissolve the partnership firm on 31.3.2015, when the Balance Sheet of the firm appeared as under:

Balance Sheet of the firm as on 31.3.2015

Liabilities	Rs.		Assets	Rs.
Sundry Creditors		8,50,500	Plant and Machinery	15,95,700
Bank Overdraft		9,09,675	Furniture	96,975
Joint Life Policy Reserve		3,98,250	Stock	3,55,050
Loan from Mrs. X		2,25,000	Sundry Debtors	8,01,000
Capital Accounts:			Joint Life Policy	3,98,250
X	6,30,000		Commission Receivable	2,10,825
Y	3,37,500		Cash in Hand	73,125
Z	1,80,000	11,47,500		
		35,30,925		35,30,925

The following details are relevant for dissolution :

(i) The joint life policy was surrendered for Rs. 3,48,750.

(ii) X took over plant and machinery for Rs. 13,50,000.

(iii) X also agreed to discharge bank overdraft and loan from Mrs. X.

(iv) Furniture and stocks were divided equally between X and Y at an agreed valuation of Rs. 5,40,000.

(vi) Sundry debtors were assigned to firm's creditors in full satisfaction of their claims.

(vi) Commission receivable was received in time.

(vii) A bill discounted was subsequently returned dishonoured and proved valueless Rs. 46,125 (including Rs. 750 noting charges).

(viii) X paid the expenses of dissolution amounting to Rs. 27,000.

You are required to prepare:

(i) Realisation Account

(ii) Partners' Capital Accounts and

(ii) Cash Account. *(16 Marks)*

3. Some of the items in the Trial Balance of Gain Bank Limited as on March 31, 2015 were as follows:

	Rs. ('000)		Rs. ('000)
Loans and Advances	35,75.00	Printing and Stationery	2.50
Current Accounts (including overdrafts of Rs. 7,50)	33,00.00	Interest on Saving Bank Deposits	37.50
Bills Discounted and Purchased	9,60.00	Auditor's Fees	2.50
Interest on Fixed Deposits	77.50	Directors' Fees	1.50
Interest on Loans	1,12.50	Interest on Overdrafts	47.50
Discount		Provision for Doubtful Debts,	
(subject to unexpired Discount Rs. 15)	100.50	April 1, 2014	21.00
Interest on Cash Credits	52.50	Bad Debts	10.50
Commission earned	23.50	Provision for Income-tax	
Loss on Investment	17.00	April 1, 2014	33.00
Salaries and Allowances	41.00	Income-tax paid for 2014-15	27.00

You are required to prepare the Profit and Loss Account of the Bank maintaining the provision for Income-tax at Rs. 42,000 and Provision for Doubtful Debts at Rs. 26,000 for the year ended March 31, 2015. Transfer 25% of profit to Statutory reserve. *(16 Marks)*

4. (a) A joint stock company resolved to issue 10 lakh equity shares of Rs. 10 each at a premium of Rs. 1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

The issue was underwritten by X, Y and Z for a commission @ 2% of the issue price, 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively. Their firm underwriting was as follows :

X 30,000 shares, Y 20,000 shares and Z 10,000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public.

Marked applications were as follows:

X 1,19,500 shares, Y 57,500 shares and Z 10,500 shares.

Unmarked applications totaled 7,00,000 shares.

Accounts with the underwriters were promptly settled.

You are required to:

(i) Prepare a statements calculating underwriters' liability for shares other than shares underwritten firm.

(ii) Pass journal entries for all the transactions including cash transactions.

(b) Fire Insurance division of Magic Insurance Company's provides the following information. You are required to show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2015.

	Direct Business	Re-insurance
	Rs.	Rs.
Claim paid during the year	35,30,000	8,20,000
Claim received		3,20,000
Claim payable		
1st April, 2014	8,23,000	58,000
31st March, 2015	8,75,000	87,000
Claim Receivable:		
1st April, 2014	-	85,000
31st March, 2015	-	1,42,000
Expenses of Management	3,45,000	
(Including Rs. 38,000 Surveyor's fee and		

Rs. 42,000 Legal expenses for settlement of claims)		

(12 + 4 = 16 Marks)

5. Following are the summarized Balance Sheet of Companies K Ltd. and W Ltd., as at 31-3-2015 :

Liabilities	(Rs. in '000)		Assets	(Rs. in '000)	
	K Ltd.	W Ltd.		K Ltd.	W Ltd.
Share Capital :			Goodwill	20	-
Equity shares of Rs. 100 each	2,000	1,500	Other Fixed Assets	2,400	1,150
10% Preference shares of Rs. 100 each	700	400	Trade receivables	625	615
			Inventory	412	680
General Reserve	240	170	Cash at bank	38	155
Profit and Loss Account		15	Own Debenture (Nominal value of Rs. 2,00,000)	192	
12% Debentures of Rs. 100 each	600	200			
Trade payables	560	315	Discount on issue of debentures	2	
			Profit and Loss Account	411	
	4,100	2,600		4,100	2,600

On 30-6-2015, K Ltd. adopted the following scheme of reconstruction:

(i) Each equity share shall be sub-divided into 10 equity shares of Rs. 10 each fully paid up. 50% of the equity share capital would be surrendered to the company.

(ii) Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 80% of the dividend claim and accept payment for the balance.

(iii) Own debentures of Rs. 80,000 (nominal value) were sold at Rs. 98 cum interest and remaining own debentures were cancelled.

(iv) Debenture holders of Rs. 3,00,000 agreed to accept one machinery of book value of Rs. 3,20,000 in full settlement.

(v) Trade payables, Trade receivables and inventory were valued at Rs. 5,00,000, Rs. 6,00,000 and Rs. 4,00,000 respectively. Goodwill, discount on issue of debentures and Profit and Loss account (Dr.) are to be written off.

(vi) The company paid Rs. 20,000 as penalty to avoid capital commitments of Rs. 4,00,000.

On 1.7.2015, a scheme of absorption was adopted. K Ltd. would take over W Ltd. The purchase consideration was fixed as below:

(a) Equity shareholders of W Ltd. will be given 50 equity shares of Rs. 10 each fully paid up, in exchange for every 5 shares held in W Ltd.

(b) Issue of 10% preference shares of Rs. 100 each in the ratio of 4 preference shares of K Ltd. for every 5 preference shares held in W Ltd.

(c) Issue of 12% debentures of Rs. 100 each of K Ltd. for every 12% debenture in W Ltd.

Pass necessary Journal entries in the books of K Ltd. and draw the resultant Balance Sheet as at 1.7.2015. *(16 Marks)*

6. (a) M/s X has a branch at Delhi and the goods are invoiced to branch at a profit of 20% on invoice price. Head Office paid all the branch expenses from its bank account, except petty cash expenses which were met by the branch. Branch expenses directly paid by M/s X on behalf of Delhi branch amounted to Rs. 10,000. Following information is available of the transactions at Delhi branch for the year ended 31st December, 2014:

	As on 1.1.2014	As on 31.12.2014
	Rs.	Rs.
Stock, at invoice price	40,000	50,000
Debtors	12,000	11,000
Petty cash	1,500	2,500
Transactions during the year:		Rs.
Goods sent to branch, at invoice price		4,20,000
Goods returned by branch to head office, at invoice price		15,000
Cash sales		1,55,000
Credit sales		1,80,000
Cash sent for petty expenses		6,000
Bad debts at Delhi branch		1,000
Goods returned by debtors		1,000

Prepare Branch account in the books of head office under Debtors System.

(b) M/s P and Co., had four departments A,B,C and D. Each department being managed by manager whose commission was 10% of the respective departmental profit, subject to a minimum of Rs. 6,000 in each case. Interdepartmental transfers took place at a 'loaded' price as follows:

From Department	A to Department	B 10% above cost
From Department	A to Department	D 20% above cost
From Department	C to Department	D 20% above cost

From Department C to Department B 20% above cost

For the year ending on 31st March, 2014 the firm had already prepared and closed the departmental Trading and Profit and Loss Account. Subsequently, it was discovered that the closing stocks of departments had included interdepartmentally transferred goods at loaded price instead of cost price. From the following information prepare a statement recomputing the departmental profit or loss:

	Dept. A *Rs.*	*Dept. B* *Rs.*	*Dept. C* *Rs.*	*Dept D* *Rs.*
Final Profit (Loss)	(38,000)	50,400	72,000	1,08,000
Inter departmental transfers included at loaded price in the departmental stock		70,000	-	4,800
		(Rs. 22,000 from Dept. A and Rs. 48,000 from Dept. C		(Rs. 3,600 from Dept. C and Rs. 1,200 from Dept. A)

(8 + 8 = 16 Marks)

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

(a) A company went into liquidation whose creditors are Rs. 36,000. This amount of Rs. 36,000 includes Rs. 6,000 on account of wages of 15 men at Rs. 100 per month for 4 months, immediately before the date of winding up, Rs. 9,000 being the salaries of 5 employees at Rs. 300 per month for the previous 6 months, Rent for godown for the last six months amounting to Rs. 3,000; Income-tax deducted out of salaries of employees Rs. 1,000. In addition it is estimated that the company would have to pay Rs. 3,000 as compensation to an employees for injuries suffered by him, which was contingent liability not accepted by the company and not included in above said creditors figure.

Find the amount of Preferential Creditors.

(b) Sterling Ltd. purchased a plant for US $ 20,000 on 31st December, 2014 payable after 4 months. The company entered into a forward contract for 4 months @ Rs. 48.85 per dollar. On 31st December, 2014, the exchange rate was Rs. 47.50 per dollar.

How will you recognize the profit or loss on forward contract in the books of Sterling Limited for the year ended 31st March, 2015.

(c) Define the term Finance Lease. State any three situations when a lease would be classified as finance lease.

(d) AB Ltd. launched a project for producing product X in October, 2013. The Company incurred Rs. 20 lakhs towards Research and Development expenses upto 31st March, 2015. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.

Advise the Company as per the applicable Accounting Standard.

(e) Beta Ltd. has its share capital divided into shares of Rs. 10 each. On 1st April, 2014, it granted 25,000 employees stock options at Rs. 50 when the market price was Rs. 140 per share. The options were to be exercised between 1st January, 2015 and 28th February, 2015. The employees exercised options for 24,000 shares only; the remaining options lapsed. The company closes its books of account on 31st March every year. You are required to show necessary journal entries reflecting these transactions. *(4 x 4 =16 Marks)*

Test Series: September, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC) GROUP – II

PAPER – 6: AUDITING AND ASSURANCE

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

*Attempt any **five** questions from the Rest.*

Time Allowed – 3 Hours **Maximum Marks – 100**

1. Discuss the following:

   (a) The auditor is faced with sampling risk in both tests of control and substantive procedures. *(5 Marks)*

   (b) Management is responsible for compliance with laws and regulations. *(5 Marks)*

   (c) Ceiling on number of company audits to be accepted by an auditor. *(5 Marks)*

   (d) Despite of several disadvantages, audit programme is required to start an audit. *(5 Marks)*

2. State with reason (in short) whether the following statements are correct or incorrect (Answer any eight):

   (i) The Board of Directors of a company may contribute any amount to charitable funds without any prior permission of the company in general meeting.

   (ii) Every class of companies maintaining cost records as per Companies (Cost Records and Audit) Rules, 2014 is required to comply with cost audit rules.

   (iii) None of the joint auditors shall be held responsible in respect of the work not divided among them.

   (iv) Reporting on adequate internal financial controls system of a company is out of the scope of statutory auditor.

   (v) The auditor shall disclaim an opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

   (vi) A company can issue its sweat equity shares at discounted price.

   (vii) Royalties shall be recognised on an accrual basis in accordance with the terms of the relevant agreement.

   (viii) A company may buyback its shares out of the proceeds of debentures.

   (ix) AS 6 “Depreciation Accounting” does not apply to land.

(x) Test checks refers to the routine audit checks that are carried out in the normal course of audit. *(2 x 8 = 16 Marks)*

3. How will you vouch/verify the following:

   (a) Petty Cash.

