

CA IPCC (OLD) TAXATION ANSWER KEY

1 a.

Tax treatment in the hands of the seller, Mr. Anjali

Section 50C provides that where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted or assessed or assessable by an authority of a State Government for the purpose of payment of stamp duty in respect of such transfer, the value so adopted or assessed or assessable shall be deemed to be the full value of the consideration received or accruing as a result of such transfer for computing capital gain.

In the instant case, Anjali sold the residential flat at Indore to her friend Kajal for Rs. 10 lacs, whereas the stamp duty value was Rs. 15 lacs. Therefore, stamp duty value shall be deemed to be the full value of consideration for sale of the property. Therefore, short-term capital gain arising to Anjali for assessment year 2018-19 will be Rs. 11.50 lacs (i.e. Rs. 15 lacs – Rs. 3.50 lacs). [Since the resident house is hold for less than 24 months]

Tax treatment in the hands of the buyer, Ms. Kajal

The taxability provisions under section 56(2)(x), includes within its scope, any immovable property, being land or building or both, received for inadequate consideration by an individual.

As per section 56(2)(x), where any immovable property is received for a consideration which is less than the stamp duty by an amount exceeding Rs. 50,000, the difference between the stamp duty value and the consideration shall be chargeable to tax in the hands of the recipient as the income from other sources. The provisions of section 56(2)(x) would be attracted in this case, since the difference exceeds Rs. 50,000. Therefore, Rs. 5 lacs, being the difference between the stamp duty value of the property (i.e., Rs. 15 lacs) and the actual consideration (i.e., Rs. 10 lacs) would be taxable in the hands of Ms. Kajal, under the head 'Income from Other Sources'.

As per section 49(4), the cost of acquisition of such property for computing capital gains would be the value which has been taken into account for section 56(2)(x). Accordingly Rs. 15 lacs would be taken as the cost of acquisition of the flat. Therefore, on sale of the flat by Ms. Kajal, Rs. 5 lacs (i.e. Rs. 20 lacs – Rs. 15 lacs) would be chargeable to tax as short-term capital gains in her hands for A.Y. 2018-19. Since this is a case covered by section 49(4) and not section 49(1), the period of holding of the previous owner, namely, Anjali, will NOT be considered for determining whether the capital gain is short term or long term.

b.

Computation of income chargeable under the head “Capital Gains” for A.Y.2018-19

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building Actual sale consideration ₹ 700 lakhs Value adopted by Stamp Valuation Authority ₹ 770 lakhs Gross Sale consideration [In case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since advance of ₹ 20 lakh is paid by cash, stamp duty value of ₹ 740 lakhs on the date of agreement cannot be adopted as the full value of consideration. Stamp duty value on the date of registration would be the full value of consideration]		770.00
Less: Brokerage@1% of sale consideration (1% of ₹ 700 lakhs) Net Sale consideration Less: Indexed cost of acquisition <ul style="list-style-type: none"> - Cost of vacant land, ₹ 80 lakhs, <i>plus</i> registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 272/113] - Construction cost of residential building (₹ 100 lakhs × 272/122) 	211.82 <u>222.95</u>	<u>7.00</u> 763.00 <u>434.77</u>
Long-term capital gains before exemption Less: Exemption under section 54 The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the residential house acquired at Mumbai and not in respect of the residential house in London		328.23 110.00

Less: Exemption under section 54EC		50.00
Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 09.12.2017) would qualify for exemption, to the maximum extent of ₹ 50 lakhs. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 95 lakhs, even if the both the investments are made on or before 09.12.2017 (i.e., within six months from the date of transfer).		
Long term capital gains chargeable to tax		168.23

Note: Since the residential house property was held by Mr. Arjun for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain.

1. a

The residential status of Mr. Ram and Mr. Shyam has to be determined on the basis of the number of days of their stay in India. Since Mr. Ram is settled in USA since 1990, he would be a non-resident for A.Y. 2018-19. His visit to India for 40 days every year would not change his residential status. However, Mr. Shyam would be resident and ordinarily resident for A.Y. 2018-19, since he is settled in India permanently since 1995.

Based on their residential status, the total income of Mr. Ram and Mr. Shyam would be determined as follows:

Computation of total income of Mr. Ram & Mr. Shyam for the A.Y. 2018-19

S. No.	Particulars	Mr. Ram (Non-Resident) (Rs.)	Mr. Shyam (Resident) (Rs.)
(i)	Income from profession in USA (set up in India) received there (Note 1)	-	-
(ii)	Profit from business in Mumbai, but managed directly from USA (Note 1)	45,000	-
(iii)	Rent (computed) from property in USA deposited in a Bank at USA, later on remitted to India through approved banking channels (Note 1)	-	-
(iv)	Dividend from USA Company received in USA (Note 1)	-	10,000
(v)	Cash gift received from a friend on Mr. Shyam's 50 th birthday Note: As per section 56(2)(x), cash gifts received from a non-relative would be taxable, if the amount exceeds Rs. 50,000 in aggregate during the previous year.	-	51,000
(vi)	Past foreign untaxed income brought to India [Not taxable, since it does not represent income of the P.Y. 2017-18].	-	-
(vii)	Fees for technical services rendered in India, but received in USA (Note 1)	22,500	-
(viii)	Interest on debentures in an Indian company (Mr. Ram received the same in USA) (Note 2)	18,500	14,000
(ix)	Short-term capital gain on sale of shares of an Indian company (Note 2)	15,000	25,500
Total income		1,01,000	1,00,500

Notes:

- (1) As per section 5(1), global income is taxable, in case of a resident. However, as per section 5(2), only the following incomes are chargeable to tax, in case of a non-resident:

- (i) Income received or deemed to be received in India; and
- (ii) Income accruing or arising or deemed to accrue or arise in India.

