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SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- EIS AND SM

Test Code – CIM 8653

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SECTION – A

PART - I

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PART - II

ANSWER -1

ANSWER -A

The Corporate Governance Framework consists of:

- explicit and implicit contracts between the company and the stakeholders for distribution of responsibilities, rights, and rewards;
- procedures for reconciling the sometimes-conflicting interests of stakeholders in accordance with their duties, privileges and roles; and
- procedures for proper supervision, control, and information-flows to serve as a system of checks-and-balances.

(3 marks)

ANSWER -B

Some of the applications area of Internet of Things (IoT) are as follows:

- All home appliances to be connected and that shall create a virtual home.
 - Home owners can keep track of all activities in house through their hand-held devices.
 - Home security CCTV is also monitored through hand held devices.
- Office machines shall be connected through internet.
 - Human resource managers shall be able to see how many people have had a cup of coffee from vending machine and how many are present.
 - How many printouts are being generated through office printer?
- Governments can keep track of resource utilizations/extra support needed. For example- under SWACHH mission, government can tag all dustbins with IoT sensors. They (dustbins) generate a message once they are full. Being connected to wi-fi, they can intimate the cleaning supervisor of Municipal Corporation so that BIN can be emptied.
- As a research study, individuals have got themselves implanted with electronic chips in their bodies. This chip allows him/her to connect to home/office wi-fi. Once connected person can enter home/office and perform designated function. This chip becomes individual's authentication token.
- Washing machines with Wi-Fi networking capabilities can connect themselves to

home Wi-Fi. Once these machines are so connected they can be controlled through machine manufacturer mobile APP from anywhere in the world.

- India's living legend of cricket appearing in an Advertisement for water purifier informs that, the water purifier is Wi-Fi enabled. When the purifying agents deplete in the machine, it connects to home Wi-Fi and informs the service agents of the company.

(2 marks)

ANSWER -2

ANSWER -A

Various components of e-Commerce transaction are as follows:

- (i) **User:** This may be individual / organization or anybody using the e-commerce platforms. As e-commerce, has made procurement easy and simple, just on a click of button, e-commerce vendors need to ensure that their products are not delivered to wrong users.
- (ii) **E-commerce Vendors:** This is the organization / entity providing the user, goods/ services asked for. E-commerce vendors further needs to ensure Suppliers and Supply Chain Management, Warehouse operations, Shipping and returns, e- Commerce catalogue and product display, Marketing and loyalty programs, Showroom and offline purchase, different ordering Methods, Guarantees, Privacy Policy and Security etc. for better, effective and efficient transaction.
- (iii) **Technology Infrastructure:** The computers, servers, database, mobile apps, digital libraries, data interchange enabling the e-commerce transactions.
 - **Computers, Servers and Database:** These are the backbone for the success of the venture. Big e-commerce organization invest huge amount of money/time in creating these systems.
 - **Mobile Apps:** A mobile app is a software application programmed to run specifically on a mobile device. Smartphone's and tablets have become a dominant form of computing, with many more smartphones being sold than personal computers.
 - **Digital Library:** A Digital Library is a special library with a focused collection of digital objects that can include text, visual material, audio material, video material, stored as electronic media formats, along with means for organizing, storing, and retrieving the files and media contained in the library collection.
 - **Data Interchange:** Data Interchange is an electronic communication of data. For ensuring the correctness of data interchange between multiple players in e-commerce, business specific protocols are being used. There are defined standards to ensure seamless / exact communication in e-commerce.
- (iv) **Internet/Network:** This is the key to success of e-commerce transactions. Internet connectivity is important for any e-commerce transactions to go through. The faster net connectivity leads to better e-commerce. At a global level, it is linked to the countries capability to create a high-speed network.
- (v) **Web portal:** This shall provide the interface through which an individual/ organization shall perform e-commerce transactions. Web Portal is an application through which user interacts with the e-commerce vendor. The front end through which user interacts for an e-commerce transaction. These web portals can be accessed through desktops/laptops/PDA/hand-held computing devices/mobiles and now through smart TVs also.
- (vi) **Payment Gateway:** Payment gateway represents the way e-commerce vendors collect their payments. This assures seller of receipt of payment from buyer of goods/services

from e-commerce vendors. Presently numerous methods of payments by buyers to sellers are being used, including Credit / Debit Card Payments, Online bank payments, Vendors own payment wallet, Third Party Payment wallets, Cash on Delivery (CoD) and Unified Payments Interface (UPI).

