**SAP 2 Inter New Accounts Answer Key**

1 a.

(i) Although the case under consideration does not relate to extraordinary item, but the nature and amount of such item may be relevant to users of financial statements in understanding the financial position and performance of an enterprise and in making projections about financial position and performance. AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' 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."

Circumstances which may give to separate disclosure of items of income and expense in accordance with AS 5 include the write-down of inventories to net realisable value as well as the reversal of such write-downs.

(ii) It is given that revision of wages took place on 1st September, 2016 with retrospective effect from 30.9.2015. Therefore wages payable for the half year from 1.10.2016 to 31.3.2017 cannot be taken as an error or omission in the preparation of financial statements and hence this expenditure cannot be taken as a prior period item.

Additional wages liability of ₹ 7,50,000 (for 1½ years @ ₹ 5,00,000 per annum) should be included in current year's wages. It may be mentioned that additional wages is an expense arising from the ordinary activities of the company. Such an expense does not qualify as an extraordinary item. However, as per AS 5, 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.

1 b.

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:**

(i) During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. This has been done to take cognisance of the more capital intensive method of production on account of heavy capital expenditure during the year. As a result of this change, the year-end inventory has been valued at ₹ 50 crores and the profit for the year is increased by ₹ 20 crores.

(ii) In view of the heavy capital intensive method of production introduced during the year, the company has decided to change the method of providing depreciation from reducing balance method to straight line method. As a result of this change, depreciation has been provided at ₹ 27 crores which is lower than the charge which would have been made had the old method and the old rates been applied, by ₹ 18 crores. To that extent, the profit for the year is increased.

(iii) 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 ₹ 12 crores than would have been the case if the old policy were to continue.

(iv) The company has decided to provide ₹ 10 crores for the permanent fall in the value of investments which has taken place over the period of past five years. The provision so made has reduced the profit disclosed in the accounts by ₹ 10 crores.

1 c.

## Solution

**Trial Balance of the Foreign Branch converted into Indian Rupees as on March 31, 2016**

| *Particulars* | *£ (Dr.)* | *£ (Cr.)* | *Conversion Basis* | *₹ (Dr.)* | *₹ (Cr.)* |
|---|---|---|---|---|---|
| Fixed Assets | 5,000 | | Transaction Date Rate | 3,05,000 | |
| Debtors | 1,600 | | Closing Rate | 1,07,200 | |
| Opening Stock | 400 | | Opening Rate | 25,200 | |
| Goods Received from HO | 6,100 | | Actuals | 4,02,000 | |
| Sales | | 20,000 | Average Rate | | 13,00,000 |
| Purchases | 10,000 | | Average Rate | 6,50,000 | |
| Wages | 1,000 | | Average Rate | 65,000 | |
| Salaries | 1,200 | | Average Rate | 78,000 | |
| Cash | 3,200 | | Closing Rate | 2,14,400 | |
| Remittance to HO | 2,900 | | Actuals | 1,91,000 | |
| HO Account | | 7,400 | Actuals | | 4,90,000 |
| Creditors | | 4,000 | Closing Rate | | 2,68,000 |
| Exchange Rate Difference | | | Balancing Figure | 20,200 | |
| | 31,400 | 31,400 | | 20,58,000 | 20,58,000 |
| Closing Stock | 700 | | Closing Rate | 46,900 | |
| Depreciation | 500 | | Fixed Asset Rate | 30,500 | |

1 d.

According to AS 17 "Segment Reporting", segment assets do not include income tax assets. Therefore, the revised total assets are ₹ 8.8 crores [ ₹ 10 crores – (₹ 0.5 + ₹ 0.4 + ₹ 0.3)]. Segment X holds total assets of ₹ 1.5 crores (₹ 2 crores – ₹ 0.5 crores); Segment Y holds ₹ 2.6 crores (₹ 3 crores – ₹ 0.4 crores); and Segment Z holds ₹ 4.7 crores (₹ 5 crores – ₹ 0.3 crores). Thus all the three segments hold more than 10% of the total assets, all segments are reportable segments.

2 a.

**Journal Entries in the books of Manoj Ltd.**

| | | | ₹ | ₹ |
|---|---|---|---|---|
| 1-4-20X1 | Equity share final call A/c | Dr. | 5,40,000 | |
| | To Equity share capital A/c | | | 5,40,000 |
| | (For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....) | | | |
| 20-4-20X1 | Bank A/c | Dr. | 5,40,000 | |
| | To Equity share final call A/c | | | 5,40,000 |
| | (For final call money on 2,70,000 equity shares received) | | | |
| | Securities Premium A/c | Dr. | 75,000 | |
| | Capital redemption reserve A/c | Dr. | 1,20,000 | |
| | General Reserve A/c | Dr. | 3,60,000 | |
| | Profit and Loss A/c (b.f.) | Dr. | 1,20,000 | |
| | To Bonus to shareholders A/c | | | 6,75,000 |
| | (For making provision for bonus issue of one share for every four shares held) | | | |
| | Bonus to shareholders A/c | Dr. | 6,75,000 | |
| | To Equity share capital A/c | | | 6,75,000 |
| | (For issue of bonus shares) | | | |

2 b.

**Solution.**

(1) Ratio of interest and amount due = $\frac{\text{Rate of interest}}{100 + \text{Rate of interest}} = \frac{10}{110} = \frac{1}{11}$

(2) **Calculation of Interest and Cash Price**

| No. of instalments | Amount due at the time of instalment | Interest | Cash price |
|---|---|---|---|
| [1] | [2] | [3] | [4] |
| 3rd | 55,000 | 1/11 of ₹ 55,000 = ₹ 5,000 | 50,000 |
| 2nd | *99,000 | 1/11 of ₹ 99,000 = ₹ 9,000 | 90,000 |
| 1st | **1,43,000 | 1/11of ₹ 1,43,000 = ₹ 13,000 | 1,30,000 |

Total cash price = ₹ 1,30,000+ 70,000 (down payment) = ₹ 2,00,000.

*₹ 50,000 + 2nd instalment of ₹ 49,000 = ₹ 99,000.

** ₹ 90,000 + 1st instalment of ₹ 53,000 = ₹ 1,43,000.

3 a.