Therefore, income from profession in USA, rent from property in USA and dividend from USA company received in USA by Mr. Ram, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.

However, profit from business in Mumbai would be taxable in India in the hands of Mr. Ram, even though it is managed directly from USA.

Further, by virtue of section 9(1)(vii), fees for technical services rendered in India would also be taxable in the hands of Mr. Ram, since it is deemed to accrue or arise in India.

- (2) The income referred to in S. No. (viii) and (ix) are taxable in the hands of both Mr. Ram and Mr. Shyam due to their accrual/deemed accrual in India, even though the entire interest on debentures in Indian company is received by Mr. Ram outside India.

2.b.

As per section 24(b), interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction. Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction.

It is stated that the construction is completed only in May, 2018. Hence, deduction under section 24 in respect of interest on housing loan cannot be claimed in the assessment year 2018-19.

2.

Computation of taxable salary of Mrs. Anjali for A.Y. 2018-19

Particulars	₹
Basic pay [(₹ 20,000×11) + (₹ 22,500×1)] = ₹ 2,20,000 + ₹ 22,500	2,42,500
Dearness allowance [30% of basic pay]	72,750
Bonus [₹ 22,500 × 2]	45,000

Employer's contribution to Recognized Provident Fund in excess of 12% (15% - 12% = 3% of ₹ 3,15,250)		9,458
Taxable allowances		
Transport allowance (₹ 2,000 x 12)	24,000	
Less: Exemption under section 10(14) read with Rule 2BB) @ ₹ 1,600 p.m.	<u>19,200</u>	4,800
Hostel allowance (₹ 4,000 x 3)	12,000	
Less: Exemption under section 10(14) read with Rule 2BB) @ ₹ 300 p.m. per child maximum for two children	<u>7,200</u>	4,800
Taxable perquisites		
Rent-free accommodation [See Note 1 below]		55,478
Medical reimbursement (₹ 35,000 - ₹ 15,000) [See Note 2 below]		20,000
Gift voucher [See Note 3 below]		6,000
Value of free lunch facility [See Note 4 below]		-
Professional tax paid by the company [See Note 6 below]		2,000
Gross Salary		4,62,786
Less: Professional tax paid by the company [Section 16(iii)]		2,000
Salary chargeable to tax		4,60,786

Notes:

- Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:

(i) Basic salary	2,42,500
(ii) Dearness allowance	72,750
(iii) Bonus	45,000
(iv) Transport allowance	4,800
(v) Hostel allowance	<u>4,800</u>
Total	<u>3,69,850</u>

15% of salary = ₹ 3,69,850 × 15/100 = ₹ 55,478

Value of rent-free house will be

- Actual amount of lease rental paid by employer (i.e. ₹ 60,000) or
 - 15% of salary (i.e., ₹ 55,478),
- whichever is lower.

Therefore, the perquisite value is ₹ 55,478.

- Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family is exempt to the extent of ₹ 15,000. Therefore, in this case, the balance of ₹ 20,000 (i.e., ₹ 35,000 – ₹ 15,000) is a taxable perquisite.
- The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000. Therefore, entire amount of ₹ 6,000 is liable to tax as perquisite.

Alternative View: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No. 15/2001 dated 12.12.2011 that such gifts upto

₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 1,000.

4. Free lunch provided by the employer during office hours is not a perquisite, assuming that the value does not exceed ₹ 50 per meal.
5. As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
6. Professional tax paid by employer on behalf of employee is a taxable perquisite, hence, included in gross salary as a perquisite.

3. a.

(i) Not taxable

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

(ii) Not Taxable

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

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

b.

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

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

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

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

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

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

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

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

Indirect taxation:

4. a.

Yes, transfer of stock made by Modest Ltd. are taxable under GST. The definition of supply given under section 7 of CGST Act, 2017 is an inclusive one. It does not specify that supply is to be made by one person to the another. So, self-supplies are to be treated as supply in terms of section 7 of CGST Act. Further, section 25(5) provides that where a person who has obtained or is required to obtain registration in a State or Union territory in respect of an establishment, has an establishment in another State or Union territory, then such establishments shall be treated as establishments of distinct persons.

Clause (2) of Schedule I of CGST Act, 2017 inter alia provides that supply of goods between distinct persons as specified in section 25 made in the course or furtherance of business is to be treated as supply even if made without consideration.

Inter-state self-supplies such as stock transfers, branch transfers or consignment sales shall be taxable under IGST even though such transactions may not involve payment of consideration. Every supplier is liable to register under the GST law in the State or Union territory from where he makes a taxable supply of goods or services or both in terms of Section 22 of the CGST Act. However, intra-state self-supplies are not taxable subject to not opting for registration as business vertical.

b.

Yes, GST law provides the scope of exemption to supply of goods and services. Section 11 of CGST Act, 2017 provides that in the public interest, the Central or the State Government can exempt either wholly or partly, on the recommendations of the GST council, the supplies of goods or services or both from the levy of GST either absolutely or subject to conditions. Further, the Government can exempt, under circumstances of an exceptional nature, by special order any goods or services or both.

As regards the contention raised by Wisdom Public School, the same is valid in law since *Notification No. 12/2017 CT (R) dated 28.06.2017* specifically wholly exempts services provided by an educational institution to its students, faculty and staff.

c.

Supply, under section 7 of the CGST Act, 2017, *inter alia*,

- includes import of services for a consideration
- even if it is not in the course or furtherance of business.

Thus, although the import of service for consideration by Mrs. Pragati is not in course or furtherance of business, it would amount to supply.

