Accounts (New) Answer key

1.

(a) As per para AS 2 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Normal Loss and Abnormal Loss:

Material used	12,000 MT @ Rs. 150 = Rs. 18,00,000
Normal Loss (4% of 12,000 MT)	480 MT
Net quantity of material	11,520 MT
Abnormal Loss in quantity	150 MT (630 MT less 480 MT)
Abnormal Loss	Rs. 23,437.50 [150 units @ Rs. 156.25 (Rs.18,00,000/11,520)]

Amount Rs. 23,437.50 will be charged to the Profit and Loss statement.

b.

(b) In the books of Ram Ltd.

If the grant is credited to Fixed Assets Account:

1. Journal Entry (at the time of refund of grant)

			In lakhs Rs.	In lakhs Rs.
I	Fixed Assets	Dr.	32	
	To Bank A/c			32
	(Being grant refunded)			

2. Value of Fixed Assets after two years but before refund of grant

Fixed assets initially recorded in the books = Rs. 80 lakhs – Rs. 32 lakhs

= Rs. 48 lakhs

Depreciation for each year = (Rs. 48 lakhs – Rs.8 lakhs)/4 years

= Rs. 10 lakhs per year for first two years.

Value of the assets before refund of grant =Rs. 48 lakhs - Rs. 20 lakhs

= Rs. 28 lakhs

3. Value of Fixed Assets after refund of grant

Value of Fixed Assets before refund of grant	Rs. 28 lakhs
Add Refund of grant	Rs. 32 lakhs
	Rs. 60 lakhs

4. Amount of depreciation for remaining two years

Value of the fixed assets after refund of grant –residual value of the assets / No. of years

= Rs. 60 lakhs - Rs. 8 lakhs / 2

= Rs. 26 lakhs per annum will be charged for next two years.

c.

As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

So far, the company has been providing 2% of sales for meeting "after sales expenses during the warranty period. With the improved method of production, the probability of defects occurring in the products has reduced considerably. Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by Rs. 12 crores than would have been the case if the old policy were to continue.

d.

(i) Computation of average accumulated expenses

		₹
₹ 2,00,000 x 12 / 12	=	2,00,000
₹ 2,50,000 x 9 / 12	=	1,87,500
₹ 4,50,000 x 6 / 12	=	2,25,000
₹ 1,20,000 x 1 / 12	=	10,000
		6,22,500

(ii) Calculation of average interest rate other than for specific borrowings

Amount of loan (₹)	Rate of interest		Amount of interest (₹)
5,00,000	11%	=	55,000
9,00,000	13%	=	1,17,000
14,00,000			1,72,000
Weighted average rate of interest $\left(\frac{1,72,000}{14,00,000} \times 100\right)$		=	12.285% (approx)

(iii) Interest on average accumulated expenses

		₹
Specific borrowings (₹ 1,00,000 x 10%)	=	10,000
Non-specific borrowings (₹ 5,22,500* x 12.285%)	=	64,189
Amount of interest to be capitalised	=	74,189

(iv) Total expenses to be capitalised for building

	₹
Cost of building ₹ (2,00,000 + 2,50,000 + 4,50,000 + 1,20,000)	10,20,000
Add: Amount of interest to be capitalised	74,189
	10,94,189

(v) Journal Entry

Date	Particulars		Dr. (₹)	Cr. (₹)
31.12.2016	Building account	Dr.	10,94,189	
	To Bank account			10,94,189
	(Being amount of cost of building and borrowing cost thereon capitalised)			

2.

Grow More Ltd
Cash Flow Statement
for the year ended 31st March, 20X1

Cash Flow from Operating Activities

		₹
Increase in balance of Profit and Loss Account (1,00,000 – 60,000)	40,000	
Dividend payable	2,00,000	
Provision for taxation (W.N.1)	80,000	
Transfer to General Reserve (2,00,000 – 1,50,000)	50,000	
Depreciation (W.N.2)	1,25,000	
Profit on sale of Plant and Machinery	(15,000)	
Operating Profit before Working Capital changes	4,80,000	
Increase in Inventories	(2,00,000)	
Decrease in Trade receivables	2,00,000	
Decrease in Trade payables	(1,20,000)	
Cash generated from operations	3,60,000	
Income tax paid	(50,000)	
Net Cash from operating activities		3,10,000

Cash Flow from Investing Activities

Purchase of fixed assets	(3,45,000)	
Expenses on building (6,00,000 – 4,00,000)	(2,00,000)	
Increase in investments	(1,00,000)	
Sale of old machine	35,000	
Net Cash used in investing activities		(6,10,000)

Cash Flow from Financing activities

Proceeds from issue of shares (10,00,000 – 8,00,000)	2,00,000	
Proceeds from issue of debentures	2,00,000	
Dividend paid	(1,00,000)	
Net cash used in financing activities		3,00,000
Net increase in cash or cash equivalents		NIL
Cash and Cash equivalents at the beginning of the year		2,00,000
Cash and Cash equivalents at the end of the year		2,00,000

Working Notes:

1. **Provision for taxation account**

		₹			₹
To	Cash (Paid)	50,000	By	Balance b/d	70,000
To	Balance c/d	1,00,000	By	Profit and Loss A/c (Balancing figure)	80,000
		1,50,000			1,50,000

2. **Plant and Machinery account**

		₹			₹
To	Balance b/d	5,00,000	By	Depreciation	1,25,000
To	Profit and Loss A/c(profit on sale of machine)	15000			
To	Cash (Balancing figure)	3,45,000	By	Cash (sale of machine)	35,000
			By	Balance c/d	7,00,000
		8,60,000			8,60,000

3.

Computation of claim for loss of stock

	₹
Stock on the date of fire i.e. on 30th March, 2018 (W.N.1)	1,25,200
Less: Value of salvaged stock	(24,600)
Loss of stock	1,00,600
Amount of claim = $\frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}}$ x Loss of stock $= \left(\frac{1,20,000}{1,25,200} \times 1,00,600 = 96,422(\text{approx})\right)$	96,422 (approx.)

A claim of ₹ 96,422 (approx.) should be lodged by M/s Alok & Co. to the insurance company.

