THE ACCOUNTANTS MANUAL

March 2010

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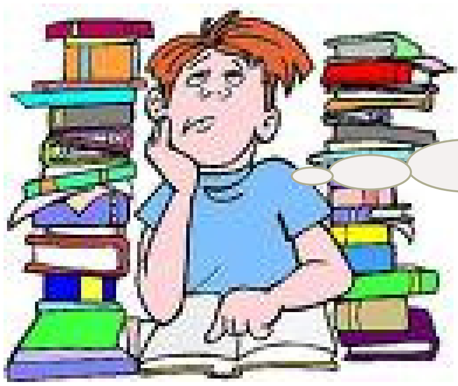

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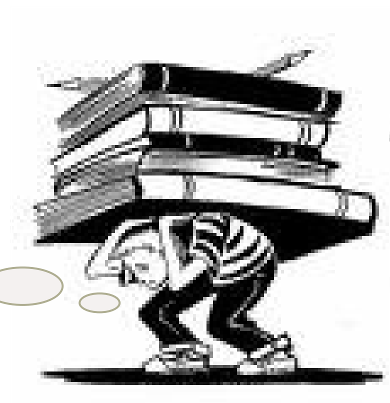

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Editorial

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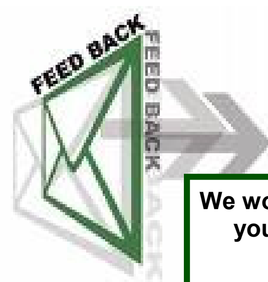

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Accounting Academics

Total Questions: 6 **Time Allotted: 30 mins**

Discuss treatment of the following in the final statement of accounts for the year ended 31/03/2010 of a company.

(1 / 6) It was found that an item of stock costing Rs. 50,000 had been included twice in the stock sheet as on 31/03/09.

(2 / 6) The company has to pay delayed cotton clearing charges over and above the negotiated price for taking delayed delivery from the suppliers godown. Upto 2008-09, the company has regularly included such charges in the valuation of closing stock. This being in the nature of interest, the company has decided to exclude it from the closing stock valuation for the year 2009-10. This would result into decrease of profit by Rs. 7.60 lakh.

(3 / 6) Fuel charge is billed by the State Electricity Board at provisional rates. Final bill for fuel surcharge of Rs. 5.50 lakh for the period October 2005 to September 2008 has been received and paid in February 2009.

(4 / 6) A Limited company has included interest in the valuation of closing stock. In 2009-10, the management of the company decided to follow AS 2 and accordingly interest has been excluded from the valuation of closing stock. This has resulted in a decrease in profit by Rs. 3 lakh.

(5 / 6) A company signed an agreement with the Employees Union on 01/09/09 for revision of wages with retrospective effect from 30/09/08. This would cost the company an additional liability of Rs. 5 lakh per annum. Is a disclosure necessary for the amount paid in 2009-10?

(6 / 6) A company finds that the stock sheets of 31/03/09 did not include two pages containing details of inventory worth Rs. 14.5 lakh.

Answers **Time Allotted: 30 mins**

Answer: Question (1 / 6)

This is a prior period item. In calculating cost of goods sold for 2009-10, the value of opening stock shall be taken at correct figure, instead of closing stock of 2008-09, which was inflated by Rs. 50,000. The profit ascertained for 2009-10 shall therefore be correct profit. To rectify overstatement of 2008-09 profits by Rs. 50,000 due to over-valuation of closing stock of 2008-09, an amount of Rs. 50,000 should be deducted from correct profit of 2009-10 as prior period item.

It should be noted that as per paragraph 19 of AS 5, the prior period items are normally included in determination of net profit or loss for the current period. Alternatively, where the prior period items are not taken in computation of current profit, they can be added (or deducted as the case may be) from the current profit. In either case, the disclosure should be such as to clearly show the effects of such items.

Answer: Question (2 / 6)

The proposed change in method of inventory valuation is a change in accounting policy. The change is in line with AS 2 and the company is right to change the policy. The nature of change and that profit has decreased by Rs. 7.60 lakh should however be disclosed as per AS 1, AS 2 and AS 5.