Further, import of services by a taxable person from a related person located outside India, without consideration is treated as supply if it is provided in the course or furtherance of business.

In the given case, import of service without consideration by Mrs. Pragati from her real sister - Miss Unnati [real sister, being member of the same family, is a related person] will not be treated as supply as it is not in course or furtherance of business.

However, import of service without consideration by Mrs. Pragati from her sister - Miss Unnati (related person) will be treated as supply if she receives legal advice for her business, i.e. in course or furtherance of business.

5. a.

Pepper & Salt Ltd. can avail the benefit of the composition scheme in the year 2018-19 as the threshold for composition scheme is ₹ 1 Crore of aggregate turnover in the preceding financial year* under section 10(1) of CGST Act, 2017. The benefit of composition scheme can be availed up to the turnover of ₹ 1 Crore in current financial year*. However, it has to be ensured that Pepper & Salt Ltd. fulfills the following conditions as given under section 10(2) of CGST Act, 2017:-

- (i) Pepper & Salt Ltd. is not engaged in the supply of services other than supplies of food articles (restaurant service).
- (ii) It is not engaged in making any supply of goods which are not taxable under the CGST Act/SGST Act/ UTGST Act.
- (iii) Pepper & Salt Ltd. do not make any inter-State outward supplies of goods.
- (iv) It does not supply goods through an electronic commerce operator.
- (v) It does not manufacture ice cream, pan masala and tobacco etc.

*- ₹ 75 lakhs for 9 special category states viz 1. Arunachal Pradesh, 2. Assam, 3. Manipur, 4. Meghalaya, 5. Mizoram, 6. Nagaland, 7. Sikkim, 8. Tripura, and 9. Himachal Pradesh.

If Pepper & Salt Ltd. is registered in Arunachal Pradesh, it can not avail the benefit of composition in the year 2018-19 as its turnover in the preceding financial year (₹ 80 lakhs) exceeds the threshold limit (₹ 75 lakhs).

b.

Yes, post-supply discounts or incentives are allowed as admissible deduction under section 15 of the CGST Act. Where the post-supply discount is established as per the agreement which is known at or before the time of supply and where such discount specifically linked to the relevant invoice and the recipient has reversed input tax credit attributable to such discount, the discount is allowed as admissible deduction under Section 15(3)(b) of the CGST Act.

c.

The said statement is not correct. Liability to pay arises at the time of supply of goods as explained in

Section 12 and at the time of supply of services as explained in Section 13 of CGST Act.

The time is generally the earliest of one of the three events, namely receiving payment, issuance of invoice or completion of supply. Different situations envisaged and different tax points have been explained in the aforesaid sections.

6. a.

- (i) Renting of community hall by Amar Jyoti charitable trust is exempt from GST, as rent is less than ₹10,000 per day. The Exemption Notification No. 12/2017 CT (R) dated 28.06.2017/ Notification No. 9/2017 IT (R) dated 28.06.2017 has exempted the said service wholly from GST.

The said notification provides exemption to services by a person *inter alia* by way of renting of precincts of a religious place meant for general public, owned or managed by an entity registered as a trust or an institution under section 10(23C)(v) of the Income-tax Act . However, this exemption does not apply where renting charges of premises, community halls, kalyanmandapam or open area are ₹ 10,000 or more per day.

- (ii) GST is not payable in case of speed post services by Department of Post to Union territory of Lakshadweep. The Exemption Notification No. 12/2017 CT (R) dated 28.06.2017/ Notification No. 9/2017 IT (R) dated 28.06.2017 has exempted the said service wholly from GST.

Exemption Notification *inter alia* provides exemption to services by the Department of Posts by way of speed post, express parcel post, life insurance, and agency services provided to the Central Government, State Government, Union territory. Therefore GST is payable, if such service is provided to a person other than Central Government/State Government/Union Territory.

- (iii) GST is not payable in case of hiring of trucks to Jaggi Transporters. The Exemption Notification No. 12/2017 CT (R) dated 28.06.2017/ Notification No. 9/2017 IT (R) dated 28.06.2017 provides exemption to services by way of giving on hire *inter alia* to a goods transport agency, a means of transportation of goods.

b.

- (i) Services provided by a tour operator to a foreign tourist are exempt from GST provided such services are in relation to a tour conducted wholly outside India. Thus, since in the given case, services provided by Teja & Co. are in relation to a tour conducted within India, the same are not exempt from GST.
- (ii) Services provided by a team manager to a recognised sports body for participation in a sporting event are exempt from GST provided said sporting event is organised by a recognized sports body. Thus, since in the given case, the sporting event is not organised by a recognised sports body, the services provided by Ms. Poorva are not exempt from GST.

c.

- (i) GST is payable on reverse charge basis on services supplied by the State Government to a business entity located in taxable territory. However, reverse charge is not applicable on supply of renting of immovable property service by the State Government.

Therefore, in the given case, person liable to pay GST is the supplier of services, i.e., Tamil Nadu State Government.

- (ii) GST on legal services supplied by a senior advocate [Mr. Sushrut] to any business entity [M/s. Tatva Trading Company] located in the taxable territory is payable on reverse charge basis.

Therefore, in the given case, person liable to pay GST is the recipient of services, i.e., M/s. Tatva Trading Company.

d.

As per section 12 of CGST Act, 2017, the time of supply of goods, tax on which is payable under forward charge, is the earlier of the following two dates:

- (i) Date of issue of invoice/last date on which the invoice is required to be issued
- (ii) Date of receipt of payment⁴ i.e., the date on which the payment is recorded in the books of account of the supplier or date on which the payment is credited to the supplier's bank account, whichever is earlier

Further, a registered person is required to issue a tax invoice before or at the time of removal of goods for supply to the recipient. Thus, in the given case, the invoice for supply of goods should have been issued on or before the removal of goods i.e., on 03-10-2017.