7. **Journal Entries**

| | | (₹) Dr. | (₹) Cr. |
|---|---|---|---|
| 2006 Jan 1 | Bank Dr.<br>To 9% Debenture Applications& Allotment Account<br>(Being application money on 20,000 debentures @ ₹ 100 per debenture received) | 20,00,000 | 20,00,000 |
| | 9% Debentures Applications & Allotment Account Dr.<br>To 9% Debentures Account<br>(Being allotment of 20,000 9% Debentures of ₹100 each at par) | 20,00,000 | 20,00,000 |
| (i)<br>2008 Jan. 1 | 9% Debenture Account Dr.<br>Loss on Redemption of Debentures Account Dr.<br>To Bank<br>(Being redemption of 2,000 9% Debentures of ₹100 each by purchase in the open market @ ₹101 each) | 2,00,000<br>2,000 | 2,02,000 |
| " " | Profit & Loss Account Dr.<br>To Loss on Redemption of Debentures Account<br>(Being loss on redemption of debentures being written off by transfer to Profit and Loss Account) | 2,000 | 2,000 |
| (ii)<br>2011Jan. 1 | 9% Debentures Account Dr.<br>To Sundry Debenture holders<br>(Being Amount payable to debenture holders on redemption debentures for ₹6,00,000 at par by draw of a lot) | 6,00,000 | 6,00,000 |
| " " | Sundry Debenture holders Dr.<br>To Bank<br>(Being Payment made to sundry debenture holders for redeeming debentures of ₹6,00,000 at par) | 6,00,000 | 6,00,000 |
| (iii)<br>2012 Jan. 1 | Own Debentures Dr.<br>To Bank<br>(Being purchase of own debentures of the face value of ₹4,00,000 for ₹3,95,600) | 3,95,600 | 3,95,600 |
| 2013 " | 9% Debentures Dr.<br>To Own Debentures<br>To Profit on Cancellation of Own Debentures Account<br>(Being Cancellation of own debentures of the face value of ₹4,00,000 purchased last year for ₹3,95,600) | 4,00,000 | 3,95,600<br>4,400 |
| " " | Profit on Cancellation of Own Debentures Account Dr.<br>To Capital Reserve Account<br>(Being transfer of profit on cancellation of own debentures to capital reserve) | 4,400 | 4,400 |
| (iv)<br>2016Jan. 1 | 9% Debentures Account Dr.<br>Premium on Redemption of Debentures Account Dr.<br>To Sundry Debenture holders<br>(Being amount payable to holders of debentures of the face value of ₹ 8,00,000 on redemption at a premium of 2% as per resolution of the board of directors) | 8,00,000<br>16,000 | 8,16,000 |
| " " | Sundry Debenture holders Dr.<br>To Bank Account<br>(Being payment to sundry debenture holders) | 8,16,000 | 8,16,000 |
| " " | Profit & Loss Account Dr.<br>To Premium on Redemption of Debentures Account<br>(Being utilization of a part of the balance in Securities Premium Account to write off premium paid on redemption of debentures) | 16,000 | 16,000 |

3 b.

## Solution

### In the books of ..........
### Journal Entries

| Date | Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| | Bank A/c | Dr. | 25,000 | |
| | To Equity Share Capital A/c | | | 25,000 |
| | (Being the issue of 2,500 Equity Shares of ₹ 10 each at a premium of Re. 1 per share as per Board's Resolution No..... dated.......) | | | |
| | 8% Redeemable Preference Share Capital A/c | Dr. | 1,00,000 | |
| | Premium on Redemption of Preference Shares A/c | Dr. | 10,000 | |
| | To Preference Shareholders A/c | | | 1,10,000 |
| | (Being the amount paid on redemption transferred to Preference Shareholders Account) | | | |
| | Preference Shareholders A/c | Dr. | 1,10,000 | |
| | To Bank A/c | | | 1,10,000 |
| | (Being the amount paid on redemption of preference shares) | | | |
| | Profit & Loss A/c | Dr. | 10,000 | |
| | To Premium on Redemption of Preference Shares A/c | | | 10,000 |
| | (Being the premium payable on redemption is adjusted against Profit & Loss Account) | | | |
| | General Reserve A/c | Dr. | 60,000 | |
| | Profit & Loss A/c | Dr. | 10,000 | |
| | Investment Allowance Reserve A/c | Dr. | 5,000 | |
| | To Capital Redemption Reserve A/c | | | 75,000 |
| | (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act) | | | |

**Balance Sheet as on .........[Extracts]**

| Date | Particulars | Notes No. | (₹) |
|---|---|---|---|
| | **EQUITY AND LIABILITIES** | | |
| **1.** | **Shareholders' funds** | | |
| | a) Share capital | 1 | 2,25,000 |
| | b) Reserves and Surplus | 2 | 1,02,000 |
| | **Total** | | ? |
| | **ASSETS** | | |
| **2.** | **Current Assets** | | |
| | Cash and cash equivalents (98,000 + 25,000 – 1,10,000) | | 13,000 |
| | **Total** | | ? |

**Notes to accounts**

| | | | |
|---|---|---|---|
| **1.** | **Share Capital** | | |
| | 22,500 Equity shares (20,000 + 2,500) of ₹10 each fully paid up | | 2,25,000 |
| **2.** | **Reserves and Surplus** | | |
| | General Reserve | | 20,000 |
| | Securities Premium | | 2,000 |
| | Capital Redemption Reserve | | 75,000 |
| | Investment Allowance Reserve | | 5,000 |
| | | | 1,02,000 |

**Working Note:**

| | | |
|---|---|---|
| No of Shares to be issued for redemption of Preference Shares: | | |
| Face value of shares redeemed | | ₹1,00,000 |
| Less: Profit available for distribution as dividend: | | |
| General Reserve : ₹(80,000-20,000) | ₹60,000 | |
| Profit and Loss (20,000 – 10,000 set aside for adjusting premium payable on redemption of preference shares) | ₹10,000 | |
| Investment Allowance Reserve: (₹ 10,000-5,000) | ₹ 5,000 | (₹ 75,000) |
| | | ₹ 25,000 |

Therefore, No. of shares to be issued = 25,000/₹10 = 2,500 shares.

4 a.