(6 marks)

ANSWER –B

Various risks associated with technology while implementing ERP are as following:

1. **Software Functionality:** ERP systems offer a myriad of features and functions, however, not all organizations require those many features. Implementing all the functionality and features just for the sake of it can be disastrous for an organization.
2. **Technological Obsolescence:** With the advent of more efficient technologies every day, the ERP system also becomes obsolete as time goes on.
3. **Enhancement and Upgrades:** ERP Systems are not upgraded and kept up-to-date. Patches and upgrades are not installed and the tools are underutilized.
4. **Application Portfolio Management:** These processes focus on the selection of new business applications and the projects required delivering them.

(4 marks)

ANSWER -3

ANSWER -A

The variables used are defined as follows :

PU_MODE : Purchase Mode

BILL_AMT : Initial Bill Amount

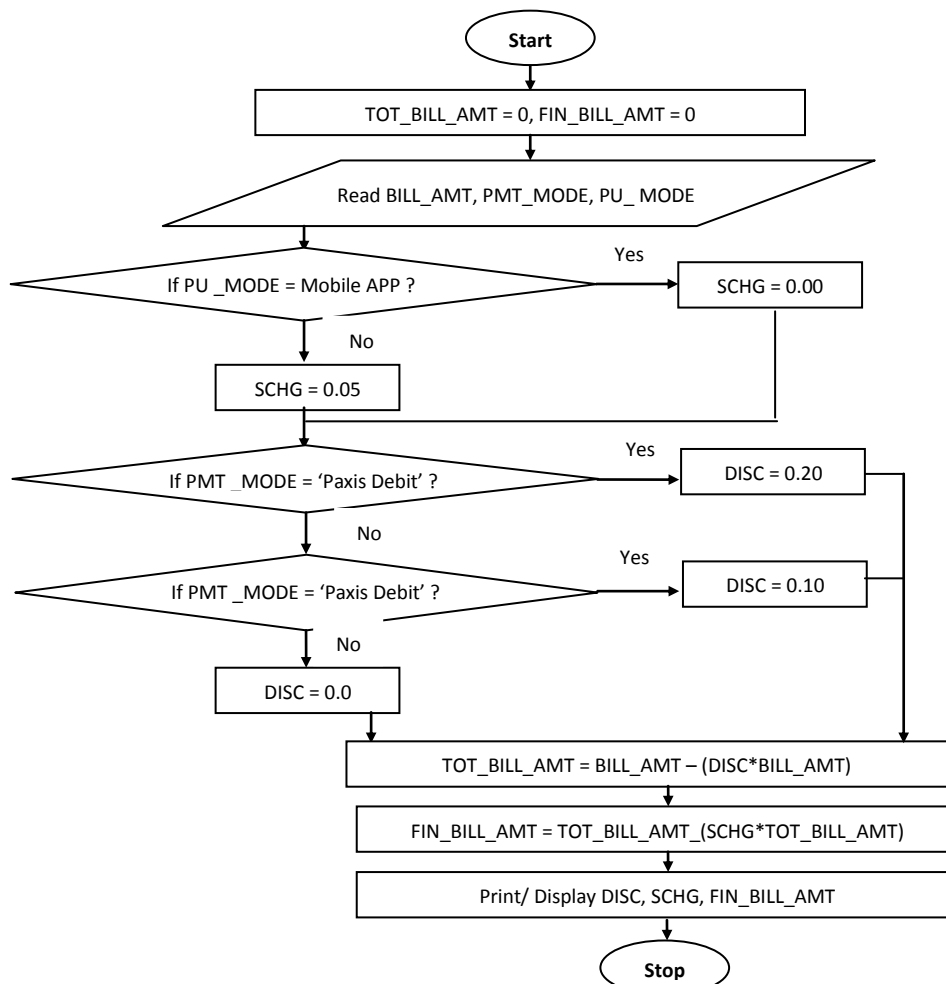
TOT_BILL_AMT : Bill Amount after Discount

SCHG : Surcharge

FIN_BILL_AMT : Final Bill Amount after Surcharge

DISC : Discount

PMT_MODE : Payment Mode



(6 marks)

ANSWER –B

Stages of Money Laundering

1. Placement

The first stage involves the **Placement** of proceeds derived from illegal activities - the movement of proceeds, frequently currency, from the scene of the crime to a place, or into a form, less suspicious and more convenient for the criminal.

