1 (a)

**APPORTIONMENT OF OVERHEADS UNDER-ABSORBED**

| Particulars | ₹ | ₹ | ₹ |
|---|---|---|---|
| Cost of Goods Sold | 3,36,000 | 14,000 | 3,50,000 |
| Stock of Finished Goods | 96,000 | 4,000 | 1,00,000 |
| Work-in-progress | 48,000 | 2,000 | 50,000 |
| | 4,80,000 | 20,000 | 5,00,000 |

The use of the above method would reduce the profit of the concern by ₹ 14,000.

**Working Note:** Calculation of under-absorbed Overheads

Under-absorbed overheads to be absorbed by cost of goods sold $= \dfrac{₹\,3,36,000}{₹\,4,80,000} \times ₹\,20,000 = ₹\,14,000$

Under-absorbed overheads to be absorbed by stock of finished goods $= \dfrac{₹\,96,000}{₹\,4,80,000} \times ₹\,20,000 = ₹\,4,000$

Under-absorbed overheads to be absorbed by WIP $= \dfrac{₹\,48,000}{₹\,4,80,000} \times ₹\,20,000 = ₹\,2,000$

1.b

Increase in profit when due to change in a manufacturing process there is reduction in joint fixed cost and increase in variable costs.

| | (₹) |
|---|---|
| Revised Contribution from 12,000 units of A due to 7.5% increase in Variable Cost {12,000 units × (₹200 – ₹129)} | 8,52,000 |
| Revised Contribution from 12,000 units of B due to 7.5% increase in Variable Cost {12,000 units × (₹120 – ₹64.50)} | 6,66,000 |
| Total Revised Contribution | 15,18,000 |
| Less: Fixed Cost (₹15,00,000 – 15% × ₹15,00,000) | 12,75,000 |
| Revised Profit | 2,43,000 |
| Less: Existing Profit | 1,80,000 |
| Increase in Profit | 63,000 |

**Option (ii)**

Increase in profit when the price of product A increased by 20% and the price elasticity of its demand would be unity over the range of price.

| | (₹) |
|---|---|
| Budgeted Revenue from Product A (12,000 units × ₹200) | 24,00,000 |
| Revised Demand (in units) (₹24,00,000 / ₹240) | 10,000 |
| Revised Contribution (in ₹) [10,000 units × (₹240 – ₹120)] | 12,00,000 |
| *Less*: Existing Contribution (12,000 units × ₹80) | 9,60,000 |
| Increase in Profit (Contribution) | 2,40,000 |

**\*Note:** Since Price Elasticity of Demand is 1, therefore the Revenue in respect of Products will remain same.

### Option (iii)

Increase in profit on the simultaneous introduction of above two options.

| | (₹) |
|---|---|
| Revised Contribution from Product A [10,000 units × (₹240 – ₹129)] | 11,10,000 |
| Revised Contribution from Product B [12,000 units × (₹120 – ₹64.50)] | 6,66,000 |
| Total Revised Contribution | 17,76,000 |
| *Less*: Revised Fixed Cost | 12,75,000 |
| Revised Profit | 5,01,000 |
| *Less*: Existing Profit | 1,80,000 |
| Increase in Profit | 3,21,000 |

A comparison of increase in profit figures under above three options clearly indicates that the option (iii) is the best as it increases the profit of the concern by ₹3,21,000.

**Note:** The budgeted profit / (loss) for 2018 in respect of products A and B should be ₹ 2,10,000 and (₹30,000) respectively instead of ₹ 1,50,000 and ₹ 30,000.

### Workings

1. **Contribution per unit of each product:**

| | Product | |
|---|---|---|
| | A (₹) | B (₹) |
| Contribution *per unit* | 80 | 60 |
| (Sales × P/V Ratio) | (₹200 × 40%) | (₹120 × 50%) |

2. **Number of units to be sold:**

Total Contribution – Fixed Cost = Profit

Let x be the number of units of each product sold, therefore:

$(80x + 60x) – ₹15,00,000 = ₹1,50,000 + ₹30,000$

$Or \quad x = 12,000 \text{ units}$

2 (A)

i.

## Statement of Equivalent Production

### Process III

| Input Details | Units | Output Particulars | Units | Material-A | | Material-B | | Labour & Overhead | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | % | Units | % | Units | % | Units |
| Opening WIP | 1,600 | Work on Op. WIP | 1,600 | - | - | 20 | 320 | 40 | 640 |
| Process-II Transfer | 55,400 | Introduced & completed during the month | 50,600 | 100 | 50,600 | 100 | 50,600 | 100 | 50,600 |
| | | Normal loss (5% of 52,800 units) | 2,640 | - | - | - | - | - | - |
| | | Closing WIP | 4,200 | 100 | 4,200 | 70 | 2,940 | 50 | 2,100 |
| | | Abnormal Gain | (2,040) | 100 | (2,040) | 100 | (2,040) | 100 | (2,040) |
| | 57,000 | | 57,000 | | 52,760 | | 51,820 | | 51,300 |

**Working note:**

Production units = Opening units + Units transferred from Process-II – Closing Units

= 1,600 units + 55,400 units – 4,200 units

= 52,800 units

### Statement of Cost

| | Cost (₹) | Equivalent units | Cost per equivalent units (₹) |
|---|---|---|---|
| Material A (Transferred from previous process) | 6,23,250 | | |
| Less: Scrap value of normal loss (2,640 units × ₹ 5) | (13,200) | | |
| | 6,10,050 | 52,760 | 11.5627 |
| Material B | 2,12,400 | 51,820 | 4.0988 |
| Labour | 96,420 | 51,300 | 1.8795 |
| Overheads | 56,400 | 51,300 | 1.0994 |
| | 9,75,270 | | 18.6404 |

### Statement of apportionment of Process Cost

| | | Amount (₹) | Amount (₹) |
|---|---|---|---|
| Opening WIP | Material A | | 24,000 |
| Completed opening WIP units-1600 | Material B (320 units × ₹ 4.0988) | 1311.62 | |
| | Wages (640 units × ₹ 1.8795) | 1202.88 | |
| | Overheads (640 units × ₹ 1.0994) | 703.62 | 3,218.12 |
| Introduced & Completed- 50,600 units | 50,600 units × ₹ 18.6404 | | 9,43,204.24 |
| Total cost of 52,200 finished goods units | | | 9,70,422.36 |
| Closing WIP units- 4,200 | Material A (4,200 units × ₹ 11.5627) | | 48,563.34 |
| | Material B (2,940 units × ₹ 4.0988) | | 12,050.47 |
| | Wages (2,100 units × ₹ 1.8795) | | 3,946.95 |
| | Overheads (2,100 units × ₹ 1.0994) | | 2,308.74 |
| | | | 66,869.50 |
| Abnormal gain units- 2,040 | (2,040 units × ₹ 18.6404) | | 38026.42 |

### Process III A/c

| Particulars | Units | Amount (₹) | Particulars | Units | Amount (₹) |
|---|---|---|---|---|---|
| To Balance b/d | 1,600 | 24,000 | By Normal loss | 2,640 | 13,200 |
| To Process II A/c | 55,400 | 6,23,250 | By Finished goods | 52,200 | 9,70,422.36 |
| To Direct material | | 2,12,400 | By Closing WIP | 4,200 | 66,874.06* |
| To Direct wages | | 96,420 | | | |
| To Production overheads | | 56,400 | | | |
| To Abnormal gain | 2,040 | 38,026.42 | | | |
| | 59,040 | 10,50,496.42 | | 59,040 | 10,50,496.42 |

* Difference in figure due to rounding off has been adjusted with closing WIP

**2 (B)**

**(i)   Minimum stock of A**

Re-order level – (Average rate of consumption × Average time required to obtain fresh delivery)

= 8,000 – (200 × 10 × 2) = 4,000 kgs.