Working Notes:

1. **Calculation of closing stock as on 30th March, 2018**

Memorandum Trading Account for

(from 1st January, 2018 to 30th March, 2018)

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Opening stock	1,91,200	By Sales (W.N.3)	4,84,000
To Purchases (3,40,000-60,000)	2,80,000	By Goods with customers (for approval) (W.N.2)	52,800*
To Wages (1,00,000 – 6,000)	94,000	By Closing stock (Bal. fig.)	1,25,200
To Gross profit (20% on sales)	96,800		
	6,62,000		6,62,000

* For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the concern and, hence, there was no loss of such stock.

2. **Calculation of goods with customers**

Since no approval for sale has been received for the goods of ₹ 66,000 (i.e. 2/3 of ₹ 99,000) hence, these should be valued at cost i.e. ₹ 66,000 – 20% of ₹ 66,000 = ₹ 52,800.

3. **Calculation of actual sales**

Total sales – Sale of goods on approval (2/3rd) = ₹ 5,50,000 – ₹ 66,000 = ₹ 4,84,000.

4.

Trading and Profit & Loss Account of Mr. Anup for the year ended 31-12-2016

	₹	₹		₹	₹
To Opening Inventory		1,10,000	By Sales	9,59,750	
To Purchases	4,54,100		Less: Sales		
Less: Purchases Return	(4,200)	4,49,900	Return	(1,200)	9,58,550
To Gross Profit (b.f.)		5,88,650	By Closing Inventory		1,90,000
		11,48,550			11,48,550
To Wages (9,200 x12)		1,10,400	By Gross Profit		5,88,650
To Electricity & Tel. Charges(18,700+2,200)		20,900			
To Legal expenses		17,000	By Discount		2,700
To Discount (2,400+ 750)		3,150			
To Shop exp.(600 x12)		7,200			
To Provision for claims for damages		1,55,000			
To Shop Rent		20,000			
To Net Profit (b.f.)		2,57,700			
		5,91,350			5,91,350

Balance-Sheet as on 31-12-2016

Liabilities	₹		Assets	₹
Capital A/c (W.N.vi)	2,38,200		Building (from summary cash and bank A/c)	3,72,000
Add : Fresh capital			Furniture	25,000
introduced Maturity value from LIC	20,000		Inventory	1,90,000
Rent	14,000		Sundry debtors	92,000
Add : Net Profit	2,57,700		Bills receivable	6,000
	5,29,900		Cash at Bank	87,000
Less : Drawing(14,00 x12)	(16,800)	5,13,100	Cash in Hand	5,300
Rent outstanding		20,000		
Sundry creditors		56,000		
Bills Payable		14,000		
Outstanding expenses				
Legal Expenses	17,000			
Electricity &				
Telephone charges	2,200	19,200		
Provision for claims for damages		1,55,000		
		7,77,300		7,77,300

Working Notes :

(i) **Sundry Debtors Account**

	₹		₹
To Balance b/d	70,000	By Bill Receivable A/c-	
To Bill receivable A/c-Bills dishonoured	3,000	Bills accepted by customers	40,000
To Bank A/c-Cheque dishonoured	5,700	By Bank A/c -	
To Credit sales (Balancing Figure)	9,59,750	Cheque received	5,700
		By Cash (from summary cash and bank account)	8,97,150
		By Return inward A/c	1,200
		By Discount A/c	2,400
		By Balance c/d	92,000
	10,38,450		10,38,450

(ii) **Bills Receivable Account**

	₹		₹
To Balance b/d	15,000	By Sundry creditors A/c	
To Sundry Debtors A/c (Bills accepted)	40,000	(Bills endorsed)	10,000
		By Bank A/c (20,000 – 750)	19,250
		By Discount A/c(Bills discounted)	750
		By Bank	
		Bills collected on maturity	16,000
		By Sundrydebtors	
		Bills dishonoured (Bal. Fig)	3,000
		By Balance c/d	6,000
	55,000		55,000

(iii) **Sundry Creditors Account**

	₹		₹
To Bank	3,20,000	By Balance c/d	40,000
To Cash	77,200	By Credit purchase (Balancing figure)	4,54,100
To Bill Payable A/c	24,000		
To Bill Receivable A/c	10,000		
To Return Outward A/c	4,200		
To Discount Received A/c	2,700		
To Balance b/d	56,000		
	4,94,100		4,94,100

(iv) **Bills Payable A/c**

	₹		₹
To Bank A/c (Balance figure)	22,000	By Balance b/d	12,000
To Balance c/d	14,000	By Sundry creditors A/c	
		Bills accepted	24,000
	36,000		36,000

(v) **Summary Cash and Bank A/c**

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance b/d	5,200	90,000	By Bank	7,62,750	
To Sundry debtors (Bal. Fig)	8,97,150		By Cash		1,21,000
			By Shop exp. (600 x 12)	7,200	
To Cash		7,62,750	By Wages (9,200 x 12)	1,10,400	
To Bank	1,21,000		By Drawing A/c (1,400 x 12)	16,800	
			By Bills Payable		22,000
To Sunday Debtors		5,700	By Sundry creditors	77,200	3,20,000
To Bills receivable		19,250	By Furniture	25,000	
To Bills receivable		16,000	By Sundry Debtors		5,700
To Capital (maturity value of LIC policy)		20,000	By Electricity & Tel. Charges	18,700	
To Capital (Rent received)		14,000	By Building (Bal. fig)		3,72,000
			By Balance c/d	5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

(vi) Statement of Affairs as on 31-12-2015

Liabilities	₹	Assets	₹
Sundry Creditors	40,000	Inventory	1,10,000
Bills Payable	12,000	Debtors	70,000
Capital (Balancing figure)	2,38,200	Bills receivable	15,000
		Cash at Bank	90,000
		Cash in Hand	5,200
	2,90,200		2,90,200

5.

