

PRIME ACADEMY
30TH SESSION MODEL EXAM – ADVANCED ACCOUNTING
QUESTION PAPER

Total No. of Questions: 6

Time Allowed: 3 Hrs

Total No. of Printed Pages: 4

Maximum Marks: 100

DCOT

Answer all Questions

Wherever appropriate, suitable assumptions to be made by the candidate

Working Notes should form part of the answers

- 1(a) Goods are transferred from Department P to Department Q at a price 50% above cost. If closing stock of Department Q is Rs. 27,000 compute the amount of stock reserve.
- 1(b) Pass journal entries in year 1 in the case of the issue of debentures by ABC Co. Ltd.
Issued Rs. 1, 00,000, 11% debentures at 95% redeemable at the end of 10 years at 102%.
- 1(c) Can internally generated brands, publishing titles and other similar items be recognized as intangible assets?
- 1(d) Circumstances under which a lease can be reckoned as non-cancelable
- 1(e) what are Prior-Period items?
- 1(f) what are Government grants
- 1(g) Differentiate between accruals vs provisions.
- 1(h) Name any 4 potential equity shares
- 1(i) what is the basis of allocation of expense like rent and lighting.
- 1(j) Give Journal Entries in the books of Branch A to rectify or adjust:
Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for Rs. 1,500. (10x2=20 Marks)
- 2 The Washington branch of XYZ Limited, Mumbai sent the following trial balance as on 31st December, 2009:

	\$	\$
Head office A/c	–	22,800
Sales	–	84,000
Debtors and creditors	4,800	3,400
Machinery	24,000	–
Cash at bank	1,200	–
Stock, 1 January, 2009	11,200	–
Goods from H.O.	64,000	–
Expenses	5,000	–
	<u>1,10,200</u>	<u>1,10,200</u>

In the books of head office, the Branch A/c stood as follows:

Washington Branch A/c				Rs.	Rs.
To	Balance b/d	8,10,000	By	Cash	28,76,000
To	Goods sent to branch	<u>29,26,000</u>	By	Balance c/d	<u>8,60,000</u>
		<u>37,36,000</u>			<u>37,36,000</u>

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 31st January, 2004, when \$ 1.00 = Rs.40.

Rates of exchange were:

1 st January, 2009	\$ 1.00	=	Rs.46
31 st December, 2009	\$ 1.00	=	Rs.48
Average	\$ 1.00	=	Rs.47

Machinery is depreciated @ 10% and the branch manager is entitled to a commission of 5% on the profits of the branch.

You are required to:

- Prepare the Branch Trading & Profit & Loss A/c in dollars.
- Convert the Trial Balance of branch into Indian currency and prepare Branch Trading & Profit and Loss A/c and the Branch A/c in the books of head office. (16 Marks)

- Mr. B and Mr. E are partners sharing Profits and Losses in the ratio of 3:2. On 30th September, 2009 they admit Mr. C as a partner, and the new profit ratio is 2:2:1. C brought in Fixtures Rs. 3,000 and cash Rs. 10,000, the goodwill being
 - B and E Rs. 20,000 and
 - C Rs. 10,000 but neither figure is to be brought into the books. On 31st March, 2010, the partnership is dissolved, B retiring and the other two partners forming a company called BC Limited with equal capitals, taking over all remaining assets and liabilities, goodwill being agreed at Rs. 40,000 and brought into books of the company. B agrees to take over the business car at Rs. 3,700: Plant was sold for Rs. 3,000 being in excess of requirements. The profit of the two preceding years were Rs. 17,200 and Rs. 19,000 respectively and it was agreed that for the half year ended 30th September, 2009 the net profit was to be taken as equal to the average of the two preceding years and the current year. No entry has been made when C entered, except cash. No new book being opened by BC Company Ltd., B agreed to have Rs. 50,000 as loan to the company, secured by 12% Debentures. The following is the Trial Balance as on 31st March, 2010.

	Debit Rs.	Credit Rs.
Capital Accounts:		
B		35,000
E		20,000
C		10,000
Drawing Accounts:		
B	6,000	
E	5,000	
C	2,800	
Debtors & Creditors	31,000	12,000
Plant (Book value of plant sold).	4,000	23,000
Fixtures	7,000	
Motor Car	2,700	

Stock on 31st March, 2010	13,000	
	Bank	16,300
P & L A/c for the year		29,800
	<u>1, 06,800</u>	<u>1, 06,800</u>

Prepare:

- (1) Goodwill Adjustment Account
- (2) Capital Accounts of Partner
- (3) Profit and Loss Appropriation Account
- (4) Balance Sheet of BC Ltd. as on 31st March, 2010 (16 Marks)

- 4) The following is the balance sheet of sick Co. Ltd as on 31st March 2010:

Liabilities	Rs	Assets	Rs
1,000 14% Redeemable Preference shares of Rs 100 each	1,00,000	Fixed Assets	15,00,000
Equity Shares of Rs 10 each	7,00,000	Current Assets	35,00,000
12% Debentures	3,00,000	Profit and Loss Account	3,00,000
Current Liabilities	39,00,000		
Provision for Taxation	3,00,000		
	53,00,000		53,00,000

The following scheme of reorganization is sanctioned:

- (1) Fixed Assets are to be written down by 33 1/3%
- (2) Current Assets are to be revalued at Rs 27,00,000.
- (3) Preference shareholders decide to forego their right to arrears of dividend which are in arrears for three years.
- (4) The Taxation liability of the company is settled at Rs 4, 00,000.
- (5) One of the creditors of the company. To whom the company owes Rs 25,00,000, decides to forego 50% of his claim. He is allotted 1, 00,000 equity shares of Rs 5 each in part satisfaction of the balance of his claim.
- (6) The rate of interest on debentures is increased to 14%. The debenture holders surrender their existing debentures of Rs 100 each and exchange the same for fresh debentures of Rs 75 each.
- (7) All existing equity shares are reduced to Rs 5 each.
- (8) All preference shares are reduced to Rs 75 each.

Pass journal entries and show the balance sheet of the company after giving effect to the above. (16 Marks)

- 5(a) In liquidation which commenced on 1st April, 2010 certain creditors could not receive payment out of the relation of the assets and out of contribution from "A" list contributories. The following are the details of certain transfers which took place after 1st April, 2010:-

Shareholders	Number of shares transferred	Date of ceasing to be member	Creditors remaining unpaid and outstanding on the date of ceasing to be member RS.
A	1,000	1st May, 2009	6,000
B	1,500	1 st July, 2009	7,500
C	300	1 st Nov, 2009	8,000
D	200	1 st Feb, 2010	9,500

(8 Marks)

- 5(b) Messrs. Ship Marine Insurance Co. Ltd. furnishes following details for the year ending 31st March:

	2009 Rs.	2010 Rs.
Premium-		
Less Reinsurance Commission	2,25,000	2,50,000
On direct Business	11,250	15,000
On Reinsurance Accepted	8750	12,500
On Reinsurance ceded	21,000	12,000
Claims paid	38,125	71,125
Depreciation on furniture	6,375	7,875
Profit on sale of car	3,000	--
Loss on sale of furniture	--	1,000
Audit Fees	5,000	5,000
Income Tax Refund	7,000	3,500
Salaries to staff	62,500	67,500
Printing, postage, stationery	23,250	28,750
Legal Charges	2,500	2,000
Bad debts	375	11,100
Miscellaneous Expenses	7,750	11,250
(a)Amount of estimated liability for claims:		
As on 31.3.2008	17,125	
As on 31.3.2009	22,375	
As on 31.3.2010	27,775	
(b)Reserved for unexpired risk On 31.3.2008		1,60,000
Additional reserve on same date		16,000

(8 Marks)

- 6(a) The Hindustan Gas Company rebuilt and re-equipped part of their works at costs of Rs 5, 00,000. The part of the old works thus superseded cost RS 3, 00,000. The capacity of the new works is double the capacity of the old works. Rs 20,000 is realized by the sale of old materials and old materials worth Rs 10,000 are used in the construction of the new works and included in the total cost of Rs 5,00,000 mentioned above . The costs of labour and materials are 25% higher than when the old works were built.