**(ii)   Maximum stock of B**

Re-order level + Re-order quantity – (Minimum consumption × Minimum delivery period)

= 4,750 + 5,000 – (175 × 4 × 3)

= 9,750 – 2,100  = 7,650 kgs.

**(iii)   Re-order level of C**

Maximum delivery period × Maximum usage

= 4 × 225 × 6 = 5,400 kgs.

OR

**Re-order level of C**

= Minimum stock of C + [Average rate of consumption × Average time required to obtain fresh delivery]

= 2,000 + [(200 × 6) × 3] kgs.

= 5,600 kgs.

**(iv)   Average stock level of A**

= Minimum stock level of A + ½ Re-order quantity of A

= 4,000 + ½ × 10,000 = 4,000 + 5,000 = 9,000 kgs.

OR

Average Stock level of A

$\dfrac{\text{Minimum stock level of A + Maximum stock level of A}}{2}$ (Refer to working note)

$\dfrac{4,000 + 16,250}{2}$ = 10,125 kgs.

**Working note:**

Maximum stock of A  =  ROL+ ROQ – (Minimum consumption × Minimum re-order period)

=  8,000 + 10,000 – [(175 × 10) × 1]

=  16,250 kgs.

**Working Notes:**

1.

|  | (Kg.) |
|---|---|
| Material input | 1,50,000 |
| *Less:* Loss of Material in process (5% of 1,50,000 kg.) | 7,500 |
| Total output | 1,42,500 |

2. Output of P and Q are in the ratio of 1 : 2 of the total output:

$$P = \frac{1,42,500\,Kg. \times 1}{3} = 47,500 \text{ kg.}$$

$$Q = \frac{1,42,500\,Kg. \times 2}{3} = 95,000 \text{ kg.}$$

3. Joint Costs:

|  | (₹) |
|---|---|
| Material (input) (1,50,000 kg. × ₹ 12) | 18,00,000 |

| | |
|---|---|
| Direct materials | 90,000 |
| Direct Wages | 1,20,000 |
| Variable overheads | 1,00,000 |
| Fixed overheads | 1,00,000 |
| | 22,10,000 |

4. Sales Revenue of P, Q and S
   P = 47,500 Kg. × ₹ 12 = ₹ 5,70,000

   Q = 95,000 Kg. × ₹ 20 = ₹ 19,00,000

   S = 47,500 Kg. × ₹ 15 = ₹ 7,12,500.

5. Apportionment of joint costs viz. ₹ 22,10,000 over P and Q in proportion of their sales value i.e. ₹ 5,70,000 and ₹ 19,00,000, i.e., 3 : 10 is:

| | Total | P | Q |
|---|---|---|---|
| | (₹) | (₹) | (₹) |
| Joint cost apportionment In the ratio of 3 : 10 | 22,10,000 | 5,10,000 $\left(\dfrac{₹\ 22,10,000 \times 3}{13}\right)$ | 17,00,000 $\left(\dfrac{₹\ 22,10,000 \times 10}{13}\right)$ |

6. Total Cost of 47,500 kg. of S = Joint Cost of P + Cost of Processing P into S.

$$= ₹\ 5,10,000 + ₹\ 1,85,000 = ₹\ 6,95,000.$$

### Statement showing the Monthly Profitability

| | Based on existing manufacturing operations | | | Based on further processing of P into S | | |
|---|---|---|---|---|---|---|
| | Products | | | Products | | |
| | P | Q | Total | S | Q | Total |
| Sales quantity (kg.) | 47,500 | 95,000 | 1,42,500 | 47,500 | 95,000 | 1,42,500 |
| | (₹) | (₹) | (₹) | (₹) | (₹) | (₹) |
| Sales Revenue (Working Note 4) | 5,70,000 | 19,00,000 | 24,70,000 | 7,12,500 | 19,00,000 | 26,12,500 |
| Less: Joint Costs (Working Note 5) | 5,10,000 | 17,00,000 | 22,10,000 | 6,95,000* | 17,00,000 | 23,95,000 |
| Profit | 60,000 | 2,00,000 | 2,60,000 | 17,500 | 2,00,000 | 2,17,500 |

*Working Note 6

**Recommendation:** Further processing of P is not recommended as it results in a lower profit of P.

3 (b)

## COMPUTATION OF TWO-TIER MACHINE HOUR RATE

| Particulars | Per Month ₹ | Set up time rate per machine hour ₹ | Running time rate per machine hour ₹ |
|---|---|---|---|
| **A. Standing Charges:** | | | |
| Supervisor's Salary (₹ 6,000/3 machines) | 2,000 | | |
| General Lighting | 1,000 | | |
| Rent (₹ 7,2000/6 × 12) | 1,000 | | |
| Total Standing charges | 4,000 | | |
| Standing Charges per hour (₹ 4,000/200 hours) | | 20.00 | 20.00 |

**Machine Expenses:**

| | | |
|---|---|---|
| Depreciation [(₹ 5,00,000 – ₹ 20,000)/ 120 months]/200 hrs | 20.00 | 20.00 |
| Repair and Maintenance [₹ 60,480/(12 × 180)] | – | 28.00 |
| Consumable stores [₹ 47,520/(12 × 180)] | – | 22.00 |
| Power [25 units × ₹ 2) | – | 50.00 |
| Machine hour rate of overheads | 40.00 | 140.00 |
| Wages [₹ 2,500/200 hours] | 12.50 | 12.50 |
| Comprehensive machine hour rate | 52.50 | 152.50 |

**Working Notes:**

(i) Effective hours for standing charges (208 hours – 8 hours)  200

(ii) Effective hours for variable costs (208 hours – 28 hours)  180

4 (A)

4. (i) Calculation of Economic Batch Quantity (EBQ):

$$EBQ = \sqrt{\frac{2 \times 90,000 \times ₹\,1,500}{5\% \text{ of } ₹\,2,200}} = \sqrt{\frac{27,00,00,000}{₹\,110}} = 1,567 \text{ columns.}$$