Accounting Academics

Answers **Time Allotted: 30 mins**

Answer: Question (3 / 6)

This does not affect the accounts of 2009-10. However if for some reason, the company had failed in 2008-09 to recognize the amount as an expense arising out of ordinary activity, it should be treated as prior period item in 2009-10. In such case, the company should present its Profit and Loss A/c in a manner such that the impact of this amount on profit / loss of 2009-10 can be perceived. Furthermore, the fact that cost of fuel is recognized on the basis of provisional bill in the first place and that the arrears are recognized as expense of the year of finalization of bill should be disclosed as accounting policy as per AS 1.

Answer: Question (4 / 6)

The cost of inventory should not include borrowing costs, unless the item of inventory is a qualifying asset. (AS 2 and AS 16) Exclusion of interest in valuation of inventory is a change in accounting policy and an enterprise can change the accounting policies if it is required by some statute or by any of the accounting standards or if such change results in better presentation of financial statements. In the present case, the change is required by AS 2 and AS 16 and hence, the company is right in changing the policy. The company should however make disclosures prescribed by AS 5 for change in accounting policies.

The following lines may be added to notes on accounts for the year 2009-10.

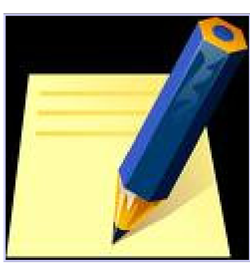
"Unlike the previous practice, in order to comply with the Accounting Standard on Valuation of Inventories issued by The Institute of Chartered Accountants of India, interest has been excluded in valuation of closing stock Had the previous practice been followed, the value of closing stock and profit for current year would have been higher by Rs. 3 lakh."

Answer: Question (5 / 6)

The arrears of wage relate to previous accounting periods but do not arise out of any error or omission. This being so, the arrears of wages are not prior period items. The wages for current year should therefore include the arrears of wages. If the size, nature or incidence of the arrears is such that its disclosure is relevant for explaining the performance of the company, separate disclosure as exceptional item is required in accordance with AS 5.

Answer: Question (6 / 6)

The erroneous under-valuation of closing stock in 2008-09 understated profit for that year. This should be treated as prior period item in 2009-10. In the year 2009-10, the opening stock should be taken at correct figure (Closing stock of 2008-09 plus Rs. 14.5 lakh), rather than the figure taken as closing stock of 2008-09. With the correct figure of profit for 2009-10, the prior period understatement of profit should be added to arrive at profit for 2009-10.



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Auditing Fundas

Total Questions: 4 **Time Allotted: 20 mins**

Briefly comment on the following statements:

(a) Concurrent audit provides supplementary management tool.

(b) Internal control system has inherent limitations.

(c) Guidance Notes are recommendatory in nature.

(d) The main object of audit of financial statements is expression of opinion.

Answers **Time Allotted: 20 mins**

Answer: Question (a)

Concurrent audit is a variant of internal audit It is carried out continuously throughout the year. It is a system of audit prevalent in large banks and exceptionally large branches of the banks. It is defined as an examination which is contemporaneous with the occurrence of transactions or examination is carried out at the earliest.

Concurrent audit's object is to ensure adherence to prescribed systems and procedures and timely detection of irregularities. The main purpose of concurrent audit is to supplement the inspection /internal audit basically in the form of internal check and verification of the transactions together with compliance with policy parameters of the Head Office and Reserve Bank of India. Examples of some of aspects of its coverage are :

- To check daily cash transactions with particular reference to abnormal receipts and payments, if any,
- To ensure appropriate accounting of cash receipts and payments.
- To verify the purchase and sale of investments are within the authority and instructions of the Central Office.
- To verify that advances are in accordance with appropriate guidelines of the Central Office and the RBI.
- To verify that there is appropriate follow-up supervision with regard to the receiving of correct stocks declaration statements and timely payment of instalments.
- To verify the accuracy and timely reconciliation, balancing and confirmation of accounts in connection with inter-branch accounts, clearance accounts, suspense accounts, deposit accounts, draft accounts, etc.

Concurrent audit, thus, helps the management to discharge its control function effectively.

Answer: Question (b)

No system of internal control can be good enough to ensure accomplishment of all its objectives. This is because of the following limitations as mentioned by AAS-6:

(i) Cost effectiveness - Benefits expected from a control may not commensurate with cost of implementation.

