



J.K. SHAH[®]
TEST SERIES
Evaluate Learn Succeed

SUGGESTED SOLUTION

CA INTERMEDIATE M'19

SUBJECT- EIS AND S.M.

Test Code - PIN 5072

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

ANSWER-1

ANSWER-A

(15*1 = 15 MARKS)

1. B
2. D
3. B
4. A
5. B
6. A
7. A
8. A
9. D
10. B
11. C
12. D
13. A
14. A
15. B

ANSWER-B

(4 MARKS)

Some of the questions auditors should ask during an ERP audit are pretty much the same as those that should be asked during development and implementation of the system:

- **Does the system process according to GAAP** (Generally Accepted Accounting Principles) and GAAS (Generally Accepted Auditing Standards)?
- Does it **meet the needs for reporting**, whether regulatory or organizational?
- Were adequate user requirements developed through meaningful interaction?
- Does the **system protect confidentiality and integrity** of information assets?
- Does it have **controls to process only authentic, valid, accurate** transactions?
- Are effective system operations and support functions provided?
- Are all system resources protected from unauthorized access and use?
- Are user privileges based on what is called “role-based access?”
- Is there an **ERP system administrator with clearly defined responsibilities**?
- Is the **functionality acceptable**? Are user requirements met? Are users happy?
- Have workarounds or manual steps been required to meet business needs?
- **Are there adequate audit trails and monitoring** of user activities?
- Can the system provide management with suitable performance data?
- **Are users trained**? Do they have complete and current documentation?
- Is there a problem-escalation process?

ANSWER-2

ANSWER-A

(6 MARKS)

Risk: Risk is possibility of loss. The same may be result of intentional or un-intentional action by individuals.

Risks associated with e-commerce transactions are high compared to general internet activities.

These include the following:

- **Privacy and Security:** Comes in the point of hacking. There are often issues of security and privacy due to lack of personalized digital access and knowledge.
- **Quality issues:** There are quality issues raised by customers as the original product differs from the one that was ordered.
- **Delay in goods and Hidden Costs:** When goods are ordered from another country, there are hidden costs enforced by Companies.
- **Needs Access to internet and lack of personal touch:** The e commerce requires an internet connection which is extra expensive and lacks personal touch.
- **Security and credit card issues:** There is cloning possible of credit cards and debit cards which poses a security threat.
- **Infrastructure:** There is a greater need of not only digital infrastructure but also network expansion of roads and railways which remains a substantial challenge in developing countries.
- **Problem of anonymity:** There is need to identify and authenticate users in the virtual global market where anyone can sell to or buy from anyone, anything from anywhere.
- **Repudiation of contract:** There is possibility that the electronic transaction in the form of contract, sale order or purchase by the trading partner or customer maybe denied.
- **Lack of authenticity of transactions:** The electronic documents that are produced during an e-Commerce transaction may not be authentic and reliable.
- **Data Loss or theft or duplication:** The data transmitted over the Internet may be lost, duplicated, tampered with.
- **Attack from hackers:** Web servers used for e-Commerce maybe vulnerable to hackers.
- **Denial of Service:** Service to customers may be denied due to non-availability of system as it may be affected by viruses, e-mail bombs and floods.
- **Non-recognition of electronic transactions:** E-Commerce transactions, as electronic records and digital signatures may not be recognized as evidence in courts of law.
- **Problem of piracy:** Intellectual property may not be adequately protected when such property is transacted through e-Commerce.

ANSWER-B

(4 MARKS)

Subversive Attacks and Piggybacking are the types of Asynchronous Attacks. However, they differ in following aspects:

Subversive Attacks: These can provide intruders with important information about messages being transmitted and the intruder may attempt to violate the integrity of some components in the sub-system.

Piggybacking: This is the **act of following an authorized person through a secured door or electronically attaching to an authorized telecommunication link that intercepts and alters transmissions.** This involves intercepting communication between the operating system and the user and modifying them or substituting new messages.

ANSWER-3

ANSWER-A

(6 MARKS)

Various steps that are required while automating the Grievance Cell of the Airline Industry are as follows:

Step 1: Define why we plan to implement a Business Process Automation (BPA)? - The primary purpose for which an enterprise implements automation may vary from enterprise to enterprise. In this case, to improve upon the Poor customer service is a major concern.