(ii) Calculation of Extra Cost due to processing of 18,000 columns in a batch

| | When run size is 1,567 columns | When run size is 18,000 columns |
|---|---|---|
| Total set up cost | $\frac{90,000}{1,567} \times ₹1,500$ <br> = ₹ 87,000 | $= \frac{90,000}{18,000} \times ₹\,1,500$ <br> = ₹ 7,500 |
| Total Carrying cost | ½ ×1,567 × ₹110 <br> = ₹ 86,185 | ½ × 18,000 × ₹ 110 <br> = ₹ 9,90,000 |
| Total Cost | ₹ 1,73,185 | ₹ 9,97,500 |

Thus, extra cost = ₹ 9,97,500 - ₹ 1,73,185 = ₹8,24,315

4 (B)

## Calculation of :

1. Time saved and wages:

| Workmen | A | B |
|---|---|---|
| Standard time (hrs.) | 40 | 40 |
| Actual time taken (hrs.) | 32 | 30 |
| Time saved (hrs.) | 8 | 10 |
| Wages paid @ ₹ x per hr. (₹) | 32x | 30x |

2.  Bonus Plan:

| | Halsey | Rowan |
|---|---|---|
| Time saved (hrs.) | 8 | 10 |
| Bonus (₹) | 4x | 7.5x |
| | $\left[\dfrac{8\ hrs \times ₹\ x}{2}\right]$ | $\left[\dfrac{10\ hrs}{40\ hrs} \times 30hrs \times ₹\ x\right]$ |

3.  Total wages:

Workman A: 32x + 4x   = ₹ 36x

Workman B: 30x + 7.5x  = ₹ 37.5x

**Statement of factory cost of the job**

| Workmen | A (₹) | B (₹) |
|---|---|---|
| Material cost (assumed) | y | y |
| Wages (shown above) | 36x | 37.5x |
| Works overhead | 240 | 225 |
| Factory cost (given) | 2,600 | 2,600 |

The above relations can be written as follows:

36x + y + 240 = 2,600          (i)

37.5x+ y+ 225 = 2,600          (ii)

Subtracting (i) from (ii) we get

1.5x – 15 = 0

Or, 1.5 x  = 15

Or,    x    = ₹ 10 per hour

On substituting the value of x in (i) we get y = ₹ 2,000

Hence the wage rate per hour is ₹ 10 and the cost of raw material is ₹ 2,000 on the job.

4 C.

(a)

| | Input | Loss | Output |
|---|---|---|---|
| Process I | 100 | 20 | 80 |
| Process II | 80 | 8 | 72 |
| Process III | 72 | 12 | 60 |
| Process IV | 60 | 5 | 55 |

Thus, 100 units of input in process I produces 55 units of output in process IV. Therefore, to produce 1 kg. of product X, input of chemical C required will be : = 1 × 100/55 = 1.82 kg.

cost of 1.82 kg @ ₹ 8 = ₹ 14.56

(b) In order to produce 5 tonnes of product X the capacities of different processes should be follows:

Process IV : $5 \times \dfrac{60}{55} + 20\% = 6.545$ tonnes    Process II : $5 \times \dfrac{80}{55} + 20\% = 8.727$ tonnes.

Process III : $5 \times \dfrac{72}{55} + 20\% = 7.855$ tonnes    Process I : $5 \times \dfrac{100}{55} + 20\% = 10.909$ tonnes.

5 A.

### 2.6.4 Inventory Control-On the basis of Relative Classification

| ABC Analysis | • On the basis of value and frequency of inventory |
|---|---|
| Fast, Slow and Non Moving (FSN) | • On the basis of inventory turnover |
| Vital, Essential and Desirable (VED) | • On the basis of importance of inventory |
| High, Medium and Low (HML) | • On the basis of price of an item of inventory |

(1) ABC Analysis : This system exercises discriminating control over different items of inventory on the basis of the investment involved. Usually the items are classified into three categories according to their relative importance, namely, their value and frequency of replenishment during a period.

(i) 'A' Category : This category of items consists of only a small percentage i.e., about 10% of the total items handled by the stores but require heavy investment about 70% of inventory value, because of their high prices or heavy requirement or both. Items under this category can be controlled effectively by using a regular system which ensures neither over-stocking nor shortage of materials for production. Such a system plans its total material requirements by making budgets. The stocks of materials are controlled by fixing certain levels like maximum level, minimum level and re-order level.

**(ii) 'B' Category :** Thiscategory of items is relatively less important; they may be 20% of the total items of material handled by stores. The percentage of investment required is about 20% of the total investment in inventories. In the case these items, as the sum involved is moderate, the same degree of control as applied in 'A' category of items is not warranted. The orders for the items, belonging to this category may be placed after reviewing their situation periodically.

**(iii) 'C' Category :** This category of items does not require much investment; it may be about 10% of total inventory value but they are nearly 70% of the total items handled by store. For these category of items, there is no need of exercising constant control. Orders for items in this group may be placed either after six months or once in a year,

after ascertaining consumption requirements. In this case the objective is to economies on ordering and handling costs.

5 B.

**(i) Replacement Method :** This method takes into consideration actual replacement of employees irrespective of number of persons leaving the organisation. Employee Turnover under this method is calculated as under:

$$\frac{\text{Number of employees Replaced during the period}}{\text{Average number of employees during the period on roll}} \times 100$$

New employees appointed on account of expansion plan of the organisation are not included in number of replacements.

**(ii) Separation Method :** In this method employee turnover is measured by dividing the total number of employees separated during the period by the average total number of employees on payroll during the same period. Employee Turnover under this method is calculated as under:

$$\frac{\text{Number of employees Separated during the period}}{\text{Average number of employees during the period on roll}} \times 100$$

**(iii) Flux Method :** This method takes both the number of replacements as well as the number of separations during the period into account for calculation of employee turnover. Employee Turnover under this method is calculated as under:

$$\frac{\text{Number of employees Separated + Number of employees Replaced during the period}}{\text{Average number of employees during the period on roll}} \times 100$$

5 C

Step 1: Let BEP (in terms of Bogies) be X

$$X = \frac{\text{Fixed Cost} + \text{Cost of Bogies}}{\text{Contribution Per Bogie}} = \frac{(80,000 + 16,000X)}{(500 \times 70)}$$

35000X = 80000 + 16000X

X = 80000 / 19000 = 4.21 rounded off to next integer 5

Step 2: BEP (in term of passengers) $= \frac{\text{Fixed Cost} + \text{Cost of 5 Bogies}}{\text{Contribution Per Passenger}} = \frac{[80,000 + (16,000 \times 5)]}{500}$

= 320 Passengers

Verification:

Profit = Contribution – Cost of Engine – Cost of 5 Bogies

= [(320 × ₹ 500) – ₹ 80,000 – (₹ 16,000 × 5)] = 0

5 D.

## Statement of Cost & Profit
### (for the month of June 20X8)

|  | Amount (₹) |
|---|---|
| Opening stock of raw materials | 60,000 |
| Add: Purchase of raw materials during June' 20X8 | 4,80,000 |
| Less: Closing stock of raw materials | (50,000) |
| **(a) Raw materials consumed** | **4,90,000** |
| Add: Direct wages | 2,40,000 |
| **(b) Prime cost** | **7,30,000** |
| Add: Factory overheads | 1,00,000 |
| Works cost | 8,30,000 |
| Add: Opening work-in-process | 12,000 |
| Less: Closing work-in-process | (15,000) |
| **(c) Factory cost** | **8,27,000** |
| Add: Administration overheads | 50,000 |
| Cost of production | 8,77,000 |
| Add: Opening stock of finished goods | 90,000 |
| Less: Closing stock of finished goods | (1,10,000) |
| **(d) Cost of goods sold** | **8,57,000** |
| Add: Selling & distribution overheads | 25,000 |
| Cost of sales | 8,82,000 |
| **(e) Net Profit** | **1,18,000** |
| Sales | 10,00,000 |

**Enterprise Information System**

1.  i

    **Snapshots:** Tracing a transaction is a computerized system can be performed with the help of snapshots or extended records. The snapshot software is built into the system at those points where material processing occurs which takes images of the flow of any transaction as it moves through the application. These images can be utilized to assess the authenticity, accuracy, and completeness of the processing carried out on the transaction. The main areas to dwell upon while involving such a system are to locate the snapshot points based on materiality of transactions when the snapshot will be captured and the reporting system design and implementation to present data in a meaningful way.

    ii.

    **Audit Hooks:** There are audit routines that flag suspicious transactions. For example, internal auditors at Insurance Company determined that their policyholder system was vulnerable to fraud every time a policyholder changed his or her name or address and then subsequently withdrew funds from the policy. They devised a system of audit hooks to tag records with a name or address change. The internal audit department will investigate these tagged records for detecting fraud. When audit hooks are employed, auditors can be informed of questionable transactions as soon as they occur. This approach of real-time notification displays a message on the auditor's terminal.

2.

    Fire Damage is one of the major threat to the physical security of a computer installation. Some of the major ways of protecting the installation against fire damage are as follows:

    *   Both automatic and manual fire alarms may be placed at strategic locations and a control panel may be installed to clearly indicate this.

- Besides the control panel, master switches may be installed for power and automatic fire suppression system. Different fire suppression techniques like Dry-pipe sprinkling systems, water based systems, halon etc., depending upon the situation may be used.

- Manual fire extinguishers can be placed at strategic locations.

- Fireproof Walls; Floors and Ceilings surrounding the Computer Room and Fire Resistant Office Materials such as wastebaskets, curtains, desks, and cabinets should be used.

- Fire exits should be clearly marked. When a fire alarm is activated, a signal may be sent automatically to permanently manned station.

- All staff members should know how to use the system. The procedures to be followed during an emergency should be properly documented are Fire Alarms, Extinguishers, Sprinklers, Instructions / Fire Brigade Nos., Smoke detectors, and Carbon dioxide based fire extinguishers.

- Less wood and plastic should be in computer rooms.

- Use a gas based fire suppression system.

- To reduce the risk of firing, the location of the computer room should be strategically planned and should not be in the basement or ground floor of a multi-storey building.

- Regular Inspection by Fire Department should be conducted.

- Fire suppression systems should be supplemented and not replaced by smoke detectors.

- **Documented and Tested Emergency Evacuation Plans:** Relocation plans should emphasize human safety, but should not leave information processing facilities physically unsecured. Procedures should exist for a controlled shutdown of the computer in an emergency. In all circumstances saving human life should be given paramount importance.

- **Smoke Detectors:** Smoke detectors are positioned at places above and below the ceiling tiles. Upon activation, these detectors should produce an audible alarm and must be linked to a monitored station (for example, a fire station).

- **Wiring Placed in Electrical Panels and Conduit:** Electrical fires are always a risk. To reduce the risk of such a fire occurring and spreading, wiring should be placed in the fire-resistant panels and conduit. This conduit generally lies under the fire-resistant raised floor in the computer room.

**3.**

Some of the advantages of continuous audit techniques are as under:

- **Timely, Comprehensive and Detailed Auditing** – Evidence would be available more timely and in a comprehensive manner. The entire processing can be evaluated and analyzed rather than examining the inputs and the outputs only.

- **Surprise test capability** – As evidences are collected from the system itself by using continuous audit techniques, auditors can gather evidence without the systems staff and application system users being aware that evidence is being collected at that particular moment. This brings in the surprise test advantages.

- **Information to system staff on meeting of objectives** – Continuous audit techniques provides information to systems staff regarding the test vehicle to be used in evaluating whether an application system meets the objectives of asset safeguarding, data integrity, effectiveness, and efficiency.

- **Training for new users** – Using the Integrated Test Facilities (ITF)s, new users can submit data to the application system, and obtain feedback on any mistakes they make via the system's error reports.

**4.  i.**

**Dead Man Doors:** These systems encompass a pair of doors that are typically found in entries to facilities such as computer rooms and document stations. The first entry door must close and lock, for the second door to operate, with the only one person permitted in the holding area.

**ii.**

**Christmas Card:** It is a well-known example of Trojan and was detected on internal E-mail of IBM system. On typing the word 'Christmas', it will draw the Christmas tree as expected, but in addition, it will send copies of similar output to all other users connected to the network. Because of this message on other terminals, other users cannot save their half-finished work.

# Strategic Management

5. **a.**

A strategic vision delineates organisation's aspirations for the business, providing a panoramic view of the position where the organisation is going. A strategic vision points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity. A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

**b.**

In co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies. Such merger include the extension of the product line or acquiring components that are required in the daily operations.

6. **a**

Shreekant opt for turnaround strategy which is a highly-targeted effort to return Arena Ltd. to profitability and increase positive cash flows to a sufficient level. Organizations those have faced a significant crisis that has negatively affected operations require turnaround strategy. Once turnaround is successful the organization may turn to focus on growth.

**Conditions for turnaround strategies**

When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately. These conditions may be, inter alia cash flow problems, lower profit margins, high employee turnover and decline in market share, capacity underutilization, low morale of employees, recessionary conditions, mismanagement, raw material supply problems and so on.

**Action plan for turnaround strategy**

- Stage One – Assessment of current problems
- Stage Two – Analyze the situation and develop a strategic plan
- Stage Three – Implementing an emergency action plan
- Stage Four – Restructuring the business
- Stage Five – Returning to normal

**b.**

Decision making is a managerial process of selecting the best course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may be operational i.e., which relate to general day-to-day operations. They may also be strategic in nature. According to Jauch and Glueck **"Strategic decisions encompass the definition of the business, products to be handled, markets to be served, functions to be performed and major policies needed for the organisation to execute these decisions to achieve the strategic objectives."**

The major dimensions of strategic decisions are as follows:

- Strategic decisions require top-management involvement: Strategic decisions involve thinking in totality of the organization. Hence, problems calling for strategic decisions require to be considered by the top management.

