

**PRIME ACADEMY**  
**27<sup>th</sup> SESSION PROGRESS TEST**  
**PCC – COST ACCOUNTING AND FINANCIAL MANAGEMENT**

**TIME : 2 HOURS**

**TOTAL : 75 MARKS**

**PART A**

**(25x1=25 Marks)**

1. EOQ determines
  - a. The most efficient order quantity
  - b. The most economical order quantity
  - c. The most enlarged order quantity
  - d. None of the above
  
2. At EOQ level
  - a. The ordering cost and holding cost are equal
  - b. No relation between ordering cost and holding cost
  - c. Ordering cost is the least
  - d. The holding cost is the least
  
3. The most significant difference between bin card and stores ledger is
  - a. Bin card does not give value of stock
  - b. Bin card does not give the quantity of stock on hand
  - c. Bin card does not give the quantity issued.
  - d. Bin card does not give details of quantity received
  
4. The variable factory overhead application rate under the normal, practical and expected activity levels would be the same
  - a. Except for actual volume
  - b. Except for practical capacity
  - c. Except for expected activity
  - d. For all three activity levels
  
5. Primary packing is an item of
  - a. selling overhead
  - b. primary cost
  - c. distribution overhead
  - d. administrative overhead

6. Pick out the false statement
- The two extremes of overstocking and under stocking of materials may be avoided by the fixation of inventory levels
  - The Bin card is perpetual inventory record
  - An unavoidable stores discrepancy is transferred either to Stores Overhead Account or the Factory Overhead Account
  - The stores department is a production department
7. Pick out the correct statement
- The storekeeper is not responsible for material loses while in storage
  - Stores discrepancies are adjusted through the Inventory Adjustment Account
  - Average inventory is the same as inventory turnover
  - A bill of material gives a complete list of all material required with quantities for a particular job
8. The total of the materials subsidiary ledger inventory cards must be equal to the amount in the following account
- Cost of goods sold
  - Purchase of raw materials
  - Materials Inventory
  - Work in process Inventory
9. The cost of non returnable containers
- Is charged to factory overhead
  - Is added to the purchase price of materials
  - Is added to departmental overhead
  - Not included in cost
10. The only method of allocating service department costs to production departments that considers reciprocal services is called the
- Direct method
  - Step method
  - Out of step method
  - Algebraic method
11. In the determination of factory overhead application rates, the numerator of the formula is the
- Actual factory overhead for the next period
  - Estimated factory overhead for the next period
  - Actual labour hours for the next period
  - Estimated labour hours for the next period

12. ----- method of pricing of issues is used to determine efficiency of material purchase
- FIFO method
  - LIFO method
  - HIFO method
  - Standard cost method
13. Spare parts used for upkeep of delivery vans is
- An administrative overhead
  - Material overhead
  - Distribution overhead
  - Factory overhead
14. When factory overhead control has an ending debit balance, factory overhead was
- Over applied
  - Under applied
  - No effect
  - None of the above
15. Ware housing cost is an item of
- Office overhead
  - Administrative overhead
  - Factory overhead
  - Distribution overhead
16. Select the best answer. Under absorbed or over absorbed factory overhead should be
- Carried forward to next year
  - Shown as an extraordinary item
  - Apportioned among cost of goods sold and applicable inventory
  - Written off
17. The secondary distribution on a reciprocal basis is known as the
- The step ladder method
  - Direct method
  - Step method
  - Reciprocal service method
18. Actual overhead rate is also known as
- Historical overhead rate
  - Normal overhead rate
  - Multiple overhead rate
  - Predetermined overhead rate