(6 Marks)

- 6(b) A limited company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2008-2009. Subsequently on a review of the credit period allowed and financial capacity of the customers, the company decided to increase the provision to 8% on debtors as on 31.3.2009. The accounts were not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard can this revision be considered as an extraordinary item or prior period item?

(5 Marks)

- 6(c) Briefly describe how you calculate "Diluted Earnings per Share" as per Accounting Standard 20.

(5 Marks)

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SUGGESTED ANSWER

- 1(a)** Closing Stock of Department Q Rs. 27,000
 Goods sent by Department P to Department Q at a price 50% above cost
 Hence profit of Department P included in the stock will be = 9,000 (27,000 × 150/50)
 Amount of the Stock Reserve will be Rs. 9,000.
- 1(b)** ABC Co. Ltd.
 Journal Entries
- | | Dr.
Rs. | Cr.
Rs. |
|--|------------|------------|
| Bank A/c Dr. | 95,000 | |
| Discount on issue of debentures A/c Dr. | 5,000 | |
| Loss on issue of debentures A/c Dr. | 2,000 | |
| To 11% Debentures A/c | | 1,00,000 |
| To Premium on Redemption of debentures A/c | | 2,000 |
- (Issue of Rs. 1,00,000 11% debentures at a discount of 5% but redeemable at a premium of 2%)
- 1(c)** Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognized as intangible assets.
 Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognized as intangible assets.
- 1(d)** Accounting Standard 19 on Leases has defined the term non-cancellable lease as a lease that is cancellable only:
- upon the occurrence of some remote contingency; or
 - with the permission of the lessor ; or
 - if the lessee enters into a new lease for same or an equivalent asset with the same lessor; or
 - upon payment by the lessee of an additional amount such that, at inception, continuation of the lease is reasonably certain
- 1(e)** When income or expenses 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, the said incomes or expenses have to be classified as prior period items. The errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts or oversight.
- 1(f)** Government grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions. They do not include normal trading transactions, and any other government assistance which cannot have a value placed upon them.
- 1(g)** Accruals are liabilities to pay for goods received or supplied but have not been paid for. There is not much uncertainty attached to accruals. Provisions are liabilities, which

require a substantial degree of estimation. As regarding provisions, it is true that expenditure will be incurred to meet the liability, but the quantum and timing are not certain.

1(h) A potential equity share is a financial instrument or other contract that entitles, or may entitle, its holder to equity shares.

- (i) convertible debentures
- (ii) Convertible preference shares
- (iii) share warrants or options
- (iv) Employees stock option scheme.
- (v) Contingently issuable shares.

1(i) Rent is charged to different departments according to the floor area occupied by each department, having regard to any favourable location specially allocated to a department. Lighting and heating expenses are distributed on the basis of consumption of energy by each department and so on.

1(j) Books of Branch A

Journal Entries

Particulars	Dr. Amount Rs.	Cr. Amount Rs.
Depreciation account	Dr. 1,500	
To Head office account		1,500
(Being the depreciation provided)		

2(i)

**In the Books of Head Office
Branch Trading and Profit & Loss A/c (in Dollars)
for the year ended 31st December, 2009**

Particulars	\$	Particulars	\$
To Opening stock	11,200	By Sales	84,000
To Goods from H.O.	64,000	By Closing stock (W.N.2)	8,000
To Gross profit c/d	<u>16,800</u>		
	<u>92,000</u>		<u>92,000</u>
To Expenses	5,000	By Gross profit b/d	16,800
To Depreciation	2,400		
To Manager's commission (W.N.1)	470		
To Net profit c/d	<u>8,930</u>		
	<u>16,800</u>		<u>16,800</u>

(ii)(a) Converted Branch Trial Balance (into Indian Currency)

Particulars	Rate per \$	Dr. (Rs.)	Cr. (Rs.)
Machinery	40	9,60,000	—
Stock January 1, 2009	46	5,15,200	—
Goods from head office	Actual	29,26,000	—
Sales	47	—	39,48,000
Expenses	47	2,35,000	—
Debtors & creditors	48	2,30,400	1,63,200
Cash at bank	48	57,600	—
Head office A/c	Actual	—	8,60,000
Difference in exchange rate		<u>47,000</u>	<u>—</u>
		<u>49,71,200</u>	<u>49,71,200</u>
Closing stock \$ 8,000 (W.N. 2)	48		Rs.3,84,000

(b) Branch Trading and Profit & Loss A/c for the year ended 31st December, 2009

	Rs.		Rs.
To Opening stock	5,15,200	By Sales	39,48,000
To Goods from head office	29,26,000	By Closing stock (W.N.2)	3,84,000
To Gross profit c/d	<u>8,90,800</u>		
	<u>43,32,000</u>		<u>43,32,000</u>
To Expenses	2,35,000	By Gross profit b/d	8,90,800
To Depreciation @ 10% on Rs.9,60,000	96,000		
To Exchange difference	47,000		
To Manager's commission (W.N.1)	22,560		
To Net Profit c/d	<u>4,90,240</u>		
	<u>8,90,800</u>		<u>8,90,800</u>

(c) Branch Account

	Rs.		Rs.
To Balance b/d	8,60,000	By Machinery	9,60,000
To Net profit	4,90,240	By Less: Depreciation	<u>96,000</u>
			8,64,000
To Creditors	1,63,200	By Closing stock	3,84,000
To Outstanding commission		By Debtors	2,30,400
	22,560		
	<u>—</u>	By Cash at bank	<u>57,600</u>
	<u>15,36,00</u>		<u>15,36,000</u>
	<u>0</u>		

Working Notes:

1. Calculation of manager's commission @ 5% on profit

i.e. 5% of \$[16,800 – (5,000 + 2,400)]

Or 5% × \$9,400 = \$ 470

Manager's commission in Rupees = \$ 470 × Rs.48 = Rs. 22,560

2. Calculation of closing stock

Opening stock	\$ 11,200
Add: Goods from head office	<u>64,000</u>
	75,200

Less: Cost of goods sold (at invoice price)

i.e. $\frac{100}{125} \times 84,000$ 67,200

Closing stock 8,000

Closing stock in Rupees = \$8,000 x Rs.48 = Rs.3,84,000.

