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# Test Paper 7 - Solution

## National Test Series

### Subject: Enterprise Information Systems & Strategic Management

Marks: 100 Marks

Duration: 3 Hrs.

#### Part - I

Multiple Choice Questions:

(30 × 1 Mark Each = 30 Marks)

Case Study based MCQs

#### Case Study 1

A Cooperative society in Ghaziabad decides to open a bank named ABC Bank with its two branches located in Noida, Uttar Pradesh. The branches of banks are proposed to be connected to each other and all the processing and transactions being computerized with a centralized database. Further, to avoid manual working and proceed with advance technology, and at the same time to enhance functionality within branch; all the computer systems within all the departments in each branch would have connection-oriented network. The bank proposes to abide by all the regulations and compliance prevailing in India with respect to banking sector.

Mr. A is appointed as an IT - Head to carry out the Feasibility study of the proposed system and submit the report to top management of the Cooperative Society. After the report is submitted to the Top Management, following issues are raised by the management:

- There may be a conflict for some common resources in the network.
- Since the data is centrally located, it may create a possibility of access to non-relevant data by other departments.
- What would happen, if any employee intentionally destroys or alters the information residing in any of computer of any branch?
- Network security related issues between both branches of bank.

Based on the above case scenario, answer the following questions:

1. In purview of above case, under which legal provision of IT Act, 2000; the management can prove an employee guilty if (s)he intentionally destroys or alters the information residing in a computer resource of a branch?
  - (a) Section 43
  - (b) Section 65
  - (c) Section 66 E
  - (d) Section 66 C

**Solution:**(a)

2. Which of the following control shall be implemented in both the branches of ABC bank to suppress the risk of possibility of access to non-relevant data by other departments?
- (a) Proper training of the users with well documented manuals.
  - (b) Clear defining of change control procedures and holding everyone to them.
  - (c) Back up arrangement needs to be very strong.
  - (d) Access rights need to be defined very carefully and to be given on “Need to know” and “Need to do” basis only

**Solution:** (d)

3. The feature of Internet banking through ABC Banks’ website allows ease and convenience to its customers. Which of the following is not the limitation of Internet banking?
- (a) Difficult for a non-technical person
  - (b) Risk of data theft
  - (c) Written Record not to be maintained
  - (d) Overspending

**Solution:** (c)

4. The Top management of cooperative society raised its concern over an issue related to conflict of sharing of common resources in network between its two branches. Select the terminology referring to the above concern.
- (a) Resilience
  - (b) Contention
  - (c) Bandwidth
  - (d) Routing

**Solution:** (b)

5. In both branches of ABC bank, all the fixed asset acquisitions will be recorded as the control objective related to certain risk. Under which category this control objective falls?
- (a) Configuration general ledger
  - (b) Transaction Fixed asset
  - (c) Master fixed asset
  - (d) Transaction general ledger

**Solution:** (b)

### MCQs other than case study

6. Which objective of Business Process Automation (BPA) is achieved using Passwords in Information Systems?

- (a) Confidentiality
- (b) Integrity
- (c) Timeliness
- (d) Availability

**Solution:** (a)

7. Which one of the following is not defined as Sensitive Personal Information?

- (a) Home address
- (b) Password
- (c) Financial information
- (d) Biometric information

**Solution:** (a)

8. To enhance automation, a company defines re-order levels for regular consumption of raw material items in their ERP system. Once an item hits Re-order Level, the system creates a purchase requisition for Economic Order Quantity (EOQ) / Re-Order Quantity (ROQ) and emails the same to selected vendors asking them to send quotations. This method of doing business can be best defined as \_\_\_\_\_.

- (a) Business Process Automation
- (b) Business Process Integration
- (c) Business Process Upgrade
- (d) Business Process Module

**Solution:** (a)

9. An enterprise is configuring TALLY 9.1 ERP system for fixing monthly budgets for expenses. A heated argument is going on the issue of when to fix budget for any head. Please help management in deciding on when to create budgets

- (a) After 3 months from today based on the average expenses
- (b) Today itself based on past years' experience and future projected increase
- (c) Cannot be fixed today
- (d) Today itself based on future projections for expenses

**Solution:** (b)

10. In computer networking, best example of a device working on HALF DUPLEX transmission mode is \_\_\_\_.
- (a) Radio
  - (b) Television
  - (c) Mobile
  - (d) Walkie-Talkie