19. Which of the following is usually classed as stepped cost?
- Supervisors wages
  - Raw materials
  - Rates
  - Telephone
20. A purchase requisition is raised
- To intimate to the supplier the quantity and quality of new material required
  - When the stock of material has fallen to re-order level
  - When goods are received from a supplier
  - To let the accounts department know that an invoice should be expected from a supplier
21. Which of the following production batch sizes will minimize cost where annual output is 20,000 units, setup costs per batch are Rs.25, holding costs are Rs.3 per unit
- 69 units
  - 267 units
  - 577 units
  - 4,800 units
22. Units that do not meet production standards and are sold for their salvage value if any are called
- Spoiled units
  - Defective units
  - Scrap material
  - Waste material
23. Prime costs refers to
- Manufacturing cost incurred to produce units of output
  - The sum of direct labour costs and all factory overheads
  - The sum of direct material costs and direct labour costs
  - Costs which are predetermined and should be attained
24. When material prices fluctuate widely, the method of pricing that gives absurd results is
- Weighted average price
  - Moving average price
  - Simple average price
  - Inflated price
25. The following expense do not find in cost accounting
- Royalty expenses
  - Depreciation
  - Canteen expenses
  - Share issue expenses

**PART - B**

**(50 marks)**

1. A wholesale company which sells four products believes some of them to be unprofitable and is considering eliminating the sale of one of them. The following information is available regarding its income, costs and activities for the year.

	Products			
	A	B	C	D
Sales (Rs)	30,000	50,000	25,000	45,000
Cost of production (Rs)	20,000	45,000	21,000	22,500
Area of storage (Sq.mtrs)	5,000	4,000	8,000	3,000
Number of parcels sent	10,000	15,000	7,500	17,500
Number of invoices sent	8,000	14,000	6,000	12,000

Its overhead costs and basis of allocation are

<b>Fixed costs</b>	Rs.	Basis of allocation to products
Rent	3,000	Sq.mtrs
Insurance	100	Sq.mtrs
Depreciation	1,000	Parcel
Salesman's salaries & expenses	6,000	Sales volume
Administrative wages and salaries	5,000	No.of invoices

**Variable Costs**

Packing wages and materials	0.25 paise per parcel
Commissions	4% of sales
Clerical materials	0.05 per invoice

- Prepare an analysis of the total overhead costs of each product
- Prepare a profit and loss statement showing % of profit or loss to sales for each product
- Compare the profit if the company were to eliminate product B with what it would be if they eliminated product C instead.

**(15 marks)**

2. The following data are available from the books of Kye Ltd for the month of March'2005

Profit margin = 25 % on cost

Factory overheads = 80 % of Direct labour cost

Raw material consumed = 175% of Direct labour cost

Inventory accounts :

	Mar'1	Mar'31
	Rs.	Rs.
Raw Materials	8,000	8,600
Work-in-progress	8,000	12,000
Finished goods	14,000	18,000
Debtors	12,000	17,000
Selling Expenses		200 % of Admn expenses
General Admn Expenses		15 % on Direct labour cost
Receipt from Debtors		70,000

Prepare a statement showing the cost of goods manufactured and sold and the profit earned.

**(15 marks)**

**3a.** Shri enterprises manufactures a special product A. The following particulars were collected for the year

Monthly Demand of A – 1,000 units, Cost of placing an order Rs.100

Annual carrying cost/unit Rs.15, Normal usage 50 units per week

Minimum usage 25 units per week, Max.usage 75 units per week

Reorder period 4 to 6 weeks

Compute from the above a) Re-order quantity b) Reorder level c)Minimum level d)

Maximum level e) Average stock level

**(10 marks)**

**3b.** X Ltd has a committed requirement of 24,000 bearings per annum. It is estimated that it costs 10 paise as inventory holding cost per bearing per month and that the ordering cost per order is Rs.324.

i) What would be the optimum order size for bearing ?

ii) Assuming that the company has a policy of ordering 6000 bearings per order, how much extra costs the company would be incurring as compared to the optimum order size suggested in (i) above.

iii) what is the minimum inventory holding cost?

**(10 marks)**

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**SUGGESTED ANSWERS**  
**PART- A**

- |     |   |
|-----|---|
| 1.  | b |
| 2.  | a |
| 3.  | a |
| 4.  | d |
| 5.  | b |
| 6.  | d |
| 7.  | d |
| 8.  | c |
| 9.  | b |
| 10. | d |
| 11. | b |
| 12. | d |
| 13. | c |
| 14. | b |
| 15. | d |
| 16. | c |
| 17. | d |
| 18. | a |
| 19. | a |
| 20. | b |
| 21. | c |
| 22. | a |
| 23. | c |
| 24. | c |
| 25. | d |

**PART B**

1.