Books of Hindustan Industries, Mumbai

Cochin Branch Stock Account

	₹		₹
To Balance b/d	60,000	By Bank A/c (Cash sales)	2,00,000
To Goods sent to Branch A/c	6,00,000	By Branch Debtors (Cr. sales)	3,60,000
To Branch Debtors A/c		By Goods sent to Branch	
(sales return)	8,000	(Return. to H.O.)	12,000
To Branch P & L A/c (surplus)	24,000	By Balance c/d (closing stock)	1,20,000
	6,92,000		6,92,000

Cochin Branch Stock Adjustment Account

	₹		₹
To Goods sent to Branch A/c	2,400	By Balance b/d	12,000
(1/5 of ₹ 12,000) (on returns)		(1/5 of ₹ 60,000)	
To Branch P & L A/c	1,05,600	By Goods sent to Branch	1,20,000
(Profit on sale at invoice price)		A/c (1/5 of ₹ 6,00,000)	
To Balance c/d (1/5 of ₹ 1,20,000)	24,000		
	1,32,000		1,32,000

Goods Sent to Branch Account

	₹		₹
To Cochin Branch		By Cochin Branch Stock A/c	6,00,000
Stock Adjustment A/c	1,20,000	By Cochin Branch Stock Adj. A/c	2,400
To Cochin Branch Stock A/c (Ret.)	12,000		
To Purchases A/c	4,70,400		
	6,02,400		6,02,400

Branch Debtors Account

	₹		₹
To Balance b/d	72,000	By Bank	3,20,000
To Branch Stock A/c	3,60,000	By Branch P & L A/c	
		Discount 6,000	
		Bad Debts 4,000	10,000
		By Branch Stock (Sales Returns.)	8,000
		By Balance c/d	94,000
	4,32,000		4,32,000

Branch Expenses Account

	₹		₹
To Bank A/c (Rent, Rates & Taxes)	18,000	By Branch Profit & Loss A/c (Transfer)	84,000
To Bank A/c (Salaries & Wages)	60,000		
To Bank A/c (office exp.)	6,000		
	84,000		84,000

Branch Profit & Loss Account for the year ending 31st Dec. 20X1

	₹		₹
To Branch Expenses A/c	84,000	By Branch Stock Adj. A/c	1,05,600
(60,000+6,000+18,000)			
Discount 6,000		By Branch stock A/c	
Bad debts <u>4,000</u>	10,000	(Sale over invoice price)	24,000
To Net Profit transferred to			
Profit & Loss A/c	35,600		
	1,29,600		1,29,600

6.

In the books of A Ltd.

Interment Account for the year ended 31st March, 20X2

Date	Particulars	Nos.	Income ₹	Amount ₹	Date	Particulars	Nos.	Income ₹	Amount ₹
20X1					20X1				
April 1	To Bank A/c (W.N.1)	5,000	-	5,35,500	May 15	By Bank A/c (dividend) (W.N.6)	-	-	10,000
June 30	To Bonus Issue (W.N 2)	1,000	-	-					
Oct. 1	To Bank A/c (W.N. 3)	250	-	11,250	Nov. 30	By Bank A/c (Interim dividend) (W.N.7)	-	6,000	
Dec.31	To P & L A/c (W.N. 5)			21,660	Dec. 31	By Bank A/c (W.N.5)	3,000	-	2,79,300
20×2					20×2				
March 31	To P & L A/c (b.f.)	-	6,000	-	March 31	By Balance c/d (W.N.7)	3,250		2,79,110
		6,250	6000	5,68,410			6,250	6,000	5,68,410

Working Notes

1. **Calculation of cost of purchase on 1st April, 20X1**

   ₹ 105 X 5,000 shares = ₹ 5,25,000

   Add: Brokerage (2%) = ₹ 10,500

   ₹ 5,35,500

2. **Calculation of number of bonus shares issued**

   Bonus Shares= $\frac{5,000}{5} \times 1 = 1,000$

3. **Calculation of right shares subscribed**

   Right Shares= $\frac{6,000}{12}$ = 500 shares

   Shares subscribed= $\frac{500}{2}$ shares

   Value of right shares subscribed = 250 shares @ ₹ 45 per share = ₹ 11,250

4. **Calculation of sale of right entitlement**

   250 shares x ₹ 5 per share= ₹ 1,250

   (Amount received from sale of rights will be credited to P&L a/c)

5. **Calculation of profit on sale of shares**

Total holding	=	5,000	shares	original
		1,000	shares	bonus
		250	shares	right shares
		6,250	shares	

   3,000 shares were sold on 31.12.20X1

   Cost of total holdings of 6,250 shares (on average basis)

   = ₹ 5,35,500 + ₹ 11,250 – ₹ 10,000

   = ₹ 5,36,750

   Average cost of 3,000 shares would be

$$= \frac{5,36,750}{6,250} \times 3,000 = ₹\ 2,57,640$$

	₹
Sale proceeds of 3,000 shares (3,000 x ₹ 95)	2,85,000
Less: 2% Brokerage	(5,700)
	2,79,300
Less: Cost of 3,000 shares	(2,57,640)
Profit on sale	21,660

6. **Dividend received on investment held as on 15th May, 20X1**

   = ₹ 10,000 (5,000 x ₹ 100 x 2%) adjusted to Investment A/c

7. **Dividend amounting ₹ 6,000 received on 30.11.20X1 will be credited to P&L A/c**

8. **Calculation of closing value of shares (on average basis) as on 31st March, 20X2**

$$\frac{5,36,750}{6,250} \times 3,250 = ₹\ 2,79,110$$

SAP 1(iii) Corporate and Other Laws Answer Key

1.a Any Two points:

Difference between Interpretation and Construction : Interpretation differs from construction. Interpretation is of finding out the true sense of any form and the construction is the drawing of conclusion respecting subjects that lie beyond the direct expression of the text.*[Bhagwati Prasad Kedia v. C.I.T,(2001)]*

It is the duty of the courts to give effect to the meaning of an Act when the meaning can be equitably gathered from the words used. Words of legal import occurring in a statute which have acquired a definite and precise sense, must be understood in that sense. *(State of Madras v. Gannon Dunkerly Co. AIR 1958)*

When the legislature uses certain words which have acquired a definite meaning over a period of time, it must be assumed that those words have been used in the same sense.

Thus, where the Court adheres to the plain meaning of the language used by the legislature, it would be 'interpretation' of the words, but where the meaning is not plain, the court has to decide whether the wording was meant to cover the situation before the court. Here the court would be resorting to what is called 'construction',

1.b.

