Test Series: March, 2015

MOCK TEST PAPER – 2

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: three hours) **(Maximum marks: 100)**

1. (a) Classify the following into either operating or finance leases:

(i) Ownership of an asset gets vested to the lessee at the end of lease term.

(ii) Lessee has option to purchase the asset at lower than fair value, at the end of lease term.

(iii) Economic life of the asset is 5 years, lease term is 4-1/2 years, but asset is not acquired at the end of lease term.

(iv) Present value (PV) of Minimum lease payments (MLP) = "X", Fair value of the asset is Y.

(v) Economic life is 5 years, lease term is 2 years, but the asset is of a special nature, and has been procured only for use of lessee.

(b) Explain the concept of 'weighted average number of equity shares outstanding during the period'. State how would you compute, based on AS-20, the weighted average number of equity shares in the following case:

		No. of shares
1st April, 2014	Balance of equity shares	7,20,000
31st August, 2014	Equity shares issued for cash	2,40,000
1st February, 2015	Equity shares bought back	1,20,000
31st March, 2015	Balance of equity shares	8,40,000

(c) During the year 2014-2015, Raj Ltd. was sued by a competitor for Rs. 15 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Raj Ltd. provided for a sum of Rs. 10 lakhs in its financial statements for the year ended 31st March, 2015. On 18th May, 2015, the Court decided in favour of the party alleging infringement of the trademark and ordered Raj Ltd. to pay the aggrieved party a sum of Rs. 14 lakhs. The financial statements were prepared by the company's management on 30th April, 2015, and approved by the board on

30th May, 2015. Should Raj Ltd. adjust its financial statements for the year ended 31st March, 2015?

(d) A fixed asset is purchased for Rs. 20 lakhs. Government grant received towards it is Rs. 8 lakhs. Residual Value is Rs. 4 lakhs and useful life is 4 years. Assume depreciation on the basis of Straight Line method. Asset is shown in the balance sheet net of grant. After 1 year, grant becomes refundable to the extent of Rs. 5 lakhs due to non compliance with certain conditions. Pass journal entries for second year. *(4 x 5 = 20 Marks)*

2. (a) On 31st December, 2014 the following balances appeared in the books of Chennai Branch of an English firm having its HO office in New York:

	Amount in Rs.	*Amount in Rs.*
Stock on 1st Jan., 2014	2,34,000	
Purchases and Sales	15,62,500	23,43,750
Debtors and Creditors	7,65,000	5,10,000
Bills Receivable and Payable	2,04,000	1,78,500
Salaries and Wages	1,00,000	-
Rent, Rates and Taxes	1,06,250	-
Furniture	91,000	-
Bank A/c	5,68,650	
New York Account	-	5,99,150
	36,31,400	36,31,400

Stock on 31st December, 2014 was Rs. 6,37,500.

Branch account in New York books showed a debit balance of $ 13,400 on 31st December, 2014 and Furniture appeared in the Head Office books at $ 1,750.

The rate of exchange on 31st December, 2013 was Rs. 52 and on 31st December, 2014 was Rs. 51. The average rate for the year was Rs. 50.

Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch.

(b) X Ltd. issued 1,20,000 Equity Shares which were underwritten as follows:

A & Co	72,000 Equity Shares
B & Co.	30,000 Equity Shares
C& Co.	18,000 Equity Shares

The above mentioned underwriters made applications for 'firm' underwritings as follows:

A & Co	9,600 Equity Shares

B & Co	12,000 Equity Shares
C& Co.	3,600 Equity Shares

The total applications excluding 'firm' underwriting, but including marked applications were for 60,000 Equity Shares.

The marked Applications were as under:

A & Co	12,000 Equity Shares
B & Co.	15,000 Equity Shares
C& Co.	6,000 Equity Shares

The underwriting contracts provide that underwriters be given credit for 'firm' applications and that credit for unmarked applications be given in proportion to the shares underwritten. You are required to show the allocation of liability. Workings will be considered as a part of your answer. *(8 + 8 = 16 Marks)*

3. Aman, Baal and Chand share profits and losses of a business as to 3:2:1 respectively. Their balance sheet as at 31st March, 2014 was as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital Accounts:		Goodwill	10,000
Aman	70,000	Land	20,000
Baal	80,000	Buildings	1,10,000
Chand	10,000	Machinery	50,000
General Reserve	18,000	Motor Car	28,000
Investment Fluctuation Fund	4,000	Furniture	12,000
Chand's Loan	33,000	Investments	18,000
Mrs. Aman's loan	15,000	Loose tools	7,000
Creditors	96,000	Stock	18,000
Bills Payable	14,000	Bills receivable	20,000
Bank overdraft	60,000	Debtors: 40,000	
		Less: Provision 2,000	38,000
		Cash	1,000
		Chand's current A/c	56,000
		Profit and Loss A/c	12,000
	4,00,000		4,00,000

The partners decide to convert their firm into a Joint Stock Company. For this purpose ABC Ltd. was formed with an authorized capital of Rs. 10,00,000 divided into Rs. 100 equity Shares. The business of the firm was sold to the company as at the date of balance sheet given above on the following terms:

(i) Motor car, furniture, investments, loose tools, debtors and cash are not to be taken over by the company.

(ii) Liabilities for bills payable and bank overdraft are to be taken over by the company.

(iii) The purchase price is settled at Rs. 1,95,500 payable as to Rs. 75,500 in cash and the balance in company's fully paid shares of Rs. 100 each.

(iv) The remaining assets and liabilities of the firm are directly disposed of by the firm as per details given below:

Investments are taken over by Aman for Rs. 13,000; debtors realize in all Rs. 20,000; Motor Car, furniture and loose tools fetch Rs. 24,000, Rs. 4,000, and Rs. 1,000 respectively. Aman agrees to pay his wife's loan. The creditors were paid Rs. 94,000 in final settlement of their claims. The realization expenses amount to Rs. 500.

(v) The equity share received from the vendor company are to be divided among the partners in profit-sharing ratio.

You are required to prepare the necessary ledger accounts. *(16 Marks)*

4. (a) The following particulars relate to V Limited Company which has gone into voluntary liquidation.

Share capital issued:

5,000 Preference shares of Rs. 100 each fully paid up.

25,000 Equity shares of Rs. 10 each fully paid up.

15,000 Equity shares of Rs. 10 each, Rs. 8 paid up.

Assets realized Rs. 10,00,000 excluding the amount realized by sale of securities held by partly secured creditors.

	Rs.
Preferential creditors	25,000
Unsecured creditors	9,00,000
Partly secured creditors (Assets realized Rs. 1,60,000)	1,75,000
Debentureholders having floating charge on all assets of the company	3,00,000
Expenses of liquidation	5,000

A call of Rs. 2 per share on the partly paid equity shares was duly received except in case of one shareholder owning 500 shares.

You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @ 2½% on all assets realized excluding call money received and 2% on the amount paid to unsecured creditors including preferential creditors. Also calculate the percentage of amount paid to the unsecured creditors to the total unsecured creditors.

(b) The following facts have been taken out from the records of City Bank Ltd. as on 31st March, 2015:

	Rs.	Rs.
Rebate on bill discounted (not due on March 31st, 2014)		91,600
Discount received		4,05,000
Bill discounted	24,50,000	

An analysis of the bills discounted is as follows:

	Amount	*Due date*	*Rate of discount*
	Rs.	*2015*	
(i)	7,50,000	April 8	12%
(ii)	3,00,000	May 5	14%
(iii)	4,40,000	June 12	14%
(iv)	9,60,000	July 15	15%

You are required to:-

(i) Calculate Rebate on Bill Discounted as on 31st March, 2015.

(ii) The amount of discount to be credited to the profit and loss account.

(8 + 8 = 16 Marks)

5. (a) 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)

(b) Hari Ltd. had issued 20,000, 13% Convertible debentures of Rs. 100 each on 1st April, 2012. The debentures are due for redemption on 1st July, 2014. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debentureholders to convert 20% of their holding into equity shares (Nominal value Rs. 10) at a price of Rs. 15 per share. Debentureholders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debentureholders exercising the option to the maximum. *(12 + 4 = 16 Marks)*

6. (a) On 31st March, 2014 the books of Shah Insurance Company Limited, contained the following particulars in respect of fire insurance:

Particulars	*Amount Rs.*
Reserve for unexpired risks on March 31, 2013	10,00,000
Additional Reserve for unexpired risks on March 31, 2013	2,00,000
Premiums	22,40,000
Claims paid	12,80,000
Estimated liability in respect of outstanding claims:	
On March 31, 2013	1,30,000
On March 31, 2014	1,80,000
Expenses of management (including Rs. 60,000 legal expenses paid in connection with the claims)	5,60,000
Interest and dividend (Gross)	1,28,500
Income tax on the above	13,040
Profit on sale of investments	22,000
Commission paid	3,04,000

On 31st March, 2014 provide Rs. 11,20,000 as unexpired risk reserve and Rs. 1,50,000 as additional reserve.

You are required to prepare the Fire Insurance Revenue account as per the regulations of IRDA, for the year ended 31st March, 2014.

(b) On 1st April, 2014, a company offered 100 shares to each of its 500 employees at Rs. 50 per share. The employees are given a month to accept the offer. The shares issued under the plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company on the grant date is Rs. 60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at Rs. 56 per share.

On 30th April, 2014, 400 employees accepted the offer and paid Rs. 50 per share purchased. Nominal value of each share is Rs. 10.

Record the issue of shares in the books of the company under the aforesaid plan.

(12 + 4 = 16 Marks)

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

(a) A company with a turnover of Rs. 500 crores and an annual advertising budget of Rs. 4 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of Rs. 50 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of Rs. 4 crore incurred on extensive special initial advertisement campaign for the new product. Is the procedure adopted by the company correct?

(b) In May, 2013, Victory Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2014 and the building was put to use immediately thereafter. Interest on actual amount used for construction of the building till its completion was Rs. 36 lakhs whereas the total interest paid to the bank on the loan for the period till 31st March, 2014 amounted to Rs. 50 lakhs.

What amount of interest should be capitalized as per Accounting Standard 16 ?

(c) The company finds that the inventory sheets of 31.3.2013 did not include two pages containing details of inventory worth Rs. 20 lakhs.

State, how you will deal with the above matter in the accounts of Lemon Ltd. for the year ended 31st March, 2014 with reference to Accounting Standards.

(d) State any four alternative accounting treatment of the fund received by an Electricity Company from consumer towards capital expenditure/ service line contributions.