(ii) Potential of human error - The potential of human error due to employee carelessness, misunderstanding of instructions and errors in judgment have an impact on the effectiveness of internal control system.

(iii) Possibility of collusion - One of the fundamental principles in the design of an internal control system is the segregation of duties of employees. If two or more employees recording different aspects of a transaction collude, the effectiveness of internal control system will be compromised.

(iv) Abuse of authority - Possibility that a person responsible or exercising control could abuse the authority always exist.

Auditing Fundas

Answers **Time Allotted: 20 mins**

Answer: Question (b) contd….

(v) Inadequacy of controls - In today's world, there are frequent changes in the business of entity and its economic environment. There is, generally, a time lag between occurrence of such changes and adaptation of control procedures to the new environment. During such period, the controls may become inadequate.

(vi) Manipulations by management - The internal control system is devised and maintained by management. Manipulation in accounts and misappropriations perpetuated by members of management responsible for monitoring the control structure cannot be detected or prevented by the control system.

Answer: Question (c)

Guidance notes are recommendatory in nature primarily because they are designed to provide guidance to members on matters which may arose in course of their professional work.

The basic idea behind issuing the guidance notes is to assist members in resolving issues arising out of certain auditing standards as well as in helping them tackle certain peculiar situations faced by them in discharging their professional responsibilities.

A member should ordinarily follow recommendations is a guidance note relating to an auditing matter except when he is satisfied that in the circumstances of a case, it may not be necessary to do so.

The same logic applies to member, while discharging their allotted function.

Answer: Question (d)

AAS-2, 'Objective and Scope of the Audit of Financial Statements, states that "The objective of an audit of financial statements prepared within the framework of recognised accounting policies and practices and relevant statutory requirements, if any, is to enable an auditor to express an opinion on such financial statements." Accordingly, this has been recognised as the main object of financial audit of all entities including limited companies. Section 227 of the Companies Act, 1956 contain provisions with regard to object of financial audit.

The auditor's opinion helps to determine the true and fair view of the financial position and operating results of an enterprise. The auditor's opinion, however, is no assurance to the future viability of the business or the efficiency or effectiveness with which management has conducted the affairs of the business.

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Law Crawl

Total Questions: 4 **Time Allotted: 20 mins**

Briefly explain the following legal position of Directors in a Company:

(a)	**Agents**	**(b)**	**Officers**
(b)	**Trustees**	**(d)**	**Managing Partners**

Answers **Time Allotted: 20 mins**

Answer: (a) Agents

The Company can act only through Directors, and so the relationship between the Company and the Director is that of principal and agent. Hence, contract entered into by a person as a Director of a Company, will be binding on that Company. However, Directors are not Agents of Members of the Company.

Directors are personally liable under the following circumstances:

- Director acts in his own name,
- Director contracts on behalf of the Company without using the words Limited or Private Limited, as a part of the name of the Company,
- Director enters into an agreement / contract which does not state clearly as to whether the Director is signing in his personal capacity or in his representative capacity as an agent of the Company.

Contract executed by the Director in excess of his authority, is binding on the Company. However, the Company may claim damages from the Director for breach of implied warranty of authority. When Directors act properly on behalf of the Company, they do not incur personal liability, if they do not exceed their powers.

Answer: (b) Officers

Directors are also the Officers of the Company. [Sec.2(30)] This is irrespective of whether or not the Director is in employment or not. i.e. Executive Directors and Non–Executive Directors, both are considered as Officers of the Company. Whole Time Directors and Managing Directors are covered under the definition of Officer in default.

Answer: (c) Trustees

Office of the Director is an office of Trust. The Director stands in a fiduciary relationship with the Company. Directors are Trustees of the money and property of the Company, and also of the powers conferred on them. They must perform their duties in the best interest of the Company.

Money and the property of the Company must be applied for genuine purposes and in the best interest of the Company. Misapplication of property or money constitutes breach of trust for which Directors are liable to make good the loss.

Directors are required to exercise their powers for bonafide purposes, and for the benefit of the Company as a whole. Powers should not be put to use to promote their private interests. They are also required to ensure that they are not in a position where their duties and personal interests are in conflict. [Piercy vs S Mills & Co Ltd] Directors are liable to make good the loss to the Company, caused as a result of their misuse of Company's assets, secret information, their fiduciary position, etc.