Grammatical Interpretation and its exceptions: 'Grammatical interpretation' concerns itself exclusively with the verbal expression of the law, it does not go beyond the letter of the law. In all ordinary cases, 'grammatical interpretation' is the sole form allowable. The Court cannot take from or add to modify the letter of the law.

This rule, however, is subject to some exceptions:

(1) Where the letter of the law is logically defective on account of ambiguity, inconsistency or incompleteness. As regard the defect to ambiguity, the Court is under a duty to travel beyond the letter of the law so as to determine from the other sources the true intention of the legislature. In the case of the statutory expression being defective on account of inconsistency, the court must ascertain the spirit of the law.

(2) If the text leads to a result which is so unreasonable that it is self-evident that the legislature could not mean what it says, the court may resolve such impasse by inferring logically the intention of the legislature.

2. (i)

(1) Sources of funds for buy-back of shares : A company can purchase its own shares or other specified securities. The purchase should be out of:

(i) its free reserves; or

(ii) the securities premium account; or

(iii) the proceeds of the issue of any shares or other specified securities.

However, buy-back of any kind of shares or other specified securities cannot be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities [Section 68(1)].

"Specified securities" includes employees' stock option or other securities as may be notified by the Central Government from time to time.

2.(ii)

Prohibition for buy-back in certain circumstances [Section 70]

This section of the Companies Act, 2013 prohibits the company for buy back in the certain circumstances.

(1) The provision says that no company shall directly or indirectly purchase its own shares or other specified securities-

(a) through any subsidiary company including its own subsidiary companies; or

(b) through any investment company or group of investment companies; or

(c) if a default, is made by the company, in repayment of deposits or interest payament thereon, redemption of debentures or preference shares or payment of dividend to any shareholder or repayment of any term loan or interest payable thereon to any financial institutions or banking company;

But where the default is remedied and a period of three years has lapsed after such default ceased to subsist,there such buy-back is not prohibited.

(2) No company shall directly or indirectly purchase its own shares or other specified securities in case such company has not complied with provisions of Sections 92 (Annual Report), 123 (Declaration of dividend), 127 (Punishment for failure to distribute dividends), and section 129 (Financial Statements).

3.

Conditions for the issue of equity shares with differential rights (Rule 4 of the Companies (Share capital and Debenture) Rules, 2014): No company limited by shares shall issue equity shares with differential rights as to dividend, voting or otherwise, unless it complies with the following conditions, namely:-

(1) the articles of association of the company authorizes the issue of shares with differential rights;

(2) the issue of shares is authorized by an ordinary resolution passed at a general meeting of the shareholders.

(3) However, where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot;

(4) the shares with differential rights shall not exceed twenty-six percent of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time;

(5) the company is having consistent track record of distributable profits for the last three years;

(6) the company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;

(7) the company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;

(8) the company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or State level financial institution or Scheduled Bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government;

(9) However, a company may issue equity shares with differential rights upon expiry of five years from the end of the financial Year in which such default was made good.

(10) the company has not been penalized by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, the Securities and Exchange Board of India Act, 1992, the Securities Contracts Regulation Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act, under which such companies being regulated by sectoral regulators.

4.

Alteration of Capital [Section 61 (1) read with section 13 of the Companies Act, 2013]: Under section 61 (1) a limited company having a share capital may, if authorized by its Articles, alter its Memorandum in its general meeting as under :

(i) it may increase its authorized share capital by such amount as it thinks expedient;

(ii) it may consolidate and divide all or any of its share capital of a larger amount than its existing shares

(iii) convert all or any of its paid up shares into stock and reconvert that stock into fully paid shares of any denomination

(iv) sub-divide the whole or any part of its shares into shares of smaller amount than is fixed by the Memorandum

(v) cancel those shares which,at the time of passing of the resolution in that behalf have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

Further, under section 64 where a company alters its share capital in any of the above mentioned ways, the company shall file a notice in the prescribed form with the Registrar within a period of thirty days of such alteration or increase or redemption, as the case may be, along with an altered memorandum.

Section 13 provides for the procedure to be followed for alteration of the Memorandum, as under :

a. A special resolution must be passed to effect the alteration. For this purpose a Board Meeting must be held to convene a general meeting of the members and all legal provisions in this behalf followed including the circulation of a detailed explanatory note on the proposed change alongwith the notice for the general meeting;

b. The company must file with the Registrar the special resolution passed by the company to effect an alteration in the capital clause of the Memorandum;

c. No alteration to the Memorandum will have effect unless it has been registered with the Registrar as above.

5.

Appointment of Trustee for Depositors [Rule 7 of the Companies (Acceptance of Deposits) Rules, 2014]:

(1) No company referred to in sub-section (2) of section 73 or any eligible company shall issue a circular or advertisement inviting secured deposits unless the company has appointed one or more trustees for depositors for creating security for the deposits.

However, a written consent shall be obtained from the trustee for depositors before their appointment and a statement shall appear in the circular or circular in the form of advertisement with reasonable prominence to the effect that the trustees for depositors have given their consent to the company to be so appointed.

(2) The company shall execute a deposit trust deed in DPT-2 at least seven days before issuing the circular or circular in the form of advertisement.

(3) No person including a company that is in the business of providing trusteeship services shall be appointed as a trustee for the depositors, if the proposed trustee -

  (a) is a director, key managerial personnel or any other officer or an employee of the company or of its holding, subsidiary or associate company or a depositor in the company;

  (b) is indebted to the company, or its subsidiary or its holding or associate company or a subsidiary of such holding company;

  (c) has any material pecuniary relationship with the company;

(d) has entered into any guarantee arrangement in respect of principal debts secured by the deposits or interest thereon;

(e) is related to any person specified in clause (a) above.

(4) No trustee for depositors shall be removed from office after the issue of circular or advertisement and before the expiry of his term except with the consent of all the directors present at a meeting of the board.

However, in case the company is required to have independent directors, at least one independent director shall be present in such meeting of the Board.

SAP 1(iii) Advance Accounts Answer key

1 a

As per para 7 of AS 7 on 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

In the given case, each outlet is submitted as a separate proposal to different Zonal Office, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a "single contract" even if there is one document of contract.