2. Calculation of correct Profits

| | Department X | Department Y | Department Z |
|---|---|---|---|
| | ₹ | ₹ | ₹ |
| Profit after charging managers' commission | 36,000 | 27,000 | 18,000 |
| Add back : Managers' commission (1/9) | 4,000 | 3,000 | 2,000 |
| | 40,000 | 30,000 | 20,000 |
| Less : Unrealised profit on stock (Working Note) | (4,000) | (4,500) | (2,000) |
| Profit before Manager's commission | 36,000 | 25,500 | 18,000 |
| Less : Commission for Department Manager @ 10% | (3,600) | (2,550) | (1,800) |
| Departmental Profits after manager's commission | 32,400 | 22,950 | 16,200 |

**Working Note :**

Stock lying with

| | Department X | Department Y | Department Z | Total |
|---|---|---|---|---|
| | (₹) | (₹) | (₹) | (₹) |
| Unrealised Profit of: | | | | |
| Department X | | 1/5×15,000 =3,000 | 1/11×11,000 =1,000 | 4,000 |
| Department Y | 0.15×14,000 =2,100 | | 0.20×12,000=2,400 | 4,500 |
| Department Z | 1/6×6,000=1,000 | 1/5×5,000=1,000 | | 2,000 |

4 b.

**Calculation of effective capital and maximum amount of monthly remuneration**

| | (₹ in lakhs) |
|---|---|
| Paid up equity share capital | 120 |
| Paid up Preference share capital | 20 |
| Reserve excluding Revaluation reserve (150- 10) | 140 |
| Securities premium | 40 |
| Long term loans | 40 |
| Deposits repayable after one year | 20 |
| | 380 |
| Less: Accumulated losses not written off | (20) |
| Investments | (180) |
| Effective capital for the purpose of managerial remuneration | 180 |

Since Kumar Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration, managerial remuneration will be calculated on the basis of effective capital of the company, therefore maximum remuneration payable to the Managing Director should be @ ₹ 60,00,000 per annum.

**Note :** Revaluation reserve, and application money pending allotment are not included while computing effective capital of Kumar Ltd.

5.

**Realization Account**

| | ₹ | ₹ | | ₹ |
|---|---|---|---|---|
| To Land & Building | | 2,00,000 | By Trade Payables | 1,20,000 |
| To Plant | | 2,00,000 | By Preet Limited (W.N.1) | 6,69,500 |
| To Inventories | | 1,50,000 | | |
| To Trade Receivable | | 1,00,000 | | |
| To Cash | | 1,00,000 | | |
| To Profit transferred to Capital A/c: | | | | |
| L | 19,750 | | | |
| M | 11,850 | | | |
| N | 7,900 | 39,500 | | |
| | | 7,89,500 | | 7,89,500 |

**Cash Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To N's Capital A/c | 46,000 | By L's Capital A/c | 23,000 |
| | | By M's Capital A/c | 23,000 |
| | 46,000 | | 46,000 |

**Partners' Current Accounts**

| | L ₹ | M ₹ | N ₹ | | L ₹ | M ₹ | N ₹ |
|---|---|---|---|---|---|---|---|
| To Balance b/d | - | | 50,000 | By Balance b/d | 50,000 | 30,000 | - |
| To L's Capital A/c | 69,750 | | | By Realisation A/c | 19,750 | 11,850 | 7,900 |
| To M's Capital A/c | | 41,850 | | By N's Capital A/c | | | 42,100 |
| | 69,750 | 41,850 | 50,000 | | 69,750 | 41,850 | 50,000 |

**Partners' Capital Accounts**

| | L | M | N | | L | M | N |
|---|---|---|---|---|---|---|---|
| | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ |
| To N's Current A/c | - | - | 42,100 | By Balance b/d | 3,00,000 | 2,00,000 | 1,00,000 |
| To Preference Shares in Preet Ltd. A/c | 1,12,500 | 67,500 | 45,000 | By L's Current A/c | 69,750 | | |
| To Debentures A/c | 1,47,250 | 88,350 | 58,900 | By M's Current A/c | | 41,850 | |
| To Cash A/c | 23,000 | 23,000 | - | By Cash A/c (bal. fig.) | | | 46,000 |
| To Equity Shares A/c | 87,000 | 63,000 | - | | | | |
| | 3,69,750 | 2,41,850 | 1,46,000 | | 3,69,750 | 2,41,850 | 1,46,000 |

**Working Notes:**

1. **Calculation of Purchase consideration**

**Net Payment Method**

| | ₹ |
|---|---|
| Equity Shares = 10,000 @ ₹ 15 | 1,50,000 |
| Preference Shares = 15,000 @ ₹ 15 | 2,25,000 |
| Debentures = 20,000 @ ₹ 14.725 | 2,94,500 |
| | 6,69,500 |

2. As whole business of the firm was sold to Preet Limited, cash balance of the firm ₹1,00,000 is also transferred to realization account. Cash brought in by N equal to Dr. balance appearing in his account, after distribution of preference shares and debentures in profit sharing ratio would be shared by L and M equally. The balance amount payable to L and M would be settled by transfer of equity shares in Preet Company.

**SAP 2(iii) Inter New Corporate and other law answer key**

1. **a.**

The problem as asked in the question is based on the provisions of the Indian Contract Act, 1872 as contained in Section 149. The Section provides that the delivery of the goods to the bailee may be made by doing anything which has the effect of putting the goods in the possession of the intended bailee or of any person authorised to hold them on his behalf. Delivery may be actual or constructive or delivery by attornment to the bank. In such a case there is change in the legal character of the possession of goods though not in the actual or physical custody. Though the bailor continues to be in possession of the goods, it is the possession of the bailee.

In the given problem the delivery of the goods is constructive i.e. delivery by attornment to the bailee (pawnee) and the possession of the goods by Ram, the bailor is construed as possession by bailee (pawnee), the Bank. A constructive pledge comes into existence as soon as the pawnor, without actually delivering the goods, promises to deliver them on demand. The transaction was, therefore, a valid pledge.

**b.**

***Sans Recourse: Sans Frais (The Negotiable Instruments Act, 1881):***

***Sans Recourse: By adding the words 'Sans Recourse' after the endorsement the endorser declines to accept any liability on the instrument of any subsequent party. Sometimes, when an endorser who so excludes his liability as an endorser afterwards becomes the holder of the same instrument. In such a case, all intermediate endorsers are liable to him.***

***Sans Frais: These words when added at the end of the endorsement, indicate that no expenses should be incurred on account of the bill.***

***Difference: Any endorser can exclude personal liability by endorsing "sans recourse" i.e. without recourse. However, "Sans Frais" endorsement, indicate that no expenses should be incurred on account of the bill.***

2.

As per section 130 of the India Contract Act, 1872, a continuing guarantee may, at any time, be revoked by the surety, as to future transactions, by notice to the creditor, but the surety remains liable for transactions already entered into. Thus, a specific guarantee cannot be revoked by the surety if the liability has already accrued.

(i) In the given situation, Shambhu is discharged from all the subsequent loans because it's a case of continuing guarantee.