3. Goodwill Adjustment Account

	Rs.		Rs.
2009		2009	
30th Sept. To Partners' Capital A/c (Goodwill raised)		30th Sept. By Partners' Capital A/c (Goodwill written off) (W.N.1)	
B	12,000	B	12,000
E	8,000	E	12,000
C	10,000	C	6,000
	2010		2010
31st March To Partners' Capital A/cs (goodwill raised)		31st March By Goodwill A/c (Goodwill raised in the books transferred)	40,000
B	16,000		
E	16,000		
C	<u>8,000</u>		
	<u>70,000</u>		<u>70,000</u>

(2) Partners' Capital Accounts

2010	B	E	C	2010	B	E	C
31st March				31st March			
To Drawings	6,000	5,000	2,800	By Balance b/d	35,000	20,000	10,000
To Motor Car	3,700	–	–	By Fixtures (not recorded earlier)	–	–	3,000
To 12% Debentures	50,000	–	–	By Profit upto 30th Sept 93 (W.N.2)	13,200	8,800	
To Goodwill Adj ment Account	12,000	12,000	6,000	By Profit for 6 months ended 31st March 1994	3,120	3,120	1,560
To Bank Account	7,620			– By Goodwill Adjustment A/c	12,000	8,000	10,000
To Bank Account (WN 3)	–	7,580		By Goodwill Adjustment A/c	16,000	16,000	8,000
To Share Capital	–	31,340	31,340	By Bank A/c (W.N. 3)	–	–	7,580
	<u>79,320</u>	<u>55,920</u>	<u>40,140</u>		<u>79,320</u>	<u>55,920</u>	<u>40,140</u>

(3) Profit & Loss Appropriation Account for the year ended 31st March, 2010

	Rs.		Rs.
To Partners' Capital Account (Distribution of Profit)		By Profit & Loss A/c (Net profit transferred)	29,800
B	16,320		
E	11,920		
C	<u>1,560</u>		
	<u>29,800</u>		<u>29,800</u>

(4) Balance Sheet of BC Ltd. As on 31st March, 2010

Liabilities	Rs.	Assets	Rs.
Share Capital	62,680	Fixed Assets :	
Secured Loan :		Goodwill	40,000
12% Debentures	50,000	Plant	19,000
Current Liabilities & Provisions:		Fixtures	10,000
Creditors	12,000	Current Assets, Loans & Advances :	
		Stock	13,000
		Debtors	31,000
	<u>1,24,680</u>	Cash at bank (W.N.4)	<u>11,680</u>
			<u>1,24,680</u>

Working Notes:

(1) Goodwill Adjustment as on 30th September, 2009

	Total Rs.	B Rs.	E Rs.	C Rs.
Goodwill raised:-				
B and E (3:2)	20,000	12,000	8,000	—
C	<u>10,000</u>			10,000
	<u>30,000</u>			
Goodwill written off in the new profit sharing ratio (2:2:1)	<u>30,000</u>	<u>12,000</u>	<u>12,000</u>	<u>6,000</u>

(2) Calculation of half yearly profit:		Rs.	Rs.
Profit of the preceding two years (Rs. 17,200 + Rs. 19,000)		36,200	
Current year's profit		29,800	
		<u>66,000</u>	
Profit for six months ended 30th September, 2009 (× 66,000)		22,000	
Profit for next six months ended 31st March, 2010 (Rs. 29,800 – Rs. 22,000)			7,800

(3) Share Capital of BC Ltd:

Total Capital of the firm before conversion -			
E	38,920		
C	<u>23,760</u>	62,680	
E and C should have have equal share in BC Ltd.			
C should bring in cash ($\frac{1}{2} \times 62,680 - 23,760$)			7,580

E should withdraw cash $(38,920 - \frac{1}{2} \times 62,680)$ 7,580

Bank Account

	Rs.		Rs.	
(4)				
To Balance b/d	16,300	By B's Capital Account	7,620	
To Plant Account		By E's Capital		
(Sale of Plant)	3,000	(Amount withdrawn)	7,580	
To Cs capital A/c		By Balance c/d	11,680	
(Amount brought in)	<u>7,580</u>			
	26,880		<u>26,880</u>	
(5) Profit and loss on sale and takeover of assets:				Rs.
Profit on Motor car taken over (Rs. 3,700 – Rs. 2,700)			1,000	
Loss on sale of plant (Rs. 4,000 – Rs. 3,000)				1,000
Not effect				

4.

		Journal	Dr	Cr
2010 March	31	14% Redeemable Preference share capital account Dr	25,000	
		Equity share Capital Account Dr	3,50,000	3,75,000
		To Reconstruction Account		
		The reduction of Rs 25 per share on 1,000 cumulative Preference shares and Rs 5 per share on 70,000 equity shares vide special resolution No....dated....confirmed by the court vide order dated.....		
2010 March	31	12% Debentures Account Dr	3,00,000	
		To 14% Debentures Account		2,25,000
		To Reconstruction Account		75,000
		The conversion of 3,000 12% Debentures of Rs 100 each into 3,000 14% Debentures of Rs 75 each		
2010March	31	Creditors Dr	17,50,000	
		To Equity share Capital Account		5,00,000
		To Reconstruction Account		12,50,000
		Sacrifice by a creditor for Rs 25,00,000 of 50% of his claim and allotment to him of 1,00,000 equity shares of Rs 5 each in part settlement of his dues vide reconstruction scheme dated.....		
2010 March	31	Reconstruction Account Dr	17,00,000	
		To Profit and Loss Account		3,00,000

		To Fixed Assets To Current Assets To Provision for Taxation The writing off of debit balance in profit and loss account , increase in provision for taxation and to write off various amount as indicated in the special resolution		5,00,000 8,00,000 1,00,000
2010 March	31	Provision for taxation account Dr To Liability for taxation The conversion of Provision for taxation into liability for taxation for settlement of amount due	4,00,000	4,00,000
2010 March	31	Liability for taxation Dr To Current Assets The settlement of liability for taxation by cash payment out of current assets	4,00,000	4,00,000

Balance sheet of Sick Co. Ltd as on 31st March 2010.

Liabilities	Rs	Assets	Rs
Share Capital		Fixed Assets	
1,000 14% Redeemable Preference shares of Rs 75 each fully paid	75,000	15,00,000	
1,70,000 Equity Shares of Rs 5 each (Out of this 1,00,000 Equity shares of Rs 5 were issued to creditors)	8,50,000	Less amount written off under Reconstruction scheme dated...5,00,000	10,00,000
Secured Loans	2,25,000	-----	
3,000 14% Debentures of Rs 75 each, fully paid	21,50,000	35,00,000	23,00,000
Current Liabilities (14,00,000 – 7,50,000)		Current Assets (Rs 35,00,000 – Rs 8,00,000 – Rs 4,00,000)	
	33,00,000		33,00,000

- 5(a) All the shares were of Rs.10 each, Rs.6 paid up. Ignoring expenses, remuneration to liquidator etc., show the amount to be realised from the various persons listed above:

Creditors outstanding on Date of ceasing to be member	A	B	C	D	Amount to be paid to creditors
	1,000 Share	1,500 Share	300 Share	200 Share	
	RS	RS	RS	RS	RS
(1) 6,000	2,000	3,000	600	400	6,000
(2) 1,500	--	1,125	225	150	1,500
(3) 500	--	--	300	200	500

(4) 1,500	--	--	--	1,500	50
Total (a)	2,000	4,125	1,125	2,250	
(b) Maximum Liability on shares held	4,000	6,000	1,200	800	
(c) Amount paid , (a) or (b) whichever is lower	2,000	4,125	1,125	800	

5(b) Revenue Account of M/s Ship Marine Insurance Co. Ltd. In respect of Marine Business for the years ended 31st March, 2009 and 31st March, 2010