(e) Mohan started a business on 1st April 2014 with Rs. 12,00,000 represented by 60,000 units of Rs. 20 each. During the financial year ending on 31st March, 2015, he sold the entire stock for Rs. 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Mohan in the year 2014-15 if Financial Capital is maintained at historical cost. *(4 x 4 = 16 Marks)*

Test Series: March, 2015

MOCK TEST PAPER - 2

INTERMEDIATE (IPC) : GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) Finance Lease.

(ii) If it becomes certain at the inception of lease itself that the option will be exercised by the lessee, it is a Finance Lease.

(iii) It will still be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term

(iv) Where X = Y, or where X substantially equals Y, it is a finance lease.

(v) Since the asset is procured only for the use of lessee, it is a finance lease.

(b) As per para 16 of AS 20, "Earnings Per Share", the weighted average number of equity shares outstanding during the period reflects the fact that the amount of shareholders' capital may have varied during the period as a result of a larger or less number of shares outstanding at any time. For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.

Weighted average number of equity shares

7,20,000 X 5/12	= 3,00,000 shares
9,60,000 X 5/12	= 4,00,000 shares
8,40,000 X 2/12	= 1,40,000 shares
	= 8,40,000 shares

(c) As per AS 4, "adjustments" to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. In the given case, since Raj Ltd. was sued by a competitor for infringement of a trademark during the year 2014-15 for which the provision was also made by it, the decision of the Court on 18th May, 2015, for payment of the penalty will constitute as an adjusting event because it is an event occurred before approval of the financial statements. Therefore, Raj Ltd. should adjust the provision upward by Rs. 4 lakhs to reflect the amount decreed by the Court and to be paid by them to its competitor.

(d) **Journal Entries**

Year	*Particulars*		*Rs. in lakhs (Dr.)*	*Rs. in lakhs (Cr.)*
2nd	Fixed Asset Account	Dr.	5	
	To Bank Account			5
	(Being government grant on asset partly refunded which increased the cost of fixed asset)			
	Depreciation Account (W.N.)	Dr.	3.67	
	To Fixed Asset Account			3.67
	(Being depreciation charged on SLM on revised value of fixed asset prospectively)			
	Profit & Loss Account	Dr.	3.67	
	To Depreciation Account			3.67
	(Being depreciation transferred to Profit and Loss Account at the end of year 2)			

Working Note:

Depreciation for Year 2

	Rs. in lakhs
Cost of the Asset	20
Less: Government grant received	(8)
	12
Less: Depreciation for the first year $\left[\frac{12-4}{4}\right]$	2
	10
Add: Government grant refundable	5
	15
Depreciation for the second year $\left[\frac{15-4}{3}\right]$	3.67

2. (a) In the books of English Firm (Head Office in New York)

Chennai Branch Profit and Loss Account for the year ended 31st December, 2014

	$		$
To Opening stock	4,500	By Sales	46,875
To Purchases	31,250	By Closing stock	12,500
To Gross profit c/d	23,625	(6,37,500 / 51)	
	59,375		59,375
To Salaries	2,000	By Gross profit b/d	23,625
To Rent, rates and taxes	2,125		
To Exchange translation loss	2,000		
To Net Profit c/d	17,500		
	23,625		23,625

Balance Sheet of Chennai Branch as on 31st December, 2014

Liabilities	$	$	*Assets*	$
Head Office A/c	13,400		Furniture	1,750
Add : Net profit	17,500	30,900	Closing Stock	12,500
Trade creditors		10,000	Trade Debtors	15,000
Bills Payable		3,500	Bills Receivable	4,000
			Cash at bank	11,150
		44,400		44,400

Working Note:

Require for calculation of Exchange Translation Loss

Chennai Branch Trial Balance (converted in $) as on 31st December, 2014

	Dr.	*Cr.*	*Conversion*	*Dr.*	*Cr.*
	Rs.	*Rs.*	*rate*	*($)*	*($)*
Stock on 1st Jan., 2014	2,34,000		52	4,500	
Purchases & Sales	15,62,500	23,43,750	50	31,250	46,875
Debtors & creditors	7,65,000	5,10,000	51	15,000	10,000
Bills Receivable and Bills Payable	2,04,000	1,78,500	51	4,000	3,500
Salaries and wages	1,00,000		50	2,000	

Rent, Rates and Taxes	1,06,250		50	2,125	
Furniture	91,000			1,750	
Bank A/c	5,68,650		51	11,150	
New York Account		5,99,150			13,400
Exchange translation loss (bal. fig.)				2,000	
	36,31,400	36,31,400		73,775	73,775

(b) Computation of liabilities of underwriters (No. of shares):

	A & Co.	B & Co.	C & Co.	Total
Gross liability	72,000	30,000	18,000	1,20,000
Less: Marked applications (excluding firm underwriting)	(12,000)	(15,000)	(6,000)	(33,000)
	60,000	15,000	12,000	87,000
Less: Unmarked Applications*(Ratio 72:30:18)	(16,200)	(6,750)	(4,050)	(27,000)
	43,800	8,250	7,950	60,000
Less: Firm underwriting	(9,600)	(12,000)	(3,600)	(25,200)
	34,200	(3,750)	4,350	34,800
Credit for excess of B & Co. (ratio 72:18)	(3,000)	3,750	(750)	
Net liability (excluding firm underwriting)	31,200	-	3,600	
Add: Firm underwriting	9,600	12,000	3,600	
Total liability (No. of shares)	40,800	12,000	7,200	

Working Note:

* Total Applications	60,000	Shares
Less: Marked Applications	33,000	Shares
Unmarked applications	27,000	Shares

3. **Realisation Account**

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Goodwill		10,000	By provision to doubtful Debts		2,000
To land		20,000	By Trade creditors		96,000
To Buildings		1,10,000	By Bills Payable		14,000

To Machinery		50,000	By Bank overdraft		60,000
To Motor Car		28,000	By Mrs. Aman's loan		15,000
To Furniture		12,000	By ABC Ltd. (Purchase price)		1,95,500
To Investments		18,000	By Aman's Capital A/c (Investments)		13,000
To Loose tools		7,000	By Cash A/c:		
To Stock		18,000	Debtors	20,000	
To Bill receivable		20,000	Motor Car	24,000	
To Debtors		40,000	Furniture	4,000	
To Aman's Capital A/c (Mrs. Aman's Loan)		15,000	Loose tools	1,000	49,000
To Cash A/c:					
Creditors	94,000				
Realisation expenses	500	94,500			
To Profit on Realisation t/f to:					
Aman's Capital A/c	1,000				
Baal's Capital A/c	667				
Chand's Capital A/c	333	2,000			
		4,44,500			4,44,500

ABC Ltd. Account

Particulars	Rs.	Particulars	Rs.
To Realisation A/c	1,95,500	By Cash A/c	75,500
		By Shares in ABC Ltd.	1,20,000
	1,95,500		1,95,500

Partners' Capital Accounts

Particulars	*Aman Rs.*	*Baal Rs.*	*Chand Rs.*	*Particulars*	*Aman Rs.*	*Baal Rs.*	*Chand Rs.*
To Profit and Loss A/c	6,000	4,000	2,000	By Balance b/d	70,000	80,000	10,000
To Realisation A/c	13,000	-	-	By Chand's Loan A/c	-	-	33,000
To Chand's Current A/c	-	-	56,000	By General reserve	9,000	6,000	3,000

To shares in ABC Ltd.	60,000	40,000	20,000	By Investment Fluctuation Fund	2,000	1,333	667
To Cash A/c	18,000	44,000	-	By Realization A/c	1,000	667	333
				By Realisation A/c (Mrs. Aman's loan A/c)	15,000	-	-
				By Cash A/c	-		31,000
	97,000	88,000	78,000		97,000	88,000	78,000

Chand's Current Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	56,000	By Chand's Capital A/c-transfer	56,000
	56,000		56,000

Shares in ABC Ltd. Account

Particulars	Rs.	Particulars	Rs.
To ABC Ltd. Account	1,20,000	By Aman's Capital A/c	60,000
		By Baal's Capital A/c	40,000
		By Chand's Capital A/c	20,000
	1,20,000		1,20,000

Cash Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,000	By Realisation A/c (Liabilities and expenses)	94,500
To ABC Ltd.	75,500	By Aman's Capital A/c	18,000
To Realisation A/c (sale of assets)	49,000	By Baal's Capital A/c	44,000
To Chand's Capital A/c	31,000		-
	1,56,500		1,56,500

Note : Investment Fluctuation Fund Account may be transferred to Realisation Account.

4. (a) (i) Liquidator's Statement of Account

	Rs.			*Rs.*
To Assets Realised	10,00,000	By Liquidator's remuneration		

To	Receipt of call money on 14,500 equity shares @ 2 per share	29,000		2.5% on 11,60,000*	29,000	
				2% on 25,000	500	
				2% on 6,56,373 (W.N.3)	13,127	42,627
			By	Liquidation Expenses		5,000
			By	Debenture holders having a floating charge on all assets		3,00,000
			By	Preferential creditors		25,000
			By	Unsecured creditors		6,56,373
		10,29,000				10,29,000

(ii) Percentage of amount paid to unsecured creditors to total unsecured creditors

$$= \frac{6,56,373}{9,15,000} \times 100 = 71.73\%$$

Working Notes:

1. Unsecured portion in partly secured creditors=Rs. 1,75,000 -Rs. 1,60,000 = Rs. 15,000
2. Total unsecured creditors = 9,00,000 + 15,000 (W.N.1) = Rs. 9,15,000
3. Liquidator's remuneration on payment to unsecured creditors

Cash available for unsecured creditors after all payments including payment to preferential creditors & liquidator's remuneration on it = Rs. 6,69,500

Liquidator's remuneration on unsecured creditors = Rs. 6,69,500 x 2/102 Rs. 13,127

or on Rs. 6,56,373 x 2/100 = Rs. 13,127

(b) (i) Calculation of Rebate on bills discounted

S. No.	*Amount (Rs.)*	*Due date 2015*	*Unexpired portion*	*Rate of discount*	*Rebate on bill discounted Rs.*
(i)	7,50,000	April 8	8 days	12%	1,972
(ii)	3,00,000	May 5	35 days	14%	4,028
(iii)	4,40,000	June 12	73 days	14%	12,320
(iv)	9,60,000	July 15	106 days	15%	4,1820
					60,140

* Total assets realised =Rs.10,00,000 +Rs.1,60,000 =Rs.11,60,000

(ii) Amount of discount to be credited to the Profit and Loss Account

	Rs.
Transfer from Rebate on bills discount as on 31st March, 2014	91,600
Add: Discount received during the year ended 31st March, 2015	4,05,000
	4,96,600
Less: Rebate on bills discounted as on 31st March, 2015	60,140
Discount credited to the Profit and Loss Account	4,36,460

5. (a) 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

(b) Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	20,000
Less: Debenture holders not opted for conversion	(2,500)
Debenture holders opted for conversion	17,500
Option for conversion	20%
Number of debentures to be converted (20% of 17,500)	3,500
Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)]	Rs. 3,67,500
Equity shares of Rs.10 each issued on conversion	
[Rs. 3,67,500/ Rs.15]	24,500 shares

6. (a) FORM B– RA

Name of the Insurer: Shah Insurance Company Limited

Registration No. and Date of registration with IRDA: ……………………..