   (b) Borrowings from Bank.

   (c) Sale Proceeds of Junk Material.

   (d) Repayment of amount of foreign loan for purchase of an asset. *(4 x 4 = 16 Marks)*

4. (a) The auditor shall communicate all significant findings from the audit with those charged with Governance. Discuss with reference to SA 260. *(4 Marks)*

   (b) The auditor shall perform additional audit procedures to determine whether or not a material uncertainty exists, when an event has been identified that may cast significant doubt on the entity's ability to continue as a going concern. Mention the audit procedures need to be performed in accordance with SA 570. *(6 Marks)*

   (c) The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, in case of initial audit engagements, the auditor may consider additional matters in establishing the overall audit strategy and audit plan. Explain those additional matters need to be considered as per SA 300. *(6 Marks)*

5. (a) Ayushman Pvt. Ltd. is a trading company having turnover of Rs. 150 crore and maximum outstanding borrowings from bank of Rs. 155 crore during the preceding financial year 2014-15. The management of the company is of the view that the company is at its discretion to conduct internal audit. You are required to guide the management regarding applicability of internal audit. *(4 Marks)*

   (b) Laxya Pvt. Ltd. is having paid up capital and reserves of Rs. 45 lakh but outstanding loan of Rs. 20 lakh from Financial Institution. At the year end, the company recorded turnover of Rs. 5.5 crore. The management of the company contends that a private limited company is exempted from reporting under Companies (Auditor's Report) Order, 2015.

   You are required to -

   (i) state the class of companies exempted under the Order.

   (ii) comment upon the contention of the management of the company. *(6 Marks)*

   (c) Mention any eight important points which an auditor will consider while conducting audit of a club? *(6 Marks)*

6. (a) The management of an entity informed you that Work-in-Progress (WIP) is not valued since it is difficult to know the same in view of multiple processes involved and in any case opening & closing WIP would be more or less the same. Comment as an auditor. *(4 Marks)*

(b) What are sweat equity shares? How an auditor would verify issue of such sweat equity shares? *(6 Marks)*

(c) Draft an audit programme for conducting audit of accounts of a Local Body. *(6 Marks)*

7. Write short notes on any four of the following:

   (a) Statistical Sampling.

   (b) Manipulation of Accounts.

   (c) Removal of company auditor before expiry of term.

   (d) Assertions about account balances at the period end.

   (e) Disclosure requirements of bank balances of a limited company. *(4 x 4 = 16 Marks)*

Test Series: September, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC) GROUP – II

PAPER –7: INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

SECTION – A: INFORMATION TECHNOLOGY

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

*Attempt any **five** questions from the rest.*

Time Allowed – 1½ Hours **Maximum Marks – 50**

QUESTIONS

1. Answer all the following questions in brief.

   (i) What does the following standard flowchart denote?

   (ii) How can we say that Management Information System (MIS) is an integrated application?

   (iii) Briefly explain the three tiers in Three Tier architecture.

   (iv) You are an in-charge of Customer Relationship Management (CRM). Describe the relevance of Old Pareto Rule "80/20 Rule".

   (v) Define Real-time Processing. *(2 x 5 = 10 Marks)*

2. (a) Differentiate between Hierarchical Database Model and Relational Database Model. *(4 Marks)*

   (b) What do you understand by "Application Software"? *(4 Marks)*

3. (a) Discuss in detail the working of Client Server Networking. *(4 Marks)*

   (b) Discuss various Network Security Techniques in brief. *(4 Marks)*

4. (a) What do you mean by the term "Information System"? Discuss its components in brief. *(5 Marks)*

   (b) Discuss any three commercial applications on Artificial Intelligence. *(3 Marks)*

5. (a) Discuss the steps involved in the implementation of Business Process Automation (BPA)? *(4 Marks)*

(b) Discuss Information Processing and its types in brief. *(4 Marks)*

6. (a) How Business Processes are classified? Discuss. *(4 Marks)*

   (b) Discuss the importance of documentation in Information Systems. *(4 Marks)*

7. Write short notes on any **four** of the following.

   (a) Six Sigma

   (b) Complex Instruction Set Computer (CISC)

   (c) Guided Media in Telecommunication Network

   (d) Human Resource Management Systems (HRMS)

   (e) Security Management Controls *(4 × 2 = 8 Marks)*

Test Series: September, 2015

MOCK TEST PAPER – 1

IPCC/PCC: GROUP – II

PAPER –7: INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

SECTION – B: STRATEGIC MANAGEMENT

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

*Attempt any **five** questions from the rest.*

Time Allowed – 1½ Hours **Maximum Marks – 50**

1. (a) "Technology can act as both opportunity and threat to a business." Elucidate. *(3 Marks)*

   (b) List some of the major reasons due to which all types of firms should engage in 'Strategic Management'. *(3 Marks)*

   (c) "Six sigma is not merely a quality initiative, it is a business initiative." Elucidate. *(3 Marks)*

   (d) "Successful strategy formulation does not guarantee successful strategy implementation." Discuss. *(3 Marks)*

   (e) Briefly explain 'shared vision' and 'vision shared'. *(3 Marks)*

2. (a) State with reasons which of the following statements is correct/incorrect:

   (i) Liquidation strategy may be a pleasant strategic alternative.

   (ii) Strategic planning gives direction to the organization. *(2 × 2 = 4 Marks)*

   (b) Explain the meaning of the following concepts:

   (i) Logistics Strategy.

   (ii) Differential Marketing.

   (iii) Service Marketing. *(3 × 1 = 3 Marks)*

3. Write short notes on the following:

   (a) Demographic Environment. *(2 Marks)*

   (b) Strategic Group Mapping. *(2 Marks)*

   (c) Conglomerate Diversification. *(3 Marks)*

4. What is the purpose of SWOT analysis? Why is it necessary to do a SWOT analysis before selecting a particular strategy for a business organization? *(7 Marks)*

5. Explain the areas where Human Resource Manager can play a strategic role. *(7 Marks)*

6. What is the rationale behind Business Process Reengineering (BPR)? What steps would you recommend to implement BPR in an organization? *(7 Marks)*

7. What are the different responsibilities of a strategic leader? Distinguish between transformational leadership style and traditional leadership style. *(7 Marks)*

Test Series : September, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC) : GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. **(a)** As per para 21 of AS 12, ' Accounting for Government Grants', amount refundable in respect of a grant related to revenue should be applied first against any unamortized deferred credit remaining in respect of the grant. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

(i) In this case the grant refunded is Rs. 300 lakhs and balance in deferred income is Rs. 210 lakhs, Rs. 90 lakhs shall be charged to the profit and loss account for the year 2014-15. There will be no effect on the cost of the fixed asset and depreciation charged will be same as charged in earlier years.

(ii) As per para 21 of AS 12, the amount refundable in respect of grant which is related to specific fixed assets should be recorded by increasing the book value of the assets by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case the book value of the plant shall be increased by Rs. 300 lakhs. The increased cost of Rs. 300 lakhs of the plant should be amortised over 7 years (residual life). Depreciation charged during the year 2014-15 shall be 1200/10 + 300/7 = 162.86 lakhs.

(b) Investments other than investment in properties are not qualifying assets as per AS-16 Borrowing Costs. Therefore, interest cost of holding such investments cannot be capitalized. Further, even interest in respect of investment properties can only be capitalized if such properties meet the definition of qualifying asset, namely, that it necessarily takes a substantial period of time to get ready for its intended use or sale. Also, where the investment properties meet the definition of 'qualifying asset', for the capitalization of borrowing costs, the other requirements of the standard such as that borrowing costs should be directly attributable to the acquisition or construction of the investment property and suspension of capitalization as per paragraphs 17 and 18 of AS-16 have to be complied with.

(c) As per para 46 of AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', when some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset.

The amount recognised for the reimbursement should not exceed the amount of the provision.

Accordingly, potential loss to an enterprise may be reduced or avoided because a contingent liability is matched by a related counter-claim or claim against a third party. In such cases, the amount of the provision is determined after taking into account the probable recovery under the claim if no significant uncertainty as to its measurability or collectability exists.

In this case, the provision of salary to employees of Rs. 680 lakhs will be ultimately collected from the client, as per the terms of the contract. Therefore, the liability of Rs. 680 lakhs is matched by the counter claim from the client. Hence, the provision for salary of employees should be made reducing the claim to be made from the client. It appears that the whole amount of Rs. 680 lakhs is recoverable from client and there is no significant uncertainty about the collection. Hence, the net charge to profit and loss account should be nil.

The opinion of the accountant regarding non-recognition of income of Rs. 680 lakhs is not as per AS 29. The concept of prudence will not be followed if Rs. 680 lakhs is simultaneously recognized as income. Amount of Rs. 680 lakhs is not the revenue at present but only reimbursement of claim. However, the accountant is correct to the extent as that non- recognition of Rs. 680 lakhs as income will result in the understatement of profit.

(d)

		Rs. in crores
Profit after depreciation but before VRS Payment		75.00
Less: Depreciation – No adjustment required	-	
VRS payments	32.10	
Provision for taxation	10.00	
Fringe benefit tax	5.00	(47.10)
Net Profit		27.90

No. of shares 9.30 crores

$$\text{EPS} = \frac{\text{Net profit}}{\text{No. of shares}} = \frac{27.90}{9.30} = \text{Rs. 3 per share.}$$

2. Realisation Account

	Rs.	*Rs.*		*Rs.*	*Rs.*
To Assets:			By liabilities		
Plant & Machinery A/c		15,95,700	Sundry Creditors A/c		8,50,500
Furniture A/c		96,975	Joint Life Policy Reserve A/c		3,98,250

Stock A/c		3,55,050	Cash A/c :		
Sundry Debtors A/c		8,01,000	Joint Life Policy		3,48,750
Joint Life Policy A/c		3,98,250	Commission Receivable		2,10,825
Commission Receivable		2,10,825	By X's Capital A/c:		
To X's Capital A/c:			Plant and		
Dissolution Expenses		27,000	Machinery	13,50,000	
To Cash A/c :			Furniture, Stocks	2,70,000	16,20,000
Bill dishonoured		46,125	By Y 's Capital A/c:		
To Partner's Capital Accounts:			Furniture and stocks		2,70,000
(Profit on realisation)					
X	83,700				
Y	55,800				
Z	27,900	1,67,400			
	-	36,98,325			36,98,325

Capital Accounts

	X	*Y*	*Z*		*X*	*Y*	*Z*
	Rs.	*Rs.*	*Rs.*		*Rs.*	*Rs.*	*Rs.*
To Realisation A/c:				By Balance b/d	6,30,000	3,37,500	1,80,000
Plant and				By Bank Overdraft A/c	9,09,675	–	
Machinery	13,50,000	–	–	By Loan from			
Furniture, Stocks	2,70,000	2,70,000		Mrs. X A/c	2,25,000	–	
To Cash A/c	2,55,375	1,23,300	2,07,900	By Realisation A/c:			
(Balancing figure)				Dissolution Expenses	27,000	–	
				Profit on realisation	83,700	55,800	27,900
	18,75,375	3,93,300	2,07,900		18,75,375	3,93,300	2,07,900

Cash Account

To	Balance b/d	73,125	By	Realisation A/c:	
To	Realisation A/c:			Bill dishonoured	46,125
	Joint Life Policy	3,48,750	By	Partners' Capital Accounts:	
	Commission Receivable A/c	2,10,825		X	2,55,375
				Y	1,23,300
				Z	2,07,900
		6,32,700			6,32,700

Note:

No entry is required regarding assignment of sundry debtors to sundry creditors in full satisfaction of their claims.