Answer: (d) Managing Partners

Directors may also be considered as Managing Partner(s), since their activities are oriented towards the benefit of themselves and also of the shareholders. Their position as Managing Partner arises since they are appointed to their office by an arrangement between them and other Members.

However, they do not have all the powers and liabilities of Managing Partners, since generally an Individual Director has no authority to act on behalf of the Company. They can act only if such powers are specifically delegated to them.

Financial Issues

Total Questions: 5 **Time Allotted: 30 mins**

(1 / 5) The following quotes are available:

Spot (DM/$)	**:**	**1.5105 / 1.5120**
Three-month swap points	**:**	**25 / 20**
Six-month swap points	**:**	**30 / 25**

Calculate the three-month and six-month outright forward rates.

(2 / 5) An Indian bank sells FF 1,000,000 spot to a customer at Rs. 6.40. At that point of time, the following rates were being quoted:

FF/$	**:**	**5.5880 / 5.5920**
Rs./$	**:**	**35.50/35.60**

How much profit do you think the bank has made in the transaction?

(3 / 5) A company has an exposure of $100 million payable 3 months. A bank has offered to sell the amount required at a forward rate of Rs.36/ $. Meanwhile, the company's treasury department has prepared an exchange rate forecast whose accuracy is within ± 5%.

Probability	**0.20**	**0.30**	**0.30**	**0.20**
Exchange rate (Rs/$)	**35.00**	**35.50**	**36.00**	**36.50**

In your opinion, should the company accept the bank's rate or leave the exposure uncovered?

(4 / 5) An Indian importer has a payable of Euro 100,000 due on October 24, 2009. On July 24, 2009 he covers the payable through forward buying of Euro @ Rs. 40.00 from his banker. On October 24, 2009, he requests the banker to extend the contract to November 24, 2009. On October 24, 2009 the rates are:

Spot Rs./ Euro	**:**	**40.20/ 40.25**
1-m forward	**:**	**40.35/ 40.42**

What is the net cash outflow for the importer?

(5 / 5) You are told that the spot rate is $1.65 / £.
The expected inflation rates in the UK and the USA for the next three years are given below.

Year	**UK Inflation (%)**	**US Inflation (%)**
1	**3.0**	**2.0**
2	**3.5**	**2.5**
3	**3.0**	**2.0**

Calculate the expected $/£ spot rate after three years.

Answers **Time Allotted: 30 mins**

Answer: Question (1 / 5)

In this case, swap points are given in descending order. Hence, we have to subtract the swap points from the spot rates to arrive at the outright forward rates. This will ensure that the spread widens (by subtracting the larger number from the bid rate and the smaller number from the offer rate) as the time horizon increases.

Three-month forward bid rate	=	1.5105	-	0.0025	=	1.5080
Three-month forward offer rate	=	1.5120	-	0.0020	=	1.5100
Six-month forward bid rate	=	1.5105	-	0.0030	=	1.5075
Six-month forward offer rate	=	1.5120	-	0.0025	=	1.5095

Financial Issues

Answers **Time Allotted: 30 mins**

Answer: Question (2 / 5)

Since the bank has to deliver FF to the customer, it would have to cover itself by buying FF in the spot market.

The bank will first sell Rupees to obtain \$. It will have to sell Rs.35.60 to get \$1 (and not 35.50) as the spread will work against it.

When it sells \$1, it will get FF 5.5880 (and not 5.5920 for the same reason mentioned above).

Thus, the bank has to sell Rs.35.60 to obtain FF 5.5880. Hence, the exchange rate at which the bank does the cover transaction is 35.60 / 5.5880 = Rs.6.3708/ FF.

So, profit for the bank = (6.40 - 6.3708) (1,000,000) = Rs.29,200.

Answer: Question (3 / 5)

Expected spot rate after three months = (0.2)(35.00) + (0.3)(35.50) + (0.3)(36.00) + (0.2)(36.50)
= Rs.35.75/\$

So, the spot rate can range from (35.75) (1 - 0.5) to (35.75) (1 + 0.5) or 33.96 to 37.53.