Revenue Account for the year ended 31st March, 2014

Particulars	*Schedule*	*Amount (Rs.)*
Premium earned (net)	1	21,70,000
Profit or loss on sale/redemption of investment		22,000
Others		-
Interest dividend & rent (Gross)		1,28,500
Total (A)		23,20,500
Claim incurred (Net)	2	13,90,000

Commission	3	3,04,000
Operating expenses related to insurance	4	5,00,000
Total (B)		21,94,000
Operating profit/loss from fire insurance business		1,26,500
Schedule –1 (Premium earned net)		Rs.
Premium received		22,40,000
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)		70,000
Total premium earned		21,70,000
Schedule -2 (Claims incurred net)		
Claim paid		12,80,000
Add: Legal expenses regarding claims		60,000
		13,40,000
Add: Claims outstanding as on 31st March 2014		1,80,000
		15,20,000
Less: Claims outstanding as on 31st March 2013		1,30,000
		13,90,000
Schedule-3 (Commission)		
Commission paid		3,04,000
Schedule-4 (Operating expenses related to Insurance Business)		-
Expenses of management (5,60,000 – 60,000)		5,00,000

Working Note:

Calculation for change in Reserve for Unexpired risk:		Rs.
As on 31st March, 2014:		
Reserve for Unexpired Risk	11,20,000	
Additional Reserve	1,50,000	12,70,000
Less: Reserve for Unexpired risks as on 31st March, 2013	10,00,000	
Additional reserve as on 31st March, 2013	2,00,000	(12,00,000)
		70,000

Note: Interest and dividends are shown at gross value in Revenue A/c. Income tax on the above will not be included in Revenue A/c of an insurance company.

(b) Fair value of an option = Rs. 56 – Rs. 50 = Rs. 6

Number of shares issued = 400 employees x 100 shares/employee = 40,000 shares

Fair value of ESPP = 40,000 shares x Rs. 6 = Rs. 2,40,000

Vesting period = 1 month

Expenses recognized in 2014-15 = Rs. 2,40,000

Date	*Particulars*	*Rs.*	*Rs.*
30.04.2014	Bank (40,000 shares x Rs. 50) Dr.	20,00,000	
	Employees compensation expenses A/c Dr.	2,40,000	
	To Share Capital (40,000 shares x Rs.10)		4,00,000
	To Securities Premium (40,000 shares x Rs. 46)		18,40,000
	(Being option accepted by 400 employees & payment made @ Rs. 56 per share)		

7. (a) According to para 55 of AS 26 'Intangible Assets', "expenditure on an intangible item should be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset".

In the given case, advertisement expenditure of Rs. 4 crores had been taken up for the marketing of a new product which may provide future economic benefits to an enterprise by having a turnover of Rs. 50 crores. Here, no intangible asset or other asset is acquired or created that can be recognised. Therefore, the accounting treatment by the company of debiting the entire advertising expenditure of Rs. 4 crores to the Profit and Loss account of the year is correct.

(b) According to para 19 of AS 16 'Borrowing Costs', capitalisation of borrowing costs should cease when substantially all the activities to prepare the qualifying asset for its intended use or sale are completed.

In the given case, since the qualifying asset was ready to use in January, 2014, therefore, interest till that date can only be capitalized. Hence, interest of Rs. 36 lakhs will only be capitalized. The balance of Rs. 14 lakhs (i.e. 50-36) will be debited to Profit and Loss Account.

(c) Accounting Standard 5 on "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", defines Prior Period items as "income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods".

Rectification of error in inventory valuation is a prior period item vide provisions of AS 5. Rs. 20 lakhs must be added to the opening inventory of 1/4/2013. It is also necessary to show Rs. 20 lakhs as a prior period adjustment in the Profit and loss Account. Separate disclosure of this item as a prior period item is required as per Para 15 of AS 5.

(d) Accounting treatment of the fund received by an Electricity Company from consumer towards capital expenditure / service line contributions can be given as follows:

(i) Amount received from consumer towards capital/service line contributions is accounted as liability and subsequently recognised as income over the life of the asset;

(ii) Amount received from consumer towards capital/service line contributions is accounted as reserves as the amount is not refundable and reported under the head Reserves and Surplus without transferring any proportionate amount to the income statement over the life of asset;

(iii) Amount received from consumer towards capital/service line contributions is accounted as Capital Reserve as the amount is not refundable and subsequently proportionate amount is transferred to income statement during the expected life of asset to match against depreciation on total cost of such asset;

(iv) Amount received from consumer towards capital/service line contributions is accounted as reduction in the cost of Non-current Asset and depreciation may be provided on such reduced cost.

(e)

Particulars	*Financial Capital Maintenance at Historical Cost (Rs.)*
Closing equity (Rs. 30 x 60,000 units)	18,00,000 represented by cash
Opening equity	60,000 units x Rs. 20 = 12,00,000
Permissible drawings to keep Capital intact	6,00,000 (18,00,000 – 12,00,000)

Test Series: March, 2015

MOCK TEST PAPER – 2

INTERMEDIATE (IPC): GROUP – II

PAPER – 6: AUDITING AND ASSURANCE

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

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

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

1. (a) Discuss with reference to SAs:

   (i) As per SA 530, state the requirements relating to audit sampling, sample design, sample size and selection of items for testing. *(5 Marks)*

   (ii) With reference of SA 250 give some examples or matters indicating to the auditor about non compliance of laws & regulations by management. *(5 Marks)*

   (b) Discuss the following:

   (i) The reliability of audit evidence is influenced by its source, nature and circumstances under which it is obtained. (5 Marks)

   (ii) Fraud in the form of misappropriation of goods is still more difficult to detect.

   (5 Marks)

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

   (i) Contingent gains should be recognized in the financial statements.

   (ii) The carrying amount for current investments is the lower of cost and fair value.

   (iii) While preparing the Balance sheet of a company- the earmarked balances with banks need not be stated separately.

   (iv) Only Central Government has the power to prescribe accounting standards.

   (v) The risk of not detecting a material misstatement resulting from fraud is lower than the risk of not detecting one resulting from error.

   (vi) The fact that an audit is carried out acts as a deterrent and consequently the auditor can be held responsible for the prevention of fraud and error.

   (vii) Sufficiency and appropriateness of audit evidence are interrelated.

   (viii) “Audit Sampling” means the application of audit procedures to 100% of items within a population.

   (ix) Internal control can provide absolute assurance.

(x) Substantive procedure may be defined as an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level. *(2 x 8 = 16 Marks)*

3. (a) "Apart from the knowledge acquired by the auditor in the formal manner, the auditor should also possess certain personal qualities." Explain briefly stating the qualities of Auditors. *(5 Marks)*

   (b) "The liability of the auditor for failure to detect fraud exists only when such failure is clearly due to not exercising reasonable care and skill." Explain. *(5 Marks)*

   (c) 'Doing a statutory audit is full of risk'. Narrate the factors which cause the risk. *(6 Marks)*

4. (a) "AS 1, "Disclosure of Accounting Policies", lays down that the "Going Concern", is one of the fundamental accounting assumption underlying financial statements." Explain. *(4 Marks)*

   (b) How will you vouch and verify the following?

   (i) Recovery of Bad Debts written off.

   (ii) Goods sent out on Sale or Return Basis.

   (iii) Borrowing from Banks. *(3 x 4 = 12 Marks)*

5. (a) An audit of Expenditure is one of the major components of Government Audit. In the context of 'Government Expenditure Audit', write in brief, what do you understand by:

   (i) Audit against Rules and Orders

   (ii) Audit of Sanctions

   (iii) Audit against Provision of Funds

   (iv) Propriety Audit

   (v) Performance Audit *(8 Marks)*

   (b) What are the special audit points to be considered by the auditor during the audit of a Hospital? *(8 Marks)*

6. (a) M/s RST & Co., a firm of Chartered Accountants, has three partners, namely, Mr. R, Mr. S & Mr. T. The firm is allotted the audit of ASHIANA Ltd. Mr. T, partner in the firm, subsequently holds 200 shares in ASHIANA Ltd. Comment. *(6 Marks)*

   (b) Chairman and Managing Director (CMD) of BHEL, a Government Company, appointed its auditors on the authority of Board of Directors given to him. Comment. *(6 Marks)*

   (c) The auditor, CA "Y", appointed under section 139 of the Companies Act, 2013, was removed from his office before the expiry of his term by an ordinary resolution of the company. Comment explaining clearly the procedure of removal of auditor before expiry of term. *(4 Marks)*

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

   (a) Examination in Depth.

   (b) Audit Trail.

   (c) Intangible Assets.

   (d) Sweat Equity Shares.

   (e) Audit of Capital Reserve. *(4 x 4 = 16 Marks)*

Test Series: March, 2015

MOCK TEST PAPER – 2

INTERMEDIATE (IPC): GROUP – II

PAPER – 6: AUDITING AND ASSURANCE

SUGGESTED ANSWERS / HINTS

1. (a) (i) **As per SA 530 on "Audit Sampling"**, the meaning of the term Audit Sampling is – the application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

The requirements relating to sample design, sample size and selection of items for testing are explained below-

Sample design - When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.

Sample Size- The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.

Selection of Items for Testing- The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.

(ii) **Examples on Non Compliance of Laws & Regulations:** As per SA 250 on "Consideration of Laws and Regulation in an Audit of Financial Statements", the following are examples or matters indicating to the auditor about non-compliance with laws and regulations by management-

(1) Investigations by regulatory organisations and government departments or payment of fines or penalties.

(2) Payments for unspecified services or loans to consultants, related parties, employees or government employees.

(3) Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received.

(4) Purchasing at prices significantly above or below market price.

(5) Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts.

(6) Unusual payments towards legal and retainership fees.

(7) Unusual transactions with companies registered in tax havens.

(8) Payments for goods or services made other than to the country from which the goods or services originated.

(9) Payments without proper exchange control documentation.

(10) Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.

(11) Unauthorised transactions or improperly recorded transactions.

(12) Adverse media comment.