Therefore, four separate contract accounts have to be recorded and maintained in the books of X Ltd. For each contract, principles of revenue and cost recognition have to be applied separately and net income will be determined for each asset as per AS -7.

1 b

As per AS 9 "Revenue Recognition", "where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made". In this case, the company never realized interest for the delayed payments made by the agent. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is very much uncertain. The interest should be recognized only if the ultimate collection is certain. Therefore, the interest income of Rs. 5 lakhs should not be recognized in the books for the year ended 31st March, 2017. Thus the contention of accountant is incorrect. However, if the agents have agreed to pay the amount of interest and there is an element of certainty associated with these receipts, the accountant is correct regarding booking of Rs. 5 lakhs as interest amount.

1 c

AS 9 on 'Revenue Recognition' states that where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, revenue recognition is postponed to the extent of uncertainty involved. When recognition of revenue is postponed due to the effect of uncertainties, it is considered as revenue of the period in which it is properly recognised. In this case it may be assumed that collectability of claim was not certain in the earlier periods. This is supposed from the fact that only ₹ 1,50,000 were collected against a claim of ₹ 2,00,000. So this transaction can not be taken as a Prior Period Item.

In the light of AS 5, it will not be treated as extraordinary item. However, AS 5 states that when items of income and expense within profit or loss from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Accordingly, the nature and amount of this item should be disclosed separately.

2.

Statement determining the maximum number of shares to be bought back

Number of shares

Particulars	*When loan fund is*		
	₹ 1,800 crores	*₹ 1,200 crores*	*₹ 1,500 crores*
Shares Outstanding Test (W.N.1)	8.25	8.25	8.25
Resources Test (W.N.2)	6.25	6.25	6.25
Debt Equity Ratio Test (W.N.3)	Nil	3.75	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	3.75	Nil

Journal Entries for the Buy Back
(applicable only when loan fund is ₹ 1,200 crores)

			₹ in crores	
			Debit	*Credit*
(a)	Equity share buy back account	Dr.	112.5	
	To Bank account			112.5
	(Being buy back of 3.75 crores equity shares of ₹ 10 each @ ₹ 30 per share)			
(b)	Equity share capital account	Dr.	37.5	
	Securities premium account	Dr.	75	
	To Equity share buy back account			112.5
	(Being cancellation of shares bought back)			
(c)	General reserve account	Dr.	37.5	
	To Capital redemption reserve account			37.5
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

Working Notes:

1. **Shares Outstanding Test**

Particulars	*(Shares in crores)*
Number of shares outstanding	33
25% of the shares outstanding	8.25

2. **Resources Test**

Particulars	
Paid up capital (₹ in crores)	330
Free reserves (₹ in crores)	420
Shareholders' funds (₹ in crores)	750
25% of Shareholders fund (₹ in crores)	₹ 187.5 crores
Buy back price per share	₹ 30
Number of shares that can be bought back (shares in crores)	6.25 crores shares

3. **Debt Equity Ratio Test**

	Particulars	*When loan fund is*		
		₹ 1,800 crores	*₹ 1,200 crores*	*₹ 1,500 crores*
(a)	Loan funds (₹ in crores)	1,800	1,200	1,500
(b)	Minimum equity to be maintained **after** buy back in the ratio of 2:1 (₹ in crores)	900	600	750
(c)	Present equity shareholders fund (₹ in crores)	750	750	750
(d)	Future equity shareholder fund (₹ in crores) **(See Note 2)**	N.A.	712.5 (750-37.5)	N.A.
(e)	Maximum permitted buy back of Equity (₹ in crores) [(d) – (b)] **(See Note 2)**	Nil	112.5 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) **(See Note 2)**	Nil	3.75 (by simultaneous equation)	Nil

Note:

1. Under Situations 1 & 3 the company does not qualify for buy back of shares as per the provisions of the Companies Act, 2013.

2. As per section 68 of the Companies Act, 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserve after such buy-back. In the question, it is stated that the company has surplus funds to dispose of therefore, it is presumed that buy- back is out of free reserves or securities premium and hence a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). Utilization of CRR is restricted to issuance of fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buyback has to be excluded from present equity.

   Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

   Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

   Then

   Equation 1 :(Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained= Maximum permissible buy-back of equity

$$(750 - x) - 600 = y \qquad (1)$$

Since $150 - x = y$

Equation 2: $\left(\frac{\text{Maximum buy - back}}{\text{Offer price for buy - back}} \text{x Nominal Value}\right)$

= Nominal value of the shares bought –back to be transferred to CRR

$$= \left(\frac{y}{30} \times 10\right) = x$$

[here (30 = 25% x 120]

Or $3x = y$ (2)

by solving the above two equations we get

x = ₹ 37.5 crores

y = ₹ 112.5 crores

3.

Solution

			₹
a	Profit for equity fund after current cost adjustment		1,72,000
b	Profit (as per Long-term fund approach)		
	Profit for equity fund	1,72,000	
	Add: Interest on Long-term loan (4,50,000 x 10%)	45,000	2,17,000
c	Current cost of capital employed (by Equity approach)		10,40,000
d	Capital employed as per Long-term fund approach		
	Current cost of capital employed (by Equity approach)	10,40,000	
	Add: 10% Long term loan	4,50,000	14,90,000
e	Value of Goodwill		
	(A) By Equity Approach		
	Capitalised value of Profit as per equity approach = $\frac{1,72,000}{15.60} \times 100$		11,02,564
	Less: Capital employed as per equity approach		(10,40,000)
	Value of Goodwill		62,564
	(B) By Long-Term Fund Approach		
	Capitalized value of Profit as per Long-term fund approach = $\frac{2,17,000}{13.5} \times 100$		16,07,407
	Less: Capital employed as per Long-term fund approach		(14,90,000)
	Value of Goodwill		1,17,407

Leverage effect on Goodwill:

Adverse Leverage effect on goodwill is ₹ 54,843 (i.e. ₹ 1,17,407 – ₹ 62,564).

4.