- Strategic decisions involve commitment of organisational resources: For example, Strategic decisions to launch a new project by a firm requires allocation of huge funds and assignment of a large number of employees.

- Strategic decisions necessitate consideration of factors in the firm's external environment: Strategic focus in organization involves orienting its internal environment to the changes of external environment.

- Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm: Generally, the results of strategic implementation are seen on a long-term basis and not immediately.

- Strategic decisions are future oriented: Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.

- Strategic decisions usually have major multifunctional or multi-business consequences: As they involve organization in totality they affect different sections of the organization with varying degree.

c.

### Essentials of a strategic vision

- The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.

- Forming a strategic vision is an exercise in intelligent entrepreneurship.

- A well-articulated strategic vision creates enthusiasm among the members of the organisation.

- The best-worded vision statement clearly illuminates the direction in which organization is headed.

1 A.

**Value of Equity Share in $t_0$** = [PV of Dividend Payments during the years 1 – 4] + [PV of Expected Market Price at the end of the year 4]

**STEP 1: CALCULATION OF PV OF DIVIDENDS PAYMENTS**

| Year A | B | Dividend C | PV factor at 20% D | Total PV $E = C \times D$ |
|---|---|---|---|---|
| 1 | $D_1$ | 2.40 | 0.833 | 1.999 |
| 2 | $D_2$ | 2.88 | 0.694 | 1.999 |
| 3 | $D_3$ | 3.31 | 0.579 | 1.916 |
| 4 | $D_4$ | 3.81 | 0.482 | 1.836 |
| | | | | Total = 7.750 |

**Step 2: Calculation of PV of Expected Market Price in $t_4$**

$$P_4 = \frac{D_s}{k_e - g} = \frac{D_4(1+g)}{k_e - g} = \frac{3.81(1+0.10)}{0.20 - (0.10)} = ₹\,41.91$$

PV of $P_4 = P_4 \times$ PV factor = ₹ 41.91 × 0.482 = ₹ 20.20

**Step 3:**  Market Price in $P_0$ = PV of $D_{1-4}$ + PV of $P_4$ = ₹ 7.75 + ₹ 20.20 = ₹ 27.95

**1 B.**

## INCOME STATEMENT

| Particulars | ₹ |
|---|---|
| A. Sales | 10,00,000 |
| B. *Less:* Variable Costs | 6,00,000 |
| C. Contribution | 4,00,000 |
| D. *Less:* Fixed Costs | 2,00,000 |
| E. Earnings before Interest & Tax (EBIT) | 2,00,000 |
| F. *Less:* Interest | 80,000 |
| G. Earnings before Tax (EBT) | 1,20,000 |
| H. *Less:* Tax @ 40% | 48,000 |
| I. Earnings after Tax (EAT) | 72,000 |
| J. *Less:* Pref. Dividend | 12,000 |
| K. Earnings for Equity Shareholders | 60,000 |

## BALANCE SHEET

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| 10,000 Equity Shares of ₹ 10 each | 1,00,000 | Total Assets | 10,60,000 |
| 1,000, 12% Pref. Shares of ₹ 100 each | 1,00,000 | | |
| Reserves & Surplus | 60,000 | | |
| 10% Debt | 8,00,000 | | |
| | 10,60,000 | | 10,60,000 |

**Working Notes:**

(i) Earning per share = Market Price/Price Earning Ratio = ₹ 18/3 = ₹ 6

(ii) Earning for Equity shareholders = No. of Equity Shares × EPS = 10,000 × ₹ 6 = ₹ 60,000

(iii) Earning after Interest & Tax = Earnings for Equity Shareholders + Pref. Dividend

$$= ₹ 60,000 + ₹ 12,000 = ₹ 72,000$$

(iv) Earning Before Tax = Earnings after Interest & Tax + Tax = ₹ 72,000 + ₹ 48,000 = ₹ 1,20,000

(v) Earning Before Interest & Tax = $\left[\text{Earning before Tax} - \dfrac{\text{Pref. Dividend}}{(1-\text{tax})}\right] \times$ Financial Leverage

$$= \left[₹\,1,20,000 - \dfrac{₹\,12,000}{(1-0.40)}\right] \times 2 = ₹\,2,00,000$$

(vi) Contribution = EBIT × Operating Leverage = ₹ 2,00,000 × 2 = ₹ 4,00,000

(vii) Fixed Costs = Contribution − EBIT = ₹ 4,00,000 − ₹ 2,00,000 = ₹ 2,00,000.

(viii) Contribution = Sales − Variable Cost

Let the Sales be X

$$X - 0.6X = ₹\,4,00,000$$
$$0.4X = ₹\,4,00,000, \quad X = ₹\,4,00,000/0.4 = ₹\,10,00,000$$

(ix) Interest on 10% Debt = EBIT − EBT = ₹ 2,00,000 − ₹ 1,20,000 = ₹ 80,000

(x) 10% Debt = ₹ 80,000/0.10 = ₹ 8,00,000.

(xi) It has been assumed that no equity dividend has been paid.

## 2 A.

**Calculation of Net Working Capital requirement:**

| | (₹) | (₹) |
|---|---|---|
| **A. Current Assets:** | | |
| Inventories: | | |
| Stock of Raw material (Refer to Working note (iii)) | 1,44,000 | |
| Stock of Work in progress (Refer to Working note (ii)) | 7,50,000 | |
| Stock of Finished goods (Refer to Working note (iv)) | 20,40,000 | |
| Debtors for Sales (Refer to Working note (v)) | 1,02,000 | |
| Cash | 2,00,000 | |
| Gross Working Capital | 32,36,000 | 32,36,000 |
| **B. Current Liabilities:** | | |
| Creditors for Purchases (Refer to Working note (vi)) | 1,56,000 | |
| Creditors for wages (Refer to Working note (vii)) | 23,250 | |
| | 1,79,250 | 1,79,250 |
| **Net Working Capital (A - B)** | | **30,56,750** |

**Working Notes:**

**(i) Annual cost of production**

| | (₹) |
|---|---|
| Raw material requirements {(31,200 × ₹ 40) + (12,000 x ₹ 40)} | 17,28,000 |
| Direct wages {(31,200 ×₹ 15) +(12,000 X ₹ 15 x 0.5)} | 5,58,000 |
| Overheads (exclusive of depreciation) {(31,200 × ₹ 30) + (12,000 x ₹ 30 x 0.5)} | 11,16,000 |
| Gross Factory Cost | 34,02,000 |
| *Less:* Closing W.I.P [12,000 (₹ 40 + ₹ 7.5 + ₹15)] | (7,50,000) |
| Cost of Goods Produced | 26,52,000 |
| *Less:* Closing Stock of Finished Goods (₹ 26,52,000 × 24,000/31,200) | (20,40,000) |
| Total Cash Cost of Sales | 6,12,000 |