(b) (i) Reliability of Audit Evidence: As per SA 500 "Audit Evidence", the reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant. Therefore, generalisations about the reliability of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability. For example, information obtained from an independent external source may not be reliable if the source is not knowledgeable, or a management's expert may lack objectivity. While recognising that exceptions may exist, the following generalisations about the reliability of audit evidence may be useful:

(1) The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.

(2) The reliability of audit evidence that is generated internally is increased when the related controls, including those over its preparation and maintenance, imposed by the entity are effective.

(3) Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control).

(4) Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed).

(5) Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitised or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance.

(ii) **Fraud in the Form of Misappropriation of Goods:** Fraud in the form of misappropriation of goods is still more difficult to detect. For this, management has to rely on various measures. Apart from the various requirements of record keeping about the physical quantities and their periodic checks, there must be rules and procedures for allowing persons inside the area where goods are kept. In addition there should be external security arrangements to see that no goods are taken out without proper authority. Goods can be anything in the premises; it may be machinery. It may even be the daily necessities of the office like stationery. The goods may be removed by subordinate employees or even by persons quite higher up in the management. Auditors can detect this by undertaking a thorough and strenuous checking of records followed by physical verification process. Also, by resorting to intelligent ratio analysis, auditors may be able to form an idea whether such fraud exists. For example, the gross profit ratio adjusted for any recorded change during the year, reveals whether the value of inventory is reasonable with reference to the amount of the sale. Similarly, the input-output ratio of production in terms of physical quantity may reveal whether output is normal with reference to the quantity consumed for production.

2. **(i)** **Incorrect:** As per AS-4 on Contingencies and Events Occurring After the Balance Sheet Date, Contingent gains are not recognized in financial statements since their recognition may result in the recognition of revenue which may never be realized. However, when the realization of a gain is virtually certain, then such gain is not a contingency and accounting for gain is appropriate.

(ii) **Correct**: As per AS-13 on Accounting for Investments, investments classified as current investments should be carried in the financial statements at the lower of cost and fair value determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis.

(iii) **Incorrect:** As explained in General Instructions for Preparation of Balance Sheet as per Schedule III to the Companies Act, 2013, earmarked balances (for example, for unpaid dividend) with banks shall be separately stated.

(iv) **Correct:** Section 133 of the Companies Act, 2013 provides that the Central Government may prescribe accounting standards as recommended by the Institute of Chartered Accountants of India (ICAI) in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

(v) **Incorrect:** The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor.

(vi) Incorrect: An audit conducted in accordance with the auditing standards generally accepted in India is designed to provide reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The fact that an audit is carried out may act as a deterrent, but the auditor is not and cannot be held responsible for the prevention of fraud and error.

(vii) Correct: SA 500 on 'Audit Evidence' expounds this concept. According to it, the sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. Appropriateness is the measure of the quality of audit evidence. SA 330 requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level.

(viii) Incorrect: "Audit Sampling" means the application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

(ix) Incorrect: Internal control can provide only reasonable but not absolute assurance that its objective relating to prevention and detection of errors/frauds, safeguarding of assets etc., are achieved. This is because it suffers from some inherent limitations.

(x) Incorrect: Test of controls may be defined as an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

Whereas on the other hand, substantive procedure may be defined as an audit procedure designed to detect material misstatements at the assertion level.

3. (a) Qualities of Auditors: The auditor should possess specific knowledge of accountancy, auditing, taxation, etc. which are acquired by him during the course of his theoretical education.

The auditor should also have sufficient knowledge of general principles of law of contracts, partnership; specific statutes and provisions applicable, e.g. Companies Act, 2013, Co-operative Societies Act, etc.; client's nature of business and its peculiar features. Apart from the knowledge acquired by the auditor in the formal manner, the auditor should also possess certain personal qualities such as, tact; caution; firmness; good temper; judgement; patience; clear headedness and commonsense; reliability and trust, etc.

In short, all those personal qualities required to make a good person contribute to the making of a good auditor. In addition, the auditor must have the shine of culture for attaining a great height. He must have the highest degree of integrity backed by adequate independence. In fact, SA 200 mentions integrity, objectivity and independence as one of the basic principles.

Auditing is a profession, calling for wide variety of knowledge to which no one has yet set a limit, the most useful part of the knowledge is probably that which cannot be learnt from books because its acquisition depends on the alertness of the mind in applying to ever varying circumstances, the fruits of his own observation and reflection; only he who is endowed with common sense in adequate measure can achieve it.

(b) Liability of Auditor for Failure to Detect Fraud: The liability of the auditor for failure to detect fraud exists only when such failure is clearly due to not exercising reasonable care and skill. After completion of the statutory audit, if a fraud has been detected, the same by itself cannot mean that the auditor did not perform his duty properly. If the auditor can prove with the help of his papers (documentation) that he has followed adequate procedures necessary for the proper conduct of an audit, he cannot be held responsible for the same. If however, the same cannot be proved, he would be held responsible.

(c) Factors Causing Risk While Conducting an Audit: As Per SA 200 "Overall Objectives of the Independent Auditor and the conduct of an audit in accordance with standards on auditing", the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with SAs and relevant ethical requirements enables the auditor to form that opinion.

An independent audit whether performed in terms of applicable financial reporting framework or in terms of the engagement, the auditor has to be reasonably satisfied as to whether the information contained in the underlying accounting records and other source data is reliable for the preparation of financial statements. Since the entire process of auditing is based on the assessment of judgements made by the management of the entity as well as evaluation of internal controls, the audit suffers certain inherent risks.

Factors which may cause such risk in conducting an audit are discussed below-

(i) **Exercising judgement on the part of the auditor:** The auditor's work involves exercise of judgement, for example, in deciding the extent of audit procedures and in assessing the reasonableness of the judgements and estimates made by management in preparing the financial statements.

(ii) **Nature of audit evidence:** Much of the evidence available to the auditor can enable him to draw only reasonable conclusions therefrom. The auditor normally relies upon persuasive evidence rather than conclusive evidence. Even in circumstances where conclusive evidence is available, the cost of obtaining such an evidence may far exceed the benefits.

(iii) **Inherent limitations of internal control:** Internal control can provide only reasonable, but not absolute, assurance on account of several inherent limitations such as potential for human error, possibility of circumstances of control through collusion, etc.

On account of above, it is quite clear that an audit suffers from control risk on account of inherent limitations of internal control and detection risk on account of test nature of audit and judgement and estimates involved in formulating accounting policies.

4. (a) Going Concern Concept: AS 1 "Disclosure of Accounting Policies", lays down that the "Going Concern", is one of the fundamental accounting assumption underlying financial statements. This Going Concern concept envisages that the entity will continue for the foreseeable future. Accounts are prepared on this concept unless there are indication that going concern concept is not holding good for a particular entity. On account of this basic concept of going concern, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. If this assumption is unjustified, the entity may not be able to realise its assets at the recorded amounts and there may be changes in the amounts and maturity dates of liabilities. AS 1, "Disclosure of Accounting Policies", also requires that no specific disclosure is required in case the same has been followed in the preparation of financial statements. In case this assumption is not followed, the fact should be disclosed.

SA 570 "Going Concern", establishes standards on the auditor's responsibilities in the audit of financial statements regarding the appropriateness of the going concern assumption as a basis for the preparation of the financial statements.

(b) (i) Recovery of Bad Debts Written Off:

(1) Ascertain the total amount of bad debts.

(2) Ensure that all recoveries of bad debts have been properly recorded in the books of account.

(3) Examine notification from the Court or from bankruptcy trustee, letters from collecting agencies or from trade receivables should also be seen.

(4) Check Credit Manager's file for the amount received and see that the said amount has been deposited into the bank promptly.

(ii) Goods Sent Out on Sale or Return Basis:

(1) Check whether a separate memoranda record of goods sent out on sale or return basis is maintained. The party accounts are debited only after the goods have been sold and the sales account is credited.

(2) See that price of such goods is unloaded from the sales account and the trade receivable's record. Refer to the memoranda record to confirm that on the receipt of acceptance from each party, his account has been debited and the sales account correspondingly credited.

(3) Ensure that the goods in respect of which the period of approval has expired at the close of the year either have been received back subsequently or customers' accounts have been debited.

(4) Confirm that the inventory of goods sent out on approval, the period of approval in respect of which had not expired till the close of the year lying with the party, has been included in the closing inventory.

(iii) Borrowing from Banks: Borrowing from banks may be either in the form of overdraft limits or term loans. In each case, the borrowings should be verified as follows:

(1) Reconcile the balances in the overdraft or loan account with that shown in the pass book(s) and confirm the last mentioned balance by obtaining a certificate from the bank showing the balance in the accounts as at the end of the year.

(2) Obtain a certificate from the bank showing particulars of securities deposited with the bank as security for the loans or of the charge created on an asset or assets of the concern and confirm that the same has been correctly disclosed and duly registered with Registrar of Companies and recorded in the Register of charges.

(3) Verify the authority under which the loan or draft has been raised. In the case of a company, only the Board of Directors is authorised to raise a loan or borrow from a bank.

(4) Confirm, in the case of a company, that the restraint contained in Section 180 of the Companies Act, 2013 as regards the maximum amount of loan that the company can raise has not been contravened.

(5) Ascertain the purpose for which loan has been raised and the manner in which it has been utilized and that this has not prejudicially affected the entity.

5. (a) Government Expenditure Audit: Audit of government expenditure is one of the major components of government audit conducted by the office of C&AG. The basic standards set for audit of expenditure are to ensure that there is provision of funds authorised by competent authority fixing the limits within which expenditure can be incurred. Briefly, these standards are explained below:

(i) **Audit against Rules & Orders:** The auditor has to see that the expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and regulations framed by the competent authority.

(ii) **Audit of Sanctions:** The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, accorded by the competent authority, authorising such expenditure.

(iii) **Audit against Provision of Funds:** It contemplates that there is a provision of funds out of which expenditure can be incurred and the amount of such expenditure does not exceed the appropriations made.

(iv) **Propriety Audit:** It is required to be seen that the expenditure is incurred with due regard to broad and general principles of financial propriety. The auditor aims to bring out cases of improper, avoidable, or in fructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. Audit aims to secure a reasonably high standard of public financial morality by looking into the wisdom, faithfulness and economy of transactions.

(v) **Performance Audit:** This involves that the various programmes, schemes and projects where large financial expenditure has been incurred are being run economically and are yielding results expected of them. Efficiency-cum-performance audit, wherever used, is an objective examination of the financial and operational performance of an organisation, programme, authority or function and is oriented towards identifying opportunities for greater economy, and effectiveness.

