

**CA IPCC TAXATION ANSWER KEY**

1 a.

Since Mr. Honey stays in India for atleast 184 days every year, he is resident and ordinarily resident in India, every year. Therefore, his global income would be taxable in India. The salary received by him in India and outside India would be taxable in India as per the provisions of the Income-tax Act, 1961.

**Computation of total income from salary of Mr. Honey for the A.Y. 2018-19**

Particulars	₹	₹
<b>Basic Salary</b>		
Salary received outside India for 6 months (₹ 50,000 x 6)	3,00,000	
Salary received in India for 6 months (₹ 50,000 x 6)	<u>3,00,000</u>	6,00,000
<b>Children Education and Hostel Allowance</b>		
Amount received from employer (₹ 3,000 x 12)	36,000	
[No exemption is available in respect of allowance received for any education or hostel facility of children outside India]	<u>Nil</u>	36,000
<b>Perquisites:</b>		
<b>Value of rent-free accommodation in USA</b>		95,400
<b>Lower of:</b>		
- 15% of ₹ 6,36,000 (Basic Salary + Children Education and Hostel Allowance)	95,400	
- Rent paid by employer = ₹ 15,000 x 12	1,80,000	
<b>Value of guest house in India</b>		-
[not taxable, since it is provided for stay when he visits India wholly for official purposes]		

<b>Lunch facility provided by employer</b> [Taxable perquisite, since the value exceeds ₹ 50 per meal] [See Note 1 below]		48,000
<b>Motor car provided by employer</b> [₹14,400 + ₹ 70,000] [See Note 2 below]		84,400
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹14,400 [₹ 2,400 x 6], since cubic capacity exceeds 1.6 litres, assuming that expenses are fully met by employer	14,400	
Used for personal purposes by his family members for 6 months when he is in India		
Actual running and maintenance expenditure <sup>3</sup> [₹ 5,000 x 6]	30,000	
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12	<u>40,000</u>	<u>70,000</u>
<b>Education expenditure of elder son in India met by employer</b> [Fully taxable perquisite]		12,000
<b>Life insurance premium paid by the employer</b> – any sum payable by the employer to effect an assurance on the life of the employee is a taxable perquisite		10,000
<b>Accident insurance premium paid by employer</b> – exempt perquisite, since such policy is taken by the employer in business interest so as to indemnify the company from payment of compensation.		-
<b>Gross Salary</b>		<u>8,85,800</u>
Less: Deductions under section 16		<u>Nil</u>
<b>Taxable Salary</b>		<u>8,85,800</u>

**Notes:**

(1) Lunch facility provided to Mr. Honey is a taxable perquisite as per Rule 3(7)(iii). The benefit under the proviso to this Rule would be available only if the value does not exceed ₹ 50 per meal. In this case since the value far exceeds ₹ 50 per meal, the benefit under the proviso to Rule 3(7)(iii) is not available. The above solution has been worked out accordingly.

However, in page 17 of the CBDT Circular No. 29/2017 dated 5.12.2017, the method of valuation of perquisite of free lunch facility has been explained. As per the said circular, a fixed sum of ₹ 50 per meal has to be reduced to arrive at the value of perquisite of free food provided by the employer. If the beneficial view given in the circular is considered for answering this question, an assumption as to the number of working days per month has to be made and thereafter, calculation for 6 months has to be made to arrive at the value of taxable and exempt perquisite of provision of lunch facility.

- (2) In the above solution, the perquisite value of motor car provided by employer has been worked out assuming that the employer fully meets the running and maintenance expenses. However, if expenses of running and maintenance of motor car are fully met by Mr. Honey himself, then, the value of perquisite of motor car would be as follows :

<b>Particulars</b>	<b>₹</b>
<b>Motor car provided by employer [₹5,400 + ₹40,000]</b>	
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹900 p.m., since cubic capacity exceeds 1.6 litres,	5,400
Used for personal purposes by his family members for 6 months when he is in India	
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12	<u>40,000</u>
	<b><u>45,400</u></b>

In this case, the taxable salary would be ₹8,46,800.

b.

- (i) As per section 6(3), a foreign company would be resident in India in the P.Y.2016-17, if its place of effective management (POEM), in that year, is in India.

“Place of Effective Management” means the place where key management and commercial decisions that are necessary for the conduct of business of an entity as a whole are, in substance, made.

In this case, since all major decisions were taken through Board Meetings held at the USA, the place of effective management of Daisy Ltd., a foreign company incorporated in the USA, is outside India.

Hence, Daisy Ltd. is a non-resident for the P.Y.2016-17 (A.Y.2017-18)

- (ii) As per section 5(2), in case of a non-resident, income which, *inter alia*, is deemed to accrue or arise to him in India is taxable in India.

As per *Explanation 1(b)* to section 9(1)(i), in case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export.

Accordingly, profit of ₹ 75 lakhs from export of uncut and unassorted diamonds purchased from dealers of Mumbai by the branch office of Daisy Ltd. in India would not be deemed to accrue or arise in India in the hands of Daisy Ltd, being a non-resident. Hence, the same would not be taxable in India in the hands of Daisy Ltd.

1.

**Computation of total income for the A.Y. 2018-19**

Particulars	Arun (₹)	Bimal(₹)
<b>Income from house property</b>		
<b>I. Self-occupied portion (25%)</b>		
Annual value	Nil	Nil
Less: Deduction under section 24(b)		
Interest on loan taken for construction ₹ 37,500 (being 25% of ₹ 1.5 lakh) restricted to maximum of ₹ 30,000 for each co-owner since the property was constructed before 1.04.1999. Hence, it is assumed that loan was taken before 1.4.1999	30,000	30,000
Loss from self occupied property	(30,000)	(30,000)
<b>II. Let-out portion (75%) – See Working Note below</b>	1,25,850	1,25,850
Income from house property	<b>95,850</b>	<b>95,850</b>
Other Income	2,90,000	1,80,000
<b>Total Income</b>	<b>3,85,850</b>	<b>2,75,850</b>

**Working Note – Computation of Income from Let-Out Portion of House Property**

Particulars	₹	₹
<b>Let-out portion (75%)</b>		
Gross Annual Value		
(a) Municipal value (75% of ₹ 9 lakh)	6,75,000	
(b) Actual rent [(₹ 12000 x 6 x 12) – (₹ 12,000 x 1 x 4)] = ₹ 8,64,000 - ₹ 48,000	8,16,000	
- whichever is higher		8,16,000
Less: Municipal taxes 75% of ₹ 1,80,000 (20% of ₹ 9 lakh)		1,35,000
Net Annual Value (NAV)		6,81,000
Less: Deduction under section 24		
(a) 30% of NAV	2,04,300	
(b) Interest on loan taken for the house [75% of ₹ 3 lakh]	2,25,000	4,29,300
<b>Income from let-out portion of house property</b>		<b>2,51,700</b>
<b>Share of each co-owner (50%)</b>		<b>1,25,850</b>

2. a.