However, since the invoice has not been issued within the prescribed time, the time of supply will be the last date on which the invoice is required to be issued (03-10-2017) or date of receipt of payment (09-10-2017), whichever is earlier.

Thus, the time of supply of the goods will be 03-10-2017.

CA IPCC (OLD) LAW ANSWER KEY

1.

The problem as asked in the question is based on one of the essential elements of a valid contract as stated under Section 10 of the Indian Contract Act, 1872. In terms of the said section, "all agreements are contracts if they are made by the free consent of the parties competent to contract, for a lawful consideration and with a lawful object and are not expressly declared void". Thus, in order to be valid contract, such agreement must not be one which the law expressly declares to be either illegal or void.

A void agreement is one which does not have any legal effect. Certain agreements such as agreements in restraint of trade, marriage, legal proceedings etc., are void agreements since they have been identified as "opposed to public policy".

The given instance is based on the agreement in restraint of legal proceedings. This agreement restricts one's right to enforce his legal rights. Such an agreement has been expressly declared to be void under section 28 of the Indian Contract Act, 1872 as they are opposed to public policy.

Hence, "R" in the given case cannot recover the amount of ₹ 5 lakhs promised by "N" because it is a void agreement and cannot be enforced by law.

1.

- (i) According to Section 27 of the Indian Contract Act, 1872, any agreement through which a person is restrained from exercising a lawful profession, trade or business of any kind is to that extent void. However, a buyer can put such a condition on the seller of good will, not to carry on same business. However, the conditions must be reasonable regarding the duration and the place of the business.

Thus, in the given situation the agreement is void.

- (ii) According to section 28 of the Indian Contract Act, 1872, an agreement in restraint of legal proceedings resulting in restriction of one's right to enforce legal rights is void. Similarly, any agreement which abridges the usual period for commencing the legal proceedings is also void. Further, these agreement are also void in view of section 23 of the Indian Contract Act, 1872 as the object of the agreements are to defeat the provision of law.

Hence, such an agreement is void.

2.

Section 42 of the Indian Contract Act, 1872 requires that when two or more persons have made a joint promise, then, unless a contrary intention appears from the contract, all such persons jointly must fulfill the promise. In the event of the death of any of them, his representative jointly with the survivors and in case of the death of all promisors, the representatives of all jointly must fulfill the promise.

Section 43 allows the promisee to seek performance from any of the joint promisors. The liability of the joint promisors has thus been made not only joint but "joint and several". Section 43 provides that in the absence of express agreement to the contrary, the promisee may compel any one or more of the joint promisors to perform the whole of the promise.

Section 43 deals with the contribution among joint promisors. The promisors, may compel every joint promisor to contribute equally to the performance of the promise (unless a contrary intention appears from the contract). If any one of the joint promisors makes default in such contribution the remaining joint promisors must bear the loss arising from such default in equal shares.

As per the provisions of above sections,

- (i) Y can recover the contribution from X and Z because XYZ are joint promisors.
- (ii) Legal representative of X are liable to pay the contribution to Y. However, a legal representative is liable only to the extent of property of the deceased received by him.
- (iii) 'Y' also can recover the contribution from Z's assets.

3.

Alteration of Objects

The Companies Act, 2013 has made alteration of the memorandum simpler and more flexible. Under section 13 (1) of the Act a company may, by a special resolution any after complying with the provisions of section 13, alter the provisions of its Memorandum. In the case of alteration to the objects clause, the sub section (6) of Section 13 requires the filing of the Special Resolution by the company with the Registrar. Section 13 (9) states that the Registrar shall register any alteration to the Memorandum with respect to the objects of the company and certify the registration within a period of thirty days from the date of filing of the special resolution by the company. Section 13 (10) further stipulates that no alteration in the Memorandum shall take effect unless it has been registered with the Registrar as above.

Hence, the Companies Act now permits any alteration to the objects clause with ease.

Procedure

Companies are now under liberty to alter the object clause of the memorandum of association with just the approval of its members by a special resolution without obtaining further approval from Central Government or any other authority. The procedure may be elaborated as under:

- a) Holding a Board Meeting for the purpose of convening the meeting of members for approving the alteration in objects clause by a special resolution;
- b) Approving the alteration to the objects clause by passing a special resolution in general meeting of members.
- c) Filing of the special resolution with the Registrar of Companies
- d) Registration of the alteration to be done by the Registrar within one month from the date of filing of the special resolution along with a printed copy of the memorandum as altered

4.

Mahatma Gandhi, Father of India, promoted non-violence, justice and harmony between people of all faiths. He stressed that people follow ethical principles and listed following seven Social Sins:

- (i) Politics without Principles
- (ii) Wealth without Work
- (iii) Commerce without Morality
- (iv) Knowledge without Character
- (v) Pleasure without Conscience
- (vi) Science without Humanity
- (vii) Worship without Sacrifice.

The first deals with the political field. The Kings in Indian tradition were only the guardian executors and servants of 'Dharma'. For Gandhi, Rama was the symbol of a king dedicated to principles. The second dictum deals with the sphere of Economics. Tolstoy and Ruskin inspired Gandhi on the idea of bread-labour. Gandhiji developed the third maxim into the idea of trusteeship. A businessman has to act only as a trustee of the society for whatever he has gained from the society. Everything, finally, belongs to the society. The fourth dictum deals with knowledge. Education stands for the all round development of the individual and his character. Gandhi's system of basic education was the system for development of one's character. In this maxim, Gandhi emphasized on conscience. He said that pleasure without conscience is a sin. In sixth maxim, Gandhi held that science without the thought of the welfare of humanity is a sin. Science and humanity together pave the way for welfare of all. In religion, we worship, but if we are not ready to sacrifice for social service, worship has no value, it is a sin to worship without sacrifice.