3. Gain Bank Ltd.

Profit and Loss Account for the year ended 31st March, 2015

Particulars	Schedule No.	Year ended 31st March, 2015 (Rs. '000)
I. **Income:**		
Interest earned	13	313.00
Other income	14	6.50
Total		319.50
II. **Expenditure:**		
Interest expended	15	115.00
Opening expenses	16	47.50
Provisions & Contingencies (Provisions for income tax + Provisions for doubtful debts + unexpired discount) [36+15.5+15]		66.50
Total		229.00
III. **Profit/Loss:**		90.50
Net Profit for the year		-
Profit/Loss brought forward		90.50
IV. **Appropriations:**		
Transfer to Statutory Reserve @ 25%		22.63
Balance carried over to Balance Sheet		67.87
Total		90.50

Schedule 13 – Interest Earned

Particulars	Year ended 31st March, 2015 (Rs.000)
I. Interest/Discount (112.5 + 100.5 + 52.5 + 47.5)	313.00
II. Interest on investment	-
III. Interest on balances with RBI and other inter bank fund	-
	313.00

Schedule 14 – Other Income

Particulars	Year ended 31st March, 2015 (Rs.000)
I. Commission, Exchange and Brokerage	23.50
II. Loss on sale of investments	(-) 17.00
	6.50

Schedule 15 – Interest Expended

Particulars	Year ended 31st March, 2015 (Rs.000)
I. Interest on Deposits (77.5 + 37.5)	115
II. Interest on RBI/inter bank borrowings	-
	115

Schedule 16 – Operating Expenses

Particulars	Year ended 31st March, 2015 (Rs.000)
I. Payments to and provision for employees	41
II. Printing & Stationery	2.5
III. Directors' fees, allowances and expenses	1.5
IV. Auditors' fees	2.5
	47.50

4. (a) (i) **Statement showing underwriters' liability for shares other than shares underwritten firm**

	X	*Y*	*Z*	*Total*
Gross liability (Issued shares – purchased by promoters, directors etc)	5,85,000	2,25,000	90,000	9,00,000

(9,00,000 shares in the ratio of 65 : 25 : 10)				
Less: Marked applications	(1,19,500)	(57,500)	(10,500)	(1,87,500)
	4,65,500	1,67,500	79,500	7,12,500
Less: Allocation of unmarked applications (including firm underwriting i.e. 7,00,000) in the ratio 65 : 25 : 10	(4,55,000)	(1,75,000)	(70,000)	(7,00,000)
	10,500	(7,500)	9,500	12,500
Surplus of Y allocated to X and Z in the ratio 65 : 10	(6,500)	7,500	(1,000)	–
Additional shares to be purchased by X & Z	4,000	–	8,500	12,500

	Rs.	*Rs.*	*Rs.*
Additional Liability for additional shares @ Rs. 11	44,000	–	93,500
Underwriting commission payable on Gross Liability			
(Shares underwritten as Gross liability × Rs. 11 × 2%)	(1,28,700)	(49,500)	(19,800)
Net Amount payable	(84,700)	(49,500)	-
Net Amount receivable	-	-	73,700

(ii) **Journal Entries**

		Dr. *Rs.*	*Cr.* *Rs.*
Bank A/c	Dr.	11,00,000	
To Equity Shares Application A/c			11,00,000
(Being application money received on 1 lakh equity shares purchased by directors etc@ Rs. 11 per share)			
Bank A/c	Dr.	97,62,500	
To Equity Share Application A/c			97,62,500
(Application money received on 8,87,500 equity shares @ Rs. 11 per share from general public and underwriters for shares underwritten firm)			
Equity Share Application A/c	Dr.	1,08,62,500	

X' s A/c	Dr.	44,000	
Z' s A/c	Dr.	93,500	
To Equity Share Capital A/c			1,00,00,000
To Securities Premium A/c			10,00,000
(Allotment of 10 lakh equity shares of Rs. 10 each at a premium of Rs. 1 per share)			
Underwriting commission A/c	Dr.	1,98,000	
To X's A/c			1,28,700
To Y's A/c			49,500
To Z's A/c			19,800
(Amount of underwriting commission payable to X, Y and Z @ 2% on the amount of shares underwritten)			
Bank A/c	Dr.	73,700	
To Z's A/c			73,700
(Amount received from Z in final settlement)			
X's A/c	Dr.	84,700	
Y's A/c	Dr.	49,500	
To Bank A/c			1,34,200
(Amount paid to X and Y in final settlement)			

(b) Magic Insurance Company (Abstract showing the amount of claims)

Net Claims incurred

		Rs.
Claims paid on direct business Rs. (35,30,000 + 38,000 + 42,000)		36,10,000
Add: Re-insurance	8,20,000	
Add: Outstanding as on 31.3.2015	87,000	
Less: Outstanding as on 1.4.2014	(58,000)	8,49,000
		44,59,000
Less : Claims received from re-insurance	3,20,000	
Add: Outstanding as on 31.3.2015	1,42,000	
Less: Outstanding as on 1.4.2014	(85,000)	(3,77,000)
		40,82,000
Add : Outstanding direct claims at the end of the year		8,75,000
		49,57,000

Less : Outstanding claims at the beginning of the year	(8,23,000)
Net claims incurred	41,34,000

Note: Claims includes specific claims settlement cost but not expenses of management.

5. In the books of K Ltd.

Journal Entries

	Particulars		*Dr. Amount* Rs.	*Cr. Amount* Rs.
01.07.2015				
1.	Equity share capital A/c	Dr.	20,00,000	
	To Equity share capital A/c			20,00,000
	(Being sub-division of one share of Rs. 100 each into 10 shares of Rs. 10 each)			
2.	Equity share capital A/c	Dr.	10,00,000	
	To Capital reduction A/c			10,00,000
	(Being reduction of capital by 50%)			
3.	Capital reduction A/c	Dr.	42,000	
	To Bank A/c			42,000
	(Being payment in cash of 20% of arrears of 3 years' preference dividend)			
4.	Bank A/c	Dr.	78,400	
	To Own debentures A/c [(1,92,000/2,00,000) x 80,000]			76,800
	To Capital reduction A/c			1,600
	(Being profit on sale of own debentures transferred to capital reduction A/c)			
5.	12% Debentures A/c	Dr.	1,20,000	
	To Own debentures A/c [(1,92,000/2,00,000) x 1,20,000]			1,15,200
	To Capital reduction A/c			4,800
	(Being profit on cancellation of own debentures transferred to capital reduction A/c)			
6.	12% Debentures A/c	Dr.	3,00,000	

	Capital reduction A/c	Dr.	20,000	
	To Machinery A/c			3,20,000
	(Being machinery of Rs. 3,20,000 taken up by the debenture holders for Rs. 3,00,000)			
7.	Trade payables A/c	Dr.	60,000	
	To Capital reduction A/c			60,000
	(Being liabilities revalued)			
8.	Capital reduction A/c	Dr.	10,04,400	
	To Trade receivables A/c			25,000
	To Inventory A/c			12,000
	To Goodwill A/c			20,000
	To Discount on debentures A/c			2,000
	To Profit and Loss A/c			4,11,000
	To Bank A/c			20,000
	To Capital reserve A/c			5,14,400
	(Being assets revalued and losses written off and penalty paid off through capital reduction account and the balance of capital reduction account transferred to capital reserve account)			
1.7.2015				
9.	Business Purchase A/c	Dr.	18,20,000	
	To Liquidators of W Ltd.			18,20,000
	(Being the purchase consideration payable to W Ltd.)			
10.	Fixed assets A/c	Dr.	11,50,000	
	Inventory A/c	Dr.	6,80,000	
	Trade receivables A/c	Dr.	6,15,000	
	Cash at bank A/c	Dr.	1,55,000	
	To trade payables A/c			3,15,000
	To 12% Debentures A/c of W Ltd.			2,00,000
	To Profit and Loss A/c			15,000
	To General reserve A/c			1,70,000
	To Capital reserve A/c (W.N.2)			80,000
	To Business purchase A/c			18,20,000

	(Being the takeover of all assets and liabilities of W Ltd. by K Ltd.)			
11.	Liquidators of W Ltd. A/c	Dr.	18,20,000	
	To Equity share capital A/c			15,00,000
	To 10% Preference share capital A/c			3,20,000
	(Being the purchase consideration discharged)			
12.	12% Debentures of W Ltd. A/c	Dr.	2,00,000	
	To 12% Debentures A/c			2,00,000
	(Being K Ltd. issued their 12% Debentures against 12% Debentures of W Ltd.)			

Balance Sheet of K Ltd. as on 1.7.2015

Particulars	*Notes No.*	*Amount (Rs.)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	35,20,000
(b) Reserves and Surplus	2	10,19,400
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	3,80,000
(3) Current Liabilities		
(a) Trade payables	4	8,15,000
Total		57,34,400
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	5	32,30,000
(2) Current assets		
(a) Inventories	6	10,80,000
(b) Trade receivables	7	12,15,000
(c) Cash and cash equivalents	8	2,09,400
Total		57,34,400

Notes to Accounts

			Rs.
1	Share Capital		
	Equity Share Capital	20,00,000	
	Less: Surrender 50% equity capital	(10,00,000)	
	Add: Equity share capital issued to W Ltd.	15,00,000	25,00,000
	10% Preference share capital	7,00,000	
	Add: Preference share capital issued to W Ltd.	3,20,000	10,20,000
			35,20,000
2.	Reserves and Surplus		
	Profit and Loss A/c	15,000	
	General Reserve (2,40,000 + 1,70,000)	4,10,000	
	Capital Reserve (5,14,400 + 80,000)	5,94,400	10,19,400
3.	Long-term borrowings		
	12% Debentures	6,00,000	
	Less: Settled in consideration of machinery	(3,00,000)	
	Less: Cancelled debentures	(1,20,000)	
	Add: 12% Debentures issue to W Ltd.	2,00,000	3,80,000
4.	Trade payables of K Ltd.	5,60,000	
	Less: Reduction due to revaluation	(60,000)	
	Add: Trade payables of W Ltd.	3,15,000	8,15,000
5.	Tangible assets		
	Balance of Other fixed assets	24,00,000	
	Less: Machinery taken up by debenture holders	(3,20,000)	
	Add: Other fixed assets of W Ltd.	11,50,000	32,30,000
6.	Inventories	4,12,000	
	Less: Reduction due to revaluation	(12,000)	
	Add: Inventories of W Ltd.	6,80,000	10,80,000
7.	Trade receivables	6,25,000	
	Less: Reduction due to revaluation	(25,000)	
	Add: Trade receivables of W Ltd.	6,15,000	12,15,000

8.	Cash and cash equivalents	38,000	
	Less: Payment of arrear of preference dividend	(42,000)	
	Add: Profit on sale of own debentures	78,400	
	Less: Penalty paid	(20,000)	
	Add: Cash and cash equivalents of W Ltd.	1,55,000	2,09,400

Working Notes:

1. **Purchase Consideration** *Rs.*

Equity share capital	[(15,000 x 50/5) x Rs. 10]	15,00,000
10% Preference share capital	[(4,000x 4/5) x Rs. 100] =	3,20,000
		18,20,000

2. **Capital Reserve**

	Rs.
Share Capital of W Ltd. (Equity + Preference)	19,00,000
Less: Share Capital issued by K Ltd.	(18,20,000)
Capital reserve	80,000

6. (a) Delhi Branch Account (prepared on cost basis)

2014		*Rs.*	*Rs.*	*2014*		*Rs.*	*Rs.*
Jan. 1	To Balance b/d			Dec. 31	By Bank		
	Stock	32,000			Cash Sales	1,55,000	
	Debtors	12,000			Cash from		
	Petty cash	1,500	45,500		Sundry Debtors (W.N.1)	1,79,000	3,34,000
Dec. 31	To Goods sent to				By Goods sent to		
	Branch A/c		3,36,000		Branch A/c – Returns		
	To Bank:						
	Sundry Expenses		10,000		to H.O.		12,000
	To Petty Expenses				By Balance c/d		
	(W.N. 2)		5,000		Stock	40,000	
	To Balance being				Debtors	11,000	
	Profit carried to				Petty Cash	2,500	53,500
	(H.O.) P & L A/c		3,000				
			3,99,500				3,99,500
Jan. 1, 2015	To Balance b/d		53,500				

Working Notes:

1. Cash Collected from debtors

	Rs.
Debtors as on 1.1.14	12,000
Add: Credit sales	1,80,000
	1,92,000
Less:	
Bad debts and sales returns (1,000 + 1,000)	(2,000)
Closing balance of debtors	(11,000)
Cash collected	1,79,000

2. **Petty expenses**

Petty cash as on 1.1.14	1,500
Add: Cash received from H.O	6000
	7,500
Less: Petty cash as on 31.12.14	(2,500)
Expenses	5,000

(b) Statement showing the recomputation of Departmental Profit or Loss

	Particulars	**A Rs.**	**B Rs.**	**C Rs.**	**D Rs.**
A	Final Profit/(Loss) (Computed earlier)	(38,000)	50,400	72,000	1,08,000
B	*Add:* Departmental Manager's Commission @ 10% of Deptt. Profit subject to a minimum of Rs. 6,000 [Working Note (i)]	6,000	6,000	8,000	12,000
C	Profit before Deptt. Manager's commission (A+B)	(32,000)	56,400	80,000	1,20,000
D	*Less:* Profit earned through transfer of goods at loaded price remaining in stock at transfer department (W.N. 2)	(2,200)	-	(8,600)	-
E	Correct Departmental Profit (before manager's commission) (C-D)	(34,200)	56,400	71,400	1,20,000
F	*Less:* Manager's commission @ 10% of profit subject to a minimum of Rs. 6,000	(6,000)	(6,000)	(7,140)	(12,000)
G	Departmental Profit after Manager's commission (E-F)	(40,200)	50,400	64,260	1,08,000

Working Note:

1. **Manager's Commission:**

	Deptt. Profit/Loss	**Commission**	
A	(-) 38,000	6,000	
B	50,400	6,000	i.e. (50,400 x 1/9 = Rs. 5,600 less than Rs. 6,000
C	72,000	8,000	i.e. (72,000 x 1/9 = Rs. 8,000)
D	1,08,000	12,000	i.e. (1,08,000 x 1/9 = Rs. 12,000)

2. **Unrealised Profit on stock transfer:**

		Rs.
Dept. A:	Rs. 22,000 to Deptt. B @ 110%, Profit thereon 22,000 x 10/110	2,000
	Rs. 1,200 to Deptt. D @ 120% Profit thereon 1,200 x 20/120	200
		2,200
Dept. C	Rs. 48,000 to Deptt. B 120% Profit thereon 48,000 x 20/120	8,000
	Rs. 3,600 to Deptt. D @ 120 % Profit thereon 3,600 x 20/120	600
		8,600

7. (a) Calculation of Preferential Creditors

	Rs.
Tax deducted at source on salaries	1,000
Wages (15 men for 4 months at Rs. 100 each)	6,000
Salaries (5 men for 4 months at Rs. 300 each)	6,000
Workmen's compensation	3,000
Total	16,000

Note:

(i) Wages or Salaries payable to any employee due for the period not exceeding 4 months within the twelve months next before commencement of winding up subject to maximum 20,000 per claimant are preferential creditors.

(ii) Rent for godown is not included in preferential creditors.

(b) Calculation of profit or loss to be recognized in the books of Sterling Limited

	Rs.
Forward contract rate	48.85
Less: Spot rate	(47.50)

Loss	1.35
Forward Contract Amount	\$20,000
Total loss on entering into forward contract = (\$20,000 × Rs. 1.35)	Rs. 27,000
Contract period	4 months
Loss for the period 1st January, 2015 to 31st March, 2015 i.e. 3 months falling in the year 2014-2015 will be Rs. 27,000 $\times \frac{3}{4}$ =	Rs. 20,250

Balance loss of Rs. 6,750 (i.e. Rs. 27,000 – Rs. 20,250) for the month of April, 2015 will be recognized in the financial year 2015-2016.

(c) As per AS 19 'Leases', a finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.

As per para 8 of the standard, classification of lease into a finance lease or an operating lease depends on the substance of the transaction rather than its form. Three situations which would normally lead to a lease being classified as a finance lease are:

(a) the lessor transfers ownership of the asset to the lessee by the end of the lease term;

(b) the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;

(c) the lease term is for the major part of the economic life of the asset even if title is not transferred.

(d) As per para 41 of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Therefore, the manager cannot defer the expenditure write off to future years.

Hence, the expenses amounting Rs. 20 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2015.

(e) **Journal Entries**

			Rs.	Rs.
1.1.15 to 28.2.15	Bank A/c	Dr.	12,00,000	
	Employees compensation expense A/c	Dr.	21,60,000	
	To Equity Share Capital A/c			2,40,000
	To Securities Premium A/c			31,20,000
	(Allotment of 24,000 equity shares of Rs.10 each at a premium of Rs.130 per share to the employees)			
31.3.15	Profit and Loss A/c	Dr.	21,60,000	
	To Employees Compensation Expense A/c			21,60,000
	(For transfer of employees compensation expense to profit and loss account)			

Test Series: September, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – II

PAPER – 6: AUDITING AND ASSURANCE

SUGGESTED ANSWERS / HINTS

1. (a) **Sampling Risk:** As per SA 530 "Audit Sampling", audit sampling enables the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Audit sampling can be applied using either non-statistical or statistical sampling approaches.

When designing a sample, the auditor determines tolerable misstatement in order to address the risk that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated and provide a margin for possible undetected misstatements.

Sampling Risk is the risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions:

(i) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a substantive procedure i.e. test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.

(ii) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a substantive procedure i.e. test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

(b) **Management's Responsibility for Compliance with Laws and Regulations:** According to SA 250 on "Consideration of Laws and Regulations in an Audit of Financial Statements", it is management's responsibility to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations. Laws and regulations may affect an entity's financial statements in different ways for example, most directly; they may affect specific disclosures required of the entity in the financial statements. The following are the procedures an entity may implement to assist in the prevention and detection of non-compliance with laws and regulations-

(i) Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.

(ii) Instituting and operating appropriate systems of internal control.

(iii) Developing, publicising and following a code of conduct.

(iv) Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it.

(v) Engaging legal advisors to assist in monitoring legal requirements.

(vi) Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints.

(vii) Ensuring employees are properly trained and understand the code of conduct.

(c) Ceiling on Number of Audits: As per section 141(3)(g) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor if he is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies.

In the case of a firm of auditors, it has been further provided that 'specified number of companies' shall be construed as the number of companies specified for every partner of the firm who is not in full time employment elsewhere.

This limit of 20 company audits is per person. For example, in the case of an audit firm having 3 partners, the overall ceiling will be $3 \times 20 = 60$ company audits. Sometimes, a chartered accountant is a partner in a number of auditing firms. In such a case, all the firms in which he is partner or proprietor will be together entitled to 20 company audits on his account.

(d) Audit Programme: Despite of several disadvantages, the audit programme is required to start an audit due to the following considerations-

(i) The audit programme lists down areas of audit before commencement.

(ii) The audit timing is built therein; thereby it becomes a schedule of audit plan.

(iii) The staff who are entrusted with the audit assignment is also specified. It is a plan of resource allocation of the firm.

(iv) It specifies the procedures to be checked during the audit.

(v) As the audit work is split into various elements of procedures to be performed, the audit programme acts as a guiding chart or check list during the performance of audit.

(vi) Since the staff-in-charge of each work is specified and they sign the programme, it extracts the responsibility from the audit assistants.

(vii) The working papers of the audit staff can be reviewed against the audit programme which helps a base of reference for evaluation of the performance before reporting on the financial statements.

(viii) It also helps in preparing a diary of the performance and plan and also base for billing the clients for the time and manpower involved in the audit.

2. (i) Incorrect: As per section 181 of the Companies Act, 2013, the Board of Directors of a company may contribute to *bona fide* charitable and other funds. However, prior permission of the company in general meeting is required in case any amount the aggregate of which, in any financial year, exceeds 5 per cent of its average net profits for the three immediately preceding financial years.

(ii) Incorrect: As per the Companies (Cost Records and Audit) Rules, 2014, the requirement for cost audit shall not be applicable to a company whose revenue from exports, in foreign exchange, exceeds 75% of its total revenue; or which is operating from a special economic zone.

(iii) Incorrect: According to SA 299 "Responsibilities of Joint Auditors", all the joint auditors are jointly and severally responsible in respect of the work which is not divided among joint auditors and is carried out by all of them.

(iv) Incorrect: Section 143(3) of the Companies Act, 2013 requires the statutory auditor of the company to state in auditor's report whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.

(v) Incorrect: The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

(vi) Correct: According to section 53 of the Companies Act, 2013, a company shall not issue shares at a discount. However, exception has been given in the case of an issue of sweat equity shares.

(vii) Correct: AS 9 "Revenue Recognition" provides that revenue arising from royalties shall be recognised on an accrual basis in accordance with the terms of the relevant agreement.

(viii) Incorrect: Section 68 of the Companies Act, 2013 permits companies to buyback their own shares and other specified securities only out of its free reserves; or the securities premium account; or the proceeds of the issue of any shares or other specified securities.

(ix) Correct: AS 6 "Depreciation Accounting" does not apply to land unless it has a limited useful life for the enterprise.

(x) Incorrect: Test checks refers to an audit procedure wherein only a part is checked to form an opinion instead of checking all the transactions.

3. (a) Petty Cash

(i) Trace the amounts advanced to the petty cashier for meeting petty office expenses from the Cash Book in the Petty Cash Book.

(ii) Vouch payments with docket vouchers which must be supported, wherever possible, by external evidence e.g., payee's receipted bill or invoices, cash memo, etc.

(iii) Trace payments made for the purchase of postage stamps recorded in the Postage Book. The totals of the Postage Book should be test checked. The amounts of postage stamps in hand, at the end of the year, should be credited to Postage Account by debiting the amounts to Postage in Hand Account. It should be seen that the amount paid for postage stamps is not unduly large and the Postage Book is normally checked by the petty cashier from time to time before the amount of imprest is reimbursed. Confirm that the postage expenses for the year are reasonable as compared with that in the postage expenses from month to month.

(iv) See where a columnar Petty Cash Book is maintained, that the extension have been carried forward into appropriate amount columns.

(v) Check the column totals and cross totals.

(vi) Trace posting of the various columns in which payments are classified to the respective ledger accounts.

(vii) Verify the cash balance in hand.

(viii) Auditor should also verify whether the amount of petty cash imprest is fixed. Is this amount reasonable considering the total amount of petty cash payments made during a month or so?

(b) Borrowings from a Bank: Borrowings from a bank may be either in the form of overdraft limits; or short term or medium term or long term loans. The audit procedures which an auditor may adopt are outlined below-

(i) Ensure that balance as per books of the client and the bank statement tally. In case of difference between the two amounts, reconciliation statement prepared by the client should account for reasons.

(ii) Examine whether borrowings from the bank have been duly authorized.

(iii) Examine documents to ensure that statutory requirements, if any, with regards to creation and registration charges have been met.

(iv) Examine the loan agreement and ensure that the terms therein have been duly complied with.

(v) Ascertain the purpose for which loan has been raised and examine whether end use of the funds have been accordingly made.

(c) Sale Proceeds of Junk Material

(i) Review the internal control on junk material, as regards its generations, storage and disposal & see whether it was properly followed at every stage.

(ii) Ascertain whether the organisation is maintaining reasonable records for the sale and disposal of junk material.

(iii) Review the production and cost records for the determination of the extent of junk material that may arise in a given period.

(iv) Compare the income from the sale of junk material with the corresponding figures of the preceding three years.

(v) Check the rates at which different types of junk material have been sold and compare the same with the rates that prevailed in the preceding year.

(vi) See that all junk material sold has been billed and check the calculations on the invoices.

(vii) Ensure that there exists a proper procedure to identify the junk material and good quality material is not mixed up with it.

(viii) Make an overall assessment of the value of the realisation from the sale of junk material as to its reasonableness.

(d) Repayment of Amount of Foreign Loan for Purchase of an Asset

(i) Check the loan agreement, rate of interest, terms of security.

(ii) Check the remittances made during the year towards installments of repayments made.