**2 B.**

**(a) Working Note**

$$\frac{\text{Net income (NI) for equity - holders}}{K_e} = \text{Market Value of Equity}$$

$$\frac{\text{Net income (NI) for equity holders}}{0.20} = ₹\,1,140 \text{ lakhs}$$

Therefore, Net Income to equity–holders = ₹ 228 lakhs

EBIT = ₹ 228 lakhs / 0.7 = ₹ 325.70 lakhs

|  | All Equity (₹ In lakhs) | Debt of Equity (₹ In lakhs) |
|---|---|---|
| EBIT | 325.70 | 325.70 |
| Interest on ₹200 lakhs @ 15% | -- | 30.00 |
| EBT | 325.70 | 295.70 |
| Tax @ 30 % | 97.70 | 88.70 |
| Income available to equity holders | 228 | 207 |

**(i) Market value of levered firm = Value of unlevered firm + Tax Advantage**

= ₹ 1,140 lakhs + (₹200 lakhs x 0.3)

= ₹ 1,200 lakhs

The impact is that the market value of the company has increased by ₹ 60 lakhs (₹ 1,200 lakhs – ₹ 1,140 lakhs)

**Calculation of Cost of Equity**

$K_e$ = (Net Income to equity holders / Equity Value ) X 100

= (207 lakhs / 1200 lakhs – 200 lakhs ) X 100

= (207/ 1000) X 100

= 20.7 %

**(ii) Cost of Capital**

| Components | Amount (₹ In lakhs) | Cost of Capital % | Weight | WACC % |
|---|---|---|---|---|
| Equity | 1000 | 20.7 | 83.33 | 17.25 |
| Debt | 200 | (15% X 0.7) =10.5 | 16.67 | 1.75 |
|  | 1200 |  |  | 19.00 |

The impact is that the WACC has fallen by 1% (20% - 19%) due to the benefit of tax relief on debt interest payment.

(iii) Cost of Equity is 20.7% [As calculated in point (i)]

The impact is that cost of equity has risen by 0.7% i.e. 20.7% - 20% due to the presence of financial risk.

Further, Cost of Capital and Cost of equity can also be calculated with the help of formulas as below, though there will be no change in final answers.

Cost of Capital $(K_o) = K_{eu}(1-tL)$

Where,

$K_{eu}$ = Cost of equity in an unlevered company

$t$ = Tax rate

$$L = \frac{Debt}{Debt + Equity}$$

$$K_o = 0.2 \times \left(1 - \frac{₹ 200 lakh}{₹ 1,200 lakh} \times 0.3\right)$$

So, Cost of capital = 0.19 or 19%

Cost of Equity $(K_e) = K_{eu} + (K_{eu} - K_d) \dfrac{Debt(1-t)}{Equity}$

Where,

$K_{eu}$ = Cost of equity in an unlevered company

$K_d$ = Cost of debt

$t$ = Tax rate

$$K_e = 0.20 + \left[(0.20 - 0.15) \times \frac{₹ 200\ lakh \times 0.7}{₹ 1,000\ lakh}\right]$$

$K_e = 0.20 + 0.007 = 0.207$ or 20.7%

So, Cost of Equity = 20.70%

3 B

Presently, the Debtors of the company pay after 90 days. However, the factor has agreed to pay after 60 days only. So, the investment in debtors will be reduced by 30 days.

The annual charge in cash flows through entering into a factoring agreement is:

| | ₹ | ₹ |
|---|---|---|
| A. Annual Charge (2% × 1,20,00,000) | | (2,40,000) |
| B. Administration Cost Saved | | 1,00,000 |
| Existing Average Debtors (₹ 1,20,00,000 ÷ 360 × 90) days | 30,00,000 | |
| Average New Debtors (₹ 1,20,00,000 ÷ 360 × 60) days | 20,00,000 | |
| Reduction in Debtors | 10,00,000 | |
| Variable Cost thereof 80% | 8,00,000 | |
| C. Interest Saving @ 15% on ₹ 8,00,000 | | 1,20,000 |
| D. Bad Debt Saved @ 0.5% of ₹ 1,20,00,000 | | 60,000 |
| E. Net Annual Benefits of Factoring (B + C + D − A) | | 40,000 |

**Advice**: Therefore, the factoring agreement is worthwhile and should be undertaken.

3 C

(c) **Role of Finance Executive in modern World**

Today, the role of Financial Executive, is no longer confined to accounting, financial reporting and risk management. Some of the key activities that highlight the changing role of a Finance Executive are as follows:-

- Budgeting
- Forecasting
- Managing M & As
- Profitability analysis relating to customers or products
- Pricing Analysis
- Decisions about outsourcing
- Overseeing the IT function.
- Overseeing the HR function.
- Strategic planning (sometimes overseeing this function).
- Regulatory compliance.
- Risk management.

## Expenditure Method

$GDP_{MP}$ = Personal consumption expenditure + Gross Investment (Gross business fixed investment + inventory investment) + Gross residential construction investment + Gross public investment + Government purchases of goods and services + Net Exports (Exports-imports)

$GNP_{MP}$ = $GDP_{MP}$ +Net factor income from abroad

$GNP_{MP}$ - Indirect Taxes = $GNP_{FC}$

$GNP_{FC}$ - Depreciation = $NNP_{FC}$ (National Income)

| $GDP_{Mp}$ = | ₹ | |
|---|---|---|
| Personal consumption expenditure | = | 3500 |
| + Gross Investment | = | 900 |
| which include (Gross Business fixed investment | = | 300 |
| Gross residential construction investment | = | 300 |
| Gross public investment | = | 200 |
| Inventory investment | = | 100) |
| + Government purchases of goods arid services | = | 1000 |
| + Net exports which include: | = | 100 |
| (Exports | = | 200 |
| Imports | = | 100) |
| $GDP_{Mp}$ = | = | **5500 Crores** |
| +Net Factor Income From Abroad | = | -50 |
| $GNP_{MP}$ = | = | **5450 Crores** - |
| -Indirect Taxes | = | 100 |
| $GNP_{FC}$ | = | **5350 Crores** |
| - Depreciation | = | 50 |
| $NNP_{FC}$ (National Income) | = | **5300 Crores** |

## 19. Production for self consumption added under Value Added Method

(c) (i) In respect of both commodities

Productivity of Labour in Country X and Country Y

| Productivity of Labour | Country X | Country Y |
|---|---|---|
| Units of cloth per hour | 0.25 | 1.0 |
| Units of wheat per hour | 0.5 | 0.4 |

(ii) Country X has absolute advantage in the production of wheat because productivity of wheat is higher in country X, or conversely, the number of labour hours required to produce wheat in country X is less compared to country Y.