5.

Semantic Barriers to the communication: Semantics is the systematic study of meaning. That is why the problems arising from expression or transmission of meaning in communication are called semantic problems. Oral or written communication is based on words. And words, limited in number, may be used in unlimited ways. The meaning is in the mind of the sender and also in that of the receiver. But it is not always necessary for the meaning in the mind of the sender to be the same as in the mind of receiver. Much, therefore, depends on how the sender encodes his message. The sender has to take care that the receiver does not misconstrue his message, and gets the intended meaning. Quite often it does not happen in this way. That leads to semantic problems. It can be ensured only if we aim at clarity, simplicity and brevity so that the receiver gets the intended meaning.

CA IPCC (OLD) IT AND SM ANSWER KEY

1 a.

Advantages of using Decision Table

- (i) **Easy to Draw** – Decision Tables are easy to draw and modify as compared to flowcharts.
- (ii) **Compact Documentation** – The documentation in the form of decision tables is compact since one decision table may replace few pages of a flowchart.
- (iii) **Simplicity** – It is easier to follow a particular path in one column of a decision table than it is to go through several pages of the flowcharts.
- (iv) **Direct Codification** - The decision tables can be directly coded into a program.
- (v) **Better Analysis** – A decision table shows various alternatives and their respective outcomes side by side for better analysis of the problem.
- (vi) **Modularity** – The complex problems would require complex decision tables which can be easily broken down to micro-decision tables.
- (vii) **Non-technical** – No knowledge of computer language or CPU working is necessary for drawing decision tables.

Limitations of using Decision Table

- (i) All programmers may not be familiar with Decision Tables and therefore flow charts are more common
- (ii) Flowcharts can better represent a simple logic of the system rather than a decision table.
- (iii) The decision tables do not express the total sequence of the events needed to solve the problem.

b.

Although competition makes organizations work harder, intense competition is neither a coincidence nor bad luck. All organizations have competition. The benefit of competition is also enjoyed by the markets in which organisations operate. The customers are able to get products at lower costs and better quality. They get better value of their money because of competition.

To gain a deep understanding of a company's industry and competitive environment, managers do not need to gather all the information they can find and waste a lot of time digesting it. Rather, the task is much more focused. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

- Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry.
- Competitive pressures associated with the threat of new entrants into the market.
- Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.
- Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration.
- Competitive pressures stemming from buyer bargaining power and seller-buyer Collaboration.

c.

Network Virtualization: In Information Technology, Virtualization is the process of creating logical computing resources from available physical resources. This is accomplished using virtualization software to create a layer of abstraction between workloads and the underlying physical hardware. Network Virtualization allows a large physical network to be provisioned into multiple smaller logical networks and conversely allows multiple physical LANs to be

combined into a larger logical network. This behavior allows administrators to improve network traffic control, enterprise and security.

d.

The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate.

The basic framework of strategic process can be described in a sequence of five stages as follows:

Stage one - Where are we now? (Beginning)

Stage two: - Where are we want to be? (Ends)

Stage three - How might we get there? (Means)

Stage four - Which way is best? (Evaluation)

Stage five - How can we ensure arrival? (Control)

e.

Corporate strategy helps an organisation to achieve and sustain success. It is basically concerned with the choice of businesses, products and markets. It is often correlated with the growth of the firm.

Corporate strategy in the first place ensures the growth of the firm and its correct alignment with the environment. Corporate strategies are concerned with the broad and long-term questions of what businesses the organization is in or wants to be in, and what it wants to do with those businesses. They set the overall direction the organization will follow. It serves as the design for filling the strategic planning gap. It also helps to build the relevant competitive advantages. A right fit between the organisation and its external environment is the primary contribution of corporate strategy. Basically the purpose of corporate strategy is to harness the opportunities available in the environment and countering the threats embedded therein. With the help of corporate strategy, organizations match their unique capabilities with the external environment so as to achieve its vision and mission.

1. a.

Business Process Automation rests on the following three critical pillars:

- ◆ **Integration:** BPA allows applications and operating systems not only to read data that the systems produce, but also to pass data between the component applications of the business process and to modify the data as necessary.
- ◆ **Orchestration:** The process of orchestration enables the ability to bring tasks that exist across multiple computers and different business departments or branches under one umbrella that is the business process itself.
- ◆ **Automation:** Orchestration and integration unite with automation to deliver the capability to provide a rule-based process of automatic execution that can span multiple systems and enable a more effective, nimble and efficient business process.

b.

Businesses have to respond to a dynamic and often hostile environment in pursuit of their mission. Strategies provide an integral framework for management and negotiate their way through a complex and turbulent external environment. Strategy seeks to relate the goals of the organisation to the means of achieving them.

A company's strategy is the game plan management is using to stake out market position and conduct its operations. A company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully and achieve organisational objectives.

Strategy may be defined as a long range blueprint of an organisation's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go. Strategy is meant to fill in the need of organisations for a sense of dynamic direction, focus and cohesiveness.

The Generic Strategies: According to Glueck and Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combinations.

- (i) **Stability strategies:** One of the important goals of a business enterprise is stability to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.
- (ii) **Expansion Strategy:** Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success. It is often characterised by significant reformulation of goals and directions, major initiatives and moves involving investments, exploration and onslaught into new products, new technology and new markets, innovative decisions and action programmes and so on. Expansion includes diversifying, acquiring and merging businesses.
- (iii) **Retrenchment Strategy:** A business organisation can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary or expedient

for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. In business parlance also, retreat is not always a bad proposition to save the enterprise's vital interests, to minimise the adverse environmental effects, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder is launched.