**Solution:** (d)

11. Which of the following combination is not a violation of maker - Checker Rule for Internal Control?
- (a) Cashier is also a Ledger Writer
  - (b) Auditor acting as an Implementation Consultant
  - (c) System Developer acting as a System Quality Control Personnel
  - (d) Auditor Suggesting Controls

**Solution:** (d)

12. Mr. X features in an advertisement of an Air conditioner of brand Z where he emphasizes that this Air Conditioner can be all controlled through a mobile. This is perfect example of \_\_\_\_\_ technology.
- (a) Cloud computing
  - (b) Internet of Things (IoT)
  - (c) Artificial Intelligence
  - (d) Bring Your Own Device (BYOD)

**Solution:** (b)

13. BHIM stands for \_\_\_\_\_.
- (a) Bharat Interface for Money
  - (b) Bharat Interface for Monetary transaction
  - (c) Bank of India for Money transaction
  - (d) Bharat Interface for Making Payments

**Solution:** (a)

14. A Bank has updated its existing Core Banking Systems (CBS) system to a new version. It is found that the new system is not automatically sending monthly Bank Statements to its customers. The same feature was available in the previous system. This error is result of mistake in which step?
- (a) Design
  - (b) Planning
  - (c) Implementation
  - (d) Maintenance

**Solution:** (a)

**15.** To protect the web server from unauthorized use and abuse the traffic is necessarily to go past a \_\_\_\_\_.

- (a) Anti-virus
- (b) Firewall
- (c) Malwares
- (d) Bomb

**Solution:**(b)

**16.** After an earnest attempt to bring in a strategic change in your organization, you the operational head of XYZ Ltd, succeeded but still your organization couldn't achieve the desired competitive position in the market. Out of the following what could be the reason?

- (a) Strategy Formulation
- (b) Strategy Model
- (c) Strategy Implementation
- (d) Strategy Decision

**Solution:** (c)

**17.** Supply chain refers to the linkages between:

- (a) Suppliers
- (b) Customers
- (c) Manufacturers
- (d) All of the above

**Solution:** (d)

**18.** Which of the following does not form part of Richard Rumelt's criteria for strategy audit?

- (a) adaptation
- (b) consistency
- (c) consonance
- (d) feasibility

**Solution:** (a)

19. A tool by which management identifies and evaluates the various businesses that make up a company is termed as:
- (a) Value Chain Analysis
  - (b) Portfolio Analysis
  - (c) Competition Analysis
  - (d) Strategic Analysis

**Solution:** (b)

20. Which of the following is not a phase in Kurt Levin's Model of change?
- (a) changing
  - (b) deep freezing
  - (c) refreezing
  - (d) unfreezing

**Solution:** (b)

21. Which one is not the element of strategic intent?
- (a) Business Model
  - (b) Vision
  - (c) Business definition
  - (d) Business standard

**Solution:** (d)

22. A \_\_\_\_\_ consists of those rival firms which have similar competitive approaches and positions in the market.
- (a) BCG matrix
  - (b) strategic group
  - (c) strategy map
  - (d) industry

**Solution:** (b)

23. Vertical integration may be beneficial when
- (a) Lower transaction costs and improved coordination are vital and achievable through vertical integration.
  - (b) Flexibility is reduced, providing a more stationary position in the competitive environment.
  - (c) Various segregated specializations will be combined
  - (d) The minimum efficient scales of two corporations are different

**Solution:** (a)

24. Under BCG and SBU with products having little market share but in attractive industry is referred to as:
- (a) cash cow
  - (b) star
  - (c) dog
  - (d) question mark

**Solution:** (d)

25. Stability strategy is a \_\_\_\_\_ strategy.
- (a) functional level
  - (b) business level
  - (c) corporate level
  - (d) implementation

**Solution:** (c)

26. Which of the following situation will most likely suit a transformational leader?
- (a) An organization that is in trouble.
  - (b) A growing organization.
  - (c) An organization in a stable environment.
  - (d) An organization at maturity stage of product life cycle.