(ii) Shambhu is liable for payment of ` 20,000 to Naveen because the transaction has already completed.

3.

## 10. DUTIES AND OBLIGATIONS OF AN AGENT

- Conduct the business according to principal's directions
- Conduct the business with the skill and diligence
- Render proper accounts
- Communicate with principal in cases of difficulty
- Repudiation of the transaction by principal
- Not to deal on his own account
- Agent's duty to pay sums received for principal

**(i) To conduct the business of agency according to the principal's directions [Section 211] :** An agent is bound to conduct the business of his principal according to the direction given by the principal, or, in the absence of any such directions, according to the custom which prevails in doing business of the same kind at the place where the agent conducts such business. When the agent acts otherwise, if any loss be sustained, he must make it good to his principal, and, if any profit accrues, he must account for it.

**Example 1 :** A, an agent engaged in carrying on for B a business, in which it is the custom to invest from time to time, at interest, the moneys which may be in hand, omits to make such investment. A must make good to B the interest usually obtained by such investment.

**Example 2 :** B, a broker, in whose business it is not the custom to sell on credit, sells goods of A on credit to C, whose credit at the time was very high. C, before payment, becomes insolvent. B must make good the loss to A.

**(ii) The agent should conduct the business with skill and diligence that is generally possessed by persons engaged in similar business :** According to section 212, an agent is bound to conduct the business of the agency with as much skill as is generally possessed by persons engaged in similar business, unless the principal has notice of his want of skill.

The agent is always bound to act with reasonable diligence, and to use such skill as he possesses; and to make compensation to his principal in respect of the direct consequences of his own neglect, want of skill or misconduct, but not in respect of loss of damage which are indirectly or remotely caused by such neglect, want of skill or misconduct.

**Example 1 :** A, a merchant in Kolkata, has an agent, B, in London, to whom a sum of money is paid on A's account, with orders to remit. B retains the money for a considerable time. A, in consequence of not receiving the money, becomes insolvent. B is liable for the money and interest from the day on which it ought to have been paid, according to the usual rate, and for any further direct loss- as, e.g. by variation of rate of exchange-but not further.

**Example 2 :** A, an agent for the sale of goods, having authority to sell on credit, sells to B on credit, without making the proper and usual enquiries as to the solvency of B. B, at the time of such sale is insolvent. A must make compensation to his principal in respect of any loss thereby sustained.

**Example 3 :** A, an insurance-broker, employed by B to effect an insurance on a ship, omits to see that the usual clauses are inserted in the policy. The ship is afterwards lost. In consequence of the omission of the clauses nothing can be recovered from the underwriters. A is bound to make good the loss to B.

**Example 4 :** A, a merchant in England, directs B, his agent at Mumbai, who accepts the agency, to send him 100 bales of cotton by a certain ship. B, having it in his power to send the cotton, omits to do so. The ship arrives safely in England. Soon after her arrival the price of cotton rises. B is bound to make good to A the profit which he might have made by the 100 bales of cotton at the time the ship arrived, but not any profit he might have made by the subsequent rise.

**(iii) To render proper accounts [Section 213] :** An agent is bound to render proper accounts to his principal on demand. Rendering accounts does not mean showing the accounts but the accounts supported by vouchers. *(Anandprasad vs. Dwarkanath)*

**(iv) Agent' duty to communicate with principal [Section 214] :** It is the duty of an agent, in cases of difficulty, to use all reasonable diligence in communicating with his principal, and in seeking to obtain his instructions.

**(v) Repudiation of the transaction by principal [Section 215] :** If an agent deals on his own account in the business of the agency, without first obtaining the consent of his principal and acquainting him with all material circumstances which have come to his own knowledge on the subject, the principal may repudiate the transaction, if the case shows either that any material fact has been dishonestly concealed from him by the agent, or that the dealings of the agent have been disadvantageous to him.

**Example 1 :** A directs B to sell A's estate. B buys the estate for himself in the name of C. A, on discovering that B has bought the estate for himself, may repudiate the sale if he can show that B has dishonestly concealed any material fact, or that the sale has been disadvantageous to him.

**Example 2 :** A directs B to sell A's estate. B, on looking over the estate before selling it, finds a mine on the estate which is unknown to A. B informs A that he wishes to buy the estate for himself, but conceals the discovery of the mine. A allow B to buy, in ignorance of the existence of the mine. A, on discovering that B know of the mine at the time he bought the estate, may either repudiate or adopt the sale at his option.

(vi) **Not to deal on his own account [Section 216] :** If an agent, without the knowledge of his principal deals in the business of the agency on his own account instead of on account of his principal, the principal is entitled to claim from the agent any benefit which may have resulted to him from the transaction.

**Example :** A directs B, his agent, to buy a certain house for him. B tells A it cannot be bought, and buys the house for himself. A may, on discovering that B has bought the house, compel him to sell it to A at the price he gave for it.

(vii) **Agent's duty to pay sums received for principal [Section 218] :** Subject to such deductions, the agent is bound to pay to his principal all sums received on his account.

4.

) An agent has the authority in an emergency to do all such acts as a man of ordinary prudence would do for protecting his principal from losses which the principal would have done under similar circumstances.

A typical case is where the 'agent' handling perishable goods like 'apples' can decide the time, date and place of sale, not necessarily as per instructions of the principal, with the intention of protecting the principal from losses. Here, the agent acts in an emergency and acts as a man of ordinary prudence. In the given case S had acted in an emergency situation and hence, R will not succeed against him.

5. **a.**

According to section 151 of the Indian Contract Act, 1872, in all cases of bailment, the bailee is bound to take as much care of the goods bailed to him as a man of ordinary prudence would, under similar circumstances, take of his own goods of the same bulk, quality and value as the goods bailed.

According to section 152 of the Indian Contract Act, 1872, the bailee, in the absence of any special contract, is not responsible for the loss, destruction or deterioration of the thing bailed, if he has taken the amount of care of it described in section 151.

Thus, Barn is liable to compensate Ashley for his negligence to keep jewelry at his residence. Here, Ashley and Barn agreed to keep the jewelry at the Bank's safe locker and not at the latter's residence.

**b.**

**Contract of guarantee", "surety", "principal debtor" and "creditor" [Section 126]**

**Contract of guarantee :** A contract of guarantee is a contract to perform the promise made or discharge the liability,

# SAP 2 Inter New Advanced Accounting Answer Key

1 a

Following will be the treatment in the given cases:

(i) When sales price of ₹ 50 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of ₹ 10 lakhs (i.e. 50 – 40) in its books.