Step 2: Understand the rules / regulation under which enterprise needs to comply with? –

This step emphasizes on building an understanding on the rules of engagement, which include following the rules, adhering to regulations and following document retention requirements. This governance is established by a combination of internal corporate policies, external industry regulations and local, state, and central laws.

Step 3: Document the process, we wish to automate - At this step, all the documents that are currently being used need to be documented. The questions emphasized upon are like - what documents need to be captured?; where do they come from?; what format are they in?; who is involved in processing of the documents?; what is the impact of regulations on processing of these documents?; can there be a better way to do the same job? and how are exceptions in the process handled? etc.

Step 4: Define the objectives/goals to be achieved by implementing BPA – Once the above steps have been completed; entity needs to determine the key objectives of the process improvement activities. The goals need to be SMART - Specific: Clearly defined; Measurable: Easily quantifiable in monetary terms; Attainable: Achievable through best efforts; Relevant: Entity must need these, and Timely: Achieved within a given time frame.

Step 5: Engage the business process consultant - To decide as to which company/ consultant to partner with, depends upon the following:

- ◆ Objectivity of consultant in understanding/evaluating entity situation.
- ◆ Does the consultant have experience with entity business process?
- ◆ Is the consultant experienced in resolving critical business issues?
- ◆ Whether the consultant can recommend and implementing a combination of hardware, software and services as appropriate to meeting enterprise BPA requirements?
- ◆ Does the consultant have the required expertise to clearly articulate the business value of every aspect of the proposed solution?

Step 6: Calculate the ROI for project - The right stakeholders need to be engaged and involved to ensure that the benefits of BPA are clearly communicated and implementation becomes successful. A lot of meticulous effort would be required to convince the senior management about need to implement the right solution for BPA.

Step 7: Developing the BPA - Once the requirements have been document, ROI has been computed and top management approval to go ahead has been received, the consultant develops the requisite BPA. The developed BPA needs to meet the objectives for which the same is being developed.

Step 8: Testing the BPA - Once developed, it is important to test the new process to determine how well it works and identify where additional “exception processing” steps need to be included. The process of testing is an iterative process, the objective being to remove all problems during this phase.

ANSWER-B

(4 MARKS)

Once the complete business is captured by technology and processes are automated in CBS, the Data Centre (DC) of the bank, and customers, management and staff are completely dependent on the DC. From a risk assessment and coverage point of view, it is critical to ensure that the Bank can impart advanced training to its permanent staff in the core areas of technology for effective and efficient technology management.

- **Ownership of Data/ process:** Since the entire data resides at the Data Centre, any authorized user may access any data sometimes beyond their access rights. Hence it is required to establish clear ownership.
- **Authentication procedure:** This may be inadequate and hence user entering the transaction may not be identifiable. Hence photo or ID and password required to be provided by the individual and it has to be verified with photo, ID & password stored in database server to check its authenticity.
- **Authorization process:** Once he is proved authenticated, **level of access right provided** to every user has to be verified to check up to what extent he is authorized to access.
- **Several software interfaces across diverse networks:** A Data Centre can have as many as 75-100 different interface and application software.
- **Maintaining response time:** Maintaining the interfacing software and ensuring optimum response time and up time can be challenging.
- **User Identity Management:** This could be a serious issue. Some Banks may have more than 5000 users interacting with the CBS at once.
- **Access Controls:** Designing and monitoring access control is an extremely challenging task.
- **Incident handling procedures:** These may not be adequate considering the need for real-time risk management.