**Solution:** (a)

27. Which of the following is not a type of diversification strategy?
- (a) vertical diversification
  - (b) concentric diversification
  - (c) conglomerate diversification
  - (d) co-generic diversification

**Solution:** (d)

28. In strategic management, there are two main styles of leadership. These are transformational and:
- (a) Transparent
  - (b) Transitional
  - (c) Translational
  - (d) Transactional

**Solution:** (d)

**29.**The strategic management process is:

- (a) A solution that guarantees prevention of organizational failure.
- (b) Concerned with a resources, capabilities, and competencies, but not the conditions in its external environment.
- (c) Not to be used in the not-for-profit organizations.
- (d) Full set of commitments, decisions, and actions related to the firm.

**Solution:**(d)

**30.**You being the core strategist of your company, entrusted with bringing about strategic change in your company, how will you initiate “unfreezing of the situation”?

- (a) Promoting new ideas throughout the organisation
- (b) Promoting compliance throughout the organisation
- (c) Promoting change in process throughout the organisation
- (d) None of the above

**Solution:** (a)

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## Part – II

### Section – A (Enterprise Information System)

**Question 1 is compulsory.**

**Answer any three from remaining four questions.**

#### Question 1.

A manufacturing company is implementing an ideal ERP software, where a single database is being utilized and it contains all the data for various software modules. Identify the modules of an ideal ERP software along with their functions.

**(5 Marks)**

#### Solution:

An ideal ERP System where a single database is being utilized and contains all data for various software modules includes the following modules:

- 1. Manufacturing:** Some of the functions include engineering, capacity, workflow management, quality control, bills of material, manufacturing process, etc.
- 2. Financials:** Accounts payable, accounts receivable, fixed assets, general ledger and cash management, etc.
- 3. Human Resources:** Benefits, training, payroll, time and attendance, etc.
- 4. Supply Chain Management:** Inventory, supply chain planning, supplier scheduling, claim processing, order entry, purchasing, etc.
- 5. Projects:** Costing, billing, activity management, time and expense, etc.
- 6. Customer Relationship Management (CRM):** CRM is a term applied to processes implemented by a company to handle its contact with its customers. CRM software is used to support these processes, storing information on current and prospective customers. Information in the system can be accessed and entered by employees in different departments, such as sales, marketing, customer service, training, professional development, performance management, human resource development and compensation.
- 7. Data Warehouse:** Usually this is a module that can be accessed by an organization's customers, suppliers and employees. Data warehouse is a repository of an organization's electronically stored data. These are designed to facilitate reporting and analysis, to retrieve and analyze data; tools to extract, transform and load data into the repository; and to manage the data dictionary.

## Question 2.

(A) A travel agency ABC wishes to implement an automated Grievance Management System at its workplace to manage and handle the problems with the aim of solving them. Determine the major benefits that will be drawn out of automating this Grievance related business process.

(5 Marks)

### Solution:

The major benefits that will be drawn out of automating the Grievance related business process and implementing the Grievance Management System are as follows:

- **Quality and Consistency:** Ensures that every action is performed identically - resulting in high quality, reliable results and stakeholders will consistently experience the same level of service.
- **Visibility:** Automated processes are controlled and consistently operate accurately within the defined timeline. It gives visibility of the process status to the organization.
- **Time-Saving:** Automation reduces the number of tasks employees would otherwise need to do manually. It frees up time to work on items that add genuine value to the business, allowing innovation and increasing employees' levels of motivation.
- **Improved Operational Efficiency:** Automation reduces the time it takes to achieve a task, the effort required to undertake it and the cost of completing it successfully. Automation not only ensures systems run smoothly and efficiently but that errors are eliminated and that best practices are constantly leveraged.
- **Governance and Reliability:** The consistency of automated processes means stakeholders can rely on business processes to operate and offer reliable processes to customers, maintaining a competitive advantage.
- **Reduced Turnaround Times:** Eliminate unnecessary tasks and realign process steps to optimize the flow of information throughout production, service, billing, and collection. This adjustment of processes distills operational performance and reduces the turnaround times for both staff and external customers.
- **Reduced Costs:** Manual tasks, given that they are performed one-at-a-time and at a slower rate than an automated task, will cost more. Automation allows us to accomplish more by utilizing fewer resources.

(B) What do you understand by Boundary Controls? Explain major Boundary Control techniques in brief.