(b) Audit of Hospital: The special audit points to be considered by the auditor during the audit of a Hospital are stated below:-

(i) Vouch the Register of patients with copies of bills issued to them. Verify bills for a selected period with the patients' attendance record to see that the bills have been correctly prepared. Also see that bills have been issued to all patients from whom an amount was recoverable according to the rules of the hospital.

(ii) Check cash collections as entered in the Cash Book with the receipts, counterfoils and other evidence for example, copies of patients bills, counterfoils of dividend and other interest warrants, copies of rent bills, etc.

(iii) See by reference to the property and Investment Register that all income that should have been received by way of rent on properties, dividends, and interest on securities settled on the hospital, has been collected.

(iv) Ascertain that legacies and donations received for a specific purpose have been applied in the manner agreed upon.

(v) Trace all collections of subscription and donations from the Cash Book to the respective Registers. Reconcile the total subscriptions due (as shown by the Subscription Register and the amount collected and that still outstanding).

(vi) Vouch all purchases and expenses and verify that the capital expenditure was incurred only with the prior sanction of the Trustees or the Managing Committee and that appointments and increments to staff have been duly authorised.

(vii) Verify that grants, if any, received from Government or local authority has been duly accounted for. Also, that refund in respect of taxes deducted at source has been claimed.

(viii) Compare the totals of various items of expenditure and income with the amount budgeted for them and report to the Trustees or the Managing Committee significant variations which have taken place.

(ix) Examine the internal check as regards the receipt and issue of stores; medicines, linen, apparatus, clothing, instruments, etc. so as to ensure that purchases have been properly recorded in the Inventory Register and that issues have been made only against proper authorisation.

(x) See that depreciation has been written off against all the assets at the appropriate rates.

(xi) Inspect the bonds, share scrips, title deeds of properties and compare their particulars with those entered in the property and Investment Registers.

(xii) Obtain inventories, especially of stocks and stores as at the end of the year and check a percentage of the items physically; also compare their total values with respective ledger balances.

6. (a) Holding of Securities: Under sub-section (3)(d)(i) of section 141 of the Companies Act, 2013 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 (hereinafter referred as CAAR), a person who, or his relative or partner is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company, shall not be eligible for appointment as an auditor of a company.

It may be noted that the relative may hold security or interest in the company of face value not exceeding rupees one lakh.

Where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in sub-section (3) after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.

In the given case, M/s RST & Co. has been appointed as an auditor of ASHIANA Ltd. Subsequently, Mr. T, a partner in the firm, holds 200 shares in the company.

Applying the above provisions to the given problem, it may be concluded that the firm M/s RST & Co., Chartered Accountants, is not eligible to continue as auditors. The Firm shall vacate its office as auditor and such vacation shall be treated as casual vacancy.

(b) **Appointment of Subsequent Auditors in case of Government Companies:** As per Section 139(5), in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, the Comptroller and Auditor-General of India shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of companies under this Act, within a period of 180 days from the commencement of the financial year, who shall hold office till the conclusion of the annual general meeting.

In the given case, the Chairman and Managing Director (CMD) of BHEL, a Government Company, has appointed the auditor for the company on an authority given to him by the Board of Directors.

Keeping in view the above provisions, appointment made by the CMD is invalid even if he has the authority of Board of Directors.

(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 thirty days of the resolution passed by the Board.

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

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

By applying the above provisions, it may be concluded that the action of the company for removal of the auditor before expiry of term is not justified and auditor may be removed from his office only by following the above mentioned procedure.

7. **(a)** **Examination in Depth:** It implies examination of a few selected transactions from the beginning to the end through the entire flow of the transaction, i.e., from initiation to the completion of the transaction by receipt or payment of cash and delivery or receipt of the goods. This examination consists of studying the recording of transactions at the various stages through which they have passed. At each stage, relevant records and authorities are examined; it is also judged whether the person who has exercised the authority in relation to the transactions is fit to do so in terms of the prescribed procedure. For example, a purchase of goods may commence when a predetermined re-order level has been reached. The ensuing stages may be summarised thus:

(i) requisitions are pre-printed, pre-numbered and authorised;

(ii) official company order, also sequentially pre-numbered, authorised and placed with approved suppliers only;

(iii) receipt of supplier's invoice;

(iv) receipt of supplier's statement;

(v) entries in purchases day book;

(vi) postings to purchase ledger and purchase ledger control account;

(vii) cheque in settlement;

(viii) entry on bank statement and returned "paid" cheque (if requested);

(ix) cash book entry;

(x) posting from cash book to ledger and control account, taking into account any discounts.

(xi) receipt of goods, together with delivery/advice note;

xii) admission of goods to stores;

(xiii) indication, by initials or rubber stamp on internal goods inwards note, of compliance with order regarding specification, quantity and quality;

(xiv) entries in stores records.

It should be noted that the above list is not necessarily comprehensive, nor does its constituent stages inevitably take place in the sequence suggested. The important point to note is that from the moment it was realised that once a re-order level had reached, a chain of events was put in motion, together leaving what may be termed as "audit trail". Each item selected for testing must be traced meticulously, and although sample sizes need not be large, they must, of course, be representative.

It is an acceptable practice to check a slightly smaller number of transactions at each successive stage within a depth test, on the statistical grounds (based on probability theory) that the optimum sample size decreases as the auditor's "level of confidence" concerning the functioning of the system increases. Examination in depth has been found indispensable in modern auditing practice and, if intelligently conducted, its reconstruction of the audit trail reveals more about the functioning (or malfunctioning) of the client's system in practice than the haphazard and mechanical approach to testing.

(b) Audit Trail: An audit trail refers to a situation where it is possible to relate 'one-to-one' basis, the original input along with the final output. The work of an auditor would be hardly affected if "Audit Trail" is maintained i.e. if it were still possible to relate, on a 'one-to-one' basis, the original input with the final output. A simplified representation of the documentation in a manually created audit trail.

For example, the particular credit notes may be located by the auditor at any time he may wish to examine them, even months after the balance sheet date. He also has the means, should he so wish, of directly verifying the accuracy of the totals and sub-totals that feature in the control listing, by reference to individual credit notes. He can, of course, check all detailed calculations, casts and postings in the accounting records, at any time.

In first and early second-generation computer systems, such a complete and trail was generally available, no doubt , to management's own healthy skepticism of what the new machine could be relied upon to achieve – an attitude obviously shared by the auditor.

It is once iterated that there is an abundance of documentation upon which the auditor can use his traditional symbols of scrutiny, in the form of colored ticks and rubber stamps. Specifically:

(i) The output itself is as complete and as detailed as in any manual system.

(ii) The trail, from beginning to end, is complete, so that all documents may be identified by located for purposes of vouching, totalling and cross-referencing.

Any form of audit checking is possible, including depth testing in either direction.

(c) Intangible Assets: An intangible asset is that asset which does not have a physical identity but which is used by the enterprise for production or supply of goods or for retails to other or for administrative purpose. Such asset does not have any physical existence but their presence in the business is indicated with a value placed thereon. These assets include rights and benefit to owners subject to their being useful. For example: goodwill, patents, copyright etc. AS 26, "Intangible Assets", applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (for example, a prototype), the physical element of the asset is secondary to its intangible component, that is the knowledge embodied in it. This standard also applies to rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights. An intangible asset should measured at cost. After initial recognition an intangible asset should be carried at its cost less any accumulated amortisation and any impairment losses.

Auditor should also ensure that proper disclosure is made in the financial statements about the carrying amount, amortisation methods, useful lives, etc.

(d) **Sweat Equity Shares:** As per section 54 of the Companies Act, 2013, the employees may be compensated in the form 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 right in the nature of intellectual property rights or value additions, by whatever name called.

The auditor may see 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.

(e) **Audit of Capital Reserve:** A capital reserve is a reserve which is not available for distribution as dividend. The auditor should examine that the head 'capital reserves' does not include any amounts as are regarded as free for distribution as dividend. In the case of a company, if there is a capital profit on reissue of forfeited shares, it is to be shown under capital reserves.

The following are the duties for the Auditor in connection with the capital profit, which are not normally available for distribution to the shareholders unless:

(i) The Articles of the company permit such a distribution,

(ii) It has been realised in cash,

(iii) The assets value remaining after distribution of the profit will be not less than the book value so that share capital and reserves remaining after the distribution will be fully represented by the remaining assets.

Revaluation reserve is also not available for dividends. Further, the bonus share cannot be issued by capitalisation of revaluation reserve. If any company does so, the auditor should qualify his report.

It may however, be noted that revalued capital profits are distributable in the same way as other profits and that it is not necessary to comply condition (i) and (ii) above. This is because AS 10 requires that any profit on sale of fixed asset has to be routed through the profit and loss account. A clear distinction should be made between capital profits and capital receipts. The latter cannot be distributed by way of dividend at all.

Auditor should also ensure that following presentation and disclosure requirements of Schedule III to the Companies Act, 2013 have been complied with.

[Requirements of Schedule III to the Companies Act, 2013]:
As per the Schedule III to the Companies Act, 2013, Reserves and Surplus have to be presented in the following manner: "I. Equity and Liabilities: 1. Shareholders' Funds: (a) Share Capital (b) Reserves and Surplus (c) ________________________________" • Reserves and Surplus shall be classified as: (a) Capital Reserves; (b) Capital Redemption Reserve; (c) Securities Premium Reserve; (d) Debenture Redemption Reserve; (e) Revaluation Reserve; (f) Share Options Outstanding Account; (g) Other Reserves – (specify the nature and purpose of each reserve and the amount in respect thereof); (h) Surplus i.e. balance in Statement of Profit & Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves etc. (Additions and deductions since last balance sheet to be shown under each of the specified heads) • A reserve specifically represented by earmarked investments shall be termed as a 'fund'; • Debit balance of statement of profit and loss shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, if any, shall be shown

under the head 'Reserves and Surplus' even if the resulting figure is in the negative.