(iii) Check the receipted voucher/account confirmation for the balance of outstanding.

(iv) The year end liability of foreign loan should be translated to the rate of exchange prevalent as on the closing date.

(v) The gain or loss arising on exchange conversion is to be credited or debited to Statement of Profit and Loss in accordance with the Accounting Standard 11.

(vi) Check banker exchange rate chart for correctness of the conversion.

(vii) Check RBI or other agencies' permission for remittances outside India.

4. (a) Communication of Findings with 'Those Charged With Governance': As per SA 260 "Communication with Those Charged with Governance", the auditor shall communicate with those charged with governance-

(i) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity;

(ii) Significant difficulties, if any, encountered during the audit;

(iii) Unless all of those charged with governance are involved in managing the entity:

(1) Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management; and

(2) Written representations the auditor is requesting; and

(iv) Other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

(b) Audit Procedures to be Performed When There Exist Significant Doubt on Entity's Ability to Continue as a Going Concern: According to SA 570 "Going Concern", when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include-

(i) Analysing and discussing cash flow, profit and other relevant forecasts with management.

(ii) Analysing and discussing the entity's latest available interim financial statements.

(iii) Reading the terms of debentures and loan agreements and determining whether any have been breached.

(iv) Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.

(v) Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.

(vi) Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.

(vii) Evaluating the entity's plans to deal with unfilled customer orders.

(viii) Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.

(ix) Confirming the existence, terms and adequacy of borrowing facilities.

(x) Obtaining and reviewing reports of regulatory actions.

(xi) Determining the adequacy of support for any planned disposals of assets.

(c) Consideration of Additional Matters in Case of Initial Audit Engagements: In accordance with SA 300 "Planning an Audit of Financial Statements", the purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For initial audits, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following-

(i) Unless prohibited by law or regulation, arrangements to be made with the predecessor auditor, for example, to review the predecessor auditor's working papers.

(ii) Any major issues (including the application of accounting principles or of auditing and reporting standards) discussed with management in connection with the initial selection as auditor, the communication of these matters to those charged with governance and how these matters affect the overall audit strategy and audit plan.

(iii) The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances (SA 510 "Initial Audit Engagements–Opening Balances").

(iv) Other procedures required by the firm's system of quality control for initial audit engagements (for example, the firm's system of quality control may require the involvement of another partner or senior individual to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).

5. (a) Applicability of Provisions of Internal Audit: As per section 138 of the Companies Act, 2013 read with rule 13 of Companies (Audit and Auditors) Rules, 2014, every private company shall be required to appoint an internal auditor or a firm of internal auditors, having-

(i) turnover of two hundred crore rupees or more during the preceding financial year; or

(ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year;

Thus, either of the condition is required to be satisfied for the applicability of the provision.

Ayushman Pvt. Ltd. is having turnover of ₹ 150 crore and maximum outstanding borrowings from bank of ₹ 155 crore during the preceding financial year 2014-15. Here in the case, the maximum outstanding borrowings from bank is exceeding one hundred crore rupees i.e. either of the condition in respect of turnover or outstanding loans is satisfied. Therefore, the company is liable for internal audit as per section 138 of the Companies Act, 2013.

(b) Applicability of CARO, 2015: The Companies (Auditor's Report) Order, 2015 applies to every company including a foreign company. However, the Order specifically exempts the following class of companies-

(i) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949;

(ii) an insurance company as defined under the Insurance Act,1938;

(iii) a company licensed to operate under section 8 of the Companies Act;

(iv) a One Person Company as defined under clause (62) of section 2 of the Companies Act;

(v) a small company as defined under clause (85) of section 2 of the Companies Act; and

(v) a private limited company with a paid up capital and reserves not more than Rs. 50 lakh and which does not have loan outstanding exceeding Rs. 25 lakh from any bank or financial institution and does not have a turnover exceeding Rs. 5 crore at any point of time during the financial year.

In the given case, Laxya Pvt. Ltd. has capital and reserves Rs. 45 lakh and outstanding loan of Rs. 20 lakh from Financial Institution. However, the company has recorded turnover of Rs. 5.5 crore which is exceeding the limit prescribed under Order for applicability of exemption.

Therefore, CARO, 2015 will be applicable to Laxya Pvt. Ltd. The contention of the management of the company that a private limited company is exempted from reporting under CARO is not acceptable.

(c) Audit of Club: A club is usually constituted as a company limited by guarantee. Therefore, various provisions of the Companies Act, 2013 relating to the audit of accounts of companies are also applicable to its audit. The special steps involved in such an audit are stated below-

(i) Vouch the receipt on account of entrance fees with members' applications, counterfoils issued to them, as well as on a reference to minutes of the Managing Committee.

(ii) Vouch members' subscriptions with the counterfoils of receipt issued to them, trace receipts for a selected period to the Register of Members; also reconcile the amount of total subscriptions due with the amount collected and that outstanding.

(iii) Ensure that arrears of subscriptions for the previous year have been correctly brought over and arrears for the year under audit and subscriptions received in advance have been correctly adjusted.

(iv) Check totals of various columns of the Register of members and tally them across.

(v) See the Register of Members to ascertain the Member's dues which are in arrear and enquire whether necessary steps have been taken for their recovery; the amount considered irrecoverable should be mentioned in the Audit Report.

(vi) Verify the internal check as regards members being charged with the price of foodstuffs and drinks provided to them and their guests, as well as, with the fees chargeable for the special services rendered, such as billiards, tennis, etc.

(vii) Trace debits for a selected period from subsidiary registers maintained in respect of supplies and services to members to confirm that the account of every member has been debited with amounts recoverable from him.

(viii) Vouch purchase of sports items, furniture, crockery, etc. and trace their entries into the respective inventory registers.

(ix) Vouch purchases of foodstuffs, cigars, wines, etc. and test their sale price so as to confirm that the normal rates of gross profit have been earned on their sales. The inventory of unsold provisions and stores, at the end of year, should be verified physically and its valuation checked.

(x) Check the inventory of furniture, sports material and other assets physically with the respective inventory registers or inventories prepared at the end of the year.

(xi) Inspect the share scrips and bonds in respect of investments, check their current values for disclosure in final accounts; also ascertain that the arrangements for their safe custody are satisfactory.

(xii) Examine the financial powers of the secretary and, if these have been exceeded, report specific case for confirmation by the Managing Committee.

6. (a) Valuation of Work-in-Progress: AS 2 "Valuation of Inventories" deals with the principles and methods for determining the value at which inventories should be carried in the financial statements. Thus, items which are held up in the process of production are included in the definition of inventory.

Work-in-Progress (WIP) is normally valued by taking the basic cost of materials, labour and proportionate factory overheads incurred upto the stage of completion.

In view of the above, the argument that the value of opening and closing WIP is more or less same is not tenable as the cost of material, labour and overhead might be different and accordingly arriving at the different valuation of opening and closing WIP is possible.

In the given case, the management should have determined the stage of completion of the production and valued the work in process accordingly.

If the management refuses to value the work in process then the auditor shall modify auditor's report accordingly.

(b) Meaning of Sweat Equity Shares: "Sweat Equity Shares" means equity shares issued by the company to employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

Verification of Issue of Sweat Equity Shares: As per section 54 of the Companies Act, 2013, the employees may be compensated in the form of 'Sweat Equity Shares".

The auditor may check that the Sweat Equity Shares issued by the company are of a class of shares already issued and following conditions are fulfilled:

(i) the issue is authorised by a special resolution passed by the company;

(ii) the resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;

(iii) not less than one year has, at the date of such issue, elapsed since the date on which the company had commenced business; and

(iv) where the equity shares of the company are listed on a recognised stock exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board in this behalf and if they are not so listed, the sweat equity shares are issued in accordance with such rules as may be prescribed.

The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank *pari passu* with other equity shareholders.

(c) Audit Programme for Local Bodies

(i) The Local Fund Audit Wing of the State Government is generally in charge of the audit of municipal accounts. Sometimes bigger municipal corporations e.g. Delhi, Mumbai etc have power to appoint their own auditors for regular external audit. So the auditor should ensure authenticity of his appointment.

(ii) The auditor while auditing the local bodies should report on the fairness of the contents and presentation of financial statements, the strengths and weaknesses of system of financial control, the adherence to legal and/or administrative requirements; upon whether value is being fully received on money spent. His objective should be to detect errors and fraud and misuse of resources.

(iii) The auditor should ensure that the expenditure incurred conforms to the relevant provisions of the law and is in accordance with the financial rules and regulations framed by the competent authority.

(iv) He should ensure that all types of sanctions, either special or general, accorded by the competent authority.

(v) He should ensure that there is a provision of funds and the expenditure is incurred from the provision and the same has been authorized by the competent authority.

(vi) The auditor should check that the different schemes, programmes and projects, where large financial expenditure has been incurred, are running economically and getting the expected results.

7. (a) Statistical Sampling: Statistical sampling has reasonably wide application where a population to be tested consists of a large number of similar items and more in the case of transactions involving compliance testing, trade receivables' confirmation, payroll checking, vouching of invoices and petty cash vouchers. Audit testing done through this approach is more scientific than testing based entirely on the auditor's own judgment because it involves use of mathematical laws of probability in determining the appropriate sample size in varying circumstances.

It is unnecessary for the auditor to gain in depth knowledge of statistics before making use of statistical sampling for audit testing since published statistical tables are available which indicate the sample size based on pre-determined criteria.

(b) Manipulation of Accounts: Accounts are falsified in order to conceal the true position of the business for some purpose. They are always intentional, for a predetermined purpose and are generally committed either by the owners or top management personnel or senior officers of the business. This type of fraud is generally committed-

(i) to avoid incidence of income-tax or other taxes by showing profits at a lower figure.

(ii) for delaying a dividend when there are insufficient profits by showing profits at inflated figures.

(iii) to withhold declaration of dividend even there is adequate profit (this is often done to manipulate the value of shares in stock market to make it possible for selected persons to acquire shares at a lower cost).

(iv) for receiving higher remuneration where managerial remuneration is payable by reference to profits.

Such frauds are difficult to be detected as they are committed by persons holding position of trust and use carefully guarded by them. Such frauds are generally of the following nature:

(i) Recording fictitious sales or omission of sales.

(ii) Recording fictitious purchases or suppression of purchases.

(iii) Over valuation or under valuation of stock.

(iv) Recording fictitious expenses or omission of expenses.

(v) Taking credit for accrued income not likely to be received or omission of income.

(vi) Revenue expenses changed to capital and vice-versa.

SA 240 "The Auditor's Responsibilities relating to fraud in an Audit of Financial Statements" states that the auditor is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. If an auditor identifies a fraud or has obtained information that indicates that a fraud may exist, it is his responsibility to communicate the matter with those charged with the governance on a timely basis and, in some circumstances, when so required by laws or regulations, to regulatory and enforcement authorities also.

In addition, as per sub-section (12) of section 143 of the Companies Act, 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within 60 days of his knowledge and after following the prescribed procedure.

The auditor is also required to comment under clause (xii) of Para 3 of CARO, 2015 whether any fraud on or by the company has been noticed or reported during the year. If yes, the nature and the amount involved is to be indicated.

(c) **Removal of Auditor Before Expiry of Term:** According to section 140(1) of the Companies Act, 2013, the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf as per rule 7 of Companies (Audit and Auditors) Rules, 2014-

(i) The application to the Central Government for removal of auditor shall be made in Form ADT-2 and shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014.

(ii) The application shall be made to the Central Government within 30 days of the resolution passed by the Board.

(iii) The company shall hold the general meeting within 60 days of receipt of approval of the Central Government for passing the special resolution.

It is important to note that before taking any action for removal before expiry of terms, the auditor concerned shall be given a reasonable opportunity of being heard.

(d) **Assertions about Account Balances at the Period End:** As per SA 315 "Identifying and Assessing the Risk of Material Misstatement through understanding the Entity and its Environment", assertions used by the auditor to consider the different types of potential misstatements that may occur, fall into the three categories out of which "assertions about account balances at the period end" is one of the category. It may take the following forms-

(i) Existence—assets, liabilities, and equity interests exist.