(5 Marks)

### Solution:

**Boundary Controls:** The major controls of the boundary system are the access control mechanisms that links the authentic users to the authorized resources, they are permitted to access. The boundary subsystem establishes the interface between the would-be user of a computer system and the computer itself

### Major Boundary Control are as follows:

- **Cryptography:** It deals with programs for transforming data into cipher text that are meaningless to anyone, who does not possess the authentication to access the respective system resource or file. A cryptographic technique encrypts data (clear text) into cryptograms (cipher text) and its strength depends on the time and costs to decipher the cipher text by a cryptanalyst. Three techniques of cryptography are transposition (permute the order of characters within a set of data), substitution (replace text with a key-text) and product cipher (combination of transposition and substitution).
- **Passwords:** User identification by an authentication mechanism with personal characteristics like name, birth date, employee code, function, designation or a combination of two or more of these can be used as a password boundary access control. A few best practices followed to avoid failures in this control system are; minimum password length, avoid usage of common dictionary words, periodic change of passwords, hashing of passwords and number of entry attempts.
- **Personal Identification Numbers (PIN):** PIN is similar to a password assigned to a user by an institution a random number stored in its database independent to a user identification details, or a customer selected number. Hence, a PIN may be exposed to vulnerabilities while issuance or delivery, validation, transmission, and storage.
- **Identification Cards:** Identification cards are used to store information required in an authentication process. These cards are to be controlled through the application for a card, preparation of the card, issue, use, and card return or card termination phases.
- **Biometric Devices:** Biometric identification e.g. thumb and/or finger impression, eye retina, etc. are also used as boundary control techniques.

### Question 3.

(A)What do you mean by “Cloud Computing”? Discuss its characteristics.

(5 Marks)

### Solution:

Cloud computing, simply means the use of computing resources as a service through networks, typically the Internet. The Internet is commonly visualized as clouds; hence the term “cloud computing” for computation done through the Internet. With Cloud Computing, users can access database resources via the Internet from anywhere, for as long as they need, without worrying about any maintenance or management of actual resources. Besides these, databases in cloud may be highly dynamic and scalable. In fact, it is a very independent platform in terms of computing.

### CHARACTERISTICS

- **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 servers’ resources after we complete our task.

- **Pay-per-Use:** We pay for cloud services only when we use them, either for the short term (for example, for CPU time) or for a longer duration (for example, for cloud-based storage or vault services).
- **On-demand:** Because we invoke cloud services only when we need them, they are not permanent parts of the IT infrastructure. This is a significant advantage for cloud use as opposed to internal IT services. 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. Here, cloud-computing providers can migrate workloads across servers both inside the data center and across data centers (even in a different geographic area). This migration might be necessitated by cost (less expensive to run a workload in a data center in another country based on time of day or power requirements) or efficiency considerations (for example, network bandwidth). A third reason could be regulatory considerations for certain types of workloads.

**(B)** A business organization is planning to switch on to an integrated software for accounting as well as tax compliance instead of separate software for accounting and tax compliance. Being a consultant to the management of this organization, you are required to advise them on various pros and Cons of having single software for both the accounting and tax compliance.

**(5 Marks)**

**Solution:**

Single software for both the Accounting and Tax Compliance must be an integrated system. Pros of having single integrated software for both the Accounting and Tax Compliance as compared to only a Tax Compliance Software are as follows:

- **More Accurate:** As single software for both Accounting and Tax Compliance is an integrated system, hence accounting data and tax compliance data shall always be same and there is no need to transfer data to compliance software and reconcile the data. However, in only tax compliance software, reconciliation with accounting data is needed and possibility of mismatch of data between two systems is always there.
- **Lesser Time and efforts required:** The time required to transfer data to compliance integrated software is zero whereas it's relatively more in the separate software wherein data from accounting software need to put in for preparation of returns that may take extra time and efforts.

Cons of having such integrated software for both the Accounting and Tax Compliance as compared to only a Tax Compliance Software are as follows:

- **Less ease of software operation:** In an integrated system, everything is connected with others and making changes at one place may affect other aspects also. However, single software is less complicated and bound to be easy.

Less features and facilities for Tax Compliance: As the integrated is system is not an exclusive system for tax compliance, it may have limited features for tax compliance. Whereas single system is an exclusive and specifically designed system for tax compliance, more features and facilities shall exist in this system.

- **More cost:** If tax compliance feature is not available in accounting system, then to make the system integrated and getting it customized may require some amount of cost which may be higher than buying separate software. Whereas specific purpose software shall have less complications and the cost also shall be less.