Test Series: March, 2015

MOCK TEST PAPER – 2

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**

1. Answer all the following questions in brief.
   (i) Business Process
   (ii) Accounting Information System
   (iii) Input Devices
   (iv) Network Contention
   (v) Radio Waves
   (vi) Performance Management of a Network
   (vii) Artificial Intelligence
   (viii) Specialized Systems
   (ix) Data Processing Controls
   (x) Information Processing *(1 x 10 = 10 Marks)*
2. (a) Discuss Internetwork Processors. *(5 Marks)*
   (b) Differentiate between Transport Layer and Network Layer of OSI Model. *(3 Marks)*
3. (a) Discuss some of the examples of Office Automation Applications. *(4 Marks)*
   (b) Differentiate between Tacit Knowledge and Explicit Knowledge. *(4 Marks)*
4. (a) Discuss some advantages of Cloud Computing. *(5 Marks)*
   (b) Differentiate between Online Processing and Real Time Processing. *(3 Marks)*
5. (a) Discuss Mobile Computing. *(4 Marks)*
   (b) Discuss Application Software and its types. *(4 Marks)*
6. (a) List down some of the reasons for the need of documentation to Information

Systems? *(5 Marks)*

(b) Discuss classification of Business Processes. *(3 Marks)*

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

(a) Android

(b) PDCA Cycle

(c) Bus Network

(d) Scorecard

(e) Database Controls *(4 × 2 = 8 Marks)*

Test Series: March, 2015

MOCK TEST PAPER – 2

INTERMEDIATE (IPC): 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) What are the characteristics of a corporate strategy?

   (b) Briefly explain the necessity for Strategic Business Units (SBUs) in an organization.

   (c) Differentiate: Routine Decisions Vs. Strategic Decisions.

   (d) Discuss the industries that were benefitted by Commonwealth games in India.

   (e) What are the elements of strategic vision? *(3 × 5 = 15 Marks)*

2. (a) 'Modern enterprises pursue multiple objectives and not a single objective' Justify with examples. *(4 Marks)*

   (b) What are the characteristics of a multinational corporation? *(3 Marks)*

3. Write short notes on the following:

   (a) 'Star' in Boston Consulting Group (BCG) Matrix. *(2 Marks)*

   (b) Co-generic merger. *(2 Marks)*

   (c) Product Life Cycle. *(3 Marks)*

4. Explain ADL matrix as strategic analysis tool. *(7 Marks)*

5. (a) Explain briefly the role of culture in promoting better strategy execution. *(3 Marks)*

   (b) 'TQM is a people focused management system that aims at continual increase in customer satisfaction at continually lower real cost.' Explain briefly. *(4 Marks)*

6. (a) Discuss the impact of information technology on education industry in India. *(3 Marks)*

   (b) Explain how the process of benchmarking can be used by a cloth manufacturer.

   (4 Marks)

7. Mega stores involved in retail trading have been facing tremendous pressure on their sales and profits. You have been approached by one of such stores to carry out their SWOT analysis. Please advise. *(7 Marks)*

Test Series: March, 2015

MOCK TEST PAPER – 2

INTERMEDIATE (IPC): GROUP – II

PAPER – 7: INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

SECTION – A: INFORMATION TECHNOLOGY

SUGGESTED ANSWERS/HINTS

1. (i) **Business Process:** A Business Process is a prescribed sequence of work steps performed in order to produce a desired result for the organization. A business process is initiated by a particular kind of event, has a well-defined beginning and end, and is usually completed in a relatively short period. Organizations have many different business processes such as completing a sale, purchasing raw materials, paying employees and paying vendors, etc.

   (ii) **Accounting Information System:** An Accounting Information System (AIS) is defined as a system of collection, storage and processing of financial and accounting data that is used by decision makers. An Accounting Information System is generally a computer-based method for tracking accounting activity in conjunction with information technology resources. Collecting and storing the data, recording the transaction, and safeguarding the organisational assets are the three basic functions of AIS.

   (iii) **Input Devices:** Input devices are devices through which we interact with the systems and include devices like Keyboard, Mouse and other pointing devices, Scanners & Bar Code, MICR readers, Webcams, Microphone and Stylus/ Touch Screen. Keyboard helps us with text based input, Mouse helps us in position based input, Scanners & Webcams help in image based input and Microphone helps us in voice based input.

   (iv) **Network Contention:** It refers to the situation that arises when there is a conflict for some common resource in a network. For example, network contention could arise when two or more computer systems try to communicate at the same time.

   (v) **Radio Waves:** Wireless networks do not require any physical media or cables for data transmission. Radio waves are an invisible form of electromagnetic radiation that varies in wavelength from around a millimeter to 100,000 km, making it one of the widest ranges in the electromagnetic spectrum. Radio waves are most commonly used transmission media in the wireless Local Area Networks.

   (vi) **Performance Management of a Network:** This measures and makes network performance data available so that performance can be maintained and acceptable thresholds. It enables the manager to prepare the network for the future, as well as to determine the efficiency of the current network. The network performance addresses the throughput, network response times, packet loss rates, link utilization, percentage utilization, error rates and so forth.

(vii) **Artificial Intelligence:** Artificial Intelligence (AI) is a research field that studies how to comprehend the intelligent human behaviors on a computer. The decisive objective of AI is to make a computer that can discover, sketch, and crack problems in parallel. It is the vicinity of computer science focusing on creating machines that can fit into place on behavior that humans regard as intelligent.

(viii) **Specialized Systems:** Specialized Systems provide comprehensive end to end IT solutions and services (including systems integration, implementation, engineering services, software application customization and maintenance) to various corporations of a world. Core Banking System (CBS), Enterprise Resource Planning (ERP), Customer Relationship Management (CRM) etc. are some of the examples of specialized systems.

(ix) **Data Processing Controls:** Data processing controls perform validation checks to identify errors during processing of data. They are required to ensure both the completeness and accuracy of the data being processed. Run-to-Run Totals, Reasonableness Verification, Edit Checks, Field Initialization, Exception Reports, and Existence/Recovery Controls are some of the examples of Data Processing Controls.

(x) **Information Processing:** The creation of information from raw data is known as Information Processing. Information may be defined as processed data, which is of value to the user. 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.

2. **(a)** **Internetwork Processors:** Telecommunications networks are interconnected by special-purpose communications processors called Internetwork Processors such as Switch, Router, Hub, Bridge, Repeater And Gateway.

- **Switch** - Switch is a communications processor that makes connections between telecommunications circuits in a network so that a telecommunications message can reach its intended destination.
- **Router –** Router is a communications processor that interconnects networks based on different rules or protocols, so that a telecommunications message can be routed to its destination.
- **Hub –** Hub is a port-switching communications processor. This allows for the sharing of the network resources such as servers, LAN workstations, printers, etc.

- **Bridge –** Bridge is a communications processor that connects numerous Local Area Networks (LANs). It magnifies the data transmission signal while passing data from one LAN to another.
- **Repeater –** Repeater is a communications processor that boosts or amplifies the signal before passing it to the next section of cable in a network.
- **Gateway –** Gateway is a communications processor that connects networks that use different communication architectures.

(b) **Transport Layer of OSI Model:** Transport Layer or Layer 4 of OSI Model ensures reliable and transparent transfer of data between user processes, assembles and disassembles message packets and provides error recovery and flow control. Multiplexing and encryption are undertaken at this layer level. This means that the Transport Layer can keep track of the segments and retransmit those that fail.

Network Layer of OSI Model: The Network Layer or Layer 3 of OSI Model provides the functional and procedural means of transferring variable length data sequences from a source to a destination via one or more networks, while maintaining the quality of service requested by the Transport Layer. The Network Layer makes a choice of the physical route of transmission; creates a virtual circuit for upper layers to make them independent of data transmission and switching; establishes, maintains, terminates connections between the nodes and ensure proper routing of data.

3. **(a)** Some of the examples of Office Automation Applications are as follows:

Application	Description
Word Processing	Use of a computer to perform automatically many of the tasks necessary to prepare typed or printed documents.
Electronic mail	Use of a computer network that allows users to send, store and retrieve messages using terminals and storage devices.
Voice Mail	Requires computers with an ability to store audio messages digitally and convert them back upon retrieval.
Electronic Calendaring	Use of a networked computer to store and retrieve a manager's appointment calendar. Allows other managers' calendars to be accessed and facilitates scheduling.
Video Conferencing	Use of television equipment to link geographically dispersed conference participants.
Desktop Video Conferencing	Video and audio equipment are attached to each workstation in the network enabling the two-way communication of picture and way communication of picture and sound.

FAX	Uses special equipment that can read a document at one end of a communication channel and make a copy at the other end.
Imaging	Uses Optical Character Recognition (OCR) to convert data on paper to a digital format for storage in a secondary storage device.
Desktop Publishing	Uses a computer to prepare output that is very close in quality to that produced by a typesetter.

(b) **Explicit knowledge:** Explicit knowledge is that which can be formalized easily and as a consequence is easily available across the organization. Explicit knowledge is articulated, and represented as spoken words, written material and compiled data. This type of knowledge is codified, easy to document, transfer and reproduce. For example – Online tutorials, Policy and procedural manuals.

Tacit knowledge: Tacit knowledge, on the other hand, resides in a few often-in just one person and hasn't been captured by the organization or made available to others. Tacit knowledge is unarticulated and represented as intuition, perspective, beliefs, and values that individuals form based on their experiences. It is personal, experimental and context-specific. It is difficult to document and communicate the tacit knowledge. For example – hand-on skills, special know-how, employee experiences.

4. (a) Some of the advantages of Cloud Computing are as follows:

- **Cost Efficient:** Cloud computing is probably the most cost efficient method to use, maintain and upgrade.
- **Almost Unlimited Storage:** Storing information in the cloud gives us almost unlimited storage capacity.
- **Backup and Recovery:** Since all the data is stored in the cloud, backing it up and restoring the same is relatively much easier than storing the same on a physical device. Furthermore, most cloud service providers are usually competent enough to handle recovery of information.
- **Automatic Software Integration:** In the cloud, software integration is usually something that occurs automatically. Not only that, cloud computing allows us to customize the options with great ease. Hence, we can handpick just those services and software applications that we think will best suit the particular enterprise.
- **Easy Access to Information:** Once we register ourselves in the cloud, we can access the information from anywhere, where there is an Internet connection.
- **Quick Deployment:** Once we opt for this method of functioning, the entire system can be fully functional in a matter of a few minutes. Of course, the

amount of time taken here will depend on the exact kind of technology that we need for our business.

(b) **Online Processing:** Data is processed immediately while it is entered, the user usually only has to wait a short time for a response. (Example: games, word processing, booking systems). Interactive or online processing requires a user to supply an input. Interactive or online processing enables the user to input data and get the results of the processing of that data immediately.

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.

5. **(a)** **Mobile Computing:** Mobile Computing is the use of portable computing devices (such as laptop and handheld computers) in conjunction with mobile communications technologies to enable users to access the Internet and data on their home or work computers from anywhere in the world. It is a human–computer interaction by which a computer is expected to be transported during normal usage.