Statement showing liability of underwriters

	Particulars	Basis	White	Black
A.	Gross Liability [No. of Shares)	1:1	15,00,000	15,00,000
B.	*Less:* Marked Applications {Net of firm underwriting}		(15,00,000)	(10,20,000)
C.	Balance [A-B]		-	4,80,000
D	*Less:* Unmarked Applications	1:1	(1,20,000)	(1,20,000)
E	Balance [C-D]		(1,20,000)	3,60,000
F	*Less:* Firm Underwriting		(60,000)	(60,000)
G	Balance		(1,80,000)	3,00,000
H	Credit for White 's Oversubscription		1,80,000	(1,80,000)
I	Net Liability		-	1,20,000
J	*Add:* Firm Underwriting		60,000	60,000
K	Total Liability [No. Shares]		60,000	1,80,000

Journal Entries

2017				
Jan 31	Bank A/c	Dr.	72,00,000	
	To Equity Share Application A/c			72,00,000
	(Being application money received @ ₹ 2.50 per share on 28,80,000 shares)			
March 31	Equity Share Application A/c	Dr.	72,00,000	
	To Equity Share Capital A/c			72,00,000
	(Being the transfer of application money to share capital on 28,80,000 shares vide Board's Resolution)			
March 31	Equity Share Allotment A/c (28,80,000 x ₹ 3)	Dr.	86,40,000	
	To Equity Share Capital A/c (28,80,000x ₹ 2.5)			72,00,000
	To Securities Premium A/c (28,80,000 x ₹ 0.5)			14,40,000
	(Being allotment money due on 28,80,000 shares allotted to public)			
	Black (1,20,000 x ₹ 5.5)	Dr.	6,60,000	
	To Equity Share Capital A/c (1,20,000 x ₹ 5)			6,00,000
	To Securities Premium A/c (1,20,000 x ₹ 0.5)			60,000

	(Being the application and allotted money due on net liability of underwriter i.e. 1,20,000 shares)			
March 31	Bank A/c	Dr.	92,82,000	
	To Equity Share Allotment A/c [(28,80,000 – 6,000) x ₹ 3]			86,22,000
	To Black (1,20,000 x ₹ 5.5)			6,60,000
	(Being the receipt of money due on allotment except from the allottee for 6,000 shares)			
March 31	Underwriting Commission A/c	Dr.	12,60,000	
	To Black A/c			6,30,000
	To White A/c			6,30,000
	(Being commission @ 4 % on issue price of ₹ 10.50 for ₹30 lakh shares payable to underwriters)			
March 31	Black A/c		6,30,000	
	White A/c		6,30,000	
	To Bank A/c			12,60,000
	(Being commission paid to underwriters)			
June 30	Equity Share Capital A/c (6,000 x 5)	Dr.	30,000	
	Securities Premium A/c (6,000 x 0.5)	Dr.	3,000	
	To Share Allotment A/c (6,000 x 3)			18,000
	To Forfeited Shares A/c (6,000 x 2.5)			15,000
	(Being 6,000 shares forfeited vide Board's Resolution)			
June 30	Bank A/c (6,000 x ₹ 4)	Dr.	24,000	
	Forfeited Shares A/c	Dr.	6,000	
	To Equity Share Capital A/c (6,000 x ₹ 5)			30,000
	(Being the reissue of 6,000 shares @ ₹ 4 as ₹ 5 paid up at par)			
	Forfeited Shares A/c (15,000 – 6,000)	Dr.	9,000	
	To Capital Reserve A/c			9,000
	(Being the transfer of profit on reissue)			

5.

In the Books of Y Ltd.
Realisation Account

			₹			₹
To	Sundry Assets :			By	Retirement Gratuity Fund	60,000
	Goodwill	75,000				
	Land & Building	3,00,000		By	Trade payables	2,40,000
	Plant & Machinery	4,50,000		By	X Ltd. (Purchase Consideration)	15,90,000
	Inventory	5,25,000				
	Trade receivables	3,00,000				
	Bank	60,000	17,10,000			
To	Preference Shareholders (Premium on Redemption)		30,000			
To	Equity Shareholders (Profit on Realisation)		1,50,000			
			18,90,000			18,90,000

In the Books of X Ltd.
Journal Entries

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	15,90,000	
To Liquidators of Y Ltd. Account			15,90,000
(Being business of Y Ltd. taken over)			
Goodwill Account	Dr.	1,50,000	
Land & Building Account	Dr.	5,00,000	
Plant & Machinery Account	Dr.	4,00,000	
Inventory Account	Dr.	4,72,500	
Trade receivables Account	Dr.	3,00,000	
Bank Account	Dr.	60,000	
Unrecorded assets Account	Dr.	15,000	
To Retirement Gratuity Fund Account			60,000
To Trade payables Account			2,40,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			15,90,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Y Ltd. A/c	Dr.	15,90,000	

To 9% Preference Share Capital A/c		3,30,000
To Equity Share Capital A/c		12,00,000
To Securities Premium A/c		60,000
(Being Purchase Consideration satisfied as above).		

Balance Sheet of X Ltd. (after absorption)
as at 31st March, 2018

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	48,30,000
	B	Reserves and Surplus	2	2,70,000
2		**Non-current liabilities**		
	A	Long-term provisions	3	2,10,000
3		**Current liabilities**		
	A	Trade Payables	4	6,10,000
	B	Short term provision	5	7,500
		Total		59,27,500
		Assets		
1		**Non-current assets**		
	A	Fixed assets		
		Tangible assets	6	33,00,000
		Intangible assets	7	3,00,000
2		**Current assets**		
	A	Inventories	8	12,22,500
	B	Trade receivables	9	8,80,000
	C	Other current Assets	10	15,000
	D	Cash and cash equivalents	11	2,10,000
		Total		59,27,500

lotes to accounts

		₹
1	**Share Capital**	
	Equity share capital	

	4,20,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,20,000 Equity Shares were issued in consideration other than for cash)	42,00,000
	Preference share capital	
	6,300 9% Preference Shares of ₹ 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)	6,30,000
	Total	48,30,000
2	**Reserves and Surplus**	
	Securities Premium	60,000
	General Reserve	2,10,000
	Total	2,70,000
3	**Long-term provisions**	
	Retirement Gratuity fund	2,10,000
4	**Trade payables** (3,90,000 + 2,40,000 - 20,000*) * *Mutual Owings eliminated.*	6,10,000
5	**Short term Provisions**	
	Provision for Doubtful Debts	7,500
6	**Tangible assets**	
	Land & Buildings	14,00,000
	Plant & Machinery	19,00,000
	Total	33,00,000
7	**Intangible assets**	
	Goodwill (1,50,000 +1,50,000)	3,00,000
8	**Inventories** (7,50,000 + 4,72,500)	12,22,500
9	**Trade receivables** (6,00,000 + 3,00,000 - 20,000)	8,80,000
10	**Other current Assets**	15,000
11	**Cash and cash equivalents** (1,50,000 +60,000)	2,10,000