(iii) Country Y has absolute advantage in the production of cloth because productivity of cloth is higher in country Y, or conversely, the number of labour hours required to produce wheat in country Y is less compared to country X.

Level of Disposable income $Y_d$ is given by

$Y_d$ = Y-Tax + Transfer Payments, Where, Transfer Payment = 110

= Y -0.2 Y +110 = 0.8Y +110,

and C = 50+0.75 $Y_d$

= 50+0.75(0.8Y +110)(where $Y_d$ = 0.8Y +110)

=50+(0.75×0.8Y) + (0.75X110) =132.50+0.6Y

C = 132.50+0.6 Y

Now Y = C+I+G, Where C = 132.50+0.6Y, I = 100, G = 200(Given)

Y= (132.50+0.6Y)+100+200

= 432.50+0.6Y

Y-0.6Y= 0.4Y = 432.50

or Y = 432.50/0.4 = ₹ 1,081.25 Crores

Expenditure Multiplier $= \frac{1}{1-b} = \frac{1}{1-0.6} = 2.5$ (Multiplier in closed economy $= \frac{1}{1-b}$ )

(Here b = MPC= $\frac{\Delta C}{\Delta Y}$ )

A tariff levied on an imported product affects both the country exporting a product and the country importing that product.

(i) Tariff barriers create obstacles to trade, decrease the volume of imports and exports and therefore of international trade. The prospect of market access of the exporting country is worsened when an importing country imposes a tariff.

(ii) By making imported goods more expensive, tariffs discourage domestic consumers from consuming imported foreign goods. Domestic consumers suffer a loss in consumer surplus because they must now pay a higher price for the good and also because compared to free trade quantity, they now consume lesser quantity of the good.

(iii) Tariffs encourage consumption and production of the domestically produced import substitutes and thus protect domestic industries.

(iv) Producers in the importing country experience an increase in well-being as a result of imposition of tariff. The price increase of their product in the domestic market increases producer surplus in the industry. They can also charge higher prices than would be possible in the case of free trade because foreign competition has reduced.

(v) The price increase also induces an increase in the output of the existing firms and possibly addition of new firms due to entry into the industry to take advantage of the new high profits and consequently an increase in employment in the industry.

(vi) Tariffs create trade distortions by disregarding comparative advantage and prevent countries from enjoying gains from trade arising from comparative advantage. Thus, tariffs discourage efficient production in the rest of the world and encourage inefficient production in the home country.

(vii) Tariffs increase government revenues of the importing country by the value of the total tariff it charges.

Trade liberalization in recent decades, either through government policy measures or through negotiated reduction through the WTO or regional and bilateral free trade agreements, has diminished the importance of tariff as a tool of protection. Currently, trade policy is focusing increasingly on not so easily observable forms of trade barriers usually called nontariff measures (NTMs). NTMs are thought to have important restrictive and distortionary effects on international trade. They have become so invasive that the benefits due to tariff reduction are practically offset by them.

5 C

**(ii)  The GATT lost its relevance by 1980s because:**

- It was obsolete to the fast evolving contemporary complex world trade scenario characterized by emerging globalisation
- International investments had expanded substantially
- Intellectual property rights and trade in services were not covered by GATT
- World merchandise trade increased by leaps and bounds and was beyond its scope
- The ambiguities in the multilateral system could be heavily exploited
- Efforts at liberalizing agricultural trade were not successful
- There were inadequacies in institutional structure and dispute settlement system
- It was not a treaty and therefore terms of GATT were binding only insofar as they are not incoherent with a nation's domestic rules

6 A

(i)  Dumping by Country B and Country C. B because it sells at a lower price than that in domestic market; Country C because it is selling at a price which is less than the average cost of production.

(ii)  Adverse effects on domestic industry as they will lose competitiveness in their markets due to unfair practice of dumping. Country D may prove damage to domestic industries and charge anti-dumping duties on goods imported from Country B and Country C so as to raise the price and make it at par which similar goods produced by domestic firms.

6 B

(i)  Being an intermediate good, electricity sold to a steel plant will not be included in national income calculation. The underlying principle is that only finished goods and services which are directly sold to the consumer for final consumption would be included. The value of the final output, namely steel, includes the value of electricity used up in the production process. Counting electricity sold to a steel plant separately will lead to the error of double counting and exaggerate the value of steel production.

(ii)  Electric power sold to a consumer household would be included in the calculation of GDP since it is a final good consumed by the end user. Electric power sold to a consumer does not require any further processing and does not undergo any further transformation before use. Once a final good has been sold, it passes out of the active economic flow.

(iii)  The value of parts and components procured from the market by a car manufacturer will not be included in national income calculation because these are intermediate goods used in car production. Value is added to the parts and components through the process of production and the same is resold. The value of the final output, namely car, includes the value of the parts and components. Counting parts and components separately will lead to the error of double counting and exaggerate the value of car production. A set of four tyres produced by

MRF in 2017 and sold to Suzuki to be put on a 2017 car will not be included in the national income of 2017.

6 C

In the above section, we have seen that a wide variety of benefits may result from an inflow of foreign direct investment. These gains do not occur in all cases, nor do they occur in the same magnitude. Despite the arguments which vehemently favour direct investments in host countries, many are highly critical of the impact of foreign capital, especially on developing economies. They argue that foreign entities are highly focused on profits and have an eye on exploiting the natural resources and are almost always not genuinely interested in the development needs of host countries. Foreign capital is perceived by the critics as an instrument of imperialism, or as a perpetrator of dependence and inequality both between nations and within nations.

Following are the general arguments put forth against the entry of foreign capital.

1.  FDIs are likely to concentrate on capital-intensive methods of production and service so that they need to hire only relatively few workers. Such technology is inappropriate for a labour-abundant country as it does not support generation of jobs which is a crucial requirement to address poverty and unemployment which are the two fundamental areas of concern for the less developed countries.

2.  The inherent tendency of FDI flows to move towards regions or states which are well endowed in terms of natural resources and availability of infrastructure has the potential to accentuate regional disparity. Foreign capital is also criticized for accentuating the already existing income inequalities in the host country.

3.  In the context of developing countries, it is usually alleged that the inflow of foreign capital may cause the domestic governments to slow down its efforts to generate more domestic savings, especially when tax mechanisms are difficult to implement. If the foreign corporations are able to secure incentives in the form of tax holidays or similar provisions, the host country loses tax revenues.

## Corporate and other laws Answer key

### 1. a.

Section 127 of the Companies Act, 2013 deals punishment for failure to distribute dividend on time. According to this section:

(i) Where a dividend has been declared by a company but has not been paid or the warrant in respect thereof has not been posted within 30 days from the date of declaration to any shareholder entitled to the payment of the dividend, every director of the company shall, if he is knowingly a party to the default, be punishable with imprisonment which may extend to two years.

(ii) He shall also be liable for a fine which shall not be less than 1,000 rupees for every day during which such default continues.