#### **Question 4.**

**(A)** Brief explain core features of core Ranking Software.

**(5 Marks)**

**Solution:**

**The core features of CBS are as follows:**

1. On-line real-time processing.
2. Transactions are posted immediately.
3. All databases updated simultaneously.
4. Centralized Operations (All transactions are stored in one common database/server).
5. Separate hierarchy for business and operations.
6. Business & Services are productized.
7. Remote interaction with customers.
8. Reliance on transaction balancing.
9. Highly dependent system-based controls.
10. Authorizations occur within the application.
11. Increased access by staff at various levels based on authorization.
12. Daily, half yearly and annual closing,
13. Automatic processing of standing instructions,
14. Centralized interest applications for all accounts and account types
15. Anytime, anywhere access to customers and vendors

**(B)** Recognize the activities that deal with the System Development Controls in an IT Setup.

**(5 Marks)**

**Solution:**

The activities that deal with system development controls in IT setup are as follows:

- **System Authorization Activities:** All systems must be properly and formally that each new system request be submitted in written form by users to systems professionals who have both the expertise and authority to evaluate and approve (or reject) the request.

- **User Specification Activities:** Users must be actively involved in the systems development process. Regardless of the technology involved, the user can create a detailed written descriptive document of the logical needs that It should describe the user's view of the problem, not that of the systems professionals.
- **Technical Design Activities:** The technical design activities translate the user specifications into a set of detailed technical specifications of a system that meets the user's needs. The scope of these activities includes systems analysis, general systems design, feasibility analysis, and detailed systems design.
- **Internal Auditor's Participation:** The internal auditor plays an important role in the control of systems and should become involved at the inception of the system development process to make conceptual suggestions regarding system requirements and controls and should be continued throughout all phases of the development process and into the maintenance phase.
- **Program Testing:** All program modules must be thoroughly tested before they are implemented. The results of the tests are then compared against predetermined results to identify programming and logic errors. For example, if a program has undergone no maintenance changes since its implementation, the test results from the audit should be identical to the original test results. Having a basis for comparison, the auditor can thus quickly verify the integrity of the program code. On the other hand, if changes have occurred, the original test data can provide evidence regarding these changes. The auditor can thus focus attention upon those areas.
- **User Test and Acceptance Procedures:** Just before implementation, the comprising user personnel, systems professionals, and internal audit personnel system meets its stated requirements, the system is formally accepted by the user departments(s).

### Question 5.

(A) Differentiate between different types of clouds in Cloud Computing.

(5 Marks)

#### Solution:

**(A) Private Cloud:** This cloud computing environment resides within the boundaries of an organization and is used exclusively for the organization's benefits. These are also called Internal Clouds or Corporate Clouds. Private Clouds can either be private to the organization and managed by the single organization (On-Premise Private Cloud) or can be managed by third-party (Outsourced Private Cloud). 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.

**(B) Public Cloud:** The public cloud is the cloud infrastructure that is provisioned for open use by the general public. It may be owned, managed, and operated by a business, academic, or government organizations, or some combination of them. Typically, public clouds are administrated by third parties or vendors over the Internet, and the services are offered on a pay-per-use basis. These are also called Provider Clouds. Public cloud consists of users from all

over the world wherein a user can simply purchase resources on an hourly basis and work with the resources which are available in the cloud provider's premises.

**(C) Hybrid Cloud:** This is a combination of both at least one private (internal) and at least one public (external) cloud computing environments - usually, consisting of infrastructure, platforms, and applications. The usual method of using the hybrid cloud is to have a private cloud initially, and then for additional resources, the public cloud is used. The hybrid cloud can be regarded as a private cloud extended to the public cloud and aims at utilizing the power of the public cloud by retaining the properties of the private cloud. It is typically offered in either of two ways. A vendor has a private cloud and forms a partnership with a public cloud provider or a public cloud provider forms a partnership/franchise with a vendor that provides private cloud platforms.

**(D) Community Cloud:** The community cloud is the cloud infrastructure that is provisioned for exclusive use by a specific community of consumers from organizations that have shared concerns (e.g. mission security requirements, policy, and compliance considerations). It may be owned, managed, and operated by one or more of the organizations in the community, a third party or some combination of them, and it may exist on or off premises. In this, a private cloud is shared between several organizations. Fig. 4.8.5 depicts Community Cloud. This model is suitable for organizations that cannot afford a private cloud and cannot rely on the public cloud either.