(ii) When fair value of leased machinery is ₹ 45 lakhs & sales price is ₹ 38 lakhs, then loss of ₹ 2 lakhs (40 – 38) to be immediately recognised by A Ltd. in its books provided loss is not

(iii) When fair value is ₹ 40 lakhs & sales price is ₹ 50 lakhs then, profit of ₹ 10 lakhs is to be deferred and amortised over the lease period.

(iv) When fair value is ₹ 46 lakhs & sales price is ₹ 50 lakhs, profit of ₹ 6 lakhs (46-40) to be immediately recognised in its books and balance profit of ₹ 4 lakhs (50-46) is to be amortised/deferred over lease period.

(v) When fair value is ₹ 35 lakhs & sales price is ₹ 39 lakhs, then the loss of ₹ 5 lakhs (40-35) to be immediately recognised by A Ltd. in its books and profit of ₹ 4 lakhs (39-35) should be amortised/deferred over lease period.

1 b

**(i)** AS 29 "Provisions, Contingent Liabilities and Contingent Assets" provides that when an enterprise has a present obligation, as a result of past events, that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation, a provision should be recognised. Sun Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is probable that Sun Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amount of compensation. Therefore, Sun Ltd. should provide for the contingency amounting ₹ 1.5 crores as per AS 29.

**(ii)** Provision should not be measured as the excess of compensation to be paid over the profit. The goods were not manufactured before 31st March, 2016 and no profit had accrued for the financial year 2015-2016. Therefore, provision should be made for the full amount of compensation amounting ₹ 1.50 crores.

1 c

As per AS 26 'Intangibles Assets', the amortization method used should reflect the pattern in which economic benefits are consumed by the enterprise. If pattern cannot be determined reliably, then straight-line method should be used.

In the instant case, the pattern of economic benefit in the form of net operating cash flow vis-à-vis production is determined reliably. A Ltd. should amortize the license fee of Rs. 200 lakhs as under:

| *Year* | *Net operating Cash in flow (Rs.)* | *Ratio* | *Amortize amount (Rs. in lakhs)* |
|---|---|---|---|
| 1 | 900 | 0.03 | 6 |
| 2 | 1,800 | 0.06 | 12 |
| 3 | 2,300 | 0.08 | 16 |
| 4 | 3,200 | 0.12 | 24 |
| 5 | 3,200 | 0.12 | 24 |
| 6 | 3,200 | 0.12 | 24 |
| 7 | 3,200 | 0.12 | 24 |
| 8 | 3,200 | 0.12 | 24 |
| 9 | 3,200 | 0.12 | 24 |
| 10 | 3,200 | 0.11 (bal.) | 22 |
| | 27,400 | 1.00 | 200 |

1 d

(i) If it becomes certain at the inception of lease itself that the option will be exercised by the lessee, it is a Finance Lease.

(ii) The lease will be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term.

(iii) Since the asset is procured only for the use of lessee, it is a finance lease.

(iv) The lease is a finance lease if X = Y, or where X substantially equals Y.

2

In the matter of the Companies Act, &In the matter of Equipment Ltd. (in winding up)

**Statement of Affairs on 31 December, 2016, the date of winding up**

*Estimated realisable value*

| *Assets* | | | | | ₹ |
|---|---|---|---|---|---|
| Assets not specifically pledged (as per list A) | | | | | |
| Trade debtors | | | | | 60,000 |
| Stock in trade | | | | | 74,000 |
| Plant | | | | | 1,30,000 |
| Tools | | | | | 4,000 |
| Patents | | | | | 30,000 |
| Unpaid calls | | | | | 5,000 |
| | | | | | 3,03,000 |
| *Assets specifically pledged (as per list B)* | | | | | |
| | *Estimated Realisation* | *Due to Secured Creditors* | *Deficiency Ranking as Unsecured Creditors* | *Surplus carried to the last column* | |
| | ₹ | ₹ | ₹ | ₹ | |
| Investments | 1,70,000 | 1,90,000 | 20,000 | | |
| Land & Building | 1,30,000 | 80,000 | | 50,000 | |
| | 3,00,000 | 2,70,000 | | | |
| | Estimated surplus from assets specifically pledged | | | | 50,000 |
| | Estimated total assets available for preferential creditors, debenture holders and unsecured creditors | | | | 3,53,000 |
| | Summary of Gross Assets: | | | | |
| | Gross realisable value of - assets specifically charged | | | 3,00,000 | |

| | | | |
|---|---|---|---|
| | others assets | 3,03,000 | |
| | | 6,03,000 | |
| | Estimated total assets available for preferential creditors, debenture holders, bank overdraft and unsecured creditors brought forward | | 3,53,000 |
| *Gross Liabilities* | *Liabilities* | | |
| ₹ | | ₹ | ₹ |
| 2,50,000 | Secured creditors (as per List B) to the extent to which claims are estimated to be covered by assets specifically pledge | | |
| 22,000 | Preferential creditors as per list C (20,000 +2,000) | | 22,000 |
| | Estimated balance of assets available for | | |
| | Debenture holders, Bank & unsecured creditors | | 3,31,000 |
| 1,02,500 | Debenture holders secured by a floating | | |
| | charge as per list D | | (1,02,500) |
| | Surplus as regards debenture holders | | 2,28,500 |
| | Unsecured creditors as per list E | | |
| | Estimated unsecured balance of claim of creditors partly secured on | | |
| | specific assets | 20,000 | |
| | Trade creditors | 2,65,500 | |
| 2,92,500 | Outstanding expenses | 7,000 | 2,92,500 |
| | Estimated deficiency as regards creditors | | |
| | being the difference between gross | | |

| | | | |
|---|---|---|---|
| | liabilities and gross assets | | 64,000 |
| 6,67,000 | | | |
| | Issued & Called up Capital: | | |
| | 3,000 Equity shares or ₹ 100 each, ₹ 80 paid | 2,40,000 | |
| | 6% 1,000 preference shares of ₹ 100 each fully called | 1,00,000 | 3,40,000 |
| | Estimated Deficiency as regards members as per list H | | 4,04,000 |

**Note:** (*i*) The above is subject to cost to winding up estimated at ₹ 15,000 and to any surplus in deficiency on trading realisation of assets.

(*ii*) There are 3,000 shares unpaid @ ₹ 20 per share liable to be called up.