	31 st March, 2009	31 st March, 2010		31 st March, 2009	31 st March, 2010
	RS	RS		RS	RS
Claims less Reinsurance paid	38,125	71,125	Reserve for unexpired risk	1,60,000	2,25,000
Add: Outstanding at the end at of the year	<u>22,375</u> 60,500	<u>27,775</u> 98,900	Additional Risk	<u>16,000</u>	<u>22,500</u>
			Total Premium less reinsurances	1,76,000 2,25,000	2,47,500 2,50,000
Less: Outstanding in the beginning of the year	<u>17,125</u> 43,375	<u>23,375</u> 76,525	Commission on reinsurances ceded	21,000	12,000
Commission on direct business	11,250	15,000			
Commission on Reinsurance Accepted	8,750	12,500			
Bad debts	375	11,100			
Expenses of management salaries	62,500	67,500			
Law charges	2,500	2,000			
Profit transferred to profit and Loss Account	45,750	49,875			
Reserved for unexpired risk	2,25,000	2,50,000			
Additional reserve	22,500	25,000			
	4,22,000	5,09,500		4,22,000	5,09,500

6(a)

Journal	Dr	Cr
	RS	RS
Replacement Account Dr	3,75,000	
New Works Account Dr	1,15,000	
To Bank		4,90,000
(Being the amount written off(Rs 3,00,000 +25%) and the amount capitalized out of the RS 4,90,000, spent on reconstruction in cash i.e., Rs5,00,000 – Rs 10,000.)		
New Works Account Dr	10,000	
To Replacement a/c		10,000
(Being the materials used in the works)		
Bank Dr	20,000	
To Replacement Account		20,000
(Being the amount realized by the sale of old materials.)		

6(b) The preparation of financial statements involve making estimates which are based on the circumstances existing at the time when the financial statements are prepared. It may be necessary to revise an estimate in a subsequent period if there is a change in the circumstances on which the estimate was based. Revision of an estimate, by its nature, does not bring the adjustment within the definitions of a prior period item or an extraordinary item [para 21 of AS 5 (Revised) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies]. In the given case, a limited company created 2.5% provision for doubtful debts for the year 2008-2009. Subsequently in 2009 they revised the estimates based on the changed circumstances and wants to create 8% provision. As per AS-5 (Revised), this change in estimate is neither a prior period item nor an extraordinary item. However, as per para 27 of AS 5 (Revised), a change in accounting estimate which has material effect in the current period, should be disclosed and quantified. Any change in the accounting estimate which is expected to have a material effect in later periods should also be disclosed.

6(c) For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares.

The amount of net profit or loss for the period attributable to equity shareholders should be adjusted, after taking into account any attributable change in tax expense for the period.

The number of equity shares should be the aggregate of the weighted average number of equity shares (as per paragraphs 15 and 22 of AS 20) and the weighted average number of equity shares which would be issued on the conversion of all the dilutive potential equity shares into equity shares. Dilutive potential equity shares should be deemed to have been converted into equity shares at the beginning of the period or, if issued later, the date of the issue of the potential equity shares.

An enterprise should assume the exercise of dilutive options and other dilutive potential equity shares of the enterprise. The assumed proceeds from these issues should be considered to have been received from the issue of shares at fair value. The difference between the number of shares issuable and the number of shares that would have been issued at fair value should be treated as an issue of equity shares for no consideration.

PRIME ACADEMY
30TH SESSION MODEL EXAM – AUDITING & ASSURANCE
QUESTION PAPER

Total No. of Questions: 8

Total No. of Printed Pages: 2

Time Allowed: 3 Hrs

ADNE

Maximum Marks: 100

All are Compulsory

1. State with reasons (in short) whether the following statements are true or false.
 - a. There is no difference between the terms “external audit” and “statutory audit”.
 - b. It is auditor’s responsibility to maintain adequate accounting system incorporating various internal controls.
 - c. Fraud is more difficult to detect than error.
 - d. An unqualified opinion in audit report is a guarantee as to the future viability of the company.
 - e. The auditor of a company has a right to carry out surprise checks of transactions beyond the end of the accounting year for which he is reporting.
 - f. Since client pays for the audit, the audit working papers belong to the client.
 - g. Potential for individuals to gain unauthorized access to data or to alter data without visible evidence is not there in CIS systems.
 - h. If auditor relies on the work of an expert and expresses an unqualified opinion, he should refer to the work of the expert in his report.
 - i. A Government company cannot contribute amounts to a political party or to any person for political purpose.
 - j. Evidence obtained by the auditor through judgmental sampling cannot be considered sufficient appropriate audit evidence) (10 x 2=20 Marks)
- 2a) In a manufacturing concern, the management suspects inclusion of ‘dummy workers’ in wage sheets. What would you, as an auditor, suggest to detect such frauds? (10 Marks)
- 2 b) List six documents or papers, which would normally be retained on the current audit file. (5 Marks)
- 2 c) What is meant by ‘Analytical Review Procedures’ and to what extent they can be relied upon. State different types of analytical reviews carried out in connection with the verification of Inventories. (5 Marks)
3. Give your opinion on whether the following persons can be appointed auditors of a limited company or not.
 - (a) A firm of chartered accounts in practice, a partner of which is a secretary of the company. (5 Marks)
 - (b) A chartered accountant in practice owing Rs.500 to the company’, (5 Marks)
4. Write short notes on - Audit Trail. (5 Marks)
5. What is Joint audit? Discuss whether the liability of joint auditor is joint or several (8 Marks)
6. State briefly the duty of the auditor with regard when a loss of Rs.3 lakhs on account of embezzlement of cash was suffered by the company and it was debited to salary account. (7 Marks)

7. How will you verify the following assets? (Any Five)
- (a) Freehold land
 - (b) Leasehold property
 - (c) Building
 - (d) Research and Development expenses
 - (e) Recovery of Bad Debts written off
 - (f) Goods sent out on Sale or Return Basis
 - (g) Borrowing from Banks
- (20Marks)
8. Explain the meaning of the term “subsequent events” as used in the Standard on Auditing (SA 560)
- (10 Marks)

PRIME ACADEMY
30TH SESSION MODEL EXAM – AUDITING & ASSURANCE
SUGGESTED ANSWER

1. a. **False:** “External audit” is a wider term than “statutory audit”. It will cover independent audits — whether voluntary audits/statutory audits.
- b. **False:** As SA 200, it is management’s responsibility and not auditor’s responsibility.
- c. **True:** Fraud is more difficult to detect than error. This is because fraud generally involves sophisticated and carefully organized schemes to conceal it such as forgery, deliberate failure to record transactions, intentional misrepresentations to the auditor.
- d. **False:** Auditor’s opinion (even an unqualified one) is not an assurance as to the future viability of the company as given in SA 200A.
- e. **True:** The auditor is appointed at the Annual General Meeting to hold office until the next Annual General Meeting. He is not appointed for a particular accounting year. Consequently, he has the right of examination of the accounts and records of the company at any time during the period covered by his appointment, in so far as it is necessary for the purposes of his report. He may, therefore, carry out surprise checks of transactions beyond the end of the accounting year for which he is reporting.
- f. **False:** Working papers are the property of the auditor. The client does not have a right to access the working papers of the auditor. The auditor may, at his discretion, make portions of or extracts from his working papers available to the client.
- g. **False:** Potential for individuals to gain unauthorized access to data or to alter data without visible evidence may be greater in CIS than in manual systems.
- h. **False:** When expressing an unqualified opinion, the auditor should not refer to the work of an expert in his report. If, as a result of the work of an expert, the auditor decides to express other than an unqualified opinion, it may in some circumstances benefit the reader of his report if the auditor refers to or describes the work of the expert. Where, in doing so, the auditor considers it appropriate to disclose the identity of the expert, he should obtain prior consent of the expert for such disclosure if such consent has not already been obtained.
- i. **True:** Section 293A of the Companies Act, 1956 prohibits Government company from contributing amounts to a political party or to any person for a political purpose.
- j. **False :** The rates of depreciation prescribed by Schedule XIV to the Companies Act, 1956 are the minimum rates to be charged. AS 6 notified under Section 211 (3C) of the Companies Act, 1956 also states that rates lower than statutory rates cannot be charged unless permitted by the statute itself.
- 2a) Effective and appropriate internal control system should be adopted in order to detect the inclusion of the names of dummy workers in the wage sheets. The application of suitable internal check system, however, depends on the nature and procedures of wage payment of the factory concerned. However, following outlines of the system can be suggested.