Working Notes:

1. Computation of goodwill ₹

Profit of 2016-17	90,000
Profit of 2015-16 adjusted ₹ 78,000 + 10,000)	88,000

Profit of 2014-15 adjusted (₹ 72,000 – 25,000)	47,000
	2,25,000
Average profit	75,000

Goodwill to be valued at 2 times of average profits = ₹ 75,000 x 2 = ₹ 1,50,000

2.

Purchase Consideration:		**₹**
Goodwill		1,50,000
Land & Building		5,00,000
Plant & Machinery		4,00,000
Inventory		4,72,500
Trade receivables		3,00,000
Unrecorded assets		15,000
Cash at Bank		60,000
		18,97,500
Less: Liabilities:		
Retirement Gratuity	60,000	
Trade payables	2,40,000	
Provision for doubtful debts	7,500	(3,07,500)
Net Assets/ Purchase Consideration		15,90,000
To be satisfied as under:		
10% Preference Shareholders of Y Ltd.		3,00,000
Add: 10% Premium		30,000
9% Preference Shares of X Ltd.		3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000 equity Shares of X Ltd. at 5% Premium		12,60,000
Total		**15,90,000**

6.

Journal Entries in the books of Vaibhav Ltd.

		₹	₹
(i)	Equity share capital (₹ 100) A/c Dr.	2,00,00,000	
	To Equity Share Capital (₹ 40) A/c		80,00,000
	To Capital Reduction A/c		1,20,00,000
	(Being conversion of equity share capital of ₹ 100 each into ₹40 each as per reconstruction scheme)		
(ii)	6% Cumulative Preference Share capital (₹ 100) A/c Dr.	1,00,00,000	
	To 6% Cumulative Preference Share Capital (₹ 60)A/c		60,00,000
	To Capital Reduction A/c		40,00,000
	(Being conversion of 6% cumulative preference shares capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)		
(iii)	5% Debentures (₹ 100) A/c Dr.	80,00,000	
	To 6% Debentures (₹ 70) A/c		56,00,000
	To Capital Reduction A/c		24,00,000
	(Being 6% debentures of ₹ 70 each issued to existing 5% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)		
(iv)	Sundry Creditors A/c Dr.	40,00,000	
	To Equity Share Capital (₹ 40) A/c		24,00,000
	To Capital Reduction A/c		16,00,000
	(Being a creditor of ₹ 40,00,000 agreed to surrender his claim by 40% and was allotted 60,000 equity shares of ₹ 40 each in full settlement of his dues as per reconstruction scheme)		
(v)	Provision for Taxation A/c Dr.	2,00,000	
	Capital Reduction A/c Dr.	1,00,000	
	To Liability for Taxation A/c		3,00,000
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)		
(vi)	Capital Reduction A/c Dr.	199,00,000	
	To P & L A/c		12,00,000
	To Fixed Assets A/c		50,00,000
	To Current Assets A/c		110,00,000
	To Investments A/c		1,00,000
	To Capital Reserve A/c (Bal. fig.)		26,00,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)		
(vii)	Liability for Taxation A/c Dr.	3,00,000	
	To Current Assets (Bank A/c)		3,00,000
	(Being the payment of tax liability)		

Balance Sheet of Vaibhav Ltd. (After Reconstruction) as on 31st March, 20X1

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	164,00,000
	b	Reserves and Surplus	2	26,00,000
2		**Non-current liabilities**		
		Long-term borrowings	3	56,00,000
3		**Current liabilities**		
		Trade Payables (1,00,00,000 less 40,00,000)		60,00,000
		Total		3,06,00,000
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	4	200,00,000
	b	Investments	5	19,00,000
2		**Current assets**	6	87,00,000
		Total		3,06,00,000

Notes to accounts

		₹
1. Share Capital		
Equity share capital		
Issued, subscribed and paid up		
2,60,000 equity shares of ₹ 40 each (of the above 60,000 shares have been issued for consideration other than cash)		1,04,00,000
Preference share capital		
Issued, subscribed and paid up		
1,00,000 6% Cumulative Preference shares of ₹ 60 each		60,00,000
Total		1,64,00,000

2.	**Reserves and Surplus**		
	Capital Reserve		26,00,000
3.	**Long-term borrowings**		
	Secured		
	6% Debentures		56,00,000
4.	**Tangible assets**		
	Fixed Assets	2,50,00,000	
	Adjustment under scheme of reconstruction	(50,00,000)	2,00,00,000
5.	**Investments**	20,00,000	
	Adjustment under scheme of reconstruction	(1,00,000)	19,00,000
6.	**Current assets**		
	Adjustment under scheme of reconstruction	2,00,00,000	
		110,00,000	
	Taxation liability paid	90,00,000	
		(3,00,000)	87,00,000

Working Note:

Capital Reduction Account

To Liability for taxation A/c	1,00,000	By Equity share capital	1,20,00,000
To P & L A/c	12,00,000	By 6% Cumulative preferences	
To Fixed Assets	50,00,000	Share capital	40,00,000
To Current assets	1,10,00,000	By 5% Debentures	24,00,000
To Investment	1,00,000	By Sundry creditors	16,00,000
To Capital Reserve (Bal. fig.)	26,00,000		
	2,00,00,000		2,00,00,000

SAP 1(iii) EIS & SM Answer key

1 A.

Sec.3 of PML Act, 2002 defines 'money laundering' as: "whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of the offence of money-laundering".