Mobile computing involves **Mobile Communication**, **Mobile Hardware** and **Mobile Software**; these are discussed as follows:

- **Mobile Communication:** Mobile Communication refers to the infrastructure put in place to ensure that seamless and reliable communication goes on. These would include devices such as Protocols, Services, Bandwidth and Portals necessary to facilitate and support the stated services. The data format is also defined at this stage.
- **Mobile Hardware:** Mobile Hardware includes mobile devices or device components that receive or access the service of mobility. They would range from Portable laptops, Smart phones, Tablet PC's to Personal Digital Assistants. These devices will have receptors that are capable of sensing and receiving signals.
- **Mobile Software:** Mobile Software is the actual program that runs on the mobile hardware. It deals with the characteristics and requirements of mobile applications. This is the engine of that mobile device.

Mobile Computing is enabled by use of mobile devices (portable and hand held computing devices) such as PDA, laptops, mobile phones, MP3 players, digital cameras, tablet PC and Palmtops on a wireless network.

(b) 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:** 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:** Addresses an enterprise's needs and data flow in a huge distributed environment. E.g. ERP Applications like SAP.
- **Enterprise Infrastructure Software:** Provides capabilities required to support enterprise software systems. E.g. email servers, Security software.
- **Information Worker Software:** 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:** Used to access contents and addresses a desire for published digital content and entertainment. E.g. Media Players, Adobe Digital etc.
- **Educational Software:** Holds contents adopted for use by students. E.g. Examination Test CDs
- **Media Development Software:** Addresses individual needs to generate and print electronic media for others to consume. E.g. Desktop Publishing, Video Editing etc.

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

- **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.
- **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.

- **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.
- **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.
- **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.
- **Auditing Information Systems:** Documentation helps depict audit trails, For example- when investigation and Accounting Information system, the auditors typically focus on internal controls. In such circumstances, documentation helps auditors determine the strengths and weaknesses of a system's controls and therefore the scope and complexity of the audit.
- **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.

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

- **Organizational Business Processes:** These 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.

7. **(a)** **Android:** Android is a Linux-based operating system designed primarily for touch screen mobile devices such as smart phones and tablet computers. Android is an open source and the permissive licensing allows the software to be freely modified and distributed by device manufacturers, wireless carriers and enthusiast developers. Android provides access to a wide range of useful libraries and tools that can be used to build rich applications.

(b) **PDCA Cycle:** Total Quality Management (TQM) processes are divided into four sequential categories: Plan, Do, Check, and Act (PDCA cycle) as discussed below:

- **Plan:** In the planning phase, people define the problem to be addressed, collect relevant data, and ascertain the problem's root cause;
- **Do:** In the doing phase, people develop and implement a solution, and decide upon a measurement to gauge its effectiveness;
- **Check:** In the checking phase, people confirm the results through before-and-after data comparison;
- **Act:** In the acting phase, people document their results; inform others about process changes, and make recommendations for the problem to be addressed in the next PDCA cycle.

(c) **Bus Network:** In a Bus network; a single length of wire, cable, or optical fibre connects a number of computers. The features of a bus network are as follows:

- All communications travel along this cable, which is called a bus.
- Bus networks have a decentralized approach.

Advantages of bus network include the following:

- There is no host computer or file server, which makes bus network reliable as well as easy to use and understand.
- If one of the microcomputers fails, it will not affect the entire network.
- Requires the least amount of cable to connect the computers together and therefore is less expensive than other cabling arrangements.
- Is easy to extend. Two cables can be easily joined with a connector, making a longer cable for more computers to join the network.
- A repeater can also be used to extend a bus configuration.

Disadvantages of bus network include the following:

- Heavy network traffic can slow a bus considerably since any computer can transmit at any time. But networks do not coordinate when information is sent. Computers interrupting each other can use a lot of bandwidth.
- Each connection between two cables weakens the electrical signal.
- The bus configuration can be difficult to troubleshoot. A cable break or malfunctioning computer can be difficult to find and can cause the whole network to stop functioning.

(d) **Scorecard:** This involves providing a visual representation of the enterprise strategy by taking critical metrics and mapping them to strategic goals throughout the enterprise. Scorecards offer a rich, visual gauge to display the performance of specific initiatives, business units, or the enterprise as a whole and the individual goals in the context of larger enterprise strategy. Scorecards distil information into a small number of metrics and targets and provide users with an at-a-glance perspective of information. A scorecard has a graphical list of specific, attainable strategic milestones, combined with metrics that serve as benchmarks. Specific measures on how well the company has actually performed specified activities are linked in the scorecard with graphical display highlighting the status of each goal.

(e) **Database Controls:** Database Controls protect the integrity of a database when application software acts as an interface to interact between the user and the database.

- **Sequence Check Transaction and Master Files:** Synchronization and the correct sequence of processing between the master file and transaction file is critical to maintain the integrity of updation, insertion or deletion of records in the master file with respect to the transaction records. If errors in this stage are overlooked, it leads to corruption of the critical data.
- **Ensure all records on files are processed:** While processing the transaction file records mapped to the respective master file the end-of-file of the transaction file with respect to the end-of-file of the master file is to be ensured.
- **Process multiple transactions for a single record in the correct order:** Multiple transactions can occur based on a single master record. For example, dispatch of a product to different distribution centers. The order in which transactions are processed against the product master record must be done based on a sorted transaction codes.

Test Series: March, 2015

MOCK TEST PAPER – 2

INTERMEDIATE (IPC): GROUP – II

PAPER –7: INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

SECTION – B: STRATEGIC MANAGEMENT

SUGGESTED ANSWERS / HINTS

1. (a) **A corporate strategy has the following characteristics:**

- It is generally long-range in nature
- It is action oriented and is more specific than objectives.
- It is multipronged and integrated.
- It is flexible and dynamic.
- It is formulated at the top management level, though middle and lower level managers are associated in their formulation and in designing sub-strategies.
- It is generally meant to cope with a competitive and complex setting.
- It flows out of the goals and objectives of the company and is meant to translate them into realities.
- It is concerned with perceiving opportunities and threats and seizing initiatives to cope with them. It is also concerned with deployment of limited organizational resources in the best possible manner.
- It gives importance to combination, sequence, timing, direction and depth of various moves and action initiatives taken by managers to handle environmental uncertainties and complexities.
- It provides unified criteria for managers for their decision making.

(b) **The necessity for Strategic Business Units (SBUs) in an organization is as under:**

- Since an SBU is a grouping of related businesses that can be taken up for strategic planning distinct from the rest of the businesses, it enables same strategic planning treatment and priorities to all products/businesses.
- Unrelated products/businesses in any group are separated and appreciable level of strategic planning and control measures could be taken.
- Grouping the businesses on SBU lines helps the organisation in strategic planning by removing the vagueness and confusion generally seen in grouping

businesses; it also facilitates the right setting for correct strategic planning and facilitates correct relative priorities and resources to the various businesses.

- Since each SBU will have its own distinct environmental factors we can have distinct strategies.
- Each SBU can have a CEO who can be responsible for strategic planning for the SBU and its performance and also have control over most of the factors affecting the performance of the SBU.

(c) Decision making is a managerial process and function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may relate to general day to day operations. They may be major or minor. They may also be strategic in nature. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day-to-day working of the organizations.

Sl. No.	Routine Decisions	Strategic Decisions
1	Generally taken by lower, middle management within the framework set by top management.	Taken by top management.
2	Relates to routine day-to-day activities and generally impacts a part of the organisation.	Future oriented involves predicting the future environmental conditions. Affects/ influences the entire organisation. Usually have major multifunctional or multi-business consequences.
3	Involves limited utilisation of organisational resources.	Involves the allocation of large amounts of organisational resources.
4	Impacts short term outcomes in the organisation	Likely to have significant impact on the long term prosperity of the organisation
5	The examples of routine decisions include decisions on leave application or shutting down plant for general maintenance.	The examples of strategic decisions may include decisions on mergers, acquisitions, diversification and so on.

(d) (i) Sports Industry – Increased interest in sports activities promotes manufacturing and sales of sports goods. There is also opportunity for various clubs and stadiums with more games being played.

(ii) Tourism industry – sightseeing and recreation activities of inbound sportspersons and fans from various countries.

(ii) Hotel Industry – To meet the stay and food requirements. To complement hotels, a large number of residential accommodations were also registered as guest houses to offer bed and breakfast.

(iii) Transport – Airlines, luxury buses, other mode of transport, travel agents, and taxi operators got benefitted.

(iii) Construction – Building and renovation of stadiums, hotels, roads, flyovers, airports and so on. A general boost to infrastructure to showcase India as a modern country with ethnic roots.

(iv) Event Management – for holding various events associated with commonwealth games.

(v) Media – Press and TV including increased revenue from.

(vi) Other Industries – Opportunity for several other industries from increased activity including garment manufacturers, television and white goods manufacturers, money exchangers and so on.

(e) A Strategic vision is a roadmap of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create. The three elements of a strategic vision are:

1. Coming up with a mission statement that defines what business the company is presently in and conveys the essence of "Who we are and where we are now?"
2. Using the mission statement as basis fdor deciding on a long-term course making choices about "Where we are going?"
3. Communicating the strategic vision in clear, exciting terms that arouse organization wide commitment.

2. (a) Modern enterprises pursue multiple objectives rather than a single objective. In general, we may identify a set of business objectives pursued by a large cross-section of enterprises. These relate to profitability, productive efficiency, growth, technological dynamism, stability, self-reliance, survival, competitive strength, customer service, financial solvency, product quality, diversification, employee satisfaction and welfare, and so on. Modern enterprises seek to balance these objectives in an appropriate manner. Some of the important objectives of a modern enterprise are:

- **Survival:** Survival is the will and anxiety to perpetuate into the future as long as possible. It is a basic, implicit objective of most modern enterprises. While survival is an obvious objective, it gains more value and prominence during the initial stage of the establishment of the enterprise and during general economic adversity.

- **Stability:** It is one of the most important, cautious and conservative objective. In a sense, stability is a least expensive and risky objective in terms of managerial time and talent and other resources.
- **Growth:** This is a promising and popular objective which is equated with dynamism, vigour, promise and success. Enterprise growth may take one or more of the forms like increase in assets, manufacturing facilities, increase in sales volume and so on.
- **Efficiency:** Modern enterprise seek efficiency in rationally choosing appropriate means to achieve their goals, doing things in the best possible manner and utilising resources in a most suitable combination to get highest productivity.
- **Profitability:** It is generally asserted that private enterprises are primarily motivated by the objective of profit. Some may emphasise that profit is the sole motive of business enterprises and all other objectives are facilitative objectives and are meant to be subservient to the profit motive.