**List H - Deficiency Account**

**A.** ***Item contributing to Deficiency:***

| | | | ₹ |
|---|---|---|---|
| 1. | Excess of capital & liabilities over assets on 1-1-2014 | | Nil |
| 2. | Net dividend & bonuses during the period Jan.-Dec. 2014 | | 29,700 |
| 3. | Net trading losses after charging depreciation, taxation, interest on debentures, etc. during the same period (₹ 1,09,000 + ₹ 1,31,300) | | 2,40,300 |
| 4. | Losses other than trading losses written off or for which provision has been made in the books during the same period - stock loss. | | 40,000 |
| 5. | Estimated losses now written off or for which provision has been made for the purpose of preparing the statement : | ₹ | |
| | Plant | 70,000 | |
| | Tools | 16,000 | |
| | Patents | 20,000 | |
| | Stock | 13,000 | |
| | Investments | 10,000 | |
| | Debtors | 30,000 | 1,59,000 |
| 6. | Other reducing items contributing to deficiency | | NIL |
| | | | 4,69,000 |

**B. Items reducing Deficiency**

| | |
|---|---|
| 7. Excess of assets over capital and liabilities on 1st Jan. 2012 | 15,000 |
| 8. Net trading profit during the period 1st Jan. 2010 to 31st Dec. 2012 | 40,000 |
| 9. Profit & Incomes other than trading profit during the same period | |
| 10. Other items Deficiency - Profit expected on Land & Building | 10,000 |
| | 65,000 |
| Deficiency as shown by the statement of Affairs (A) - (B) | 4,69,000 |
| | 4,04,000 |

**Working Notes :**

**(1) Trial Balance to ascertain the amount of loss for 2016**

| | Dr. ₹ | Cr. ₹ |
|---|---|---|
| Land & Building | 1,20,000 | |
| Plant | 2,00,000 | |
| Tools | 20,000 | |
| Patents | 50,000 | |
| Stock | 87,000 | |
| Investments | 1,80,000 | |
| Debtors | 90,000 | |
| Equity Capital | | 2,40,000 |
| 6% Preference share capital | | 95,000 |
| 5% Debentures | | 1,00,000 |
| Interest Outstanding | | 2,500 |
| Mortgage on Land & Building | | 80,000 |
| Trade Creditors | | 2,65,500 |
| Owing for Wages | | 20,000 |
| Secretary's Salary | | 3,000 |
| Managing Director's Salary | | 6,000 |
| Bank Overdraft | | 1,90,000 |
| Profit & Loss Account on 1-1-2014 | 1,23,700 | |
| | 8,70,700 | 10,02,000 |
| Loss for the year (balancing figure) | 1,31,300 | - |
| | 10,02,000 | 10,02,000 |

**Reserve & Surplus Account**

| 2011 | | ₹ | 2011 | | ₹ |
|---|---|---|---|---|---|
| Dec. 31 | To Profit & Loss A/c(Transfer) | 25,000 | Dec. 31 | By Balance b/d | 40,000 |
| 2012 | | | 2012 | | |
| | To Dividend - Equity | 24,000 | Dec. 31 | By Profit for the year | 40,000 |
| 2013 | - Preference | 5,700 | 2013 | | |
| | To Profit & Loss A/c (Loss) | 1,09,000 | Dec. 31 | By Balance c/d | 1,23,700 |
| | To Loss of Stock | 40,000 | | | |
| | | 2,03,700 | | | 2,03,700 |

**Dimple Bank**

**Profit and Loss Account for the year ended 31-3-20X3**

| | | Schedule No. | Year ended 31-3-20X3 | (₹ 000's) Year ended 31-3-20X2 |
|---|---|---|---|---|
| **I.** | **Income** | | | |
| | Interest Earned | 13 | 25,86 | 16,96 |
| | Other Income | 14 | 8,22 | 7,34 |
| | Total | | 34,08 | 24,30 |
| **II.** | **Expenditure** | | | |
| | Interest Expended | 15 | 9,69 | 7,39 |
| | Operating Expenses | 16 | 20,96 | 16,97 |
| | Provisions and Contingencies | | 2,40 | |
| | Total | | 33,05 | 24,36 |
| **III.** | **Profit/Loss** | | | |
| | Net Profit/Loss (—) for the year | | 1,03 | (6) |
| | Profit/Loss (—) brought forward | | (6) | |
| | Total | | 97 | (6) |

| | | | | |
|---|---|---|---|---|
| **IV.** | **Appropriations** | | | |
| | Transfer to Statutory Reserve | | 25.75 | |
| | Transfer to Other Reserve, Proposed Dividend | | 5.15 | |
| | Balance carried over to Balance Sheet | | 66.10 | |
| | Total | | 97.00 | |

**Schedule 13 - Interest Earned**

*(₹ 000's)*

| | | Year ended 31-3-20X3 | Year ended 31-3-20X2 |
|---|---|---|---|
| **I.** | Interest/Discount | 22,97 | 14,27 |
| **II.** | Income on Investments | 1,12 | 1,14 |
| **III.** | Interest on Balances with RBI and other inter-bank fund | 1,77 | 1,55 |
| **IV.** | Others | | – |
| | Total | 25,86 | 16,96 |

**Schedule 14 - Other Income**

*(₹ 000's)*

| | | Year ended 31-3-20X3 | Year ended 31-3-20X2 |
|---|---|---|---|
| **I.** | Commission, Exchange and Brokerage | 7,12 | 7,22 |
| **II.** | Profit on Sale of Investments | 1,22 | 12 |
| | *Less*: Loss on sale of Investments | (12) | - |
| | Total | 8,22 | 7,34 |

**Schedule 15 - Interest Expended**

| | | | *(₹ 000's)* |
|---|---|---|---|
| | | *Year ended 31-3-20X3* | *Year ended 31-3-20X2* |
| **I.** | Interest on Deposits | 8,22 | 6,12 |
| **II.** | Interest on RBI/inter-bank borrowings | 1,47 | 1,27 |
| | Total | 9,69 | 7,39 |

**Schedule 16 - Operating Expenses**

| | | | *(₹ 000's)* |
|---|---|---|---|
| | | *Year ended 31-3-20X3* | *Year ended 31-3-20X2* |
| **I.** | Payments to and provision for employees | 8,55 | 7,27 |
| **II.** | Rent, taxes and lighting | 1,79 | 1,58 |
| **III.** | Printing and stationery | 2,12 | 1,47 |
| **IV.** | Advertisement and Publicity | 98 | 1,12 |
| **V.** | Depreciation on the Bank's Property | 98 | 98 |
| **VI.** | Director's fees, allowances and expenses | 2,12 | 1,48 |
| **VII.** | Auditor's fees and expenses (including branch auditors) | 1,10 | 1,10 |
| **VIII.** | Law charges | 1,52 | 50 |
| **IX.** | Postage, telegrams, telephones etc. | 62 | 48 |
| **X.** | Repairs and maintenance | 66 | 57 |
| **XI.** | Insurance | 52 | 42 |
| **XII.** | Other Expenditure | | – |
| | Total | 20,96 | 16,97 |