<b>Product</b>	<b>A Rs.</b>	<b>B Rs.</b>	<b>C Rs..</b>	<b>D Rs.</b>	<b>Total Rs.</b>
<b>Variable cost</b>					
Packing wages & materials @0.25 per parcel	2500	3750	1875	4375	12500
Commission 4% of sales	1200	2000	1000	1800	6000
Clerical materials Rs.0.05 Per invoice	<u>400</u>	<u>700</u>	<u>300</u>	<u>600</u>	<u>2000</u>
	4100	6450	3175	6775	20500
<b>Fixed costs : Basis</b>					
Rent Sq.mtrs	750	600	1200	450	3000
Insurance Sq.mtrs	25	20	40	15	100
Depreciation Parcel	200	300	150	350	1000
Salesman's Sales value Salaries	1200	2000	1000	1800	6000
Admn.wages No.of invoices	<u>1000</u>	<u>1750</u>	<u>750</u>	<u>1500</u>	<u>5000</u>
	<u>3175</u>	<u>4670</u>	<u>3140</u>	<u>4115</u>	<u>15100</u>
Total Overheads	<u>7275</u>	<u>11120</u>	<u>6315</u>	<u>10890</u>	<u>35600</u>

**Profit & Loss Statement**

Sales	<u>30000</u>	<u>50000</u>	<u>25000</u>	<u>45000</u>	<u>150000</u>
Cost of production	20000	45000	21000	22500	108500
Variable cost	4100	6450	3175	6775	20500
Fixed cost	<u>3175</u>	<u>4670</u>	<u>3140</u>	<u>4115</u>	<u>15100</u>
Total cost	27275	56120	27315	33390	144100
Profit/loss	2725	(6120)	(2315)	11610	5900
Profit/loss as % of sales	9.08%	(12.24%)	(9.26%)	25.8%	3.93%

If product B is eliminated

$$\text{Profit} = 21,000 + 1450 - 15100 = \text{Rs.}7,350$$

If product C is eliminated

$$\text{Profit} = 21,000 - 825 - 15100 = \text{Rs.}5,075$$



## 2. Sales for the month

		Rs.
Opening Debtors		12,000
Add: Sales for the month		S
Total		12,000 + S
Less: Receipt from debtors		70,000
Closing Debtors		-58,000 + S = 17,000
Sales for the month S		= 17,000 + 58,000 = Rs.75,000
Profit margin 25% on cost		
Equal to 20 % on sales	= 20 % of Rs.75,000	= Rs.15,000
Cost of goods sold	= Rs.75,000 – Rs.15,000	= Rs.60,000

Let the Direct labour cost	= Rs. x
Admn.Expenses	= Rs.0.15 x
Selling expenses	= 200% of General Admin expenses = 200% of 0.15x
	= Rs.0.3 x
Cost of goods sold	= 60,000
Less: Selling expenses	= <u>0.3x</u>
	60,000 – 0.3x
Less: Genl Admn.Expenses	<u>0.15x</u>
	60,000 – 0.45x
Add: Closing stock of Fin.goods	<u>18,000</u>
	78,000 – 0.45x
Less: Opg.stock of fin.goods	<u>14,000</u>
	64,000 – 0.45x
Add: Closing stock of WIP	<u>12,000</u>
	76,000 – 0.45x
Less: opening stock of WIP	<u>8,000</u>
	68,000 – 0.45x
Less: Factory overheads	<u>0.8 x</u>
Prime cost	68,000 – 1.25x
Less: Direct labour cost	<u>x</u>
Raw material consumed	68,000 – 2.25x
Given raw material consumed = 175% of direct labour cost = 1.75x	
	68,000 – 2.25 x = 1.75 x
	4 x = 68,000
	x = Rs.17,000
Direct labour cost	= Rs.17,000
Raw materials consumed	= 175% of Rs.17,000 = Rs.29,750