- (a) Each worker should be provided with a time card or job card as the case may be. Proper records in detail about each worker must be maintained in such cards. The foreman in charge should initial the entries in the cards. At the end of the week or month, the card should be sent to wage office.
- (b) Due care should be given in the preparation of wage sheets. Wage sheets should not be prepared by those employees, who are responsible for recording the attendance of the workers. The work of wage sheet preparation should be assigned to a number of employees in such a way that the work done by one is automatically check by the other.
- (c) Payment of wages should not be made by those employees, who have taken part in the preparation of wage sheet. It should be done by the cashier in the presence of a responsible officer and also the foreman, who can recognize the workers.
- (d) Proper records related to overtime authorized and granted to the workers must be maintained. For casual workers, separate records should be maintained.

2 b) Following six documents or papers, which would normally be retained on the current? audit file:

- Correspondence relating to acceptance of annual re-appointment.
- Extracts of important matters in the minutes of the board meetings and general meeting as are relevant to audit (e.g. minutes relating to declaration of dividend).
- Audit plan and audit programme.
- Analysis of transactions and balances (e.g. age-wise analysis of debtors).
- Record of audit procedures and their results (e.g. test checking of purchase invoices to vouch payments for purchases).
- Evidence regarding the supervision and review of the work of assistants.

2 c) According to AAS-14 on “Analytical Procedures”, analytical procedures it means the analysis of significant ratios and trends including the resulting investigation of fluctuations and relationships that are inconsistent with other relevant information or which deviate from predicted amounts.

The application of analytical procedures is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary. The presence of these relationships provides audit evidence as to the completeness, accuracy and validity of the data produced by the accounting system. However, reliance on the results of analytical procedures will depend on the auditor’s assessment of the risk that the analytical procedures may identify relationships as expected when, in fact, a material misstatement exists.

The extent of reliance that the auditor places on the results of analytical procedure depends on the following factors:

- (a) Materiality of the items involved, for example, when inventory balances are material, the auditor does not rely only on analytical procedures in forming conclusions. However, the auditor may rely solely on analytical procedures for certain income and expense items when they are not individually material;

- (b) other audit procedures directed toward the same audit objectives for example, other procedures performed by the auditor in reviewing the collectibility of accounts receivable, such as the review of subsequent cash receipts, might confirm or dispel questions raised from the application of analytical procedures to an aging schedule of customer's accounts;
- (c) Accuracy with which the expected results of analytical procedures can be predicted. For example, the auditor will ordinarily expect greater consistency in comparing gross profit margins from one period to another than in comparing discretionary expenses, such as research or advertising; and
- (d) assessments of inherent and control risks, for example, if internal control over sales order processing is weak and, therefore, control risk is high, more reliance on tests of details of transactions and balances than on analytical procedures in drawing conclusions on receivables may be required.

Inventories:

- (i) Reconciliation of quantities of opening stocks, purchases, production, sales and closing stocks;
- (ii) Comparison of closing stock quantities and amounts with those of the previous year;
- (iii) Comparison of the relationship of current year stock quantities and amounts with the current year sales and purchases, with the corresponding figures for the previous year;
- (iv) Comparison of the composition of the closing stock (for example) raw materials as a percentage of total stocks, work-in-process as a percentage of total stocks) with the corresponding figures for the previous year;
- (v) Comparison of current year gross profit ratio for the previous year;
- (vi) Comparison of actual stock, purchase and sales figures with the corresponding budgeted figures, if available;
- (vii) Comparison of yield with the corresponding figure for the previous year;

3(a) As one of the partners of the firm is the secretary of the company, the firm cannot be appointed as the auditors of the company. A secretary is an employee of the company and according to Section 226(3b) of the Companies Act, 1956, an employee of the company cannot be appointed its auditor.

(b) He can be appointed as an auditor of the company as he is indebted to the company for an amount of Rs.500 only, i.e. less than Rs.1,000. According to Section 226(3d) of the Companies Act, 1956, a person who owes to the company an amount exceeding Rs.1 ,000 cannot be appointed as an auditor of the company.

4 **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 again clear from the diagram that there is an abundance of documentation upon which the auditor can use his traditional symbols of scrutiny, in the form of coloured 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.

5. Meaning of Joint Audit

An audit is said to be joint audit when two or more persons or firms of chartered accountants are jointly appointed to conduct the audit of a company. The practice of appointing joint auditors has been adopted by large sized companies, which want to pool the resources of two or more auditors so that the audit work may be undertaken effectively and quickly. The joint auditors stand on equal footing so far as the professional work of audit is undertaken by them.

Liabilities of joint auditors

Section 227 of the Companies Act, 1956 does not contemplate any division of work of audit between two or more persons. Thus, according to the provisions of this section, the joint auditor has an individual responsibility only. Also, it is not quite proper to hold an auditor responsible for the work not done by him. If there are two auditors and both of them are held responsible jointly, that would create many practical problems.

While the Companies Act is silent on this issue, the Institute of Chartered Accounts of India has issued a "Statement on the Responsibility of Joint Auditors". In this statement, it has been made clear that it would not be correct to hold an auditor responsible for the specifically allotted work of another. Each joint auditor will be held responsible only for the work allocated to him. According to the statement, we cannot hold an auditor responsible for the work done by another auditor who is equally qualified and competent to undertake the audit work. This also makes it clear that where the work cannot be clearly divided, the responsibility will be jointly shared between them.

- 6(i)** AS-5 Net Profit or Loss for the Period Prior Period items and Changes in Accounting Policies — "requires that (income and) expenses within (profit or) loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately."
- (ii)** Embezzlement of cash of Rs.3,00,000 is an ordinary business loss which as per the requirements of AS 5 should be disclosed separately in the profit and loss account. It should not be merged with salary.

- 7(a) Freehold Land:** The auditor should follow the audit procedures mentioned below to achieve the objects of verification of freehold land.

Objective	Audit Procedure
(i) Existence and ownership	Inspect original title deeds and conveyance or purchase deed which should be in the name of the client. Vouch payments in case new land has been purchased during the year.
(ii) Possession and determine liens, if any	- Title deed should be in custody of owners. In the case of mortgage, obtain a certificate from mortgagee or his lawyer confirming the possession of the title deed. - If any charge or encumbrances exist on land, the auditor should ensure they have been properly disclosed.
(iii) Valuation and disclosure	- Land is a non-depreciable asset. It is, generally, shown in the balance sheet at historical cost which includes purchase price, broker's commission, stamp duties, registration fees, legal charges and also levelling, clearing and draining charges. - Where payments are made to the municipality for constructing side-walks, laying of sewers, etc. such costs should, preferably, be shown separately in 'Land Improvement Account' and adequate depreciation should be provided for on it.