4

**In the books of Ayushman Insurance Co. Ltd.**

**Journal Entries**

| *Date* | *Particulars* | | *(₹ in crores)* | |
|---|---|---|---|---|
| | | | *Dr.* | *Cr.* |
| 1.1.20X2 | Unexpired Risk Reserve (Fire) A/c | Dr. | 20.00 | |
| | Unexpired Risk Reserve (Marine) A/c | Dr. | 15.00 | |
| | Unexpired Risk Reserve (Miscellaneous) A/c | Dr. | 5.00 | |
| | To Fire Revenue Account | | | 20.00 |
| | To Marine Revenue Account | | | 15.00 |
| | To Miscellaneous Revenue Account | | | 5.00 |
| | (Being unexpired risk reserve brought forward from last year) | | | |
| 31.12.20X2 | Marine Revenue A/c | Dr. | 18.30 | |
| | To Unexpired Risk Reserve A/c | | | 18.30 |
| | (Being closing reserve for unexpired risk created at 100% of net premium income amounting to ₹ 18.3 crores i.e.18+7-6.70) | | | |

| | | | | |
|---|---|---|---|---|
| | Fire Revenue A/c | Dr. | 21.85 | |
| | To Unexpired Risk Reserve A/c | | | 21.85 |
| | (Being closing reserve for unexpired risk created at 50% of net premium income of ₹ 43.7 crores i.e.43+5-4.30) | | | |
| | Miscellaneous Revenue A/c | Dr. | 4.50 | |
| | To Unexpired Risk Reserve A/c | | | 4.50 |
| | (Being closing reserve for unexpired risk created at 50% net premium income of ₹ 9 crores i.e. 12+4-7) | | | |

**Unexpired Risk Reserve Account**

| *Date* | *Particulars* | *Marine (₹ )* | *Fire (₹ )* | *Misc. (₹)* | *Date* | *Particulars* | *Marine (₹)* | *Fire (₹)* | *Misc. (₹)* |
|---|---|---|---|---|---|---|---|---|---|
| 1.1.20X2 | To Revenue A/c | 15.00 | 20.00 | 5.00 | 1.1.20X2 | By Balance b/d | 15.00 | 20.00 | 5.00 |
| 31.12.20X2 | To Balance c/d | 18.30 | 21.85 | 4.50 | 31.12.20X2 | By Revenue A/c | 18.30 | 21.85 | 4.50 |
| | | 33.30 | 41.85 | 9.50 | | | 33.30 | 41.85 | 9.50 |

5

**Allocation of earnings**

| | *Old unit holders (9 lakh units) (₹ Lakh)* | *New unit holders (1 lakh units) (₹ lakh)* | *Total earning (₹ Lakh)* |
|---|---|---|---|
| First half-year (₹ 5.00 per unit ) | 45.0 | Nil | 45.0 |
| Second half-year (₹ 3.60 per unit) | 32.4 | 3.6 | 36.0 |
| | 77.4 | 3.6 | 81.0 |
| *Add:* Equalisation payment recovered | | | 5.0 |
| Total available for distribution | | | 86.0 |

**Note:** Equalisation payment = ₹ 45 lakh / 9 lakh = ₹ 5 per unit.

**Distribution of earning per unit**

| | *Old unit holders ₹* | *New unit holders ₹* |
|---|---|---|
| Dividend distributed | 8.60 | 8.60 |
| *Less*: Equalisation payment | | (5.00) |
| Net distributed income | 8.60 | 3.60 |

**Journal Entries**

| *Date* | | | *₹ lakh* | *₹ lakh* | |
|---|---|---|---|---|---|
| 30.09.16 | Bank | Dr. | 65 | | 1 lakh x ₹ 65 |
| | To Unit Capital | | | 10 | 1 lakh x ₹ 10 |
| | To Reserves | | | 50 | 1 lakh x ₹ 50 |
| | To Dividend Equalisation | | | 5 | 1 lakh x ₹ 5 |
| 31.03.17 | Dividend Equalisation | Dr. | 5 | | |
| | To Revenue A/c | | | 5 | |
| 31.03.17 | Revenue A/c | Dr. | 86 | | |
| | To Bank | | | 86 | 10 lakh x ₹ 8.60 |

6 a.

**Calculation of provision required on advances as on 31st March, 2017 as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016**

| | *Amount ₹ in lakhs* | *Percentage of provision* | *Provision ₹ in lakhs* |
|---|---|---|---|
| Standard assets | 16,800 | 0.25 | 42.00 |
| Sub-standard assets | 1,340 | 10 | 134.00 |
| Secured portions of doubtful debts– | | | |
| – upto one year | 320 | 20 | 64.00 |
| – one year to three years | 90 | 30 | 27.00 |
| – more than three years | 30 | 50 | 15.00 |
| Unsecured portions of doubtful debts | 97 | 100 | 97.00 |
| Loss assets | 48 | 100 | 48.00 |
| | | | 427.00 |

**Calculation of provision required on advances as on 31st March, 2017 as per the Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016**

| | *Amount ₹ in lakhs* | *Percentage of provision* | *Provision ₹ in lakhs* |
|---|---|---|---|
| Standard assets | 16,800 | 0.35 | 58.80 |
| Sub-standard assets | 1,340 | 10 | 134.00 |
| Secured portions of doubtful debts– | | | |
| – upto one year | 320 | 20 | 64.00 |
| – one year to three years | 90 | 30 | 27.00 |
| – more than three years | 30 | 50 | 15.00 |
| Unsecured portions of doubtful debts | 97 | 100 | 97.00 |
| Loss assets | 48 | 100 | 48.00 |
| | | | 443.80 |

6 b

**Calculation of Net Asset Value of a fund**

| | | *₹ in crores* |
|---|---|---|
| Total Assets: | | |
| Investment (6,000 - 60 -100) | 5,840.00 | |
| *Add*: Closing Cash Balance (Refer W.N.) | 147.60 | |
| *Add*: Interest for two months due to be received $\left(5{,}840 \times 10\% \times \frac{2}{12}\right)$ | 97.33 | 6,084.93 |
| *Less*: Outstanding Management Expenses | | (5.00) |
| Total value of the fund | | 6,079.93 |