**(i) Not taxable**

Cash gift of ₹ 51,000 received from his sister, being a relative, would **not** be taxable in the hands of Mr. Sanjay Kamboj under section 56(2)(x), even though the amount exceeds ₹ 50,000.

**(ii) Not Taxable**

Car is not included in the definition of "property", for the purpose of taxability of gifts in kind, in the hands of the recipient under the head "Income from other sources".

Hence, ₹ 5,50,000, being the fair market value of car received for inadequate consideration from his friend is **not** taxable under section 56(2)(x) in the hands of Mr. Sanjay Kamboj, even though the difference between the purchase price and FMV exceeds ₹ 50,000 and the gift is received from a non-relative.

b.

**Computation of tax liability of Ms. Avani for the A.Y. 2018-19**

In cases where the assessee himself grows tea leaves and manufactures tea in India, then, as per Rule 8 of 40% of profit on sale of tea is taxable as business income under the head "Profits and gains from business or profession", and the balance 60% is agricultural income, which is exempt from tax.

Profits from manufacture and sale of tea = ₹ 40 lakhs – ₹ 15 lakhs – ₹ 10 lakhs = ₹ 15 lakhs

Agricultural Income = 60% of ₹ 15 lakhs = ₹ 9 lakhs

Business Income = 40% of ₹ 15 lakhs = ₹ 6 lakhs.

The tax liability of Ms. Avani has to be computed applying the concept of partial integration, since her total income comprises of both agricultural income and non-agricultural income and her agricultural income exceeds ₹ 5,000 p.a and her non-agricultural income exceeds the basic exemption limit i.e., ₹ 2,50,000 (applicable, in her case).

Accordingly, her tax liability would be computed in the following manner:

Particulars	₹
Tax on total income of ₹ 15,00,000, being agricultural income and non-agricultural income	2,62,500
Less: Tax on agricultural income and basic exemption limit i.e., ₹11,50,000 [₹ 9,00,000 plus ₹ 2,50,000]	<u>1,57,500</u>
	1,05,000
Add: Education cess@2%	2,100
Secondary & higher education cess@1%	<u>1,050</u>
<b>Total Tax liability</b>	<b>1,08,150</b>

**Indirect Taxation**

5 a.

### Computation of GST liability of Singhal Brothers

Particulars	₹
Price of chemicals (₹ 50,000 x 30 tons) [Note-1]	15,00,000
Freight [Note-2]	1,80,000
Packing charges [Note-3]	1,10,000
Weighing charges [Note-3]	20,000
Cost of special instrument [Note-4]	3,10,000
Inspection charges [Note-5]	12,000
Government subsidy [Note-6]	-
Interest for late payment [Note 7] (₹15,000 x 100/118)	<u>12,712</u>
Value of taxable supply	21,44,712
<b>Tax liability for the month of September 20XX</b>	
Value of taxable supply (₹ 21,44,712- ₹ 12,712) [Note-8]	21,32,000
CGST @ 9%	1,91,880
SGST @ 9%	1,91,880
<b>Tax liability for the month of November 20XX</b>	
Interest for late consideration [Note-9]	12,712
CGST payable @ 9%	1,144
SGST payable @ 9%	1,144

#### Due date of deposit of GST

Particulars	Time of Supply	Due date of deposit [Note-11]
GST liability of ₹ 3,83,760 for the taxable supply made by Singhal Brothers [Note-10]	September 8, 20XX	October 20, 20XX
Interest amounting to ₹ 2,288 [Note-9]	November, 20XX	December 20, 20XX

#### Notes:

- (1) As per section 15(1) of the CGST Act, 2017, the value of a supply is the transaction value i.e., the price actually paid or payable for the said supply when the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply.
- (2) The given supply is a composite supply involving supply of goods (chemical) **and** services (freight) where the principal supply is the supply of goods.

As per section 8(a) of the CGST Act, 2017, a composite supply is treated as a supply of the principal supply involved therein and charged to tax accordingly. Thus, tax rate applicable to the goods (chemical) has been considered.

- (3) All incidental expenses including packing charged by the supplier to the recipient of a supply are includible in the value of supply in terms of section 15(2)(c) of CGST Act, 2017.
- (4) Any amount charged for anything done by the supplier in respect of the supply of goods at the time of, or before delivery of goods is includible in the value of supply in terms of section 15(2)(c) of CGST Act, 2017.
- (5) Any amount that the supplier is liable to pay in relation to supply but incurred by the recipient of supply and not included in the price actually paid for the goods is includible in the value of supply in terms of section 15(2)(b) of CGST Act, 2017.
- (6) Subsidies not directly linked to the price and provided by the Central Government and State Governments are not includible in the value of supply in terms of section 15(2)(e) of the CGST Act, 2017.
- (7) Interest for the delayed payment of any consideration for any supply is includible in the value of supply in terms of section 15(2)(d) of the CGST Act, 2017.  
The interest has to be considered as cum tax value and tax payable thereon has to be computed by making back calculations in terms of rule 35 of CGST Rules, 2017.
- (8) The tax liability for the month of September, 20XX will not include the tax payable on the amount of interest as the tax liability for the delayed payment of interest arises on the date of receipt of interest in terms of section 12(6) of CGST Act, 2017.
- (9) As per section 12(6) of the CGST Act, 2017, the time of supply in case of addition in value by way of interest for delayed payment of consideration for goods is the date on which the supplier receives such addition in value. Thus, the time of supply of interest received on account of delayed payment of consideration is the date of receipt of interest.
- (10) The time of supply for suppliers of goods having aggregate turnover up to ₹ 1.5 crore in the preceding financial year (excluding composition suppliers) will be the time of issue of invoice vide **Notification No. 40/2017 CT dated 13.10.2017**. Thus in the present case, the time of supply would be date of issue of invoice i.e. September 8, 20XX assuming that aggregate turnover of Singhal Brothers in the preceding financial year is upto ₹ 1.5 crore.  
However, if the aggregate turnover of Singhal Brothers in the preceding financial year is more than ₹ 1.5 crore, then also the time of supply would be the date of issue of invoice i.e. September 8, 20XX in terms of section 12(2) of CGST Act, 2017 as the invoice for the supply has been issued earlier than the date of receipt of payment
- (11) As per section 39(1) of CGST Act, 2017 every person registered under regular scheme of payment of tax has to furnish the prescribed return on or before 20<sup>th</sup> of the succeeding month. Further, section 39(7) provides that every regular registered person is liable to pay tax due to the Government by the last date on which he is required to furnish such return. Thus, GST is liable to be paid on or before 20<sup>th</sup> of the succeeding month.

b.