2. Layering

Layering involves the separation of proceeds from illegal source using complex transactions designed to obscure the audit trail and hide the proceeds. The criminals frequently use shell corporations, offshore banks or countries with loose regulation and secrecy laws for this purpose. Layering involves sending the money through various financial transactions to change its form and make it difficult to follow. Layering may consist of several banks to bank transfers or wire transfers between different accounts in different names in different countries making deposit and withdrawals to continually vary the amount of money in the accounts changing the money's currency purchasing high value items (boats, houses cars, diamonds) to change the form of money-making it hard to trace.

3. Integration

Integration involves conversion of illegal proceeds into apparently legitimate business earnings through normal financial or commercial operations. Integration creates the illusion of a legitimate source for criminally derived funds and involves techniques as numerous and creative as those used by legitimate businesses. For e.g. false invoices for goods exported, domestic loan against a foreign deposit, purchasing of property and comingling of money in bank accounts.

(4 marks)

ANSWER -4

ANSWER -A

Steps involved in Purchase Process are as following:

- ◆ **Purchase Requisition from Production Department:** Production department sends a request to purchase department for purchase of raw material required for production.
- ◆ **Evaluation of Requisition:** Purchase department shall evaluate the requisition with the current stock position and purchase order pending position and shall decide about accepting or rejection the requisition.
- ◆ **Asking for Quotation:** If requisition is accepted, quotations shall be asked to approve vendors for purchase of material.
- ◆ **Evaluation of quotations** – Quotations received shall be evaluated and compared.
- ◆ **Purchase Order** – This is a transaction for letting an approved vendor know what we want to purchase, how much we want to purchase, at what rate we want to purchase, by what date we want the delivery, where we want the delivery. Hence a typical purchase order shall have following information.
 - Description of stock items to be purchased.
 - Quantity of these stock items.
 - Rate for purchases.

- Due Date by which material is to be received.
- Godown where material is to be received.
- ◆ **Material Receipt** – This is a transaction of receipt of material against purchase order. This is commonly known as Material Receipt Note (MRN) or Goods Receipt Note (GRN). This transaction shall have a linking with Purchase Order. Information in Purchase Order is automatically copied to Material Receipt Voucher for saving time and efforts of user. Stock is increased after recording of this transaction.
- ◆ **Issue of material** – Material received by stores shall be issued to production department as per requirement.
- ◆ **Purchase Invoice** – This is a financial transaction. Trial balance is affected due this transaction. Material Receipt transaction does not affect trial balance. This transaction shall have a linking with Material Receipt Transaction and all the details of material received shall be copied automatically in purchase invoice. As stock is increased in Material Receipt transaction, it will not be increased again after recording of purchase invoice.
- ◆ **Payment to Vendor** – Payment shall be made to vendor based on purchase invoice recorded earlier. Payment transaction shall have a linking with purchase invoice.

(6 marks)

ANSWER –B

Tips to protect any e-Commerce business from intrusion are as follows:

- **Viruses:** Check your website daily for viruses, the presence of which can result in the loss of valuable data.
- **Hackers:** Use software packages to carry out regular assessments of how vulnerable your website is to hackers.
- **Passwords:** Ensure employees change these regularly and that passwords set by former employees of your organization are defunct.
- **Regular software updates:** Your site should always be up to date with the newest versions of security software. If you fail to do this, you leave your website vulnerable to attack.
- **Sensitive data:** Consider encrypting financial information and other confidential data (using encryption software). Hackers or third parties will not be able to access encrypted data without a key. This is particularly relevant for any e-Commerce sites that use a shopping cart system.
- Know the details of your payment service provider contract.

(4 marks)

ANSWER -5

ANSWER -A

The major benefits from e-business are as follows:

A. Benefits to Customer / Individual / User

- **Convenience:** Every product at the tip of individual's fingertips on internet.
- **Time saving:** No. of operations that can be performed both by potential buyers and sellers increase.
- **Various Options:** There are several options available for customers which are not only being easy to compare but are provided by different players in the market.
- **Easy to find reviews:** There are often reviews about a particular site or product from the previous customers which provides valuable feedback.