Thus, the value of the Rupee outflow to settle the payable can range from (100m x 33.96 =) Rs.3396 million to (100m x 37.53 =) Rs.3753 million.

Variance of exchange rates

$$= 0.2(35.00 - 35.75)^2 + 0.3(35.50 - 35.75)^2 + 0.3(36.00 - 35.75)^2 + 0.2(36.50 - 35.75)^2 = 0.2626$$

Standard deviation = Rs.0.512/ \$

This exposes the firm to foreign exchange risk. On the other hand, by opting for the forward contract, the rupee outflow is a certain Rs.(36) (100) = Rs.3600 million. This is also marginally more than the Rs.3575 million arrived at by using the expected spot rates. Hence, it is very much preferable to use a forward contract.

Answer: Question (4 / 5)

The bank must have bought Euro 100,000 for delivering to the customer on October 24, 2009. When the customer requests for extension, the bank has to sell Euros at the spot rate and book a fresh forward contract. The customer enjoys the loss/benefit on selling Euros in the spot market.

On October 24, 2009:

Gain on selling Euros in the spot market is Rs.(40.20 - 40.00) 100,000 = Rs.20,000

On November 24, 2009:

Cash outflow on account of Euro bought @ 40.42 in the forward market = Rs.40,42,000

Net cash outflow = Rs.40,22,000

Answer: Question (5 / 5)

Today, £1 and \$1.65 can both buy the same basket of goods if we apply PPP.

The same basket of goods will have the following price after three years.

In UK,	(1) (1.03) (1.035) (1.030)	=	£ 1.098
In USA,	(1.65),(1.02) (1.025) (1.020)	=	\$ 1.7602

If we apply PPP again,	£ 1.098	=	\$1.760
So,	£ 1	=	\$1.603

Hence, the expected spot rate after three years is \$1.603 / £.

Tax Teasers

Total Questions: 5 **Time Allotted: 40 mins**

(1 / 5) A Consumer Co-operative Society furnishes the following particulars of its income in respect of financial year 2009-10 :

		Rs.
Income from business		**2,50,000**
Interest received on credit facility extended to member societies		**50,000**
Interest on deposits with banks		**10,000**
Dividend on investments:	**Rs.**	
- Investments in shares of other Co-operative Societies	**4,000**	
- Other investments	**4,000**	
Income from letting of godowns for storage of commodities		**20,000**

Calculate the taxable income of the Co-operative Society.

(2 / 5) The following are the particulars of estimated income of Mr. X for the previous year 2009-10:

	Rs.
Income from salary	**2,40,000**
Income from house property @ Rs. 5,000 p.m.	**60,000**
Income from interest on Government securities	**53,000**
Winnings from lotteries (25-8-2009) (Gross)	**40,000**

Calculate the amount of advance tax payable by him in various instalments. Tax of Rs. 12,000 has been deducted at source out of the lottery income Rs. 8,000 from salary income. He has deposited Rs. 10,000 in public provident fund.

What amount of advance tax will be payable by Mr. X if he does not have any house property income?

(3 / 5) From the following information compute the interest payable by individual u/s 234A:

Assessment year	**2010-11**
Date of filing of return	**20-3-2011**
Due date for filing of return	**30-9-2010**
Tax deducted at source	**Rs. 5,000**
Tax paid in advance	**Rs. 15,000**
Tax paid on self-assessment	**Rs. 2,000**
Tax determined on regular assessment on the basis of returned income	**Rs. 25,000**

(4 / 5) Total interstate sale for financial year 2009-10 of A Ltd., is Rs. 72,27,800 which consists of the following:

	Rs.
2% CST Sales	**57,93,600**
1% CST sales of declared goods	**14,34,200**

Out of the goods sold for Rs. 1,44,840 on 15-6-2009 which were liable to C.S.T. @ 2%, goods worth Rs. 57,936 were returned on 11-11-2009 and goods worth Rs. 14,484 were returned on 14-2-2010. A buyer to whom goods worth Rs. 71,710 carrying 1% C.S.T. was dispatched on 12-4-2010 rejected the goods and the same was received back on 18-11-2009. Compute the taxable turnover and tax liability of A Ltd., if the relevant 'C Form' have been received.