Time of supply will be August 5, September 5 and October 6 respectively for goods valued at ₹ 2 lakh each, as the date of payment is earlier than the date of invoice. Time of supply will be October 3 for goods valued at ₹ 56,000, as the date of invoice is earlier than the date of payment.

6.

**Activities/transactions specified under Schedule III in the CGST Act:**

Activities specified under Schedule III can be termed "Negative list" under the GST regime. This schedule specifies transactions/ activities which shall be neither treated as supply of goods nor a supply of services.

S.No.	Activities or transactions which shall be treated neither as a supply of goods nor a supply of services
1.	Services by an employee to the employer in the course of or in relation to his employment.
2.	Services by any court or Tribunal established under any law for the time being in force. Explanation – The term " <b>Court</b> " includes District Court, High Court and Supreme Court.

3.	(a) Functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities; (b) Duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity; or (c) Duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or a State Government or local authority and who is not deemed as an employee before the commencement of this clause.
4.	Services of funeral, burial, crematorium or mortuary including transportation of the deceased.
5.	Sale of land and, subject to paragraph 5(b) of Schedule II, sale of building.
6.	Actionable claims, other than lottery, betting and gambling.

7. a.



*Notification No. 12/2017 CT (R) dated 28.06.2017* exempts services by an artist by way of a performance in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre, if the consideration charged for such performance is not more than ₹ 1,50,000. However, exemption will not apply to service provided by such artist as a brand ambassador.

In view of the aforesaid provisions, services provided by Kesar Maharaj are exempt from GST as consideration for the classical dance performance has not exceeded ₹ 1,50,000. Therefore, his GST liability is nil.

- (i) If Kesar Maharaj is a brand ambassador of a food product and aforesaid performance is for the promotion of such food product, he will be liable to pay GST as aforesaid exemption is not applicable to service provided by an artist as a brand ambassador. His CGST and SGST liability would, therefore, be ₹ 13,365 ( $₹ 1,48,500 \times 9\%$ ) and ₹ 13,365 ( $₹ 1,48,500 \times 9\%$ ) respectively.
- (ii) If Kesar Maharaj gives a contemporary Bollywood style dance performance, such performance will not be eligible for aforesaid exemption. The reason for the same is that although the consideration charged does not exceed ₹ 1,50,000, said performance is not in folk or classical art forms of dance. Hence, GST would be payable on the same. His CGST and SGST liability would, therefore, be ₹ 13,365 ( $₹ 1,48,500 \times 9\%$ ) and ₹ 13,365 ( $₹ 1,48,500 \times 9\%$ ) respectively.
- (iii) If the consideration charged for the classical dance performance by Kesar Maharaj is ₹ 1,60,000, he will be liable to pay GST on the same as although the performance is by way of classical art form of dance, consideration charged for such performance has exceeded ₹ 1,50,000. His CGST and SGST liability would, therefore, be ₹ 14,400 ( $₹ 1,60,000 \times 9\%$ ) and ₹ 14,400 ( $₹ 1,60,000 \times 9\%$ ) respectively.

b.

Time of supply of goods is the earlier of the following two dates:

- Date of issue of invoice/last date on which the invoice is required to be issued
- Date of receipt of payment.

Further, date of receipt of payment is earlier of date of recording the payment in books of account and date of crediting of payment in bank account [Section 12(2) of the CGST Act, 2017].

In the given case,

Date of invoice: 3<sup>rd</sup> December, 20XX

Date of recording payment in books of account: 20<sup>th</sup> December, 20XX

Date of crediting in the bank account: 21<sup>st</sup> December, 20XX

Therefore, the date of receipt of payment will be 20<sup>th</sup> December, 20XX (earlier of two dates namely, date of recording the payment in books of account and date of crediting of payment in bank account). However, since the invoice date is earlier than date of payment, the time of supply will be 3<sup>rd</sup> December, 20XX.

c.

### Computation of value of taxable supply

Particulars	₹
List price of the goods (exclusive of taxes and discounts)	50,000
Tax levied by Municipal Authority on the sale of such goods [Includible in the value as per section 15(2)(a)]	5,000
CGST and SGST chargeable on the goods [Not includible in the value as per section 15(2)(a)]	
Packing charges [Includible in the value as per section 15(2)(c)]	1,000
Subsidy received from a non-Government body [Since subsidy is received from a non-Government body, the same is included in the value in terms of section 15(2)(e)]	<u>2,000</u>
Total	58,000
Less: Discount @ 2% on ₹. 50,000 [Since discount is known at the time of supply, it is deductible from the value in terms of section 15(3)(a)]	<u>1,000</u>
<b>Value of taxable supply</b>	<b>57,000</b>

## CA IPCC Corporate and other laws Ans Key

### 1. a

**Promoter** means a person—

- (a) who has been **named as such in a prospectus** or is identified by the company in the annual return, or
- (b) who has **control over the affairs of the company**, directly or indirectly whether as a shareholder, director or otherwise; or
- (c) in accordance with whose **advice, directions or instructions** the Board of Directors of the company is accustomed to act:

**Provided** that nothing in sub-clause (c) shall apply to a person who is acting merely in a professional capacity;

### b.

- (i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than five crore rupees; **and**
- (ii) turnover of which as per its last profit and loss account does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than twenty crore rupees:

Provided that nothing in this clause shall apply to—

- (A) a holding company or a subsidiary company;
- (B) a company registered under section 8; or
- (C) a company or body corporate governed by any special Act;

**Example:** P Ltd. is a company registered under the Companies Act, 2013 with paid up capital of Rs. 10 Lacs and turn over 2 crore. According to section 2(85) a small company is a company other than a public company with the paid up of capital not exceeding fifty lakh rupees and turnover not exceeding two crore rupees. Since the P Ltd. is a public company though complying with other requirements, it cannot avail the status of a small company.

### 2. a.

Holding and Subsidiary Companies are relative terms. A company is a holding company of another only if the other is its subsidiary. Section 2 (87) of the Companies Act 2013 lays down the circumstances under which a company becomes a subsidiary company of another company which becomes its holding company. These circumstances are as under:

- (a) When the holding company controls the composition of Board of Directors of the subsidiary company or companies, or
- (b) When the holding company exercises or controls more than one half of the total share capital either on its own or together with one or more of its subsidiary companies, or
- (c) Where a company is the holding company of the company which fulfils any of the above conditions, e.g., if A Ltd. is the holding company of B Ltd., but C Ltd. is the holding company of A Ltd., then B Ltd. will automatically become a subsidiary of C Ltd.