- **Coupon and Deals:** There are discount coupons and reward points available for customers to encourage online transaction.
- **Anytime Access:** Even midnight access to the e-commerce platforms is available which brings in customer suitability.

OR

A. Benefits to Business / Sellers

- **Increased Customer Base:** Since the number of people getting online is increasing, which are creating not only new customers but also retaining the old ones.
- **Recurring payments made easy:** Each business has number of operations being homogeneous. Brings in uniformity of scaled operations.
- **Instant Transaction:** The transactions of e-commerce are based on real-time processes. This has made possible to crack number of deals.
- **Provides a dynamic market:** Since there are several players, providing a dynamic market which enhances quality and business.

Reduction in costs:

- ◆ To buyers from increased competition in procurement as more suppliers are able to compete in an electronically open marketplace.
- ◆ To suppliers by electronically accessing on-line databases of bid opportunities, on-line abilities to submit bids, and on-line review of rewards.
- ◆ In overhead costs through uniformity, automation, and large-scale integration of management processes.
- ◆ Advertising costs.

Efficiency improvement due to:

- ◆ Reduction in time to complete business transactions, particularly from delivery to payment.
- ◆ Reduction in errors, time, for information processing by eliminating requirements for re-entering data.
- ◆ Reduction in inventories and reduction of risk of obsolete inventories as the demand for goods and services is electronically linked through just-in-time inventory and integrated manufacturing techniques.
- **Creation of new markets:** This is done through the ability to easily and cheaply reach potential customers.
- **Easier entry into new markets:** This is especially into geographically remote markets, for enterprises regardless of size and location.
- **Better quality of goods:** As standardized specifications and competition have increased and improved variety of goods through expanded markets and the ability to produce customized goods. **Elimination of Time Delays:** Faster time to market as business processes are linked, thus enabling seamless processing and eliminating time delays.

(6 marks)

ANSWER –B

Risk and Control related to Mortgage Process are as follows:

Risk	Key Controls
Incorrect customer and loan details are captured which will affect the overall downstream process.	There is secondary review performed by an independent team member who will verify loan details captured in core banking application with offer letter.
Incorrect loan amount disbursed.	There is secondary review performed by an independent team member who will verify loan amount to be disbursed with the core banking application to the signed offer letter.
Interest amount is incorrectly calculated and charged.	Interest amount is auto calculated by the core banking application basis loan amount, ROI and tenure.
Unauthorized changes made to loan master data or customer data.	System enforced segregation of duties exist in the core banking application where the inputter of the transaction cannot approve its own transaction and reviewer cannot edit any details submitted by inputter.

(4 marks)

SECTION – B

PART - I

1. A
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- 10.D
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- 13.B
- 14.A
- 15.D

PART - II

ANSWER -2

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.

(5 marks)

ANSWER -3

ANSWER -A

Organizations can be classified as commercial and non-commercial on the basis of the interest they have. Typically, a government or medical organization may function without any commercial objectives. A commercial organization has profit as its main aim. We can find many organizations around us, which do not have any commercial objective of making profits. Their genesis may be for social, charitable, or educational purposes.

The strategic-management process is being used effectively by countless non-profit governmental organizations. Many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation, productivity, and human resource.

Compared to for-profit firms, non-profit and governmental organizations often function as a monopoly, produce a product or service that offers little or no measurability of performance, and are totally dependent on outside financing. Especially for these organizations, strategic management provides an excellent vehicle for developing and justifying requests for needed financial support.

(5 marks)

ANSWER –B

An important component of strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.

- ◆ **Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
- ◆ **Weakness:** A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
- ◆ **Opportunity:** An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
- ◆ **Threat:** A threat is an unfavourable condition in the organization's environment which causes a risk for, or damage to, the organization's position.

SWOT analysis helps managers to craft a business model (or models) that will allow a company to gain a competitive advantage in its industry (or industries). Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, competitive environment. Key reasons for SWOT analyses are:

- ◆ It provides a logical framework.
- ◆ It presents a comparative account.
- ◆ It guides the strategist in strategy identification.

(5 marks)

ANSWER -4

ANSWER -A

The financial strategies of an organization are related to several finance/ accounting concepts considered to be central to strategy implementation. These are: acquiring needed capital/sources of fund, developing projected financial statements/budgets, management/usage of funds, and evaluating the worth of a business.