No. of Units = $\frac{₹\ 6{,}000 \text{ crores}}{1{,}000} = 6 \text{ crore units}$

NAV per unit = $\frac{₹\ 6079.93 \text{ crores}}{6 \text{ crore}}$ = ₹ 1,013.32 per unit

**Working Note:**

**Calculation of year-end cash/bank balance of the fund**

| | | *₹ in crores* |
|---|---|---|
| Cash received during the year for the fund | | |
| Sale of units | | 6,000 |
| *Add:* Interest for 3 quarters on investment $\left(5{,}840 \times 10\% \times \frac{9}{12}\right)$ | | 438 |
| | | 6,438 |
| *Less:* Underwriting commission | 60 | |
| Management expenses paid in cash | 40 | |
| Investment | 5,840 | |
| Dividend paid (438 x 80%) | 350.40 | (6,290.40) |
| | | 147.60 |

# SAP 2(iii) Inter New EIS & SM answer key

1 A.

The company needs to conduct strategy audit.

A strategy audit is needed under the following conditions:

- When the performance indicators reflect that a strategy is not working properly or is not producing desired outcomes.
- When the goals and objectives of the strategy are not being accomplished.
- When a major change takes place in the external environment of the organization.
- When the top management plans:
  - to fine-tune the existing strategies and introduce new strategies and
  - to ensure that a strategy that has worked in the past continues to be in-tune with subtle internal and external changes that may have occurred since the formulation of strategies.

Adequate and timely feedback is the cornerstone of effective strategy audit. Strategy audit can be no better than the information on which it is based.

Strategy Audit includes three basic activities:

(i) Examining the underlying bases of a firm's strategy,

(ii) Comparing expected results with actual results, and

(iii) Taking corrective actions to ensure that performance conforms to plans.

1 B.

An entrepreneur is an individual who conceives the idea of starting a new venture, takes all types of risks, not only to put the product or service into reality but also to make it an extremely demanding one. An entrepreneur is one who:

- Initiates and innovates a new concept.
- Recognises and utilises opportunity.
- Arranges and coordinates resources such as man, material, machine and capital.
- Faces risks and uncertainties.
- Establishes a startup company.
- Adds value to the product or service.
- Takes decisions to make the product or service a profitable one.
- Is responsible for the profits or losses of the company.

2.

Benchmarking is an approach of setting goals and measuring productivity of firms based on best industry practices or against the products, services and practices of its competitors or other acknowledged leaders in the industry. It developed out of need to have information against which performance can be measured. Benchmarking helps businesses in improving performance by learning from the best practices and the processes by which they are achieved. Thus, benchmarking is a process of continuous improvement in search for competitive advantage. Firms can use benchmarking practices to achieve improvements in diverse range of management functions like product development, customer services, human resources management, etc.

The various steps in Benchmarking Process are as under:

(i) **Identifying the need for benchmarking:** This step will define the objectives of the benchmarking exercise. It will also involve selecting the type of benchmarking. Organizations identify realistic opportunities for improvements.

(ii) **Clearly understanding existing decisions processes:** The step will involve compiling information and data on performance.

(iii) **Identify best processes:** Within the selected framework best processes are identified. These may be within the same organization or external to them.

(iv) **Comparison of own process and performance with that of others:** Benchmarking process also involves comparison of performance of the organization with performance of other organization. Any deviation between the two is analysed to make further improvements.

(v) **Prepare a report and implement the steps necessary to close the performance gap:** A report on benchmarking initiatives containing recommendations is prepared. Such a report also contains the action plans for implementation.

(vi) **Evaluation:** Business organizations evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. They also periodically evaluate and reset the benchmarks in the light of changes in the conditions that impact the performance.

3

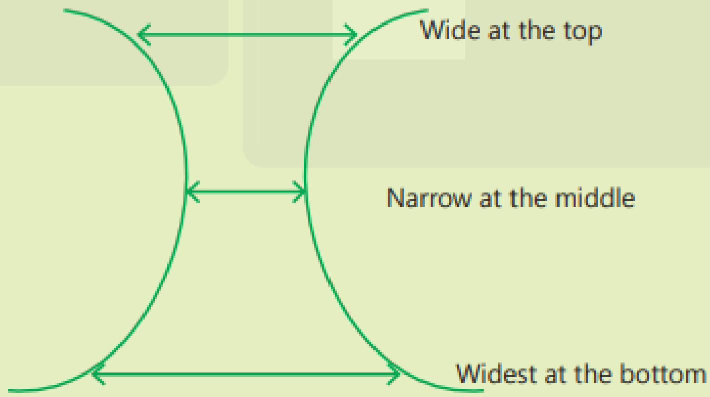
A strategy manager has many different leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis solver, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, and head cheerleader. Managers have five leadership roles to play in pushing for good strategy execution:

1. Staying on top of what is happening, closely monitoring progress, working through issues and obstacles.
2. Promoting a culture that mobilizes and energizes organizational members to execute strategy and perform at a high level.
3. Keeping the organization responsive to changing conditions, alert for new opportunities and remain ahead of rivals in developing competitively valuable competencies and capabilities.
4. Ethical leadership and insisting that the organization conduct its affairs like a model corporate citizen.
5. Pushing corrective actions to improve strategy execution and overall strategic performance.

4 A.

In the recent years information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools. Hourglass organization structure consists of three layers in an organisation structure with constricted middle layer. The structure has a short and narrow middle management level.

Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers. A shrunken middle layer coordinates diverse lower level activities.




**Hourglass Organization Structure**

Hourglass structure has obvious benefit of reduced costs. It also helps in enhancing responsiveness by simplifying decision making. Decision making authority is shifted close to the source of information so that it is faster. However, with the reduced size of middle management, the promotion opportunities for the lower levels diminish significantly.

4 B.

Benchmarking is a process of finding the best practices within and outside the industry to which an organisation belongs. Knowledge of the best practices helps in setting standards and finding ways to match or even surpass own performances with the best performances.

Benchmarking is a process of continuous improvement in search for competitive advantage. Firms can use benchmarking process to achieve improvement in diverse range of management function such as mentioned below:

- Maintenance operations,
- Assessment of total manufacturing costs,
- Product development,
- Product distribution,
- Customer services,
- Plant utilisation levels; and
- Human resource management.