### b.

**Holding, subsidiary relationship:** In terms of section 2 (87) of the Companies Act 2013, a company will be the subsidiary of a company which holds a majority of shares in it through its subsidiary company or companies. In this case XYZ Pvt Ltd. and BCL Pvt Ltd. together hold a majority of equity shares in AVS Pvt Ltd. and both these companies are subsidiaries of TSR Pvt Ltd it will have a majority stake in the composition of the Board of Directors of AVS Pvt Ltd. Hence, TSR Pvt, Ltd will be treated as the holding company of AVS Pvt Ltd.

3. a.

### **The memorandum of a company shall state—**

the **name of the company** with the last word "Limited" in the case of a public limited company, or the last words "Private Limited" in the case of a private limited company.<sup>1</sup>

Exception: This clause is not applicable on the companies formed under section 8 of the Act.

the State in which **the registered office of the company** is to be situated;

the **objects** for which the company is proposed to be incorporated and any matter considered necessary in furtherance thereof;<sup>2</sup>

In case of Specified IFSC Public Company and IFSC Private Company, name shall have the suffix, "International Financial Service compan" or "IFSC" as a part of its name.

Specified IFSC Public Company & IFSC Private company shall state its objects to do financial services activities as permitted under the Special Economic Zones Act, 2005 read with SEZ Rules, 2006 and any matter considered necessary in furtherance there of.

If any company has changed its activities which are not reflected in its name, it shall change its name in line with its activities within a period of six months from the change of activities after complying with all the provisions as applicable to change of name.

b.

#### **Reservation of name :**

**Applying for name :** A person may make an application, in such form and manner and accompanied by such fee, as may be prescribed, to the Registrar for the reservation of a name set out in the application as—

- (i) the name of the proposed company; or
- (ii) the name to which the company proposes to change its name.

**Reserving the name :** Upon receipt of an application, the Registrar may, on the basis of information and documents furnished along with the application, reserve the name for a period of sixty days from the date of the application.

**Cancelling name :** Where after reservation of name, it is found that name was applied by furnishing wrong or incorrect information, then—

- (i) if the company has not been incorporated, the reserved name shall be cancelled and the person who has made the application shall be liable to a penalty which may extend to one lakh rupees;
- (ii) if the company has been incorporated, the Registrar may, after giving the company an opportunity of being heard—
  - (1) either direct the company to change its name within a period of 3 months, after passing an ordinary resolution;
  - (2) take action for striking off the name of the company from the register of companies; or
  - (3) make a petition for winding up of the company.

**Circular :** As per the *General Circular No.29/2014, dated 11<sup>th</sup> of July, 2014*, Government directed that while allotting names to Companies/Limited Liability Partnerships, the Registrar of Companies concerned should exercise due care to ensure that the names are not in contravention of the provisions of the *Emblems and Names (Prevention of Improper Use) Act, 1950*. It is necessary that Registrars are fully familiar with the provisions of the said Act.

**Note :** Rule 8—Undesirable Names of the *Companies (Incorporation) Rules, 2014*, determines whether a proposed name is identical with another or other rules which may be kept in mind while dealing with the Name clause of the MOA.

4.

**I. INCORPORATION OF COMPANY :** Section 7 of the Companies Act, 2013 provides for the procedure to be followed for incorporation of a company.

**(1) Filing of the documents and information with the registrar :** For the registration of the company following documents and information are required to be filed with the registrar within whose jurisdiction the registered office of the company is proposed to be situated—

- the memorandum and articles of the company duly **signed by all the subscribers** to the memorandum.
- a **declaration by person who is engaged in the formation of the company** (an advocate, a chartered accountant, cost accountant or company secretary in practice), **and by a person named in the articles** (director, manager or secretary of the company), that all the requirements of this Act and the rules made thereunder in respect of registration and matters precedent or incidental thereto have been complied with.
- an **affidavit from each of the subscribers to the memorandum and from persons named as the first directors, if any, in the articles** stating that—
  - ◆ he is not convicted of any offence in connection with the promotion, formation or management of any company, or

- ◆ he has not been found guilty of any fraud or misfeasance or of any breach of duty to any company under this Act or any previous company law during the last five years,
- ◆ and that all the documents filed with the Registrar for registration of the company contain information that is correct and complete and true to the best of his knowledge and belief;
- the **address for correspondence** till its registered office is established;
- the **particulars** (names, including surnames or family names, residential address, nationality) **of every subscriber** to the memorandum along with proof of identity, and in the case of a subscriber being a body corporate, such particulars as may be prescribed.
- the **particulars** (names, including surnames or family names, the Director Identification Number, residential address, nationality) **of the persons mentioned in the articles as the subscribers to the Memorandum** and such other particulars including proof of identity as may be prescribed; and
- the particulars of the interests of the persons mentioned in the articles as the first directors of the company in other firms or bodies corporate along with their consent to act as directors of the company in such form and manner as may be prescribed.

Particulars provided in this provision shall be of the individual subscriber and not of the professional engaged in the incorporation of the company [*The Companies (Incorporation) Rules, 2014*].

**(2) Issue of certificate of incorporation on registration :** The Registrar on the basis of documents and information filed, shall register all the documents and information in the register and issue a certificate of incorporation in the prescribed form to the effect that the proposed company is incorporated under this Act.

**(3) Allotment of Corporate Identity Number (CIN) :** On and from the date mentioned in the certificate of incorporation, the Registrar shall allot to the company a corporate identity number, which shall be a distinct identity for the company and which shall also be included in the certificate.

**(4) Maintenance of copies of all documents and information :** The company shall maintain and preserve at its registered office copies of all documents and information as originally filed, till its dissolution under this Act.

**(5) Furnishing of false or incorrect information or suppression of material fact at the time of incorporation (i.e. during incorporation process) :** If any person furnishes any false or incorrect particulars of any information or suppresses any material information, of which he is aware in any of the documents filed with the Registrar in relation to the registration of a company, he shall be liable for action for fraud under section 447.

**(6) Company already incorporated by furnishing any false or incorrect information or representation or by suppressing any material fact (i.e. post Incorporation)**

: where, at any time **after the incorporation of a company**, it is proved that the company has been got incorporated by furnishing any false or incorrect information or representation or by suppressing any material fact or information in any of the documents or declaration filed or made for incorporating such company, or by any fraudulent action, the promoters, the persons named as the first directors of the company and the persons making declaration under this section shall each be liable for action for fraud under section 447.

**(7) Order of the Tribunal\*** : Where a company has been got incorporated by furnishing false or incorrect information or representation or by suppressing any material fact or information in any of the documents or declaration filed or made for incorporating such company or by any fraudulent action, the Tribunal may, on an application made to it, on being satisfied that the situation so warrants—

- (a) pass such orders, as it may think fit, for regulation of the management of the company including changes, if any, in its memorandum and articles, in public interest or in the interest of the company and its members and creditors; or
- (b) direct that liability of the members shall be unlimited; or
- (c) direct removal of the name of the company from the register of companies; or
- (d) pass an order for the winding up of the company; or
- (e) pass such other orders as it may deem fit:

Provided that before making any order,—

- the company shall be given a reasonable opportunity of being heard in the matter; and
- the Tribunal shall take into consideration the transactions entered into by the company, including the obligations, if any, contracted or payment of any liability.