Opg. Stock of raw material + Raw matl.purchase – Closing stock of raw material = raw material consumed

Rs.8,000 + Raw material purchases – Rs.8,600 = Rs.29,750

Raw material purchases = Rs.29,750 + Rs.8,600 – Rs.8,000 = Rs.30,350

Factory overheads = 80 % of Direct labour cost = Rs.0.8 × 17,000 = Rs.13,600

General Administrative expenses = 15% of Direct labour cost = 15 % of Rs.17,000 = Rs.2,550

Selling expenses = 200% of Genl.Admn expenses = 200 % of Rs.2,550 = Rs.5,100

Statement of Cost and Profit

	Rs.
Opening stock of raw materials	8,000
Add: Purchases	<u>30,350</u>
	38,350
Less : Closing stock of raw materials	<u>8,600</u>
Raw material consumed	29,750
Add: Direct labour cost	<u>17,000</u>
Prime cost	46,750
Add: Factory overheads	<u>13,600</u>
	60,350
Add: opening stock of WIP	<u>8,000</u>
	68,350
Less: closing stock of WIP	<u>12,000</u>
	56,350
Add: Opening stock of fin.goods	<u>14,000</u>
	70,350
Less : Closing stock of fin.goods	<u>18,000</u>
	52,350
Add: Genl.Admn expenses	2,550
Add: Selling expenses	<u>5,100</u>
Cost of goods sold	60,000
Sales	<u>75,000</u>
Profit	15,000
Profit margin = 25 % on cost or 20 % on sales	

3a.

$$\begin{aligned}\text{EOQ} &= \sqrt{\frac{2 \times 1000 \times 12 \times 100}{15}} \\ &= 400\end{aligned}$$

$$\begin{aligned}\text{Re order level} &= \text{Maximum reorder period} \times \text{Maximum usage} \\ &= 6 \times 75 = 450 \text{ units}\end{aligned}$$

$$\begin{aligned}\text{Minimum level} &= \text{Reorder level} - (\text{Normal usage} \times \text{Avg. Delivery time}) \\ &= 450 - (50 \times 5) = 200\end{aligned}$$

$$\begin{aligned}\text{Maximum level} &= \text{Reorder level} + \text{Reorder quantity} - \text{Minimum consumption} \\ &\quad \text{During the period to} \\ &\quad \text{Obtain delivery} \\ &= 450 + 400 - (25 \times 4) = 750\end{aligned}$$

$$\begin{aligned}\text{Average stock level} &= \frac{\text{Minimum level} + \text{Maximum level}}{2} \\ &= \frac{200 + 750}{2} = 475 \text{ units}\end{aligned}$$

3b.

$$\text{(i) Optimum order size} = \sqrt{\frac{2 \times 24000 \times 324}{12 \times 0.10}} = 3,600$$

$$\begin{aligned}\text{(ii) Total Cost at EOQ} &= \text{Ordering cost} + \text{Inventory holding cost} \\ &= \frac{24,000 \times 324}{3,600} + \frac{1}{2} \times 3600 \times 0.10 \times 12 \\ &= \text{Rs. } 2,160 + \text{Rs. } 2,160 = \text{Rs. } 4,320\end{aligned}$$

$$\begin{aligned}\text{Total cost when ordering 6,000 units} &= \frac{24,000 \times 324}{6,000} + \frac{1}{2} \times 6000 \times 0.10 \times 12 \\ &= \text{Rs. } 1,296 + \text{Rs. } 3,600 = \text{Rs. } 4,896\end{aligned}$$

$$\text{Extra cost to be incurred by the company} = \text{Rs. } 4,896 - \text{Rs. } 4,320 = \text{Rs. } 576$$

$$\begin{aligned}\text{(iii) Minimum inventory holding cost} &= \frac{1}{2} \times 3600 \times 0.10 \times 12 \\ &= \text{Rs. } 2,160\end{aligned}$$