- (iv) **Combination Strategies:** Stability, expansion or retrenchment strategies are not mutually exclusive. It is possible to adopt a mix to suit particular situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others. Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of. For some organisations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities and plant locations.

c.

The following is a list of some of the characteristics of a cloud-computing environment:

- ◆ **Elasticity and Scalability:** Cloud computing gives us the ability to expand and reduce resources according to the specific service requirement. For example, we may need a large number of server resources for the duration of a specific task. We can then release these server resources after we complete our task.
- ◆ **Pay-per-Use:** We pay for cloud services only when we use them, either for the short term or for a longer duration.
- ◆ **On-demand:** Because we invoke cloud services only when we need them, they are not permanent parts of the IT infrastructure. With cloud services, there is no need to have dedicated resources waiting to be used, as is the case with internal services.
- ◆ **Resiliency:** The resiliency of a cloud service offering can completely isolate the failure of server and storage resources from cloud users. Work is migrated to a different physical resource in the cloud with or without user awareness and intervention.
- ◆ **Multi Tenancy:** Public cloud service providers often can host the cloud services for multiple users within the same infrastructure. Server and storage isolation may be physical or virtual depending upon the specific user requirements.
- ◆ **Workload Movement:** This characteristic is related to resiliency and cost considerations. Cloud-computing providers can migrate workloads across servers both inside the data center and across data centers (even in a different geographic area).

2. a.

Answer:

Abbreviations used are as follows:

P₁: Percentage of employees falling in salary slab (salary ≤ 8,000);

P₂: Percentage of employees falling in salary slab (8,001 ≤ salary ≤ 15,000)

P₃: Percentage of employees falling in salary slab (15,001 ≤ salary ≤ 30,000)

P₄: Percentage of employees falling in salary slab (salary ≥ 30,000)

I: Count of number of employees

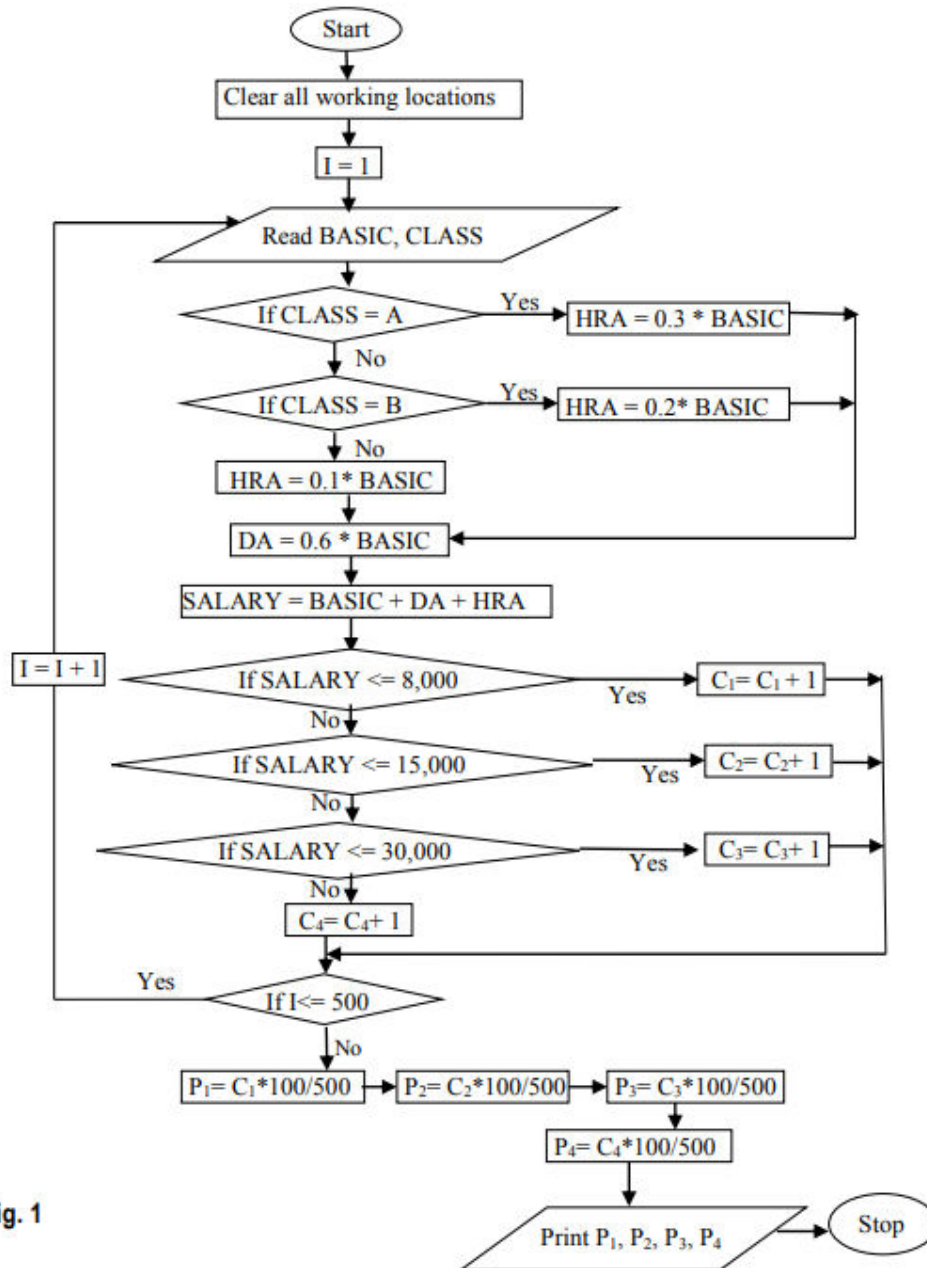


Fig. 1

b.