### **Simplified Proforma for Incorporating Company Electronically (SPICe)**

The Ministry of Corporate Affairs has taken various initiatives for ease of business. In a step towards easy setting up of business, MCA has simplified the process of filing of forms for incorporation of a company through Simplified Proforma for incorporating company electronically.

5. a.

**Problem on refusal of service of document upon a company:** The given case is covered by section 20 of the Companies Act, 2013 under which a document may be served on a company or an officer thereof by sending it to the company or the officer at the registered office of the company by registered post or by speed post or by courier service or by leaving it at its registered office or by means of such electronic or other mode as may be prescribed. Hence, the Company cannot refuse to accept the document merely because it was not sent by Fax as required by its Articles and its act of refusal is invalid.

In the second part of the problem, Ramesh/ Arvind can claim damages on this basis from the Company as his loss is the direct result of such refusal by the company.

b.

**Key managerial personnel**, in relation to a company, means—

- (i) the Chief Executive Officer or the managing director or the manager;
- (ii) the company secretary;
- (iii) the whole-time director;
- (iv) the Chief Financial Officer; and
- (v) such other officer as may be prescribed;

However, till now no other officer has been prescribed.



## CA IPCC Auditing and Assurance Answer Key

1. a. i

**Incorrect:** As per section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the companies. The internal auditor may or may not be an employee of the company.

ii.

**Incorrect:** As per **section 140(2)** the auditor who has resigned from the company shall file within a period of 30 days from the date of resignation, a statement in the prescribed **Form** with the company and the Registrar, and in case of the companies referred to in **section 139(5)** i.e. Government company, the auditor shall also file such statement with the Comptroller and Auditor-General of India, indicating the reasons and other facts as may be relevant with regard to his resignation. In this case, the PQR & Co., was also required to file prescribed Form with C & AG of India but it did not file the same. Therefore, it did not comply with the provisions of the Companies Act, 2013.

iii.

**Incorrect :** Dividends are recognised in the statement of profit and loss only when:

- (i) the entity's right to receive payment of the dividend is established;
- (ii) it is probable that the economic benefits associated with the dividend will flow to the entity; and
- (iii) the amount of the dividend can be measured reliably.

iv

**Incorrect:** As per SA-200 "Overall Objectives of the Independent Auditor", in conducting an audit of financial statements, the overall objectives of the auditor are:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement; and
- (b) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

v.

**Incorrect:** According to section 139 of the Companies Act, 2013, the provisions related to rotation of auditor are applicable to all private limited companies having paid up share capital of ₹ 50 crore or more; and all companies having paid up share capital of below threshold limit mentioned above, but having public borrowings from financial institutions, banks or public deposits of ₹ 50 crore or more.

Although company A is a private limited company having paid up share capital of ₹ 15 crores yet it is having public borrowings from nationalized bank of ₹ 50 crores, therefore it would be governed by provisions of rotation of auditor.

b.

The IAASB functions as an independent standard-setting body under the auspices of IFAC. The objective of the IAASB is to serve the public interest by setting high quality auditing standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession. The IAASB achieves this objective by:

- Establishing high quality auditing standards and guidance for financial statement audits that are generally accepted and recognized by investors, auditors, governments, banking regulators, securities regulators and other key stakeholders across the world;
- Establishing high quality standards and guidance for other types of assurance services on both financial and non-financial matters;
- Establishing high quality standards and guidance for other related services;
- Establishing high quality standards for quality control covering the scope of services addressed by the IAASB; and
- Publishing other pronouncements on auditing and assurance matters, thereby advancing public understanding of the roles and responsibility of professional auditors and assurance service providers.

**International Auditing and Assurance Standards Board (IAASB):** The IFAC Board has established the IAASB to develop and issue, in the public interest and under its own authority, high quality auditing standards for use around the world. The IAASB functions as an independent standard-setting body under the auspices of IFAC.

**Auditing and Assurance Standards Board:** ICAI is a member of the IFAC and is committed to work towards the implementation of the guidelines issued by the IFAC. ICAI constituted the AASB (erstwhile Auditing Practices Committee) to review the existing auditing practices in India and to develop Engagement and Quality Control Standards (erstwhile Statements on Standard Auditing Practices) so that these may be issued by the Council of the Institute.

2. a

In addition to the procedures undertaken for verifying completeness of additions to PPE during the period under audit, the auditor while performing testing of additions should also verify that all PPE purchase invoices are in the name of the entity that entitles legal title of ownership to the respective entity. For all additions to land, building in particular, the auditor should obtain copies of conveyance deed/ sale deed to establish whether the entity is mentioned to be the legal and valid owner.

The auditor should insist and verify the original title deeds for all immovable properties held as at the balance sheet date. In case the entity has given such immovable property as security for any borrowings and the original title deeds are not available with the entity, the auditor should request the entity's management for obtaining a confirmation from the respective lenders that they are holding the original title deeds of immovable property as security. In addition, the auditor should also verify the register of charges, available with the entity to assess the PPE that has been given as security to any third parties.

b. i

- (a) **Payment of Retirement Gratuity to Employees:** This may be vouched in the following manner-
- (i) Examine the basis on which gratuity payable is worked out-actuarial or agreement or on the assumption that all employees retire on the balance sheet date.
  - (ii) Ensure that the basis of computing gratuity is valid.
  - (iii) Verify computation of liability of gratuity on aggregate basis.
  - (iv) Check the amount of gratuity paid to employees who retired during the year with reference to the no. of years of service rendered by the retiring employees.
  - (v) If the concern has taken an insurance policy see that the annual premium has been charged to Statement of Profit and Loss.
  - (vi) Ensure that the concern has adhered to the accounting treatment in accordance with AS-15 "Employee Benefits".
  - (vii) Ensure that the following disclosure requirements of Schedule III to the Companies Act, 2013 have been followed in the case of a company:

In respect of Statement of Profit and Loss, a Company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:

(i) (a) **Employee Benefits Expense** [showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP), (iv) staff welfare expenses];

➤ **Long-term provisions:** The amounts shall be classified as: (a) **Provision for employee benefits;** (b) Others (specify nature)

➤ **Short-term provisions:** The amounts shall be classified as: (a) **Provision for employee benefits;** (b) Others (specify nature).

i) **Recovery of Bad Debts Written Off:**

- (i) Verify the relevant correspondence with the trade receivable whose accounts were written off as bad.
- (ii) See that the amount recovered is credited to a separate account recovery of bad debts written off.
- (iii) Verify the acknowledgement receipt issued to debtors.
- (iv) Examine notification from the court, bankruptcy trustee and all correspondence from debtors and collecting agencies.
- (v) Check credit manager's file for the amount received and see that the amount has been deposited in the bank promptly.
- (vi) Review the internal control system regarding writing off and recovery of bad debts.