Tax Teasers

Total Questions: 5 **Time Allotted: 40 mins**

(5 / 5) P owns a house property which is situated at Delhi. The annual value of the property as per the municipal records is Rs. 2,52,000. This house has been let out to G at Rs. 27,000 p.m. as godown. Municipal taxes of Rs. 28,800 are paid partly by P (Rs. 18.000) and partly by G (Rs. 10,800). Repair expenses are borne by G which amounted to Rs. 15,000. The tenant has deposited 6 months rent with P as interest free refundable security. The difference between unbuilt area and specified area is 4 per cent. Determine the value of the property on 31-3-2010, being the valuation date of P for the assessment year 2010-11, if the house is built on free-hold land. The property is acquired on 8-2-1974.

Answers **Time Allotted: 40 mins**

Answer: Question (1 / 5)

Computation of taxable income

(For the assessment year 2010-11)

		Rs.
Income from business		2,50,000
Income from house property		20,000
Income from other sources:		
Interest received on credit facility to member societies	50,000	
Interest on deposits with bank	10,000	
Dividend on investments in shares of other co-operative societies	4,000	
Dividend on other investments (assuming from share in Indian companies)	Nil	64,000
Gross Total Income		3,34,000
Less: Deduction under section 80P		
Deduction under section 80P(2)(c) to a Consumer Co-operative Society	1,00,000	
Deduction under section 80P(2)(a) in respect of dividend from other co-operative societies	4,000	
Deduction under section 80P(2)(c) on account of Income from letting of godowns for storage of commodities	20,000	1,24,000
Net Income		2,10,000

Answer: Question (2 / 5)

Advance tax payable by Mr. X if he have house property income:

Estimated Total Income	Rs.
Salary	2,40,000
House property (60,000 – 30% of 60,000)	42,000
Interest on Government Securities	53,000
Winning of lottery	40,000
Gross total income	3,75,000
Less: Deduction u/s 80C	10,000
	3,65,000

Tax Teasers

Answers **Time Allotted: 40 mins**

Answer: Question (2 / 5) contd….

Advance Tax Payable		
Tax on Rs. 40,000 @ 30%	12,000	
Tax on other income of Rs. 3,25,000	19,000	
	31,000	
Add: Education cess @ 2%	620	
Add: SHEC @ 1%	310	
	31,930	
Less: T.D.S. (12,000 + 8,000)	20,000	
Advance Tax Payable	11,930	
Amount to be deposited before 15-9-2009 30% 11,930	3,580	(rounded off)
Amount to be deposited before 15-12-2009 30% 11,930	3,580	(rounded off)
Amount to be deposited before 15-3-2010 40% 11,930	4,770	
Total amount	11,930	

Advance tax payable by Mr. X if he does not have any house property income:

Estimated Total Income	Rs.
Salary	2,40,000
Interest on Government Securities	53,000
Winning of lottery	40,000
Gross total income	3,33,000
Less: Deduction u/s 80C	10,000
	3,23,000

Advance Tax Payable	
Tax on Rs. 40,000 @ 30%	12,000
Tax on other income of Rs. 2,83,000	12,300
	24,300
Add: Education cess @ 2%	243
Add: SHEC @ 1%	121
Tax	24,660
Less: T.D.S. (12,000 + 8,000)	20,000
Advance Tax Payable	4,660

No liability of advance tax as the tax payable is less than Rs. 10,000.

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Tax Teasers

Answers **Time Allotted: 40 mins**

Answer: Question (3 / 5)

Due date of filing of return	30-9-2010	
Date of Filing of return	20-03-2011	

Thus delay in filing of return 5 months 20 days or, 6 months

Interest payable u/s 234A is calculated as follows:		Rs.
Tax determined on regular assessment		25,000
Less: Tax deducted at source	Rs. 5,000	
Advance tax paid	Rs. 15,000	20,000
Tax due		5,000
Interest payable @ 1% on Rs. 5,000 for 6 months		300

For the purpose of computation of interest u/s 234A tax paid under self-assessment shall not be deducted.