**(B)** Discuss any five benefits of Enterprise Risk Management (ERM).

**(5 Marks)**

**Solution:**

ERM provides enhanced capability to do the following:

- **Align risk appetite and strategy:** Risk appetite is the degree of risk, on a broad-based level that an enterprise (any type of entity) is willing to accept in pursuit of its goals. Management considers the entity's risk appetite first in evaluating strategic alternatives, then in setting objectives aligned with the selected strategy and in developing mechanisms to manage the related risks.
- **Link growth, risk and return:** Entities accept risk as part of value creation and preservation, and they expect return commensurate with the risk. ERM provides an enhanced ability to identify and assess risks, and establish acceptable levels of risk relative to growth and return objectives.
- **Enhance risk response decisions:** ERM provides the rigor to identify and select among alternative risk responses – risk avoidance, reduction, sharing and acceptance. ERM provides methodologies and techniques for making these decisions.
- **Minimize operational surprises and losses:** Entities have enhanced capability to identify potential events, assess risk and establish responses, thereby reducing the occurrence of surprises and related costs or losses.
- **Identify and manage cross-enterprise risks:** Every entity faces a myriad of risks affecting different parts of the enterprise. Management needs to not only manage individual risks, but also understand interrelated impacts.

- **Provide integrated responses to multiple risks:** Business processes carry many inherent risks, and ERM enables integrated solutions for managing the risks.
- **Seize opportunities:** Management considers potential events, rather than just risks, and by considering a full range of events, management gains an understanding of how certain events represent opportunities.
- **Rationalize capital:** More robust information on an entity's total risk allows management to more effectively assess overall capital needs and improve capital allocation.



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## Section – B (Strategic Management)

**Question 6 is compulsory.  
Answer any three from remaining four questions.**

### Question 6.

What is strategic decision making? Briefly explain the major dimensions of strategic decisions.

**(5 Marks)**

### **Solution:**

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. According to Jauch and Glueck “Strategic decisions encompass the definition of the business, products to be handled, markets to be served, functions to be performed and major policies needed for the organization to execute these decisions to achieve the strategic objectives.”

The major dimensions of strategic decisions are as follows:

1. Strategic decisions require top-management involvement: Strategic decisions involve thinking in the totality of the organization. Hence, problems calling for strategic decisions require to be considered by top management.
2. Strategic decisions involve the commitment of organizational resources: For example, Strategic decisions to launch a new project by a firm requires allocation of huge funds and assignment of a large number of employees.
3. Strategic decisions necessitate consideration of factors in the firm’s external environment: Strategic focus in organization involves orienting its internal environment to the changes of external environment.
4. Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm: Generally, the results of strategic implementation are seen on a long-term basis and not immediately.
5. Strategic decisions are future-oriented: Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
6. Strategic decisions usually have major multifunctional or multi-business consequences: As they involve organization in totality they affect different sections of the organization with varying degree.

### Question 7.

(A) What do you mean by financial strategy of an organization? How the worth of a business is evaluated?

(5 Marks)

#### Solution:

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 organization.
- (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.

(B) Define Strategic Management. Also, discuss the limitations of Strategic Management.

(5 Marks)

#### Solution:

The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments where deemed appropriate.

The presence of strategic management cannot counter all hindrances and always achieve success as there are limitations attached to strategic management. These can be explained in the following lines:

- Environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape up in future. The organizational estimate about its future shape may awfully go wrong and jeopardize all strategic plans. The environment affects as the organization has to deal with suppliers, customers, governments and other external factors.

- Strategic Management is a time-consuming process. Organizations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
- Strategic Management is a costly process. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organizations with limited resources particularly when small and medium organization create strategies to compete.
- Competition is unpredictable. In a competitive scenario, where all organizations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.

### Question 8.

(A) Discuss the concept of Multi-Divisional Structure.

(5 Marks)

#### Solution:

Multidivisional (M-form) structure is composed of operating divisions where each division represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to division managers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages divisions through strategic and financial controls.