3. a.

**Acceptance of a Change in Engagement:** An auditor who, before the completion of the engagement, is requested to change the engagement to one which provides a lower level of assurance, should consider the appropriateness of doing so.

A request from the client for the auditor to change the engagement may result from a change in circumstances affecting the need for the service, a misunderstanding as to the nature of an audit or related service originally requested or a restriction on the

scope of the engagement, whether imposed by management or caused by circumstances. The auditor would consider carefully the reason given for the request, particularly the implications of a restriction on the scope of the engagement, especially any legal or contractual implications.

If the auditor concludes that there is reasonable justification to change the engagement and if the audit work performed complied with the SAs applicable to the changed engagement, the report issued would be appropriate for the revised terms of engagement. In order to avoid confusion, the report would not include reference to-

- (i) the original engagement; or
- (ii) any procedures that may have been performed in the original engagement, except where the engagement is changed to an engagement to undertake agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.

The auditor should not agree to a change of engagement where there is no reasonable justification for doing so.

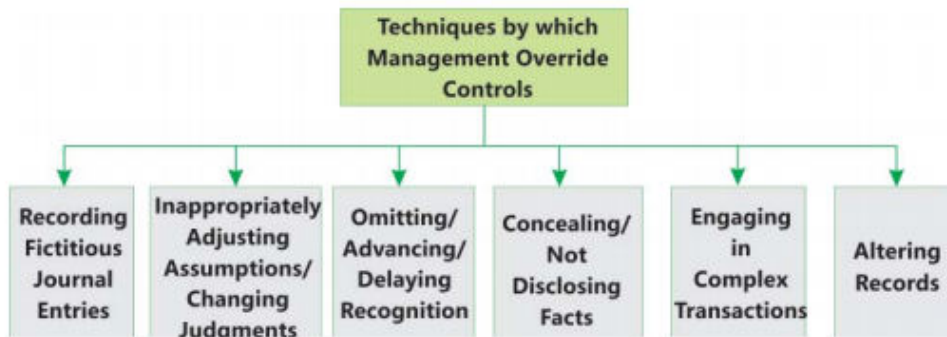
If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.

If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall-

- (i) Withdraw from the audit engagement where possible under applicable law or regulation; and
- (ii) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.

b.

**Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively.** Fraud can be committed by management overriding controls using such techniques as:



- Recording fictitious journal entries, particularly close to the end of an accounting period, to manipulate operating results or achieve other objectives.
- Inappropriately adjusting assumptions and changing judgments used to estimate account balances.
- Omitting, advancing or delaying recognition in the financial statements of events and transactions that have occurred during the reporting period.
- Concealing, or not disclosing, facts that could affect the amounts recorded in the financial statements.
- Engaging in complex transactions that are structured to misrepresent the financial position or financial performance of the entity.
- Altering records and terms related to significant and unusual transactions.

4.a

#### **Developing the Audit Programme :**

1. **Written Audit Programme:** The auditor should prepare a written audit programme setting forth the procedures that are needed to implement the audit plan.
2. **Audit objective and instruction to assistants:** The programme may also contain the audit objectives for each area and should have sufficient details to serve as a set of instructions to the assistants involved in the audit and as a means to control the proper execution of the work.
3. **Reliance on Internal Controls:** In preparing the audit programme, the auditor, having an understanding of the accounting system and related internal controls, may wish to rely on certain internal controls in determining the nature, timing and extent of required auditing procedures. The auditor may conclude that relying on certain internal controls is an effective and efficient way to conduct his audit. However, the auditor may decide not to rely on internal controls when there are other more efficient ways of obtaining sufficient appropriate audit evidence. The auditor should also consider the timing of the procedures, the coordination of any assistance expected from the client, the availability of assistants, and the involvement of other auditors or experts.

4. **Timings of performance of audit procedures:** The auditor normally has flexibility in deciding when to perform audit procedures. However, in some cases, the auditor may have no discretion as to timing, for example, when observing the taking of inventories by client personnel or verifying the securities and cash balances at the year-end.
5. **Audit planning:** The audit planning ideally commences at the conclusion of the previous year's audit, and along with the related programme, it should be reconsidered for modification as the audit progresses. Such consideration is based on the auditor's review of the internal control, his preliminary evaluation thereof, and the results of his compliance and substantive procedures.

b.

**The Code of Ethics for Professional Accountants, prepared by the International Federation of Accountants (IFAC) identifies five types of threats. These are:**

1. **Self-interest threats**, which occur when an auditing firm, its partner or associate could benefit from a financial interest in an audit client. Examples include (i) direct financial interest or materially significant indirect financial interest in a client, (ii) loan or guarantee to or from the concerned client, (iii) undue dependence on a client's fees and, hence, concerns about losing the engagement, (iv) close business relationship with an audit client, (v) potential employment with the client, and (vi) contingent fees for the audit engagement.
2. **Self-review threats**, which occur when during a review of any judgement or conclusion reached in a previous audit or non-audit engagement (Non audit services include any professional services provided to an entity by an auditor, other than audit or review of the financial statements. These include management services, internal audit, investment advisory service, design and implementation of information technology systems etc.), or when a member of the audit team was previously a director or senior employee of the client. Instances where such threats come into play are (i) when an auditor having recently been a director or senior officer of the company, and (ii) when auditors perform services that are themselves subject matters of audit.
3. **Advocacy threats**, which occur when the auditor promotes, or is perceived to promote, a client's opinion to a point where people may believe that objectivity is

getting compromised, e.g. when an auditor deals with shares or securities of the audited company, or becomes the client's advocate in litigation and third party disputes.

4. **Familiarity threats** are self-evident, and occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests. This can occur in many ways: (i) close relative of the audit team working in a senior position in the client company, (ii) former partner of the audit firm being a director or senior employee of the client, (iii) long association between specific auditors and their specific client counterparts, and (iv) acceptance of significant gifts or hospitality from the client company, its directors or employees.
5. **Intimidation threats**, which occur when auditors are deterred from acting objectively with an adequate degree of professional skepticism. Basically, these could happen because of threat of replacement over disagreements with the application of accounting principles, or pressure to disproportionately reduce work in response to reduced audit fees.

c.