Various methods for determining a business's worth can be grouped into three main approaches which are as follows:

(i) Net worth or stockholders' equity: Net worth is the total assets minus total outside liabilities of an organisation.

(ii) Future benefits to owners through net profits: These benefits are considered to be much greater than the amount of profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.

(iii) Market-determined business worth: This, in turn, involves three methods. First, the firm's worth may be based on the selling price of a similar company. The second approach is called the price-earnings ratio method whereby the market price of the firm's equity shares is divided by the annual earnings per share and multiplied by the firm's average net income for the preceding years. The third approach can be called the outstanding shares method whereby one has to simply multiply the number of shares outstanding by the market price per share and add a premium.

(5 marks)

ANSWER –B

Strategic intent can be understood as the philosophical base of strategic management. It implies the purposes, which an organization endeavours to achieve. It is a statement that provides a perspective. Strategic intent gives an idea of what the organization desires to attain in future. Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives. Elements of strategic management are as follows:

- (i) **Vision:** Vision implies the blueprint of the company's future position. It describes where the organization wants to land. It depicts the organization's aspirations and provides a glimpse of what the organization would like to become in future. Every sub system of the organization is required to follow its vision.
- (ii) **Mission:** Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the firm in the society. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and role in society.
- (iii) **Business Definition:** It seeks to explain the business undertaken by the firm, with respect to the customer needs, target markets, and alternative technologies. With the help of business definition, one can ascertain the strategic business choices.
- (iv) **Business Model:** Business model, as the name implies is a strategy for the effective operation of the business, ascertaining sources of income, desired customer base, and financial details. Rival firms, operating in the same industry rely on the different business model due to their strategic choice.
- (v) **Goals and Objectives:** These are the base of measurement. Goals are the end results, that the organization attempts to achieve. On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals. These are the end results which are to be attained with the help of an overall plan. However, in practice, no distinction is made between goals and objectives and both the terms are used interchangeably.

(5 marks)

ANSWER -5

ANSWER -A

A firm's profitability tends to be higher when other firms are blocked from entering the industry. New entrants can reduce industry profitability because they add new production capacity leading to increase supply of the product even at a lower price and can substantially erode existing firm's market share position. Barriers to entry represent economic forces that slow down or impede entry by other firms. Common barriers to entry include:

- (i) **Capital Requirements:** When a large amount of capital is required to enter an industry, firms lacking funds are effectively barred from the industry, thus enhancing the profitability of existing firms in the industry.
- (ii) **Economies of Scale:** Many industries are characterized by economic activities driven by economies of scale. Economies of scale refer to the decline in the per-unit cost of production (or other activity) as volume grows.
- (iii) **Product Differentiation:** Product differentiation refers to the physical or perceptual differences, or enhancements, that make a product special or unique in the eyes of customers.
- (iv) **Switching Costs:** To succeed in an industry, new entrant must be able to persuade existing

customers of other companies to switch to its products. When such switching costs are high, buyers are often reluctant to change.

(v) Brand Identity: The brand identity of products or services offered by existing firms can serve as another entry barrier. Brand identity is particularly important for infrequently purchased products that carry a high unit cost to the buyer.

(vi) Access to Distribution Channels: The unavailability of distribution channels for new entrants poses another significant entry barrier. Despite the growing power of the internet, many firms may continue to rely on their control of physical distribution channels to sustain a barrier to entry to rivals.

(vii) Possibility of Aggressive Retaliation: Sometimes the mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry.

(5 marks)

ANSWER –B

Organo is a large supermarket chain. By opting backward integration and purchase a number of farms, it will have greater control over its supply chain. Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production.

(5 marks)

ANSWER -6

ANSWER -A

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.

(5 marks)

ANSWER -B

Divestment Strategy	Liquidation Strategy
Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit center or SBU.	It involves closing down a firm and selling its assets.

Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. Option of a turnaround may even be ignored if it is obvious that divestment is the only answer.	Liquidation becomes only option in case of severe and critical conditions where either turnaround and divestment are not seen as solution or have been attempted but failed.
Efforts are made for the survival of organization.	Liquidation as a form of retrenchment strategy is considered as the most extreme and unattractive.
Survival of organization helps in retaining personnel, at least to some extent.	There is loss of employment with stigma of failure.

(5 marks)