1 B.

III. IT Risk Management

Effective risk management begins with a clear understanding of the bank's risk appetite and identifying high-level risk exposures. After defining risk appetite and identified risk exposure, strategies for managing risk can be set and responsibilities clarified. Based on the type of risk, project and its significance to the business, Board and Senior Management may choose to take up any of the following risk management strategy in isolation or combination as required:

- **Avoid:** Eliminate the risk by not taking up or avoiding the specific business process which involves risk.
- **Mitigate:** Implement controls (e.g. acquire and deploy security technology to protect the IT infrastructure).
- **Transfer:** Share risk with partners or transfer to insurance coverage.
- **Accept:** Formally acknowledge that the risk exists and monitor it.

Some sample risks relating to Banking are as follows:

- Loss of confidential data;
- Unauthorized access to customer information;
- Inaccuracy of data leading to incorrect decision-making;
- Loss due to errors;
- Loss of money/reputation/business due to Frauds; and
- Impact of Non-compliance.

2.

5.2.2 CBS Architecture

Most of the banks in India use core banking applications for all the mission-critical banking services. Core Banking Solution has become a mandatory requirement to provide a range of services demanded by customers and the competitive banking environment. This requires that most of bank's branches access applications from centralized data centers. CBS for a bank functions not only as a heart (circulatory system) but also as a nervous system. All transactions flow through these core systems, which, at an absolute minimum, must remain running and responsive during business hours. These systems are usually running 24x7 to support Internet banking, global operations, and real time transactions via ATM, Internet, mobile banking, etc.

CBS implementation has cut down time, working at the same time on dissimilar issues and escalating usefulness. The platform where communication technology and information technology are merged to suit core needs of banking is known as core banking solutions. Here, computer software is used to perform core operations of banking like recording of transactions, passbook maintenance, and interest calculations on loans & deposits, customer records, balance of payments and withdrawal. Normal core banking functions will include deposit accounts, loans, mortgages and payments.

3.

(c) Risk & Controls around the Treasury Process: (Listed in the Table 5.3.4)

Table 5.3.4: Risk & Controls around the Treasury Process

S. No.	Risk	Key Controls
1.	Unauthorized securities setup in systems such as Front office/Back office.	Appropriate Segregation of duties and review controls around securities master setup/amendments.
2.	Inaccurate trade is processed.	Appropriate Segregation of duties and review controls to ensure the accuracy and authorization of trades.
3.	Unauthorized confirmations are processed.	Complete and accurate confirmations to be obtained from counter-party.
4.	Insufficient Securities available for Settlement	Effective controls on securities and margins.
5.	Incomplete and inaccurate data flow between systems.	Inter-system reconciliations, Interfaces and batch processing controls.
6.	Insufficient funds are available for settlements.	Controls at CCIL/NEFT/RTGS settlements to ensure the margin funds availability and the timely funds settlements.
7.	Incorrect Nostro payments processed.	Controls at Nostro reconciliation and payments.

4.

Promotion stands for activities that communicate the merits of the product and persuade target consumers to buy it. Strategies are needed to combine individual methods such as advertising, personal selling, and sales promotion into a coordinated campaign. Modern marketing is highly promotional oriented.

Ronit needs to cover four major direct promotional methods or tools – personal selling, advertising, publicity and sales promotion. They are briefly explained as follows:

(i) **Personal selling:** Personal Selling involves face-to-face interaction of sales force with the prospective customers and provides a high degree of personal attention to them. In personal selling, oral communication is made with potential buyers of a product with the intention of making a sale.

Ronit may engage a sales team to reach potential customers, explain the benefits of the product and make a sale.

While personal selling is highly effective it suffers from very high costs as sales personnel are expensive. Considering the product is a new launch in a competitive environment having a sales team would be essential.

(ii) **Advertising:** Advertising is a non-personal, highly flexible and dynamic promotional method.

Ronit needs to advertise washing powder through hoardings, display boards particularly near the point of sale. He may also consider having advertisements through handouts, newspapers, magazines and internet. Television and radio are costly alternatives that may be considered according to his budget.

(iii) **Publicity:** Publicity is also a non-personal form of promotion similar to advertising. He may organize a launch party where journalists are invited. It is way of reaching customers with negligible cost. Basic tools for publicity are press releases, press conferences, reports, stories, and internet releases. These releases must be of interest to the public.

(iv) **Sales promotion:** Sales promotion is an omnibus term that includes all activities that are undertaken to promote the business but are not specifically included under personal selling, advertising or publicity. Ronit may offer free trial packs to generate interest in the product. Activities like discounts, contests, money refunds, instalments, kiosks, exhibitions and fairs constitute sales promotion. All these are meant to give a boost to the sales. Sales promotion done periodically may help in getting a larger market share.

5.

Human resource management has been accepted as a strategic partner in the formulation of organization's strategies and in the implementation of such strategies through human resource planning, employment, training, appraisal and reward systems. The following points should be kept in mind as they can have a strong influence on employee competence:

i. **Recruitment and selection:** The workforce will be more competent if a firm can successfully identify, attract, and select highly competent applicants.

ii. **Training:** The workforce will be more competent if employees are well trained to perform their jobs properly.

iii. **Appraisal of performance:** The performance appraisal is to identify any performance deficiencies experienced by employees due to lack of competence. Such deficiencies, once identified, can often be solved through counselling, coaching or training.

iv. **Compensation:** A firm can usually increase the competency of its workforce by offering pay, benefits and rewards that are not only attractive than those of their competitors but also recognizes merit.

6 A.

Relationship marketing is the process of creating, maintaining, and enhancing strong, value-laden relationship with customers and other stakeholders, thus, providing special benefits to select customers to strengthen bonds. It will go a long way in building relationship.

6 B.

Person marketing consists of activities undertaken to create, maintain or change attitudes or behavior towards particular people. For example, politicians, sport stars, film stars, professionals market themselves to get votes or promote their careers and income.

6 C.

A market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each. Differentiation can be achieved through variation in size, shape, colour, brand names and so on.

6 D.

Synchro-marketing: When the demand for the product is irregular causing idle capacity or over-worked capacities, synchro-marketing can be used to find ways to alter the pattern of demand so that it equates more suitably with the pattern of supply. It can be done through flexible pricing, promotion, and other incentives.