ANSWER-4

ANSWER-A

(6 MARKS)

Technical Exposures: Technical exposures include unauthorized implementation or modification of data and software. Technical exposures include the following:

- **Data Diddling:** This involves the change of data before or after they entered the system. A limited technical knowledge is required to data diddle and the worst part with this is that it occurs before computer security can protect the data.
- **Bomb:** Bomb is a piece of bad code deliberately planted by an insider or supplier of a program. An event, which is logical, triggers a bomb or time based. The bombs explode when the conditions of explosion get fulfilled causing the damage immediately. However, these programs cannot infect other programs. Since, these programs do not circulate by infecting other programs; chances of a widespread epidemic are relatively low.
- **Christmas Card:** It is a well-known example of Trojan and was detected on internal E-mail of IBM system. On typing the word 'Christmas', it will draw the Christmas tree as expected, but in addition, it will send copies of similar output to all other users connected to the network. Because of this message on other terminals, other users cannot save their half-finished work.
- **Worm:** A worm does not require a host program like a Trojan to relocate itself. Thus, a Worm program copies itself to another machine on the network. Since, worms are stand-alone programs, and they can be detected easily in comparison to Trojans and computer viruses. Examples of worms are Existential Worm, Alarm clock Worm etc. The Alarm Clock worm places wake-up calls on a list of users. It passes through the network to an outgoing terminal while the sole purpose of existential worm is to remain alive. Existential worm does not cause damage the system, but only copies itself to several places in a computer network.
- **Rounding Down:** This refers to rounding of small fractions of a denomination and transferring these small fractions into an authorized account. As the amount is small, it gets rarely noticed.
- **Salami Techniques:** This involves slicing of small amounts of money from a computerized transaction or account. A Salami technique is slightly different from a rounding technique in the sense a fix amount is deducted. For example, in the rounding off technique, Rs.21,23,456.39 becomes Rs.21,23,456.40, while in the Salami technique the transaction amount Rs. 21,23,456.39 is truncated to either Rs.21,23,456.30 or Rs.21,23,456.00, depending on the logic.
- **Trap Doors:** Trap doors allow insertion of specific logic, such as program interrupts that permit a review of data. They also permit insertion of unauthorized logic.
- **Spoofing:** A spoofing attack involves forging one's source address. One machine is used to impersonate the other in spoofing technique. Spoofing occurs only after a particular machine has been identified as vulnerable. A penetrator makes the user think that s/he is interacting with the operating system. For example, a penetrator duplicates the login procedure, captures the user's password, attempts for a system crash and makes the user login again

ANSWER-B**(4 MARKS)**

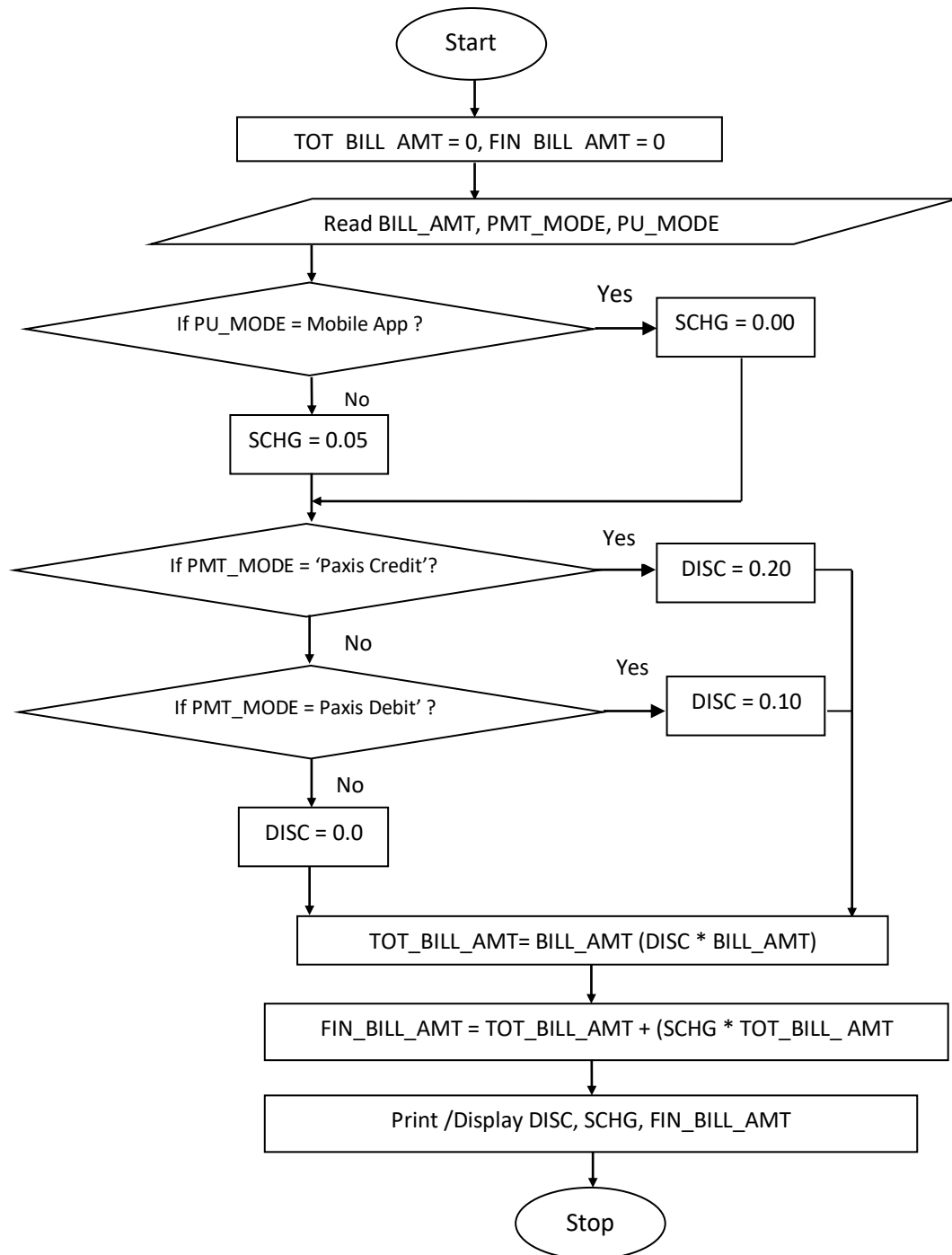
Tips to protect any e-Commerce business from intrusion are as follows:

- **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.

ANSWER-5**ANSWER-A****(6 MARKS)**

Variables need be defined implying following :

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		



ANSWER-B

(4 MARKS)

In an e-business environment, controls are necessary for all persons in the chain that include the following-

- **Users:** This is important to ensure that the genuine user is using the e-commerce/ m-commerce platform. There is risk if user accounts are hacked and hackers buy products / services.
- **Sellers / Buyers / Merchants:** These people need to proper framework in place to ensure success of business. Many e-commerce businesses have lost huge amount of money as they did not have proper controls put in place. These include controls on Product catalogues; Price catalogues; Discounts and promotional schemes; Product returns and Accounting for cash received through Cash on Delivery mode of sales.
- **Government:** Governments across the world and in India have few critical concerns vis-à-vis electronic transactions, namely Tax accounting of all products / services sold and all products/

services are sold.

- **Network Service Providers:** They need to ensure availability and security of network. Any downtime of network can be disastrous for business.
- **Technology Service Providers:** These include all other service provider other than network service provider, for example, cloud computing back-ends, applications back-ends and like. They are also prone to risk of availability and security.
- **Logistics Service Providers:** Success or failure of any e-commerce / m-commerce venture finally lies here. Logistics service providers are the ones who are finally responsible for timely product deliveries.
- **Payment Gateways:** E-commerce vendors' business shall run only when their payment gateways are efficient, effective and fool proof.

Each participant needs to put in place controls in an e-commerce environment.

SECTION –B

(50 MARKS)

ANSWER-6

ANSWER-A

(15*1 = 15 MARKS)

1. C
2. B
3. B
4. A
5. A
6. B
7. B
8. C
9. B
10. C
11. C
12. A
13. A
14. A
15. D

ANSWER-B

Atrix is having a product portfolio that is evidently in the decline stage. The product is being replaced with the technologically superior product. Strategically the company should minimize their dependence on the existing products and identify other avenues for the survival and growth. As a CEO of Atrix Ltd., following can be the strategic options available with the CEO:

(1 MARK)

- Invest in new product development and switchover to the new technology. Atrix Ltd. also need time to invest in emerging new technology.
- They can acquire or takeover a competitor, provided they have or are able to generate enough financial resources.