Answer: Question (4 / 5)

		2% sales	1% sales
	Total sales	57,93,600	14,34,200
Less:	Good returned within six months	57,936	
	Goods rejected, (the condition of six months not applicable in this case)		71,710
		57,35,664	13,62,490
Less:	Central sales tax		
	57,35,664 x 2/102	1,12,464	
	13,62,490 x 1/101		13,490
	Turnover	56,23,200	13,49,000

Out of turnover of Rs. 56,23,200; Rs. 56,09,000 will be chargeable to tax @ 2% and Rs. 14,200 worth of goods which were returned after 6 months shall be chargeable @ 10% as the buyer will not give C Form for the same. The turnover of Rs. 13,49,000 shall be chargeable to tax @ 1%.

Answer: Question (5 / 5)

	Rs.	Rs.
Annual rent - Actual rent paid by the tenant		3,24,000
Add:		
(i) One-ninth of Rs. 3,24,000 as repair expenses are borne by the tenant		36,000
(ii) Municipal taxes paid by the tenant		10,800
(iii) 15% of Rs. 1,62,000 (being interest on deposit)		24,300
Annual rent (a)		3,95,100
Municipal Valuation (b)		2,52,000
Gross maintainable rent (a) or (b), whichever is higher		3,95,100
Less: Municipal taxes (Rs. 18,000 + 10,800)	28,800	
15% of Rs. 3,95,100	59,265	88,065
Net maintainable rent		3,07,035
If property is constructed on freehold land, capitalised value (Rs. 3,07,035 x 12.5)		38,37,938

Strategic Analysis

Total Questions: 4 **Time Allotted: 15 mins**

Briefly discuss the following growth strategies presented by Ansoff's Product Market Growth Matrix.

(a) Market Penetration
(b) Market Development
(c) Product Development
(d) Diversification

Answers **Time Allotted: 15 mins**

To portray alternative corporate growth strategies, Igor Ansoff presented a matrix that focused on the firm's present and potential products and markets (customers). This matrix helps companies decide what course of action should be taken given current performance. By considering ways to grow via existing products and new products, and in existing markets and new markets, there are four possible product-market combinations. The matrix consists of the following four strategies which are as below:

Answer: (a) Market Penetration

Market Penetration: Existing markets
Existing products

Market penetration occurs when a company enters/ penetrates a market with current products. The firm seeks to achieve growth with existing products in their current market segments, aiming to increase its market share. The best way to achieve this is by gaining competitors' customers (part of their market share). Other ways include attracting non-users of your product or convincing current clients to use more of your product/service, with advertising or other promotions.

The market penetration strategy is the least risky since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits. However, market penetration has market share if competitors reach capacity limits. However, market penetration has limits, and once the market approaches saturation another strategy must be pursued if the firm is to continue to grow.

Answer: (b) Market Development

Market Development: New markets
Existing products

An established product in the marketplace can be tweaked or targeted to a different customer segment, as a strategy to earn more revenue for the firm. The firm seeks growth by targeting its existing products to new market segments. For example, Lucozade was first marketed for sick children and then rebranded to target athletes. This is a good example of developing a new market for an existing product. Again, the market need not be new in itself, the point is that the market is new to the company.

Market development options include the pursuit of additional market segments or geographical regions. The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy.

Strategic Analysis

Answers **Time Allotted: 15 mins**

Answer: (c) Product Development

Product Development: Existing markets
New products

A firm with a market for its current products might embark on a strategy of developing other products catering to the same market (although these new products need not be new to the market; the point is that the product is new to the company). The firms develops new products targeted to its existing market segments. Frequently, when a firm creates new products, it can gain new customers for these products. Hence, new product development can be a crucial business development strategy for firms to stay competitive.

A product development strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share.

Answer: (d) Diversification

Diversification: New markets
New products

The firm grows by diversifying into new businesses by developing new products for new markets. The firm enters new markets where it had no presence before.

Diversification is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. In fact, this quadrant of the matrix has been referred to by some as the "suicide cell". However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk.

Preparing for Exams

Confused ????????

Nervous ????????

Refuse to believe the student who says he only works just before exams and still gets through. Revision doesn't begin a week before the exams, although it might be more intense towards the exams. To maximise the chances of a satisfactory result in your exams, start your preparation as early as possible.