(ii) Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.

(iii) Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded.

(iv) Valuation and allocation—assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

(e) **Disclosure Requirements for Bank Balance:** As per Part I of Schedule III to the Companies Act, 2013, the disclosure of bank balances is under the head "Cash and Cash Equivalents" in Current Assets as -

(i) Balances with Banks.

(ii) Earmarked balances with banks (for example, for unpaid dividend).

(iii) Balances with banks to the extent held as margin money or security against borrowings, guarantees, other commitments.

The extract of the Schedule III, under Companies Act, 2013 regarding disclosure requirements is given below:

[General Instructions for Current Assets under Schedule III to the Companies Act, 2013]:
• Cash and cash equivalents: 1. Cash and cash equivalents shall be classified as: (a) Balances with banks; (b) Cheques, drafts on hand; (c) Cash on hand; (d) Others (specify nature). 2. Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated; 3. Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately; 4. Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated; 5. Bank deposits with more than 12 months maturity shall be disclosed separately.

Test Series: September, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – II

PAPER – 7: INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

SECTION – A: INFORMATION TECHNOLOGY

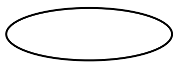
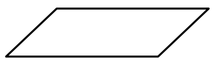
*Question No.**1** is compulsory.*

*Attempt any **five** questions from the rest.*

Time Allowed – 1½ Hours **Maximum Marks – 50**

SUGGESTED ANSWERS/HINTS

1. (i)

	This shape tells you where the flowchart begins and ends. It shows the entry point of the flowchart and the exit point.
	A parallelogram is used to show input or output. Examples of input are receiving a report, getting an e-mail, getting an order, receiving data in some format, etc.

(ii) MIS is an integrated information system that serves all departments within an enterprise. Some application areas of MIS include - Airline reservations that include various activities like - seat, booking, payment, schedules, boarding list, special needs, etc.; Bank operations that include - deposit, transfer, withdrawal etc. electronically with a distinguish payment gateways and Integration of departments with the help of contemporary software's like ERP.

(iii) The three tiers in three-tier architecture are as follows:

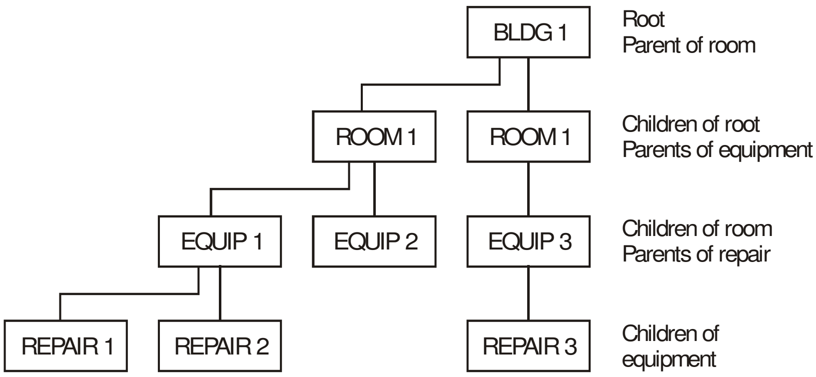
- **Presentation Tier:** This occupies the top level and displays information related to services available on a website. This tier communicates with other tiers by sending results to the browser and other tiers in the network.
- **Application Tier:** This is also called the middle tier, logic tier, business logic or logic tier, this tier is pulled from the presentation tier. It controls application functionality by performing detailed processing.
- **Database Tier:** This tier houses the database servers where information is stored and retrieved. Data in this tier is kept independent of application servers or business logic.

(iv) Old Pareto Rule **"80/20 rule"** emphasizes that most organizations find that approximately **20%** of their customer base generates **80%** of the profits. It is merely based on the philosophy that indicates that old trustworthy customers are most lucrative and helps in generating profits. It is at the present imperative that businesses make out the noteworthy characteristics of this assemblage, keep hold of these exceedingly desirable customers, and discover ways to augment the size.

(v) **Real-time Processing:** Real time processing is a subset of interactive or online processing. Input is continuously, automatically acquired from sensors, for example, which is processed immediately in order to respond to the input in as little time as possible. After the system is finished responding, it reads the next set of input data immediately to process that. This system doesn't need a user to control it, it works automatically. Whenever there is a rapid reaction required due to some sort of change, real time processing can take action without the need of a user or long processing time beforehand. Real time processing is used in warning systems on aircraft, alarm systems in hazardous zones, burglar alarms etc.

2. (a) Hierarchical Database Model: In a hierarchical database model, records are logically organized into a hierarchy of relationships. A hierarchically structured database is arranged logically in an inverted tree pattern. All records in hierarchy are called nodes where each node is related to the others in a parent - child relationship. Each parent record may have one or more child records, but no child record may have more than one parent record. Thus, the hierarchical data structure implements one-to-one and one-to-many relationships.

The top parent record in the hierarchy is called the **root record**. In this example, building records are the root to any sequence of room, equipment, and repair records. Entrance to this hierarchy by the database management system is made through the root record i.e., building. Records that "own" other records are called **parent records.** For example, room records are the parents of equipment records. Room records are also children of the parent record, building. There can be many levels of node records in a database.



Hierarchical Database Model

Relational Database Model: A relational database allows the definition of data and their structures, storage and retrieval operations and integrity constraints that can be organized in a table structure. A table is a collection of records and each record in a table contains the same fields.

A **Relation** is a table with columns and rows. The named columns of the relation are called **Attributes**, and the **Domain** is the set of values the attributes are allowed to take. A relational database contains multiple tables, with at least similar value occurring in two different records (belonging to the same table or to different tables) that implies a relationship among those two records. Tables can also have a designated single attribute or a set of attributes that can act as a "key", which can be used to uniquely identify each record in the table. A key that can be used to uniquely identify a row in a table is called a primary key. Keys are commonly used to join or combine data from two or more tables. For example, an *Employee* table may contain a column named *Location* which contains a value that matches the key of a *Location* table.

(b) Application Software: Application software includes all those computer software that cause a computer to perform useful tasks beyond the running of the computer itself. It is a collection of programs which address a real life problem of its end users which may be business or scientific or any other problem.

The different types of application software are as follows:

- **Application Suite:** This has multiple applications bundled together. Related functions, features and user interfaces interact with each other. E.g. MS Office 2010 which has MS Word, MS Excel, MS Access, etc.
- **Enterprise Software:** This addresses an enterprise's needs and data flow in a huge distributed environment. E.g. ERP Applications like SAP.
- **Enterprise Infrastructure Software:** This provides capabilities required to support enterprise software systems. E.g. email servers, Security software.
- **Information Worker Software:** This addresses individual needs required to manage and create information for individual projects within departments. E.g. Spreadsheets, CAAT (Computer Assisted Audit Tools)etc.
- **Content Access Software:** This is used to access contents and addresses a desire for published digital content and entertainment. E.g. Media Players, Adobe Digital etc.
- **Educational Software:** This holds contents adopted for use by students. E.g. Examination Test CDs
- **Media Development Software:** This addresses individual needs to generate and print electronic media for others to consume. E.g. Desktop Publishing, Video Editing etc.

3. (a) Working of a Client/Server Network

- Servers are typically powerful computers running advanced network operating systems. Servers can host e-mail; store common data files and serve powerful network applications such as Microsoft's SQL Server. As a centerpiece of the network, the server validates login to the network and can deny access to both networking resources as well as client software.
- End user Personal Computer or Network Computer workstations are the Clients.
- Clients are interconnected by Local Area Networks and share application processing with network servers, which also manage the networks. Client and Server can operate on separate computer platforms.
- Either the client platform or the server platform can be upgraded without having to upgrade the other platform.
- Action is usually initiated at the client end, not the server end.
- The server is able to service multiple clients concurrently; in some client/server systems, clients can access multiple servers.
- The network system implemented within the client/server technology is commonly called by the computer industry as **Middleware**. Middleware is all the distributed software needed to allow clients and servers to interact. General Middleware allows for communication, directory services, queuing, distributed file sharing, and printing.

4. (a) Information System: Information System (IS) is a combination of people, hardware, software, communication devices, network and data resources that processes (can be storing, retrieving, transforming information) data and information for a specific purpose. The system needs inputs from user (key in instructions and commands, typing, scanning) which will then be processed (calculating, reporting) using technology devices such as computers, and produce output (printing reports, displaying results) that will be sent to another user or other system via a network and a feedback method that controls the operation. In general, any specific Information System aims to support operations, management and decision-making.

There are five components of a generic system in terms of **Input, Process, Output, Feedback** and **Control**. The main aim and purpose of each Information System is to convert the data into information which is useful and meaningful.

(i) **People**, **Hardware**, **Software**, **Data** and **Networks** are the five basic resources of information systems;

(ii) **People Resources** consist of end users and IT specialists; **Hardware resources** involve machines and media; **Software resources** include programs and procedures; **Data resources** include data and knowledge bases; and **Network resources** include communications media and networks;

(iii) **Data Resources** are transformed by information processing activities into a variety of information products for end users; and

(iv) Information processing consists of the system activities of input, processing, output, storage, and control.

During Information processing; Input can be data, information and instructions; Processing may involve calculations, programming and storing; Output could be in terms of Print-outs, Reports, Graphics; and Controls could be related to decision-making and the feedback.

(b) Some of the commercial applications of Artificial Intelligence are as follows: Applications **of AI**

Decision Support

- Intelligent work environment that will help you capture the "why" as well as the "what" of engineered design and decision making.
- Intelligent human–computer interface (HCI) systems that can understand spoken language and gestures, and facilitate problem solving by supporting organization wide collaborations to solve particular problems.
- Situation assessment and resource allocation software for uses that range from airlines and airports to logistics centres.

Information Retrieval

- AI-based Intranet and Internet systems that distil tidal waves of information into simple presentations.
- Natural language technology to retrieve any sort of online information, from text to pictures, videos, maps, and audio clips, in response to English questions.
- Database mining for marketing trend analysis, financial forecasting, and maintenance cost reduction, and more.

Virtual Reality

- X-ray–like vision enabled by enhanced-reality visualization that allows brain surgeons to "see through" intervening tissue to operate, monitor, and evaluate disease progression.
- Automated animation interfaces that allow users to interact with virtual objects via touch (e.g., medical students can "feel" what it's like to stitch severed aortas).

Robotics

- Machine-vision inspections systems for gauging, guiding, identifying, and inspecting products and providing competitive advantage in manufacturing.
- Cutting-edge robotics systems, from micro-robots and hands and legs.

5. (a) (i) **Step 1: Define why we plan to implement a BPA?**

The primary purpose for which an enterprise implements automation may vary from enterprise to enterprise. A list of generic reasons for going for BPA may include any or combination of the following:

- Errors in manual processes leading to higher costs.
- Payment processes not streamlined, due to duplicate or late payments, missing early pay discounts, and losing revenue.
- Paying for goods and services not received.
- Poor debtor management leading to high invoice aging and poor cash flow.
- Not being able to find documents quickly during an audit or lawsuit or not being able to find all documents.
- Lengthy or incomplete new employee or new account on-boarding.
- Unable to recruit and train new employees, but where employees are urgently required.
- Lack of management understanding of business processes.
- Poor customer service.

(ii) **Step 2: Understand the rules / regulation under which enterprise needs to comply with.**

One of the most important steps in automating any business process is to understand the rules of engagement, which include following the rules, adhering to regulations and following document retention requirements. This governance is established by a combination of internal corporate policies, external industry regulations and local, state, and central laws. Regardless of the source, it is important to be aware of their existence and how they affect the documents that drive the processes.

(iii) **Step 3: Document the process, we wish to automate.**

At this step, all the documents that are currently being used need to be documented. The following aspects need to be kept in mind while documenting the present process:

- What documents need to be captured?
- Where do they come from?