- They may also consider unrelated growth and identify other areas for expansion. This will enable Atrix Ltd. to spread their risks.
- In longer run, they should divest the existing products. However, they may continue with the existing products in a limited manner for such time there is demand for the product.

(4*1 = 4 MARKS)

ANSWER-7

ANSWER-A

Decision making is a managerial process of selecting the best course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may be operational, i.e., which relate to general day-to-day operations. They may also be strategic in nature.

(1 MARK)

As owner manager at the top level in the company, Shri Alok Kumar should concentrate on strategic decisions. These are higher level decisions having organisation wide implications. The major dimensions of strategic decisions are as follows:

- ◆ Strategic decisions require top-management involvement as they involve thinking in totality of the organization.
- ◆ Strategic decisions involve significant commitment of organizational resources.
- ◆ Strategic decisions necessitate consideration of factors in the firm's external environment.
- ◆ Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm.
- ◆ Strategic decisions are future oriented.
- ◆ Strategic decisions usually have major multifunctional or multi-business consequences.

(4 MARKS)

ANSWER-B

The elements considered for situational analysis are as follows:

- **Environmental factors:** What external and internal environmental factors are there that needs to be taken into account. This can include economic, political, demographic or sociological factors that have a bearing on the performance.
- **Opportunity and issue analysis:** What are the current opportunities that are available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may affect the business performance.
- **Competitive situation:** Analyze main competitors of organization: Who are they, what they up to are, how they compare. What are their competitive advantages?
- **Distribution situation:** Review the distribution situation - how are the products moving through channels.

- **Product situation:** The details about current product. The details about current product may be divided into parts such as the **core product and any secondary or supporting services or products** that also make up what you sell. It is important to observe this in terms of its different parts in order to be able to relate this back to core client needs.

(5*1 = 5 MARKS)

ANSWER-8

ANSWER-A

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: **(1 MARK)**

- 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.**

(5*1 = 5 MARKS)

ANSWER-B

For development of matrix structure; Davis and Lawrence have proposed three distinct phases:

- **Cross-functional task forces:** Temporary cross-functional task forces are initially used when a new product line is being introduced. A project manager is in charge as the key horizontal link.
- **Product/brand management:** If the cross-functional task forces become more permanent, the project manager becomes a product or brand manager and a second phase begins. In this arrangement, function is still the primary organizational structure, but product or brand managers act as the integrators of semi-permanent products or brands.
- **Mature matrix:** The third and final phase of matrix development involves a true dual-authority structure. Both the functional and product structures are permanent. All employees are connected to both a vertical functional superior and a horizontal product manager.

(4 MARKS)

ANSWER-9

ANSWER-A

Strategy implementation is missing in HQ. Implementation is the **managerial exercise of putting a chosen strategy into action.** It deals with the managerial exercise of supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results.

Strategic implementation is **concerned with translating a strategic decision into action, which presupposes that the decision itself** (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate systems.

It is crucial to realize the difference between the formulation and implementation because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent.

(5 MARKS)

ANSWER-B

It is **true that evaluating the worth of a business is central to strategy implementation**. There are circumstances where it is important to evaluate the actual worth of the business. These circumstances can be wide and varied. At a higher level they may include acquisition, mergers or diversification. They may also include other situations such as fixing of share price in an issue. Acquisition, merger, retrenchment may require establishing the financial worth or cash value of a business to successfully implement such strategies.

(2 MARKS)

Various methods for determining a business's worth can be grouped into three main approaches.

- (i) **Net worth or stockholders' equity:** Net worth is the total assets minus total outside liabilities of an individual or a company.
- (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.

(3*1 = 3 MARKS)

ANSWER-10

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

A typical large organization is a multidivisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these. There are three levels of strategy in management of business - corporate, business, and functional.

The corporate level of management consists of the chief executive officer and other top level executives. These individuals occupy the apex of decision making within the organization. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses and so on rests at the Corporate Level.

The development of strategies for individual business areas is the responsibility of the general managers in these different businesses or business level managers. A business unit is a self-contained division with its own functions - for example, finance, production, and marketing. The strategic role of business-level manager, head of the division, is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

Functional-level managers are responsible for the specific business functions or operations such as human resources, purchasing, product development, customer service, and so on. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division.

(5 MARKS)