Multidivisional or M-form structure was developed in the 1920s, in response to coordination- and control-related problems in large firms. Functional departments often had difficulty dealing with distinct product lines and markets, especially in coordinating conflicting priorities among the products.

Costs were not allocated to individual products, so it was not possible to assess an individual product's profit contribution. Loss of control meant that optimal allocation of firm resources between products was difficult (if not impossible). Top managers became over-involved in solving short-run problems (such as coordination, communications, conflict resolution) and neglected long-term strategic issues. The multidivisional structure calls for:

1. Creating separate divisions, each representing a distinct business.
2. Each division would house its functional hierarchy.
3. Division managers would be given responsibility for managing day-to-day operations.
4. A small corporate office that would determine the long-term strategic direction of the firm and exercise overall financial control over the semi-autonomous divisions

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**(B)** Write a short note on Product Life Cycle (PLC) and its significance in portfolio diagnosis.

**(5 Marks)**

**Solution:**

Product Life Cycle is an important concept in strategic choice and S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages.

The first stage of PLC is the introduction stage in which competition is almost negligible, prices are relatively high and markets are limited. The growth in sales is also at a lower rate.

The second stage of PLC is the growth stage, in which the demand expands rapidly, prices fall, competition increases and market expands.

The third stage of PLC is the maturity stage, wherein the competition gets tough and the market gets stabilized. Profit comes down because of stiff competition.

The fourth stage is the declining stage of PLC, in which the sales and profits fall down sharply due to some new product replaces the existing product.

PLC can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made. For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages. Mature businesses may be used as sources of cash for investment in other businesses which need resources. A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

**Question 9.**

**(A)** The presence of strategic management cannot counter all hindrances and always achieve success for an organization. What are the limitations attached to strategic management?

**(5 Marks)**

**Solution:**

The presence of strategic management cannot counter all hindrances and always achieve success as there are limitations attached to strategic management. These can be explained in the following lines:

1. The environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape up in future. The organizational estimate about its future shape may awfully go wrong and jeopardize all strategic plans. The environment affects as the organization has to deal with suppliers, customers, governments and other external factors.

2. Strategic Management is a time-consuming process. Organizations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
3. Strategic Management is a costly process. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organizations with limited resources particularly when small and medium organization create strategies to compete.
4. In a competitive scenario, where all organizations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.

**(B)**What are acquisitions? Discuss with example of two companies resorting to this strategy?

**(5 Marks)**

**Solution:**

Acquisition of or merger with an existing concern is an instant means of achieving the expansion. It is an attractive and tempting proposition in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialize growth. Organizations consider merger and acquisition proposals in a systematic manner so that the marriage will be mutually beneficial, a happy and lasting affair.

Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. Only positive synergistic effects are relevant in this connection which denotes that the positive effects of the merged resources are greater than some of the effects of the individual resources before merger or acquisition.

Some of the recent/popular instances of acquisition are listed below:

- Tata's acquisition of Anglo-Dutch steelmaker Corus
- Tata's acquisition of British Jaguar Land Rover
- Mittal Steel's takeover of Arcelor
- HPCL's acquisition of Kenya Petroleum Refinery Ltd.
- Hidalgo's acquisition of Canada based Novel is

### Question 10.

**(A)** To convert strategic plans into actions and results, a manager must be able to direct organizational change, motivate people, build and strengthen company competencies and competitive capabilities, create a strategy-supportive work climate, and meet or beat performance targets.

Explain the principal aspects of strategy-execution process.

**(5 Marks)**

#### **Solution:**

In most situations, strategy-execution process includes the following principal aspects:

1. Developing budgets that steer ample resources into those activities critical to strategic success.
2. Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
3. Ensuring that policies and operating procedures facilitate rather than impede effective execution.
4. Using the best-known practices to perform core business activities and pushing for continuous improvement.
5. Installing information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.
6. Motivating people to pursue the target objectives energetically.
7. Creating a company culture and work climate conducive to successful strategy implementation and execution.
8. Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

Good strategy execution involves creating strong “fits” between strategy and organizational capabilities, between strategy and the reward structure, between strategy and internal operating systems, and between strategy and the organization’s work climate and culture.

**(B)** Rahul Sharma is Managing Director of a company which is manufacturing trucks. He is worried about the entry of new businesses. What kind of barriers will help Rahul against such a threat?

**(5 Marks)**

#### **Solution:**

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.

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