The following documents to be inspected are: title deeds, conveyance or purchase deed, certificate from mortgagee or his lawyer, minutes book or resolutions.

- (b) Leasehold Property:** A lease is an agreement between a lessor and lessee for the use of property for a certain period or in perpetuity against some consideration. The auditor may adopt the following procedures to verify leasehold property:

Objective	Audit Procedure
(i) Existence and ownership possession	- Examine the lease deed to ascertain its terms and conditions. - Ensure that it is registered with the Registrar - Ensure compliance with important conditions such as payment of rent on due dates, maintenance of property etc. stated in the deed.
(ii) Determine liens, if any	Leasehold property cannot be subject to lien. However, it may be sublet. In such a case, the auditor should examine the tenants' agreements
(iii) Valuation and Disclosure	It should be valued at cost less depreciation cost includes the capital outlay as well as legal expenses incurred to acquire the lease.

(c) **Building:** The audit procedures for verification of building are given below :

Objective	Audit Procedure
(i) Existence and ownership possession and determine liens, if any	• The audit procedures followed for ascertaining the existence, ownership and possession are similar to those of freehold land. • The extent of liens against building can be determined by examining records and obtaining proofs similar to freehold
(ii) Valuation and Disclosure	• Buildings should be valued at cost less depreciation • In case land and building have been purchased together, ensure that cost has been segregated for depreciation purposes on reasonable basis. • Ascertain the reasonableness of basis used to calculate the cost if building is purchased or constructed. • In case of revaluation, depreciation should be provided at revalued amount as reduced by estimated residual value

(a) Research and Development Expenses

- (i) Ascertain the nature of research and development work at the outset and enquire whether separate Research and Development Department exists.
- (ii) See allocation of expenses under revenue and deferred revenue. Ensure that expenses which are routine development expenses are charged to Profit and Loss Account.
- (iii) Check whether the concerned research activity is authorised by the Board and has relevance to the objectives of the company.
- (iv) Examine that generally research expenses for developing products or for inventing a new product are treated as deferred revenue expenditure to be written off over a period of three to five years, if successful. In case it is established that the research effort is not going to succeed, the entire expenses incurred should be written off to the profit and loss account.
- (v) Ensure that if any machinery and equipment have been bought specially for the purpose of research activity, the cost thereof, less the residual value should be appropriately debited to the Research and Development Account over the years of research.

(b) Recovery of Bad Debts written off

- (i) Ascertain the total amount of bad debts.
- (ii) Ensure that all recoveries of bad debts have been properly recorded in the books of account.

- (iii) Examine notification from the Court or from bankruptcy trustee, letters from collecting agencies or from debtors should also be seen.
- (iv) Check Credit Manager's file for the amount received and see that the said amount has been deposited into the bank promptly.

(c) Goods sent out on sale or return basis

- (i) 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.
- (ii) See that price of such goods is unloaded from the sales account and the debtor'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.
- (iii) 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.
- (iv) Confirm that the stock 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 stock.

(d) 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:

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) Confirm, in the case of a company, that the restraint contained in Section 293 of the Companies Act, 1956 as regards the maximum amount of loan that the company can raise has not been contravened.
Ascertain the purpose for which loan has been raised and the manner in which it has been utilised and that this has not prejudicially affected the entity.

8(a) Meaning of Subsequent Events:

SA 560 on “Subsequent Events”, defines the term ‘subsequent events’ as those significant events which occur between the balance sheet date and the date of the auditor’s report. In the case of an audit of a component, such as a branch or division, of an entity, “subsequent events” also refer to significant events which occurred up to the date of report of the auditor of that component. Thus, subsequent events are those events which occur after the date of the balance sheet till the audit report is signed by the auditor.

(b) Consideration of Subsequent Events by the Auditor:

SA 560 requires that the auditor should consider the effect of subsequent events on the financial statements and the auditor’s report. However, the exact manner of treatment would depend upon whether the event falls in the category of ‘adjusting event’ or ‘non-adjusting event’. As per Accounting Standard (AS) 4, events occurring after the date of the balance sheet are of two types, viz., adjusting events which provide further evidence of conditions that existed at the date of the balance sheet; and, non- adjusting events are those which are indicative of conditions that arose subsequent to the date of the balance sheet.

Therefore, an auditor is required to consider all subsequent events while discharging his duties and determine whether those shall have to be adjusted or simply required to be disclosed. However, the auditor should perform work as near as practicable to the date of the auditor’s report.

PRIME ACADEMY
30TH SESSION MODEL EXAM – INDIRECT TAX LAWS
QUESTION PAPER

Total No. of Questions: 10

Total No. of Printed Pages: 2

Time Allowed: 3 Hrs

IYGM

Maximum Marks: 100

All are compulsory

Section A

1(a) Describe briefly the following terms:

- i. SCSI
- ii. Server
- iii. Linked List
- iv. Client / Server networks
- v. Program Documentation

(5x1=5 Marks)

(b) Explain each of the following:

- i. MMX:
- ii. Direct Data Entry
- iii. Magnetic Ink Character Recognition (MICR)
- iv. Toggle
- v. CMOS

(5x1=5 Marks)

2 Answer the following:

- a. Expert Systems
- b. Intrusion detection system (IDS)

(5+5 = 10 Marks)

3 What do you mean by SAN? What are its salient features and benefits? What necessitates the move to SAN in recent times

(10 Marks)

- 4. a. What are the Features offered by e-mail software?
- b. Discuss the various approaches of encryption

(5 + 5 = 10 Marks)

- 5. a. How can a computer network help in business?
- b. Describe Enterprise Resource Planning

(5+5 =10 Marks)

Section B

6. State with reasons which of the following statements is correct or incorrect
- (a) Customers and consumers represent same group of people.
 - (b) Manufacturers can sell their products directly to the customers
 - (c) Benchmarking relates to embossing organizational motif on the furniture.
- (3x2=6 Marks)
7. Briefly answer the following questions (any two) in 2-3 sentences each
- a) What is social marketing?
 - b) Explain concentric diversification
- (2 × 2 = 4 Marks)
8. a. Explain in detail the value chain analysis.
b. Explain the BCG model as a technique of portfolio analysis
- (5+5 = 10 Marks)
9. a. What are the 4 P's of Marketing Mix?
b. What is Benchmarking? What are the areas where benchmarking can help.
- (4+6=10 Marks)
10. Brooke Bond India Ltd. Offers a range of over 34 products in product lines of tea, coffee and spices. Operating through countrywide sales and marketing network for consumers, it also offers institutional business service for hotels, restaurant, clubs and other bulk buyers like canteens and industrial establishments. Thus it serves entirely different sets of customers, individuals and institutional.
- a. Identify the various levels of organization.
 - b. Define good organization structure that may be in existence now.
 - c. Spell out the different levels of strategy
 - d. Why these companies need multiple strategies
- (20 Marks)

PRIME ACADEMY
30TH SESSION MODEL EXAM – INDIRECT TAX LAWS
SUGGESTED ANSWER

Section A

1 (a) Describe briefly the following terms:

- i. **SCSI** stands for Small Computer System Interface which is a device interface used to solve the problem of a finite and possibly insufficient number of expansion slots.
- ii. **Server** is a computer system that provides services to other computing systems called clients / workstations / nodes over a network.
- iii. **Linked List** is a group of data records arranged in an order, which is based on embedded pointers. An embedded pointer is a special data field that links one record to another by referring to the other record.
- iv. **Client / Server networks** comprise of servers, typically powerful computers, running advanced network operating systems and user workstations (clients), which access data or run applications located on the servers.
- v. **Program Documentation** helps the user to diagnose any subsequent program errors, modifying or reconstructing a lost program. It specifies what the program is supposed to do-input, output, file layout, flowcharts, etc. which helps the auditors in future to study the project.