Here are six concrete things that you need do to prepare for exams:

- ◊ Get hold of appropriate textbooks early and familiarise yourself with them. Try to do some preliminary reading.
- ◊ Make contact with other students. They may wish to form useful study groups later on.
- ◊ Make sure you're acquainted with the course and tutorials - what is or has been covered, and when?
- ◊ Think and plan where each subject fit in your daily study schedule. Must cover all the subjects and need to do more hard work on subjects in which you face difficulty.
- ◊ Work through past papers. You can access past exam papers from the website or through the books. If working through a whole paper seems a bit too daunting, it's a good idea to select some questions. Sit down to them, turning off the stereo and your mobile, and take the landline telephone off the hook. Time yourself and see how much you can accomplish within the allotted time.
- ◊ Practice mock test papers: Practicing mock test papers before appearing for the final exams is important. It shall not only develop the required temperament but will also help you gain the confidence level that is required to clear the exams easily.

Smaller Facts Overlooked

Total Questions: 8 **Time Allotted: 30 mins**

Can benefit of deduction under 80-IB be availed on piece-meal project?

Benefit of deduction under 80-IB cannot be availed on piece-meal project. It has been held in case of Asst. CIT vs Viswas Promoters (P.) Ltd. that if under a residential project some of residential units cover area exceeding prescribed limit, benefit of section 80-IB cannot be available to other units. Eligibility condition for benefit under section 80-IB is applicable on entire project as a whole, and not in piece-meal.

Are derivative transactions considered as speculative transaction under the Income Tax Act 1961?

It has been held in case of Shree Capital Services Ltd. vs Asstt. CIT that loss suffered on account of futures and options, which are forms of derivatives where underlying asset is shares, is a speculation loss that is to be disallowed under section 43(5).

Is cultivation of parent hybrid seed regarded as agricultural produce within the meaning of section 2(1A)?

Cultivation of parent hybrid seed cannot be regarded as agricultural produce within meaning of section 2(1A). In the case of Pioneer Overseas Corporation v. Dy. DIT (Int'l Taxation) it was held that the income attributable to the operations of developing/ produc-ing breeder seeds or hybrid germplasm or parent hybrid seed containing desired traits cannot be treated as agricultural income and should be treated as business income.

Is a Third Party Administrator (TPA) under the mediclaim insurance obliged to deduct tax at source under section 194J?

A third Party Administrator (TPA), who is responsible for making payment to hospital for rendering medical services to policy holders under various health insurance policies issued by several insurers, is obliged to deduct tax at source under section 194J as held in case of Medi Assist India TPA (P.) Ltd. vs Dy. CIT.

Smaller Facts Overlooked

Total Questions: 8 **Time Allotted: 30 mins**

Can expenditure incurred by assessee on improvement of leasehold premises be amortised over its useful life?

Expenditure incurred by assessee on improve-ment of leasehold premises could not be amortised as in view of Explanation 1 to section 32. It is to be treated as capital expenditure as if premises is owned by assessee. The decision has been held in case of Rockwell Automation India (P) Ltd. vs Additional CIT.

Is depreciation on increased price of machinery due to fluctuation in foreign exchange rates allowed as deduction in calculation of total income?

An assessee is entitled to adjust cost of acquisition of machinery on account of fluctuation in foreign exchange rates in accordance with section 43A irrespective of fact that actual payment has been made or not. Hence, assessee can claim depreciation on increased price of machinery due to fluctuation in foreign exchange rates as held in case of CIT vs Arihant Cotsyn Ltd.

Can an assessee claim refund if goods are found short before physical clearance from Customs?

If at the time of physical examination before clearance, weight of goods are found less than that indicated in invoices and Bill of Entry, the assessee can file refund claim. It has been held in case of Bansal Alloys vs. CC that it is the duty of assessing officer to reassess and correctly determine duty leviable before clearing goods for home consumption. If he fails to do so, refund claim is maintainable before the Assessing Officer.

Can an appeal be filed directly to supreme court without referring it to high court in case of dispute regarding interpretation of exemption notification?

Dispute as to whether an assessee is covered by exemption notification relates directly and proximately to rate of duty applicable. Hence, the appeal before the High Court is not maintainable. The appeal lies directly to the Supreme Court as held in case of CCE v. Special Machine.

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