**'Guidance Notes'** : are primarily designed to provide guidance to members on matters which may arise in the course of their professional work and on which they may rely in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. Guidance Notes are recommendatory in nature. A member should ordinarily follow recommendations in a guidance note relating to an auditing matter except where he is satisfied that in the circumstances of the case, it may not be necessary to do so. Similarly, while discharging his attest function, a member should examine whether the recommendations in a guidance note relating to an accounting matter have been followed or not. If the same have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report is necessary.

There are however a few guidance notes in case of which the Council has specifically stated (discussed in Announcements part reproduced in Handbook on Auditing Pronouncements) that they should be considered as mandatory on members while discharging their attest function.

5.a.

### **Limitations of Internal Control**

#### **(i) Internal control can provide only reasonable assurance:**

Internal control, no matter how effective, can provide an entity with only reasonable assurance about achieving the entity's financial reporting objectives. The likelihood of their achievement is affected by inherent limitations of internal control.

**(ii) Human judgment in decision-making:**

Realities that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human error.

**Example**

There may be an error in the design of, or in the change to, a control.

**(iii) Lack of understanding the purpose:**

Equally, the operation of a control may not be effective, such as where information produced for the purposes of internal control (for example, an exception report)

is not effectively used because the individual responsible for reviewing the information does not understand its purpose or fails to take appropriate action.

**(iv) Collusion among People:**

Additionally, controls can be circumvented by the collusion of two or more people or inappropriate management override of internal control. **For example**, management may enter into side agreements with customers that alter the terms and conditions of the entity's standard sales contracts, which may result in improper revenue recognition. Also, edit checks in a software program that are designed to identify and report transactions that exceed specified credit limits may be overridden or disabled.

**(v) Judgements by Management:**

Further, in designing and implementing controls, management may make judgments on the nature and extent of the controls it chooses to implement, and the nature and extent of the risks it chooses to assume.

**(vi) Limitations in case of Small Entities:**

Smaller entities often have fewer employees due to which segregation of duties is not practicable. However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties.

On the other hand, the owner-manager may be more able to override controls because the system of internal control is less structured. This is taken into account by the auditor when identifying the risks of material misstatement due to fraud.

b.



"The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client's business".

**Plans should be made to cover, among other things:**

- (a) acquiring knowledge of the client's accounting systems, policies and internal control procedures;
- (b) establishing the expected degree of reliance to be placed on internal control;
- (c) determining and programming the nature, timing, and extent of the audit procedures to be performed; and
- (d) coordinating the work to be performed.

**Plans should be further developed and revised** as necessary during the course of the audit.

SA-300, "Planning an Audit of Financial Statements" further expounds this principle. According to it, **planning is not a discrete phase of an audit, but rather a continual and iterative process** that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

b.

**Matters to be included in the Auditor's Report under CARO, 2016:** The auditor's report on the accounts of a company to which CARO applies shall include a statement on the following matters, namely-

- (i) **in case the company has accepted deposits**, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the rules framed there under, where applicable, have been complied with? If not, the nature of such contraventions be stated; If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not?
- (ii) whether the **Nidhi Company** has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability and whether the Nidhi Company is maintaining ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;

6.a.

**Elements of the Control Environment**– Elements of the control environment that may be relevant when obtaining an understanding of the control environment include the following:

- (a) **Communication and enforcement of integrity and ethical values**– These are essential elements that influence the effectiveness of the design, administration and monitoring of controls.
- (b) **Commitment to competence**– Matters such as management’s consideration of the competence levels for particular jobs and how those levels translate into requisite skills and knowledge.
- (c) **Participation by those charged with governance**– Attributes of those charged with governance such as:
  - Their independence from management.
  - Their experience and stature.
  - The extent of their involvement and the information they receive, and the scrutiny of activities.
  - The appropriateness of their actions, including the degree to which difficult questions are raised and pursued with management, and their interaction with internal and external auditors.

b.

**Detection of Fraud after Completion of Statutory Audit:** As per SA 240, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. Such a system reduces but does not eliminate the possibility of fraud and error.

An auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs.

The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. This is because fraud may

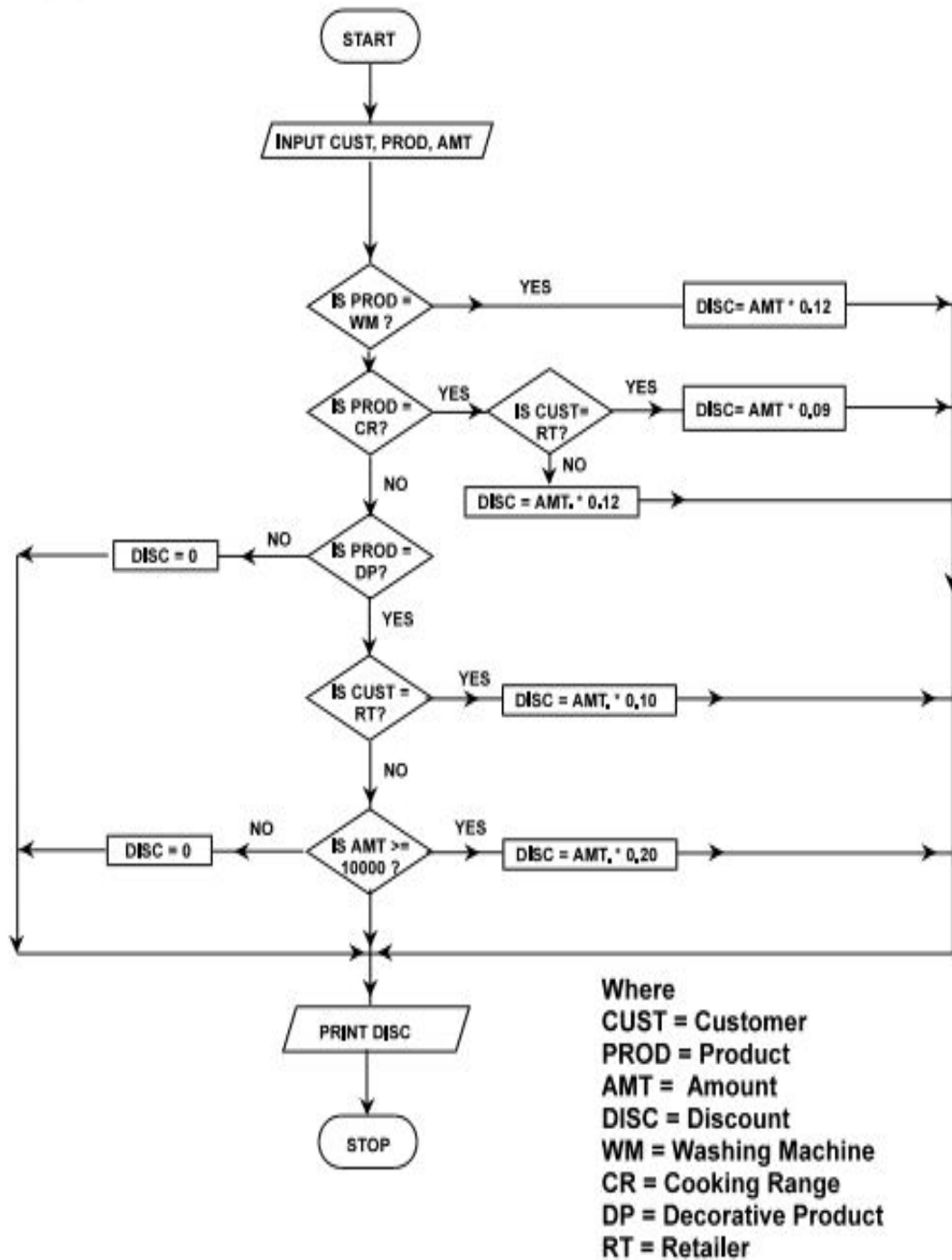
involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. Such attempts at concealment may be even more difficult to detect when accompanied by collusion.