(iii) The company shall also be liable to pay simple interest at the rate of 18% p.a. during the period for which such default continues.

(iv) However, the following are the exceptions under which no offence shall be deemed to have been committed:

    (a) where the dividend could not be paid by reason of the operation of any law;

    (b) where a shareholder has given directions to the company regarding the payment of the dividend and those directions cannot be complied with and the same has been communicated to him;

    (c) where there is a dispute regarding the right to receive the dividend;

    (d) where the dividend has been lawfully adjusted by the company against any sum due to it from the shareholder; or

    (e) where, for any other reason, the failure to pay the dividend or to post the warrant within the period under this section was not due to any default on the part of the company.

### 1. b

The given problem is based on the proviso provided in the section 127 (d) of the Companies Act, 2013. As per the law where the dividend is declared by a company and there remains calls in arrears and any other sum due from a member, in such case no offence shall be deemed to have been committed where the dividend has been lawfully adjusted by the company against any sum due to it from the shareholder.

As per the facts given in the question, Mr. A is holding equity shares of face value of ₹ 10 Lakhs and has not paid an amount of ₹ 1 lakh towards call money on shares. Referring to the above provision, Mr. A is eligible to get ₹ 1.20 lakh towards dividend,

out of which an amount of ₹ 1 lakh can be adjusted towards call money due on his shares. ₹ 20,000 can be paid to him in cash or by cheque or in any electronic mode.

According to the above mentioned provision, company can adjust sum of ₹ 1 lakh due towards call money on shares against the dividend amount payable to Mr. A.

**(ii)** According to section 123(5), dividend shall be payable only to the registered shareholder of the share or to his order or to his banker. Facts in the given case state that Ms. N, the holder of equity shares transferred the shares to Mr. R whose name has been registered on 20th May 2017. Since, he became the registered shareholder before the declaration of the dividend in the Annual general meeting of the company held on 20th September 2017, so, Mr. Raj will be entitled to the dividend.

**2.**

As per the provisions of Section 27 of the General Clauses Act, 1897, where any legislation or regulation requires any document to be served by post, then unless a different intention appears, the service shall be deemed to be effected by:

1. properly addressing,

2. pre-paying, and

3. posting by registered post.

A letter containing the document to have been effected at the time at which the letter would be delivered in the ordinary course of post.

Therefore, in view of the above provision, since, the statutory rules itself provides about the service of notice that a notice when required under said statutory rules to be sent by 'registered post acknowledgement due', then, if notice was sent by 'registered post' only it will not be the compliance of said rules. However, if such provision was not provided by such statutory rules, then service of notice if by registered post only shall be deemed to be effected.

Furthermore, in similar case of *In United Commercial Bank v. Bhim Sain Makhija, AIR 1994 Del 181*: A notice when required under the statutory rules to be sent by 'registered post acknowledgement due' is instead sent by 'registered post' only, the protection of presumption regarding serving of notice under 'registered post' under this section of the Act neither tenable not based upon sound exposition of law.

**3.**

**(1) Filing of an application with recognised stock exchange :** In accordance to Section 40(1) every company making public offer shall, before making such offer, make an application to one or more recognised stock exchange or exchanges and obtain permission for the securities to be dealt with in such stock exchange or exchanges.

**(2) Prospectus to state name of stock exchange :** Where a prospectus states that an application has been made, such prospectus shall also state the name or names of the stock exchange in which the securities shall be dealt with.

**(3) To maintain separate bank account :** All monies received on application from the public for subscription to the securities shall be kept in a separate bank account in a scheduled bank and shall not be utilised for any purpose other than—

(a) for adjustment against allotment of securities where the securities have been permitted to be dealt with in the stock exchange or stock exchanges specified in the prospectus; or

(b) for the repayment of monies within the time specified by the Securities and Exchange Board, received from applicants in pursuance of the prospectus, where the company is for any other reason unable to allot securities.

**(4) Condition purporting to waive compliance shall be void :** Any condition purporting to require or bind any applicant for securities to waive compliance with any of the requirements of this section shall be void.

**(5) In case of default :** If a default is made in complying with the provisions of this section, both the company and the officer of the company shall be liable.

**Company**

fine varying from  five lakh rupees to fifty lakh rupees

**Officer**

- punishable with imprisonment upto one year, or
- with fine varying from fifty thousand rupees to three lakh rupees, or
- with both.

**(6) Payment of commission :** A company may pay commission to any person in connection with the subscription to its securities,whether absolute or conditional, subject to such conditions as given in Rule 13 of the *Companies (Prospectus and Allotment of Securities) Rules, 2014.*

**4.  i**

**Answer :** The non disclosure of the fact that dividends were paid out of capital profits is a concealment of material fact as a company is normally required to distribute dividend only from trading or revenue profits and under exceptional circumstances can do so out of capital profits. Hence, a material misrepresentation has been made. Hence, in the given case the allottee can avoid the contract of allotment of shares.

**4.ii**

(1) According to section 38 where any person who—

(a) makes or abets making of an application in a fictitious name to a company for acquiring, or subscribing for, its securities; or

(b) makes or abets making of multiple applications to a company in different names or in different combinations of his name or surname for acquiring or subscribing for its securities; or

(c) otherwise induces directly or indirectly a company to allot, or register any transfer of, securities to him, or to any other person in a fictitious name,

-shall be liable for action under section 447.

(2) The provisions of sub-section (1) shall be prominently reproduced in every prospectus issued by a company and in every form of application for securities.

(3) Where a person has been convicted under this section, the Court may also order disgorgement of gain, if any, made by, and seizure and disposal of the securities in possession of, such person.

(4) The amount received through disgorgement or disposal of securities under sub-section (3) shall be credited to the Investor Education and Protection Fund.

5. i

**"Immovable Property" [Section 3(26) of the General Clauses Act, 1897]:** 'Immovable Property' shall include:

(i) Land,

(ii) Benefits to arise out of land, and

(iii) Things attached to the earth, or

(iv) Permanently fastened to anything attached to the earth.

It is an inclusive definition. It contains four elements: land, benefits to arise out of land, things attached to the earth and things permanently fastened to anything attached to the earth. Where, in any enactment, the definition of immovable property is in the negative and not exhaustive, the definition as given in the General Clauses Act will apply to the expression given in that enactment.

In the instant case, X sold Land along with timber (obtained after cutting trees) of fifty tamarind trees of his land. According to the above definition, Land is immovable property; however, timber cannot be immovable property since the same are not attached to the earth.

5.ii

According to Section 3(21) of the General Clauses Act, 1897, 'Financial Year' shall mean the year commencing on the first day of April.

The term year has been defined under Section 3(66) as a year reckoned according to the British calendar. Thus as per General Clauses Act, Year means calendar year which starts from January to December.

Hence, in view of the both above definitions, it can be concluded that Financial Year is a year which starts from first day of April to the end of March