(b) Explain each of the following:

- i. **MMX:** MMX stands for Multimedia Extensions, which is a set of instructions built in to the CPU, specifically intended for improving the performance of multimedia or graphic applications, mainly games. However, one needs to have applications specifically designed to take advantage of MMX.
- ii. **Direct Data Entry** devices refer to the entry of data directly into the computers through machine readable source documents. DDE does not require manual transcription of data from original paper documents. DDE devices can scan source documents magnetically or optically to capture data for direct entry into the computer. Some of the direct data entry devices are as follows:-
- iii. **Magnetic Ink Character Recognition (MICR):** MICR employs a system of printed characters which are easily decipherable by human beings as well as a machine reader. It uses special printing font to represent characters. In this font, each character is basically composed of vertical bars. The characters are printed in special ink, which contain a magnetizable material. This method is primarily used in banking industry, and most cheques are now processed under the MICR approach.
- iv. **Toggle:** It is a switch or control code that turns an event on or off by repeated action or use. It also means to turn something on or off by repeating the same action.
- v. **CMOS:** The PC uses the CMOS (Complementary Metal Oxide Semiconductor) memory to store the date, time and system setup parameters. These parameters are loaded every time the computer is started. A small lithium ion battery located on the motherboard powers the CMOS.

2. Answer the following:

- a. **Expert System:** An expert system is a computerized information system that allows non-experts to make decisions comparable to those of an expert. Expert systems are used for complex or ill structured tasks that require experience and specialised knowledge in narrow, specific subject area. An expert system typically contains the following components:
 - (i) Knowledge base

- (ii) Inference engine
- (iii) User interface
- (iv) Explanation facility, and
- (v) Knowledge acquisition facility.

Expert systems can be example-based, rule-based or frame- based.

In *example- based system*, the example is converted into decision tree that is used to match the case at hand and those previously entered in the knowledge base.

The *rule- based systems* are created by storing data and decision rules as if – then - else rules. These systems are useful when history of cases is unavailable or when a body of knowledge can be structured.

Frame- based systems organize all the information into linked records in a data file called frame. Rules are then applied to extract relevant information.

Advantages

- (i) It provides cost-effective alternative to human expert.
- (ii) It gives faster, consistent and good quality decisions.
- (iii) It increases productivity and preserves the expertise of an expert leaving the organization.

b. Intrusion detection system (IDS)

ID stands for Intrusion Detection, which is the art of detecting inappropriate, incorrect, or anomalous activity. ID systems that operate on a host to detect malicious activity on that host are called host-based ID systems, and ID systems that operate on network data flows are called network-based ID systems. Sometimes, a distinction is made between misuse and intrusion detection. The term intrusion is used to describe attacks from the outside; whereas, misuse is used to describe an attack that originates from the internal network.

- The IDS is scalable so that the system grows with the organization, from smaller networks to enterprise installation.
- It provides automated network-based security assessment and policy compliance evaluation.

3. **Storage Area Network (SAN):** A storage area network is a dedicated, centrally managed, secure information infrastructure which enables any- to- any interconnections of servers and storage systems. A SAN has following salient features:

- (i) Facilitates universal access and sharing of resources.
- (ii) Supports unpredictable, explosives information technology growth.
- (iii) Provides continuous service.
- (iv) Improves information protection and disaster tolerance.
- (v) Enhances security and data integrity of new computing architecture.

Move to SAN has been motivated by following factors:

- (i) **E-business** – securely transforming internal business processes and improving business relationships to expedite the buying and selling.
- (ii) **Globalization** – the extension of IT system across international boundaries.
- (iii) **Zero latency** – the need to exchange information immediately for competitive advantage.
- (iv) **Transformation** – the ability to continually adapt, while immediately accessing and processing information to drive successful business decisions.

Benefits of SAN include:

- (i) Increase in overall system efficiency
- (ii) Improved system administration
- (iii) Improved availability of resources at lowest cost and
- (iv) Increased business flexibility

4(a) Features offered by e-mail software: Electronic mail (email) on the Internet provides quick, cost effective transfer of messages to other e-mail users worldwide. The email software comprises of many important and useful features. Some of them are as follows:

- (i) **Composing messages:** With the help of Internet Browser, it is possible to compose messages in an attractive way with the help of various fonts. It is also possible to spell-check the message before finalizing it.
- (ii) **Replying to mails received:** It is possible to reply to any mail received by merely using the ‘ Reply’ facility available on the Internet Browser. This facility also allows one to send the same reply to all the recipients of the original message. This helps in saving lot of time in terms of remembering addresses and also in typing the subject matter.
- (iii) **Address book:** This is an electronic form of address book wherein the following features can be saved: Name, full address, email address, organization and designation of person etc.

When one has to send the email, by merely typing the first name, it would be possible to recall the email address of the recipient. It is also possible to store addresses on the basis of categories.

- (iv) **Printing of messages:** It is possible to print messages received as well as messages sent. As a result, hard copy of any message can also be kept.
- (v) **Offline Editing / Composing/ Reading:** One does not have to be connected to the Internet all the time to be able to read/ edit/ compose messages. Ideally, one should log on to the Internet, download all the messages on to one’s own hard disk and then get disconnected from the Internet. Once user is offline, he should read all the messages that have been received. Even composing messages can be done offline. This saves Internet time as well as helps in keeping the telephone line free.
- (vi) **Forwarding of messages:** It is possible to forward any messages received from one user to another user without retyping the message.
- (vii) **Transfer of data files:** Data files can also be sent / received to / from the client. This helps in saving of considerable amount of time, energy and money.
- (viii) **Greeting Cards:** On the Internet, there are several sites which offer free greeting cards for thousands of occasions. One has to visit that site, select the card and by typing the email address, card can be sent to different users.

(b) Various approaches of encryption

Encryption allows information to transit the Internet while being protected from interception by eavesdroppers. There are two basic approaches to encryption:

- (i) **Hardware encryption** devices are available at a reasonable cost, and can support high – speed traffic. If the Internet is being used to exchange information among branch offices or development collaborators, for instance, use of such devices can ensure that all traffic between these offices is secure.

- (ii) **Software encryption** is typically employed in conjunction with specific applications. Certain electronic mail packages, for example, provide encryption and decryption for message security.

5. a. computer network in business

Following are the benefits to an organization using computer network:-

- (i) Organizations can improve communication by connecting their computers and working on standardized systems, so that:
 - Staff, suppliers and customers are able to share information and get in touch more easily;
 - More information sharing can make the business more efficient – e.g. networked access to a common database can avoid the same data being keyed multiple times, which would waste time and could result in errors;
 - staff equipped to deal with queries, deliver a better standard of service as they can share information about customers.
- (ii) Organization can reduce costs and improve efficiency - by storing information in one centralized database and streamlining working practices, so that:
 - staff can deal with more customers at the same time by accessing customer and product databases;
 - network administration can be centralized, less IT support is required;
 - costs are cut through sharing of peripherals such as printers, scanners, external discs, tape drives and Internet access.
- (iii) Organizations can reduce errors and improve consistency - by having all
- (iii) Organizations can reduce errors and improve consistency - by having all staff work from a single source of information, so that standard versions of manuals and directories can be made available, and data can be backed up from a single point on a scheduled basis, ensuring consistency.

b. Enterprise Resource Planning systems (ERPs) integrate (or attempt to integrate) all data and processes of an organization into a single unified system. A typical ERP system uses multiple components of computer software and hardware to achieve the integration. A key ingredient of most ERP systems is the use of a single, unified database to store data for the various system modules.