(b) A multinational corporation is a business organization that manages production or delivers services in more than one country. MNC is a corporation that has its management headquarters in one country known as the home country and operates in several other host countries. Characteristics of Multinational companies:

1. **Large scale business:** The capital of multinational companies considerably large. Its assets and volume of sales are also quite large.
2. **Global operation:** The parent company manufacture and sells its products and services through its subsidiaries established in other countries. Hence, they perform their businesses at the global level and all their operations are linked to common ownership.
3. **Multiple units:** Multinational companies are involved in the production and distribution of goods and services at the international level. They – through multiple units - produce goods and generally sell them under common/multiple brand names. Multiple units draw common pool of resources such as money, credit, patents, trade names etc., and they respond to common strategy.

3. (a) BCG growth – share matrix is a simple way to portray an organisation's portfolio of investments. The matrix is based on combination of relative market share of the products or SBUs and their market growth rate. Stars are products or SBUs that are growing rapidly. They need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion and growth.

(b) In co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies. Such merger includes the extension of the product line or acquiring components that are required in the daily operations. It offers great opportunities to businesses to diversify around a common set of resources and strategic requirements. For example, organization in the white goods categories such as refrigerators can diversify by merging with another organization having business in kitchen appliances.

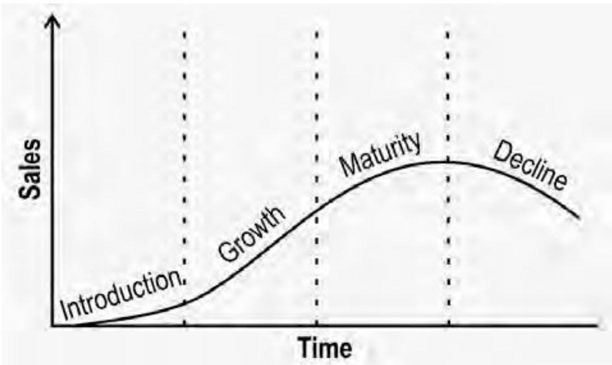
(c) *Product Life Cycle:* PLC is an important concept in strategic choice and S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages. If businesses are substituted for product, the concept of PLC could work just as well.

The first stage of PLC is the **introduction stage** in which competition is almost negligible, prices are relatively high and markets are limited. The growth in sales is at a lower rate because of lack of knowledge on the part of customers.

The second phase of PLC is **growth stage**. In the growth stage, the demand expands rapidly, prices fall, competition increases and market expands. The customer has knowledge about the product and shows interest in purchasing it.

The third phase of PLC is **maturity stage**. In this stage, the competition gets tough and market gets stablised. Profit comes down because of stiff competition. At this stage organisations may work for maintaining stability.

In the **declining stage** of PLC, the sales and profits fall down sharply due to some new product replaces the existing product. So a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.



Product Life Cycle

4. **ADL Matrix:** The ADL matrix has derived its name from Arthur D. Little and is a portfolio analysis method that is based on product life cycle. The approach forms a two dimensional matrix based on stage of industry maturity and the firms competitive position, environmental assessment and business strength assessment. Stage of industry maturity is an environmental measure that represents a position in industry's life

cycle. Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions: dominant, strong, favourable, tenable and weak. It is four by five matrix as follows:

	Stage of industry maturity			
Competitive position	**Embryonic**	**Growth**	**Mature**	**Ageing**
Dominant	Fast grow Build barriers Act offensively	Fast grow Attend cost leadership Renew Defend position Act offensively	Defend position Attend cost leadership Renew Fast grow Act offensively	Defend position Renew Focus Consider withdrawal
Strong	Differentiate Fast grow	Differentiate Lower cost Attack small firms	Lower cost Focus Differentiate Grow with industry	Find niche Hold niche Harvest
Favourable	Differentiate Focus Fast grow	Focus Differentiate Defend	Focus Differentiate Harvest Find niche Hold niche Turnaround Grow with industry Hit smaller firms	Harvest Turnaround
Tenable	Grow with industry Focus	Hold niche Turnaround Focus Grow with industry Withdraw	Turnaround Hold niche Retrench	Divest Retrench

Weak	Find niche Catch-up Grow with industry	Turnaround Retrench Niche or withdraw	Withdraw Divest	Withdraw

Arthur D. Little Strategic Condition Matrix

The competitive position of a firm is based on an assessment of the following criteria:

Dominant: This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.

Strong: By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitions.

Favourable: This position, which generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.

Tenable: Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.

Weak: The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

5. (a) Every business organisation has a unique organizational culture. Each business has its own philosophy and principles, its own ways of approaching problems and making decisions, its own work climate. An organisation has its own embedded patterns of how to do things, its own ingrained beliefs, behaviour, thought patterns, and practices that define its **corporate culture.**

Strong cultures promote good strategy execution when there's fit and hurt execution when there's negligible fit. A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution helps energize people throughout the organisation to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strate*gy* execution. A culture built around business principles such as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility. This is very conducive to successful execution of a strategy of delivering superior customer service.

A work environment where the culture matches the conditions for good strategy execution provides a system of informal rules and peer pressure regarding how to conduct business internally and how to go about doing one's job.

A strong strategy-supportive culture makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish. Employees are stimulated to take on the challenge of realising the organisational vision, do their jobs competently and with enthusiasm, and collaborate with others.

(b) Total Quality Management (TQM) is a people focused management system that aims at continual increase in customer satisfaction at continually lower real cost. There is a sustained management commitment to quality and everyone in the organization and the supply chain is responsible for preventing rather than detecting defects.

TQM is a total system approach (not a separate area or program) and an integral part of high-level strategy; it works horizontally across functions and departments, involves all employees, top to bottom, and extends backward and forward to include the supply chain and the customer chain. TQM stresses learning and adaptation to continual change as keys to organizational success.

The TQM philosophy greatly emerged under Deming's guidance, who is regarded by many as the father of TQM. Deming believed quality management should be pervasive, and should not focus on merely sorting good products from bad. He believed that the responsibility for quality should be shared by everyone in an organization. Deming recognized that most quality problems were system-induced and were therefore not related to workmanship.

6. (a) There have been widespread changes in the education industry on account of developments in information technology. Different schools, colleges and universities have adopted technology at different levels. There are organizations that are merely using IT tools for communicating or collating information. There are also organizations that are rigorously adopting technology to reach students and impart education. Today, it is possible to create classroom effect at the homes of students through computer-based and web-based technologies. In such cases, machines have replaced human interaction. The impact of information technology on the education industry can be explained as follows:

(i) Easy and fast communication through e-mails, SMSs, etc.

(ii) Availability of knowledge from different parts of the world. It is convenient to get general information and latest research from across the globe. There are avenues for quick knowledge sharing between different institutes.

(iii) There are many private educational organizations that are marketing through internet to generate interest in their courses and attract good potential students.

(iv) Certain professional institutes are also conducting computer based entrance test to shortlist students for admission.

(v) Students are getting educational support through e-learning, online mentoring, webcasts, podcasts, LMS based teaching aids, online tests, recorded lectures, etc.,

(b) For a cloth manufacturer characteristics such as colour, strength, feel, design, thickness and porosity are important. The manufacturer has to follow the benchmarking process to improve these aspects of its final product. The benchmarking process can be done in the following manner:

(1) *Identifying the need for benchmarking and planning:* The cloth manufacturer has to define the objectives of the benchmarking exercise. The cloth manufacturer has to identify realistic opportunities for improvement in the various processes which it carries out by comparing the various characteristics of final product with those of competitors.

(2) *Clearly understand existing business processes:* The cloth manufacturer has to compile information and data on performance. This will include mapping processes.

(3) *Identify best processes:* Within the selected framework, best processes have to be identified by the cloth manufacturer. These may be within the cloth manufacturer's organization or external to the cloth manufacturer.

(4) *Compare own processes and performance with that of others:* While comparing gaps in performance between the cloth manufacturer's organization and better performers (in the industry) is identified. Further, gaps in performance is analysed to seek explanations. Feasibility of making the improvements in the light of the conditions that apply within the cloth manufacturer's organization is also examined.

(5) *Prepare a report and implement the steps necessary to close the performance gap:* A report on the Benchmarking initiatives containing recommendations is prepared. Such a report includes the action plan(s) for implementation.

(6) *Evaluation:* The cloth manufacturer has to evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. The cloth manufacturer has to periodically evaluate and reset the benchmarks in the light of changes in the conditions that impact the performance.

7. With the beginning of new millennium a large number of mega stores have come up in retail business in India. Considering their potential many business houses diversified into mega retail stores. However, gradually the competition intensified between these stores. They also faced completion with small retailers. A SWOT analyses can help these stores to position strategically as to where they stand. Strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the organisational internal strengths and weaknesses and its external opportunities and threats. A SWOT analyses for mega stores can be done as follows:

STRENGTHS	OPPORTUNITIES
Strength is an inherent capacity of the organization which it can use to gain strategic advantage over its competitors.	An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position
• Large collection of products and varieties under a single roof. • Availability of financial resources. • Availability of professionals to manage and market. • Ability to sell products based on display/ spot marketing techniques such as offering free samples. • Single platform for multiple vendors to market their products / services at competitive rates. • Instant delivery of product and services. • Negotiate and purchase goods at competitive rates in bulk.	• To attract wide variety of customers to meet all their major needs. • Attract customers who wish to try and then purchase the products (Example - trying shoes). • To sell goods at highly competitive rates. • To target fashion adoptors – by selling new product and services • To attract start up ventures by providing large marketing platform. • To attract customers who wish to have cash and carry method. • Convert the shopping experience with entertainment values (such as children's play area, reading rooms, food court).
WEAKNESSES	**THREATS**
A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it	A threat is an unfavourable condition in the organisation's environment which causes a risk for, a damage to, the organisation's position
• Lack of proximity when compared with local retailers that are spread across every nook and corner. • Similarly, limited geographical	• Entry of more entrepreneurs in mega retail stores business. • Opening of new online marketers such as Amazon, Flipkart, etc.

coverage when compared to online stores. • There is need to maintain huge inventory. • Lack of personal touch as customers have to deal with professional salesmen. • Inability to provide choices as available in online stores. • Low inventory turnover may lead to quality issues of products being sold by the mega stores. • Inability to establish multiple Points of sales due to huge investments.	• Shift of customers' interest towards online stores. • Poaching of key employees by competitors.

Conclusion (Advises):

1. The mega stores have to be realistic about the threats and should consider online marketing so as to reap the benefits of both worlds (physical sales and online stores).
2. They can explore tying with local vendors to offer limited product range. This would help them to reach larger canvas of customers – with personalized services.
3. Extensively advertise about their offers and resultant advantages to the target customers.