- What format are they in: Paper, FAX, email, PDF etc.?
- Who is involved in processing of the documents?
- What is the impact of regulations on processing of these documents?
- Can there be a better way to do the same job?
- How are exceptions in the process handled?

(iv) Step 4: Define the objectives/goals to be achieved by implementing BPA.

Once the above steps have been completed, entity needs to determine the key objectives of the process improvement activities. When determining goals, remember that goals need to be **SMART**: Specific: Clearly defined; Measurable: Easily quantifiable in monetary terms; Attainable: Achievable through best efforts; Relevant: Entity must be in need of these; and Timely: Achieved within a given time frame.

(v) Step 5: Engage the business process consultant

This is again a critical step to achieve BPA. To decide as to which company/ consultant to partner with, depends upon the following:

- Objectivity of consultant in understanding/evaluating entity situation.
- Does the consultant have experience with entity business process?
- Is the consultant experienced in resolving critical business issues?
- Whether the consultant is capable of recommending and implementing a combination of hardware, software and services as appropriate to meeting enterprise BPA requirements?
- Does the consultant have the required expertise to clearly articulate the business value of every aspect of the proposed solution?

(vi) Step 6: Calculate the RoI for project

The right stakeholders need to be engaged and involved to ensure that the benefits of BPA are clearly communicated and implementation becomes successful. Hence, the required business process owners have to be convinced so as to justify the benefits of BPA and get approval from senior management. The best way to convince would be to generate a proposition that communicates to the stakeholders that BPA shall lead to not only cost savings for the enterprise but also improves efficiency and effectiveness of service offerings.

(vii) Step 7: Developing the BPA

Once the requirements have been document, ROI has been computed and top management approval to go ahead has been received, the consultant develops the requisite BPA. The developed BPA needs to meet the objectives for which the same is being developed.

(viii) Step 8: Testing the BPA

Once developed, it is important to test the new process to determine how well it works and identify where additional "exception processing" steps need to be included. The process of testing is an iterative process, the objective being to remove all problems during this phase.

Testing allows room for improvements prior to the official launch of the new process, increases user adoption and decreases resistance to change. Documenting the final version of the process will help to capture all of this hard work, thinking and experience which can be used to train new people.

(b) **Information** may be defined as processed data, which is of value to the user and meet the needs of the users. Information is necessary for decision making and survival of an entity as success of business depends upon making right decisions at the right time on the basis of the right information available. The effort to create information from raw data is known as **Information Processing**. Classification of information is based on level of human/computer intervention, which is given as follows:

(i) Manual Information Processing Cycle

These are the systems where the level of manual intervention is very high. Say for example, valuation of exam papers, teaching, operations in operation theatres, ticket checking by railway staff in trains, buying of grocery, billing done by small medical shops, people maintaining books manually, etc.

Components of manual information processing cycle include:

- **Input:** Put details in register.
- **Process:** Summarize the information.
- **Output:** Present information to management in the form of reports.

A pictorial representation of the same is given in Fig. 5.4.1. As the level of human intervention is very high the quality of information generated from these systems is prone to flaws such as delayed information, inaccurate information, incomplete information and low levels of detail.

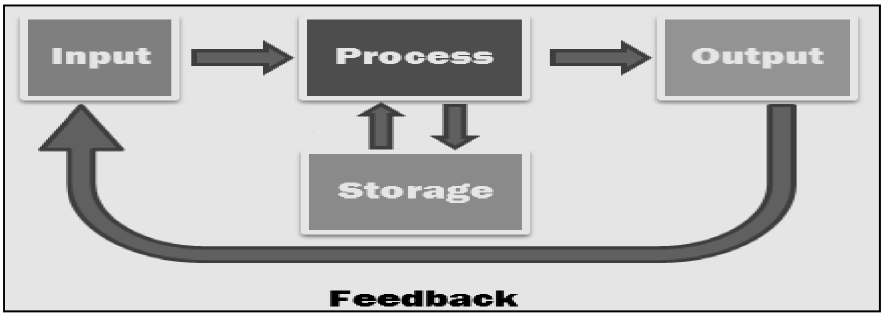
Manual Processing Cycle

(ii) Computerized Information Processing Cycle

These are systems where computers are used at every stage of transaction processing. The components of a computerized information processing cycle include:

- **Input:** Entering data into the computer;
- **Processing:** Performing operations on the data;
- **Storage:** Saving data, programs, or output for future use; and
- **Output:** Presenting the results.

A pictorial representation of the same is given in Fig. 5.4.2. As the processing is computerized the quality of information generated from these systems is timely, accurate, fast and reliable.



Computerized Processing Cycle

6. (a) Business processes are pervasive in any organization and represent all activities that an organization undertakes. Businesses try to improve on these operations or processes as a process improvement project. This requires using advanced methodologies and technologies to deliver consistent, repeatable, and more efficient outcomes by the improvement project. BPM helps to define and manage the business processes to reach the desired goals.

Business processes are broadly classified into two categories. These are as follows:

Organizational Business Processes: Organizational business processes are high-level processes that are typically specified in textual form by their inputs, their outputs, their expected results and their dependencies on other organizational business processes. These business processes act as supplier or consumer processes. To manage incoming raw materials provided by a set of suppliers is an example of an organizational business process. While organizational business processes characterize coarse-grained business functionality, there are multiple operational business processes that contribute to one organizational business process.

Operational Business Processes: In **Operational Business Processes**, the activities and their relationships are specified, but implementation aspects of the business process are disregarded. Operational business processes are specified by business process models. These are the basis for developing implemented business processes.

(b) Some of the reasons why documentation is important to Information Systems are as follows:

(a) **Depicting how the system works:** In computerized systems, the processing is electronic and invisible. Therefore documentation is required to help employees understand how a system works, assist accountants in designing controls for it, demonstrates to managers that it will meet their information needs, and assists auditors in understanding the systems that they test and evaluate.

(b) **Training users:** Documentation also includes user guides, manuals, and similar operating instructions that help people learn how an Information System operates. These documentation aids help train users to operate Information systems hardware and software, solve operational problems, and perform their jobs better.

(c) **Designing new systems:** Documentation helps system designers develop new systems in much the same way that blueprints help architects design building, Well-written documentation and related graphical systems-design methodologies play key roles in reducing system failures and decreasing the time spent correcting emergency errors.

(d) **Controlling system development and maintenance costs:** Personal computer applications typically employ prewritten, off-the-shelf software that is relatively reliable and inexpensive. Good documentation helps system designers develop object-oriented software, which is software that contains modular, reusable code that further avoid writing duplicate programs and facilitate changes when programs must be modified later.

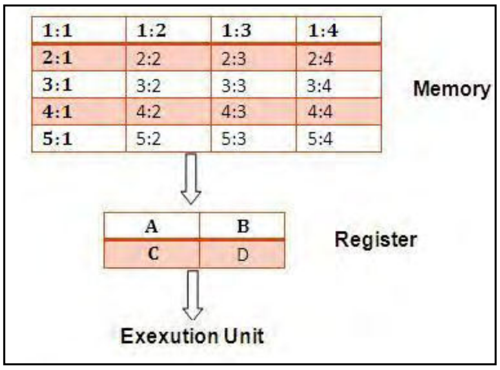
(e) **Standardizing communications with others:** Documentation aids such as E-R Diagrams, System Flowcharts, and Data Flow Diagrams are more standardized tools, and they are more likely to be interpreted the same way by all parties viewing them. Thus, documentation tools are important because they help describe an existing or proposed system in a common language and help users communicate with one another about these systems.

(f) **Auditing Information Systems:** Documentation helps depict audit trails, For example- Documentation helps auditors determine the strengths and weaknesses of a system's controls and therefore the scope and complexity of the audit.

(g) **Documenting business processes:** Understanding business processes can lead to better systems and better decision. Documentation helps managers better understand how their businesses operate what controls are involved or missing from critical organizational activities, and how to improve core business activities.

7. (a) Six Sigma: Six Sigma is a set of strategies, techniques, and tools for process improvement. It seeks to improve the quality of process outputs by identifying and removing the causes of defects and minimizing variability in manufacturing and business processes. Each Six Sigma project carried out within an organization follows a defined sequence of steps and has quantified value targets, for example: reduce process cycle time, reduce pollution, reduce costs, increase customer satisfaction, and increase profits. It follows a life-cycle having phases: **Define**, **Measure**, **Analyze**, **Improve** and **Control** (or **DMAIC**).

(b) Complex Instruction Set Computer (CISC): If the control unit contains a number of micro-electronic circuitry to generate a set of control signals and each micro-circuitry is activated by a micro-code, this design approach is called CISC design. CISC chips have a large, variable length and complex instructions and generally make use of complex addressing modes. Different machine programs can be executed on CISC machine. Since CISC processors possess so many processing features, the job of machine language programmers becomes easier. But at the same time, they are complex as well as expensive to produce. Now-a-days, most of the personal computers use CISC processors. Examples of CISC processors are: Intel 386, 486, Pentium, Pentium Pro, Pentium II, Pentium III processors etc.



MUL 1:3, 4:2

CISC Approach

CISC design would try to finish the task in the minimum possible instructions by implementing hardware which could understand and execute series of operations. 'MUL' will load the two values from the memory into separate registers, multiplies the operands in the execution unit, and then stores the product in the appropriate location. So, the entire task of multiplying two numbers can be completed with one instruction:

MUL is referred to as a "complex instruction" as it operates directly on the computer's memory banks and does not require the programmer to explicitly call any loading or storing functions.

(c) Guided Media/Bound Media in Telecommunication Network: Guided Transmission Media uses a "cabling" system that guides the data signals along a specific path. The data signals are bound by the "cabling" system. Some of the common examples of guided media are Twisted Pair, Coaxial cable and Fibre optics.

- **Twisted-Pair Wire: Twisted-pair** is ordinary telephone wire, consisting of copper wire twisted into pairs and is the most widely used media for telecommunications and is used for both voice and data transmissions. It is used extensively in home and office telephone systems and many LANs and WANs. However, Twisted Pair Wire is susceptible to various types of electrical interference (noise) and are very expensive and does not offer security.
- **Coaxial Cable:** This telecommunications media consists of copper or aluminum wire wrapped with spacers to insulate and protect it. Coaxial cables can carry a large volume of data and allows high-speed data transmission used in high-service metropolitan areas for cable TV systems, and for short-distance connection of computers and peripheral devices. It is used extensively in office buildings and other work sites for local area networks though it is more expensive than twisted pair.
- **Fiber Optics:** Optical fibers can carry digital as well as analog signals and provides increased speed and greater carrying capacity than coaxial cable and twisted-pair lines. It is not affected by electromagnetic radiation and not susceptible to electronic noise and so it has much lower error rates than twisted-pair and coaxial cable. Fiber optic cables are easy to install since they are smaller and more flexible and can be used undersea for transatlantic use. Speed of communications is 10,000 times faster than that of microwave and satellite systems. Biggest disadvantages of using fiber optic cable are that installation can be difficult and costly to purchase.