The Process Controls that should be enforced through the front end application system, to have consistency in the control process are as follows:

- **Run-to-Run Totals:** These help in verifying data that is subject to process through different stages. A specific record can be used to maintain the control total.
- **Reasonableness Verification:** Two or more fields can be compared and cross verified to ensure their correctness.
- **Edit Checks:** Edit checks similar to the data validation controls can also be used at the processing stage to verify accuracy and completeness of data.
- **Field Initialization:** Data overflow can occur, if records are constantly added to a table or if fields are added to a record without initializing it.
- **Exception Reports:** Exception reports are generated to identify errors in data processed.
- **Existence/Recovery Controls:** The check-point/restart logs facility is a short-term backup and recovery control that enables a system to be recovered if failure is temporary and localized.

c.

Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day-to-day working of the organizations. The major dimensions of strategic decisions are given below:

- ◆ Strategic issues require top management decisions.
- ◆ Strategic issues involve the allocation of large amounts of company resources.
- ◆ Strategic issues are likely to have a significant impact on the long term prosperity of the organisation.
- ◆ Strategic issues are future oriented.
- ◆ Strategic issues usually have major multifunctional or multi-business consequences.
- ◆ Strategic issues necessitate consideration of factors in the organisation's external environment.

d.

Incorrect: The term PESTLE Analysis is used to describe a framework for analysis of macro environmental factors. It involves identification of political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy. The advantage of this tool is that it encourages management into proactive and structured thinking in its decision making.

3. a.

Cloud Computing: Cloud computing is the use of various services, such as software development platforms, servers, storage, and software, over the Internet, often referred to as the "Cloud."

The Cloud Computing environment can consist of multiple types of clouds based on their deployment and usage. They are **Public Cloud**, **Private/Internal Cloud**, **Community Cloud** and **Hybrid Cloud**.

- ◆ **Public Clouds:** The public cloud is made available to the general public or a large industry group. They are administrated by third parties or vendors over the Internet, and services

are offered on pay-per-use basis. It is widely used in the development, deployment and management of enterprise applications, at affordable costs; and allows organizations to deliver highly scalable and reliable applications rapidly and at more affordable costs.

- ◆ **Private/Internal Clouds:** This cloud computing environment resides within the boundaries of an organization and is used exclusively for the organization's benefits. They are built primarily by IT departments within enterprises who seek to optimize utilization of infrastructure resources within the enterprise by provisioning the infrastructure with applications using the concepts of grid and virtualization. The Private Cloud enables an enterprise to manage the infrastructure and have more control.
- ◆ **Community Clouds:** This is the sharing of computing infrastructure in between organizations of the same community. For example, all Government organizations within India may share computing infrastructure on the cloud to manage data. The risk is that data may be stored with the data of competitors.
- ◆ **Hybrid Clouds:** It is a composition of two or more clouds (Private, Community or Public) and is maintained by both internal and external providers. Though they maintain their unique identity, they are bound together by standardized data and application portability. With a hybrid cloud, organizations might run non-core applications in a public cloud, while maintaining core applications and sensitive data in-house in a private cloud.

b.

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan.

A divestment strategy may be adopted due to various reasons:

- ◆ When a turnaround has been attempted but has proved to be unsuccessful.
- ◆ A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
- ◆ Persistent negative cash flows from a particular business create financial problems for the whole company.
- ◆ Severity of competition and the inability of a firm to cope with it.
- ◆ Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it.
- ◆ A better alternative may be available for investment.

C.

Rising competition, business cycles and economic volatility have created a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Organizations that have faced a significant crisis that has negatively affected operations requires turnaround strategy. Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question. When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Being organization's first objective is to survive and then grow in the market; turnaround strategy is used when organization's survival is under threat. Once turnaround is successful the organization may turn to focus on growth.

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

Action plan for turnaround strategy

Stage One – Assessment of current problems: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused. Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.

Stage Two – Analyze the situation and develop a strategic plan: Before you make any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan. For this one should look for the viable core businesses, adequate bridge financing and available organizational resources. Analyze the strengths and weaknesses in the areas of competitive position. Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.

Stage Three – Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products. A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.

Stage Four – Restructuring the business: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement.

During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive. Some facilities might be closed; the organization may even withdraw from certain markets to make organization leaner or target its products toward a different niche.

The 'people mix' is another important ingredient in the organization's competitive effectiveness. Reward and compensation systems that encourage dedication and creativity encourage employees to think profits and return on investments.

Stage Five – Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

4. a.

Information System Life Cycle is commonly referred as **Software/System Development Life Cycle (SDLC)** which is a methodology used to describe the process of building information systems. SDLC framework provides a sequence of activities for system designers and developers to follow. It consists of a set of steps or phases in which each phase of the SDLC uses the results of the previous one. Various phases for developing an Information System are given as follows:

Phase 1: System Investigation: This phase examines that 'What is the problem and is it worth solving'? A feasibility study is done under the dimensions – Technical, Economical, Legal, Operational etc.

Phase 2: System Analysis: This phase examines that 'What must the Information System do to solve the problem'? System analyst would be gathering details about the current system and will involve interviewing staff; examining current business; sending out questionnaires and observation of current procedures.

The Systems Analyst will examine data and information flows in the enterprise using data flow diagrams; establish what the proposed system will do (not how it will do it); analyze costs and benefits; outline system implementation options. (For example: in-house or using consultants); consider possible hardware configurations; and make recommendations.