The term ERP originally implied systems designed to plan the utilization of enterprise-wide resources. ERP systems typically attempt to cover all basic functions of an organization, regardless of the organization's business or charter.

Business, non-profit organizations, governments, and other large entities utilize ERP systems. Additionally, in order to be considered an ERP system, a software package generally would only need to provide functionality in a single package that would normally be covered by two or more systems. Technically, a software package that provides both Payroll and Accounting functions (such as QuickBooks) would be considered an ERP software package.

The introduction of an ERP system to replace two or more independent applications eliminates the need for interfaces previously required between systems, and provides additional benefits that range from standardization and lower maintenance (one system instead of two or more) to easier and/or greater reporting capabilities (as all data is typically kept in one database). Examples of modules in an ERP which

formerly would have been stand-alone applications include: Manufacturing, Supply Chain, Financials, CRM, Human Resources, and Warehouse Management.

Section B

- 6(a) State with reasons which of the following statements is correct or incorrect:

Customers and consumers represent same group of people.

Incorrect: A customer is the person who buys the product. Consumer is the one who ultimately consumes or uses the product. Head of family may buy products as customer and his family who actually uses the product will be consumer.

- (b) **Manufactures can sell their products directly to the customers.**

Correct: The statement reflect to the concept of direct marketing. Organization does marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response. Direct marketing includes channels such as Catalogue Selling, Mail, Telecommuting, Electronic Marketing, Shopping, and TV shopping.

- (c) **Benchmarking relates to embossing organizational motif on the furniture**

Incorrect: Benchmarking is an approach of setting goals and measuring productivity based on best industry practices. It developed out of need to have information against which performances can be measured. Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved.

- 7(a) **What is social marketing?**

Social Marketing refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group. For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can't smoke in Delhi.

- (b) **Explain concentric diversification.**

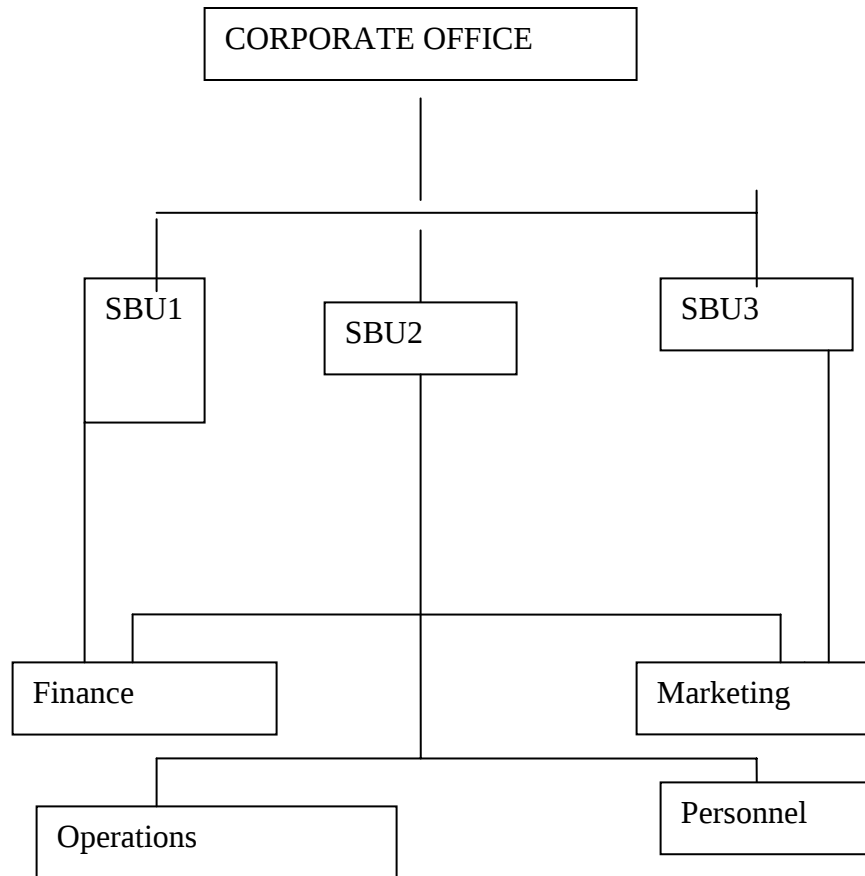
In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. In concentric diversification there are benefits of synergy with the current operations.

- 8(a) **Value chain analysis** has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services). Value analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved. These two basic steps of identifying separate activities and assessing the value added from each were linked to an analysis of an organization's competitive advantage by Michael Porter. One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. These resources are of no value unless deployed into activities and organized into routines and systems which ensure that products or services are produced which are valued by the final consumer/user.

- (b) **Boston consulting group (BCG)** growth-share matrix is the simplest way to portray an organization's portfolio of investments. Growth share matrix is used for resource allocation in a diversified company. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix.
- The vertical axis represents market growth rate and provides a measure of market attractiveness.
 - The horizontal axis represents relative market share and serves as a measure of company strength in the market.
- Using the matrix, organizations can identify four different types of products or SBU as follows:
- a. Stars
 - b. Cows
 - c. Question marks
 - d. Dogs
- 9(a) **Marketing mix forms** an important part of overall competitive marketing strategy. The marketing mix is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The marketing mix for its product. These variables are often referred to as the "4 Ps" of marketing mix.
- The 4 Ps stands for product, price, place and promotion.**
- An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives by delivering value to consumers. Over a period of time different marketers have identified other elements as part of marketing mix but the four Ps remain the crux of marketing mix.
- (b) **In simple words, benchmarking** is an approach of setting goals and measuring productivity based on best industry practices. It developed out of need to have information against which performances can be measured. For example, a customer support engineer of a television manufacturer attends a call within forty-eight hours. If the industry norm is that all calls are attended within twenty-four hours, then the twenty-four hours can be a benchmark. Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. It involves regularly comparing different aspects of performance with the best practices, identifying gaps and finding out novel methods to not only reduce the gaps but to improve the situations so that the gaps are positive for the organization. Benchmarking can help in almost all aspect of business that are amenable to comparison and are significant to business. Typically organizations can use benchmarking process to achieve improvement in diverse range of management function like:
- ✓ Maintenance operations
 - ✓ Assessment of total manufacturing costs
 - ✓ Product development
 - ✓ Product distribution
 - ✓ Customer services
 - ✓ Plant utilization levels
 - ✓ Human resource management

10(a) The various levels can Corporate Level, SBU Level and Functional Level

(b) The structure can be as follows:



(c) The various strategy levels are:
Corporate level
SBU or Business Level Strategy
Functional Level strategy

(d) These companies need multiple strategies in order to segregate different units or segments each performing a common set of activities. Many companies organize on the basis of operations divisions or simply divisions. These divisions may also be known as profit centre or strategic business units.