(d) Human Resource Management Systems (HRMS): A **Human Resources Management System (HRMS)** is a software application that coalesce many human resources functions, together with benefits administration, payroll, recruiting and training, and performance analysis and assessment into one parcel. In other words, HRMS or Human Resources Information System (HRIS), refers to the systems and processes at the intersection between human resource management (HRM) and information technology. HRMS uniquely provides indigenous integrations from HR Management to other core talent management processes in order to support a holistic, end-to-end cloud talent management strategy. Some of the key modules of HRMS are as below:

- **Workforce Management:** Integrated across the strategic Human Capital Management (HCM) solution, Workforce Management provides powerful tools to effectively manage labor rules, ensure compliance, and control labor costs and expenses.
- **Time and Attendance Management:** The time and attendance module gathers standardized time and work related efforts. The most advanced modules provide broad flexibility in data collection methods, labor distribution capabilities and data analysis features. Cost analysis and efficiency metrics are the primary functions.
- **Payroll Management:** This module of the system is designed to automate manual Payroll functions and facilitate salary, deductions etc calculations, eliminates errors and free up HR staff for more productive tasks. Data is generally fed from the human resources and time keeping modules to calculate automatic deposit and manual cheque writing capabilities. This module can encompass all employee-related transactions as well as integrate with existing financial management systems.
- **Training Management**: Training programs can be entered with future dates which allow managers to track progress of employees through these programs, examine the results of courses taken and reschedule specific courses when needed. The module tracks the trainer or training organization, costs associated with training schedules. The module also tracks training locations, required supplies and equipment and registered attendees. All employees are linked to a skills profile. The skill profile lists the skills brought with them and acquired through training after they were hired. The skills profile is updated automatically through the training module.
- **Compensation Management:** Compensation Management is more than just the means to attract and retain talented employees. In today's competitive labor market, organizations need to fully leverage their human capital to sustain a competitive position. This requires integrating employee processes, information and programs with organizational processes and strategies to achieve optimal organizational results.
- **Recruitment Management:** This module helps in hiring the right people with the right target skills. This module includes processes for managing open positions/requisitions, applicant screening, assessments, selection and hiring, correspondence, reporting and cost analysis.
- **Personnel Management:** The personnel management comprises of HR master-data, personnel administration, recruitment and salary administration.

- **Organizational Management:** Organizational management includes, organizational structure, staffing schedules & job description.
- **Employee Self Service (ESS):** The employee self-service module allows employees to query HR related data and perform some HR transactions over the system. Employees may query their attendance record from the system without asking the information from HR personnel. The module also lets supervisors approve O.T. requests from their subordinates through the system without overloading the task on HR department.
- **Analytics:** The Analytics module enables organizations to extend the value of an HRMS implementation by extracting HR related data for use with other business intelligence platforms. For example, organizations combine HR metrics with other business data to identify trends and anomalies in headcount in order to better predict the impact of employee turnover on future output.

(e) Security Management Controls: Information security administrators are responsible for ensuring that information systems assets are secure. Assets are secure when the expected losses that will occur over some time are at an acceptable level. Some of the major threats and to the security of information systems and their controls are as below:

Threat	Control
Fire	Well-designed, reliable fire-protection systems must be implemented.
Water	Facilities must be designed and sited to mitigate losses from water damage
Energy Variations	Voltage regulators, circuit breakers, and uninterruptible power supplies can be used.
Structural Damage	Facilities must be designed to withstand structural damage.
Pollution	Regular cleaning of facilities and equipment should occur.
Unauthorized Intrusion	Physical access controls can be used.
Viruses and Worms	Controls to prevent use of virus-infected programs and to close security loopholes that allow worms to propagate.
Misuse of software, data and services	Code of conduct to govern the actions of information systems employees.
Hackers	Strong, logical access controls to mitigate losses from the activities of hackers.

Test Series : September, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – II

PAPER – 7: INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

SECTION – B: STRATEGIC MANAGEMENT

SUGGESTED ANSWERS/HINTS

1. (a) Technology can act as both opportunity and threat to a business. It can act as opportunity as business can take advantage of adopting technological innovations to their strategic advantage. However, at the same time technology can act as threat if organisations are not able to adopt it to their advantage. For example, an innovative and modern production system can act as weakness if the business is not able to change their production system. New entrants or existing competitors can always use availability of technological improvements in products or production methods that can be a threat to a business.

(b) Strategic management is essential for the survival and growth of all types of firms. The following are the major reasons due to which firms should engage in strategic management:

- Strategic management helps organisations to be more proactive instead of reactive in shaping its future.
- Strategic management provides framework for all the major business decisions of an enterprise.
- Strategic management is concerned with ensuring a good future for the firm.
- Strategic management serves as a corporate defence mechanism against mistakes and pitfalls.

(c) Six Sigma is a total management commitment and philosophy of excellence, customer focus, process improvement. Six Sigma is about making every area of the organization better able to meet the changing needs of customers, markets, and technologies - with benefits for employees, customers, and shareholders. So the six sigma is not merely a quality initiative, it is a business initiative.

(d) Strategy implementation is different from strategy formulation. Strategy implementation is an intellectual process but strategy formulation is an operational process. Strategy formulation is positioning forces before the action which focuses on effectiveness whereas strategy implementation is managing forces during the action which focuses on efficiency. Strategy formulation requires good analytical skills and coordination among a few individuals but strategy implementation requires special motivation and leadership skills and combination among many individuals. So the strategy implementation is more difficult than strategy formulation.

(e) Individuals in organisations relate themselves with the vision of their organisations in different manner. When the individuals are able to bring organisational vision close to their hearts and minds they have "shared vision". Shared vision is a force that creates a sense of commonality that permeates the organization and gives coherence to diverse activities. However, 'vision shared' shows imposition of vision from the top management. It may demand compliance rather than commitment. For success of organisations having shared vision is better than vision shared.

2. (a) (i) Incorrect: Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition. For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business. When liquidation is evident (though it is difficult to say exactly when), an abandonment plan is desirable. Planned liquidation would involve a systematic plan to reap the maximum benefits for the firm and its shareholders through the process of liquidation.

(ii) Correct: Strategic planning is process of determining organizational strategy. It gives direction to the organization and involves making decisions and allocating resources to pursue the strategy. It is the formal consideration of future course of an organization. It determines where an organization is going over the next year or more and the ways for going there.

(b) (i) Logistics is a process that integrates the flow of supplies into, through and out of an organization to achieve a level of service that facilitate movement and availability of materials in a proper manner. When a company creates a logistics strategy, it is defining the service levels at which its logistics is smooth and is cost effective.

(**ii)** A market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each. Differentiation can be achieved through variation in size, shape, colour, brand names and so on.

(iii) Service Marketing is applying the concepts, tools, and techniques, of marketing to services. Service is any activity or benefit that one party can offer to another that is essentially intangible and non-perishing. These may be from business to consumer and from business to business.

3. (a) The term demographics denote characteristics of population in an area, district, country or in world. Some of the demographic factors have great impact on the business. Factors such as general age profile, sex ratio, income, education, growth rate affect the business with different magnitude.

(b) Strategic group mapping is a technique for displaying the different markets or competitive positions that rival firms occupy in the industry. A strategic group is a cluster of firms in an industry with similar competitive approaches and market positions. An industry contains only one strategic group when all sellers pursue essentially identical strategies and have comparable market positions. It involves plotting firms on a two-variable map using pairs of differentiating characteristics such as price/quality range; geographic coverage and so on.

(c) When an organization adopts a strategy which requires taking up those activities which are unrelated to the existing businesses, either in terms of their respective customer groups, customer functions or alternative technologies, it is called conglomerate diversification. Conglomerate diversification has no common thread at all with the firm's present position. For example, the businesses of Godrej are diversified into furniture, soaps, oils, insecticides and so on.

4. An important component of strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.

- **Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
- **Weakness:** A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
- **Opportunity:** An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
- **Threat:** A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

SWOT analysis helps managers to craft a business model *(or* models) that will allow a company to gain a competitive advantage in its industry *(or* industries). Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, competitive environment. Key reasons for SWOT analyses are:

- It provides a logical framework.
- It presents a comparative account.
- It guides the strategist in strategy identification.

5. The prominent areas where the human resource manager can play strategic role are as follows:

1. **Providing purposeful direction:** The human resource manager must be able to lead people and the organization towards the desired direction involving people. He has to ensure harmony between organisational objectives and individual objectives.

Objectives are specific aims which must be in the line with the goal of the organization and the all actions of each person must be consistent with them.

2. **Creating competitive atmosphere:** In the present business environment, maintaining competitive position or gains is an important objective of any business. Having a highly committed and competent workforce is very important for getting a competitively advantageous position.

3. **Facilitation of change:** The human resource manager will be more concerned about furthering the organization not just maintaining it. He has to devote more time to promote acceptance of change rather than maintaining the status quo.

4. **Diversion of workforce:** In a modern organization, management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female, young and old, educated and uneducated, unskilled and professional employee and so on. Maintaining a congenial healthy work environment is a challenge for HR Manager. Motivation, maintaining morale and commitment are some of the key task that a HR manager has to perform.

5. **Empowerment of human resources:** Empowerment involves giving more power to those who, at present, have little control what they do and little ability to influence the decisions being made around them.

6. **Building core competency:** The human resource manager has an important role to play in developing core competency by the firm. A core competence is a unique strength of an organization which may not be shared by others. Organization of business around core competence implies leveraging the limited resources of a firm. It needs creative, courageous and dynamic leadership having faith in organization's human resources.

7. **Development of works ethics and culture:** A vibrant work culture will have to be developed in the organizations to create an atmosphere of trust among people and to encourage creative ideas by the people. Far reaching changes with the help of technical knowledge will be required for this purpose.

6. Business Process Reengineering (BPR) is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes that involves examination of the basic process itself. It looks at the minute details of the process, such as why the work is done, who does it, where is it done and when it is done. BPR refers to the analysis and redesign of workflows and processes both within the organization and between the organization and the external entities like suppliers, distributors, and service providers.

The orientation of redesigning efforts is basically radical. In other words, it is a total deconstruction and rethinking of business process in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain quantum jump in process performance in terms of time, cost, output, quality, and responsiveness to customers. BPR is a revolutionary redesigning of key business processes.BPR involves the following steps:

1. **Determining objectives and framework:** Objectives are the desired end results of the redesign process which the management and organization attempts to achieve. This will provide the required focus, direction, and motivation for the redesign process. It helps in building a comprehensive foundation for the reengineering process.
2. **Identify customers and determine their needs*:*** The designers have to understand customers – their profile, their steps in acquiring, using and disposing a product. The purpose is to redesign business process that clearly provides added value to the customer.
3. **Study the existing process:** The existing processes will provide an important base for the redesigners. The purpose is to gain an understanding of the 'what', and 'why' of the targeted process. However, some companies go through the reengineering process with clean perspective without laying emphasis on the past processes.
4. **Formulate a redesign process plan:** The information gained through the earlier steps is translated into an ideal redesign process. Formulation of redesign plan is the real crux of the reengineering efforts. Customer focused redesign concepts are identified and formulated. In this step alternative processes are considered and the best is selected.
5. **Implement the redesign:** It is easier to formulate new process than to implement them. Implementation of the redesigned process and application of other knowledge gained from the previous steps is key to achieve dramatic improvements. It is the joint responsibility of the designers and management to operationalise the new process.

7. A strategic leader has several responsibilities, including the following:

- Environment Scanning.
- Dealing with the diverse and cognitively competitive situations.
- Managing human capital.
- Effectively managing the company's operations.
- Sustaining high performance over time.
- Willing to make candid, courageous, and yet pragmatic decisions.
- Decision-making responsibilities that cannot be delegated.
- Seeking feedback through face-to-face communications.
- Being spokesman of the organisation.

Difference between Transformational and Traditional leadership style:

1. Traditional leadership borrowed its concept from formal Top-down type of leadership such as in the military. The style is based on the belief that power is bestowed on the leader, in keeping with the traditions of the past. This type of leadership places managers at the top and workers at the bottom of rung of power.

   In transformational leadership, leader motivates and empowers employees to achieve company's objectives by appealing to higher ideas and values. They use charisma and enthusiasm to inspire people to exert them for the good of the organization.

2. Traditional leadership emphasizes characteristics or behaviours of only one leader within a particular group whereas transformational leadership provides a space to have more than one leader in the same group at the same time. According to the transformational leadership style, a leader at one instance can also be a follower in another instance. Thus there is element of flexibility in the relationships.

3. Traditional leadership is more focused in getting the work done in routine environment. Traditional leaders are effective in achieving the set objectives and goals whereas transformational leaders have behavioural capacity to recognize and react to paradoxes, contradictions and complexities in the environment. Transformational leadership style has more focus on the special skills or talents that the leaders must have to practice to face challenging situations. Transformational leaders work to change the organisational culture by implementing new ideas.

4. In traditional leadership, followers are loyal to the position and what it represents rather than who happens to be holding that position whereas in transformational leadership followers dedicate and admire the quality of the leader not of its position.