The subsequent discovery of material misstatement of the financial information resulting from fraud or error existing during the period covered by the auditor's report does not, in itself, indicate that whether the auditor has adhered to the basic principles governing an audit. The question of whether the auditor has adhered to the basic principles governing an audit (such as performance of the audit work with requisite skills and competence, documentation of important matters, details of the audit plan and reliance placed on internal controls, nature and extent of compliance and substantive tests carried out, etc.) is determined by the adequacy of the procedures undertaken in the circumstances and the suitability of the auditor's report based on the results of these procedures.

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

CA IPCC EIS & SM Ans Key

1.



2.

### 1.4.1 Benefits of Enterprise Risk Management

No entity operates in a risk-free environment, and ERM does not create such an environment. Rather, it enables management to operate more effectively in environments filled with risks. ERM provides enhanced capability to do the following:

- ♦ **Align risk appetite and strategy:** Risk appetite is the degree of risk, on a broad-based level that an enterprise (any type of entity) is willing to accept in pursuit of its goals. Management considers the entity's risk appetite first in evaluating strategic alternatives, then in setting objectives aligned with the selected strategy and in developing mechanisms to manage the related risks.
- ♦ **Link growth, risk and return:** Entities accept risk as part of value creation and preservation, and they expect return commensurate with the risk. ERM provides an enhanced ability to identify and assess risks, and establish acceptable levels of risk relative to growth and return objectives.
- ♦ **Enhance risk response decisions:** ERM provides the rigor to identify and select among alternative risk responses – risk avoidance, reduction, sharing and acceptance. ERM provides methodologies and techniques for making these decisions.
- ♦ **Minimize operational surprises and losses:** Entities have enhanced capability to identify potential events, assess risk and establish responses, thereby reducing the occurrence of surprises and related costs or losses.
- ♦ **Identify and manage cross-enterprise risks:** Every entity faces a myriad of risks affecting different parts of the enterprise. Management needs to not only manage individual risks, but also understand interrelated impacts.
- ♦ **Provide integrated responses to multiple risks:** Business processes carry many inherent risks, and ERM enables integrated solutions for managing the risks.
- ♦ **Seize opportunities:** Management considers potential events, rather than just risks, and by considering a full range of events, management gains an understanding of how certain events represent opportunities.
- ♦ **Rationalize capital:** More robust information on an entity's total risk allows management to more effectively assess overall capital needs and improve capital allocation.

**Configuration** refers to the way a software system is set up. Configuration is the methodical process of defining options that are provided. When any software is installed, values for various parameters should be set up (configured) as per policies and business process work flow and business process rules of the enterprise. The various modules of the enterprise such as Purchase, Sales, Inventory, Finance, User Access etc. have to be configured. Configuration will define how software will function and what menu options are displayed. Some examples of configuration are given below:

- ♦ Mapping of accounts to front end transactions like purchase and sales
- ♦ Control on parameters: Creation of Customer Type, Vendor Type, year-end process
- ♦ User activation and deactivation
- ♦ User Access & privileges - Configuration & its management
- ♦ Password Management

4. a.

**“Computer Network”** means the interconnection of one or more Computers or Computer systems or Communication device through-

- (i) the use of satellite, microwave, terrestrial line, wire, wireless or other communication media; and
- (ii) terminals or a complex consisting of two or more interconnected computers or communication device whether or not the interconnection is continuously maintained;

b.

#### **V. Sensitive Personal Data Information(SPDI)**

Reasonable Security Practices and Procedures and Sensitive Personal Data or Information Rules 2011 formed under section 43A of the Information Technology Act 2000 define a data protection framework for the processing of digital data by Body Corporate.

**Scope of Rules:** Currently the Rules apply to Body Corporate and digital data. As per the IT Act, Body Corporate is defined as “Any company and includes a firm, sole proprietorship or other association of individuals engaged in commercial or professional activities.”

The present scope of the Rules excludes from its purview a number of actors that do or could have access to Big Data or use Big Data practices. The Rules would not apply to government bodies or individuals collecting and using Big Data. Yet, with technologies such as IoT(Internet of Things) and the rise of Smart Cities across India – a range of government, public, and private organizations and actors could have access to Big Data.

SM

5.

### 1.5.2 Limitations of Strategic Management

The presence of strategic management cannot counter all hindrances and always achieve success. There are limitations attached to strategic management. These can be explained in the following lines:

- Environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans. The environment affects as the organisation has to deal with suppliers, customers, governments and other external factors.
- Strategic management is a time-consuming process. Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
- Strategic management is a costly process. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organisations with limited resources particularly when small and medium organisation create strategies to compete.
- In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to a firm's strategies.

6.

- (a) **Incorrect:** Strategy is not a substitute for sound, alert and responsible management. Strategy can never be perfect, flawless and optimal. Strategies are goal-directed decision and actions in which capabilities and resources are matched with the opportunities and threats in the environment. A good management at the top can steer the organizations by adjusting its path on the basis of the changes in the environment.
- (b) **Incorrect:** Strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic; it is art of the possible; it does not preclude second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations. However, in a sound strategy, allowances are made for possible miscalculations and unanticipated external events.

c.

Yes, strategy is partly proactive and partly reactive. In proactive strategy, organizations will analyze possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a predetermined manner. However, in reality no company can forecast both internal and external environment exactly. Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behaviour, evolving technologies and so on.

There can be significant deviations between what was visualized and what actually happens. Strategies need to be attuned or modified in the light of possible environmental changes. There can be significant or major strategic changes when the environment demands. Reactive strategy is triggered by the changes in the environment and provides ways and means to cope with the negative factors or take advantage of emerging opportunities.