Phase 3: System Designing: This phase examines that 'How will the Information System do what it must do to obtain the solution to the problem'? This phase specifies the technical aspects of a proposed system in terms of Hardware platform; Software; Outputs; Inputs; User interface; Modular design; Test plan; Conversion plan and Documentation.

Phase 4: System Implementation: This phase examines that 'How will the solution be put into effect'? This phase involves coding and testing of the system; acquisition of hardware and software; and either installation of the new system or conversion of the old system to the new one.

Phase 5: System Maintenance and Review: This phase evaluates results of solution and modifies the system to meet the changing needs. Post implementation review would be done to address Programming amendments; Adjustment of clerical procedures; Modification of Reports, and Request for new programs.

b.

The environment of business can be categorised into two broad categories micro-environment and macro-environment. Micro-environment is related to small area or immediate periphery of an organization. Micro-environment influences an organization regularly and directly. Developments in the micro environment have direct impact on the working of organizations. Micro environment includes the company itself, its suppliers, marketing intermediaries, customer markets and competitors. The elements of micro environment are specific to the said business and affects its working on short term basis.

- **Consumers / Customers:** Customers who may or may not be consumers are the people who pay money to acquire organisational products and services. Consumer is the one who ultimately consumes or uses the product or services. The marketer has to closely monitor and analyse the changes in the consumer tastes and preferences and their buying habits. Consumer occupies the central position in the market.
- **Competitors:** Competitors are the other business entities that compete for resources as well as markets. A study of the competitive scenario is essential for the marketer, particularly threats from competition.
- **Organization:** Individuals occupying different positions or working in different capacities in organizations consists of individuals who come from outside. They have different and varied interests. An organization has several non-specific elements in form of individuals and groups that may affect its activities. Owners, board of directors and employees form part of organisation.
- **Market:** The market is larger than customers. The market is to be studied in terms of its actual and potential size, its growth prospect and also its attractiveness. The marketer should study the trends and development and the key success factors of the market.
- **Suppliers:** Suppliers form an important component of the micro environment. The suppliers provide raw materials, equipment, services and so on. Suppliers with their own bargaining power affect the cost structure of the industry. They constitute a major force, which shapes competition in the industry.
- **Market Intermediaries:** Intermediaries bridge the gap between the organisations and customers. They are in form of stockist, wholesalers and retailers. They exert considerable influence on the business organizations. In many cases the consumers are not aware of the manufacturer of the products they buy. They buy product from the local retailers or big departmental stores.

c.

In the light of BCG Growth Matrix, once an organisation has classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:

- (i) Build: Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.
- (ii) Hold: Here the objective is to preserve market share.
- (iii) Harvest: Here the objective is to increase short-term cash flow regardless of long-term effect.
- (iv) Divest: Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

d.

The environment consists of several micro and macro factors that influence business enterprises. Some of these factors may directly impact business, while others may have insignificant or far-fetched influence. In spite of best of resources and capabilities it may not be possible for managers to make sense of all these influences due to limitations of human mind at one end and diversity, uncertainty and complexity of the environment on the other hand. These can be explained as follows:

Diversity: On account of diversity listing of all conceivable environmental influences may not be possible.

Uncertainty: It is difficult to predict and understand future external influences on an organization.

Complexity: Managers, like other individuals, may tend to simplify complexity by focusing on aspects of the environment that may confirm their prior views or are historically important.

5. a

Entity-Relationship Diagram: An Entity-Relationship (ER) diagram is a data modeling technique that creates a graphical representation of the entities, and the relationships between entities, within an information system. ER diagrams repeatedly bring into play symbols to symbolize three dissimilar types of information. Boxes are commonly used to represent entities. Diamonds are normally used to represent relationships. A relationship is an association that exists between two entities.

b.

Software as a Service (SaaS): It includes a complete software offering on the cloud. Users can access a software application hosted by the cloud vendor on pay-per-use basis. SaaS is a model of software deployment where an application is hosted as a service provided to customers across the Internet by removing the need to install and run an application on a user's own computer. SaaS can alleviate the burden of software maintenance and support but users relinquish control over software versions and requirements.

c.

Online Processing: In this, data is processed immediately while it is entered, the user usually only has to wait a short time for a response. (Example: games, word processing, booking systems). Interactive or online processing requires a user to supply an input. Interactive or online processing enables the user to input data and get the results of the processing of that data immediately.

d. i

Incorrect: SWOT analysis stands for the analysis of strengths, weaknesses opportunities, and threats. It is not used for ranking of organizations. It is a tool for organizational and environmental appraisal necessary for formulating effective strategies.

ii.

Correct: A business portfolio is a collection of businesses and products that make up the organisation. Portfolio analysis is a tool by which management identifies and evaluates its various businesses. In portfolio analysis top management views its product lines and business units as a series of investments from which it expects returns. The best business portfolio is the one that best fits its strengths and weaknesses to the opportunities and threats in the environment. Through portfolio analysis, organisations are able to compare its various businesses and categorize them in various strata according to their prospect.

e.

A Mission statement tells you the fundamental purpose of the organization. It concentrates on the present. It defines the customer and the critical processes. It informs you of the desired level of performance. On the other hand, a Vision statement outlines what the organization wants to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria.

A mission statement can resemble a vision statement in a few companies, but that can be a grave mistake. It can confuse people. Following are the major differences between vision and mission:

1. The vision describes a future identity while the Mission serves as an ongoing and time-independent guide.
2. The vision statement can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided the vision is specific, measurable, achievable, relevant and time bound. A mission statement provides a path to realize the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organization.
3. A mission statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well while a vision statement is more specific in terms of both the future state and the time frame. Vision describes what will be achieved if the organization is successful.