**PRIME ACADEMY**  
**27<sup>th</sup> SESSION PROGRESS TEST**  
**PCC – INCOME TAX**

**TIME : 2 HOURS**

**TOTAL : 75 MARKS**

**PART A**

**(25x1=25 Marks)**

1. What is the applicable surcharge for Artificial Judiciary Person when total income exceeds Rs.10lakhs  
a) Nil            b) 10%            c) 2.5%            d) None of the above
2. Surcharge at the rate of 10% will be applicable to domestic companies in the following case:  
a) Nil            b) 10 lakhs            c) One Crore            d) None of the above
3. The following allowance prescribed by CBDT to the extent spent or specified here below:  
a) Conveyance Allowance            b) Uniform Allowance            c) Both a & b            d) None of the above
4. For an employee in receipt of transport allowance, the maximum amount allowed under 10(14) is:  
a) 10,800            b) 7,200            c) 9,600            d) 3,600
5. Minimum agricultural income for aggregation purpose should be:  
a) 5,000            b) 10,000            c) 15,000            d) None of the above
6. The basic exemption limit for women assessee who is not a non-resident having age 65 years:  
a) 1,10,000            b) 1,45,000            c) 1,85,000            d) 1,95,000
7. The definition of person u/s. 2(31) includes  
a) AOP which is incorporated  
b) AOP which is not incorporated  
c) Both a & b  
d) None of the above
8. The tax rate for foreign companies is  
a) 10%            b) 20%            c) 30%            d) 40%
9. The maximum amount of Medical allowance allowed under section 17(2):  
a) 10,000            b) 12,500            c) 15,000            d) 16,000
10. Net tax payable by Mr.Satish (born in the year 1951) whose total Income is Rs.2,86,050 is:

- a) 34,815                      b) 35,815                      c) 35,859                      d) 22,469

- 11.** An individual said to be resident in India in the following situations:
- a) Satisfies both the conditions laid down in sec.6(1)
  - b) Not Satisfies both the conditions laid down in sec.6(1)
  - c) Satisfies any one of the conditions laid down in sec.6(1)
  - d) None of the above
- 12.** Pandu was born in England in 1966. His father was born in America in 1936. Pandu's grandfather was born in Lahore in 1916. Pandu visits India for 180 days during the previous year 2007-08.
- a) Resident and Ordinary resident    b) Resident but not Ordinary resident
  - c) Non- resident
- 13.** For an HUF to be considered as Resident in India, Karta should have Control and Management :
- a) Wholly in India            b) Partly in India            c) a & b                      d) a or b
- 14.** A Ltd is an Indian company which carries on business in New Delhi and Australia. The entire control and management of A Ltd is situated outside India. 90% of total income of the company is from the business in Australia. The residential status of A Ltd is:
- a) Resident    b) Non-resident
- 15.** Mr.M working in Sastry Travels, receives transport allowance of Rs.96,000 p.a. The amount exempt u/s. 10(14) is:
- a) Rs. 72,000    b) Rs. 50,400    c) Rs. 67,200    d) None of the above
- 16.** Maximum amount allowed u/s. 16(iii) is:
- a) Rs. 1,500    b) Rs. 2,000    c) Rs.2,500    d) None of the above
- 17.** Employees contribution to Recognised provident fund is exempt upto \_\_\_\_\_ % of salary
- a) 0%                      b) 9.5%                      c) 12%                      d) None of the above
- 18.** Interest accrued to RPF is exempt upto \_\_\_\_\_ % of interest received
- a) 0%                      b) 9.5%                      c) 12%                      d) None of the above
- 19.** Municipal Value of a house is Rs.90,000/-. Standard rent is Rs.1,20,000/-. Fair rent is 1,40,000/-. The house property has been letout for Rs.12,000/- p.m and was vacant for one month during the previous year 2007-08. Gross Annual value is:
- a) Rs. 1,40,000/-            b) Rs. 1.32,000/-            c) Rs. 1,20,000/-            d) Rs.1,44,000/-
- 20.** Mr.X earns a sum of Rs. 10,000 p.m as rental income. The house is occupied only for

one month during the previous year. Municipal taxes paid by Mr.X amounts to Rs. 12,000. What is the Net Annual Value:

- a) - Rs. 2,000            b) Nil            c) Rs. 1,08,000            d) None of the above

**21.** For an employee in receipt of hostel expenditure allowance for his three children, the maximum annual allowance exempt u/s. 10(14) is:

- a) Rs. 10,800            b) Rs. 7,200            c) Rs. 9,600            d) Rs. 3,600

**22.** Definition of salary for the purpose of HRA computation is:

- a) Basic + DA ( forming part of retirement benefits)  
b) Basic + DA ( forming part of retirement benefits) + Commission on Turnover  
c) Basic alone  
d) None of the above

**23.** As per sec.288B, the tax can be rounded off to nearest multiple of:

- a) ten            b) hundred            c) rupee            d) None of the above

**24.** Municipal taxes for an house property paid by landlord is Rs.4,000 and by tenant is Rs. 3,000. The amount allowed as deduction to landlord in computation of income from house property is:

- a) Rs. 3,000    b) Rs. 4,000    c) Rs. 7,000    d) None of the above

**25.** Taxable value of perquisite for transfer of motor car from employer to employee:

- a) Actual Cost – Dep @ 50% under WDV - amount recovered from employee  
b) Actual Cost – Dep @ 20% under SLM- amount recovered from employee  
c) Actual Cost – Dep @ 20% under WDV- amount recovered from employee  
d) Actual Cost – Dep @ 50% under SLM - amount recovered from employee

**PART - B**

**(50 Marks)**

1. Who is considered as Specified Employee **(5 Marks)**
  
2. Ms.Swathi has received a sum of Rs.15,000 from a defaulted tenant during July '2007 out of the arrears of Rs.25,000 due from him. She had claimed the unrealised rent of Rs.25,000 for the assessment year 2004-05 which the Assessing Officer fully allowed as deduction u/s. 24. Incidentally, she had sold her property during March'2007. Advise her about the chargeability of the amount of Rs.15,000 realised from the defaulted tenant. What will be your answer if the Assessing Officer had allowed only Rs.20,000 as deduction instead of Rs.25,000. **(6 Marks)**
  
3. What is Business Connection **(7 Marks)**
  
4. Explain the cases where income of the previous year is assessed in the same year **(7 Marks)**
  
5. Mr.Akshat retires on 31.10.2007 voluntarily from Hind Chemicals (P) Ltd as per the scheme approved u/s.10(10C) of the Income-tax Act, 1961. He furnishes the following particulars: Salary Rs. 5,000 p.m.; Pension Rs. 3,000 p.m.; D.A. forming part of basic pay Rs. 1,000 p.m.; Compensation on retirement Rs. 2,00,000; Gratuity Rs. 1,20,000; Commuted pension of 70%, Rs. 42,000 on 31.1.2008; Leave salary Rs. 30,000. Completed years of service 20 years and 8 months. Leave availed while in service 25 months. But for the voluntary retirement Mr.Akshat would have retired only after 40 months. The last increment he received was in 2006. Compute his taxable salary income for the A.Y. 2008-09. **(15 Marks)**
  
6. X Ltd. Grows sugarcane to manufacture sugar. The data for the financial year 2007 – 08 is as follows.

Particulars	Amount (Rs.)
Cost of cultivation of sugarcane	6,00,000/-
Market value of sugarcane when transferred to the factory	10,00,000/-
Other manufacturing cost	6,00,000/-
Sales of sugarcane	25,00,000/-
Salary if managing director who looks after all the operations of the company	3,00,000/-

Determine the income of the company.

**(10 Marks)**

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**PCC – INCOME TAX**  
**SUGGESTED ANSWERS**

**Part - A**

1. b
2. c
3. c
4. c
5. a
6. d
7. c
8. d
9. c
10. c
11. c
12. c
13. d
14. a
15. b
16. c
17. c
18. b
19. b
20. a
21. b
22. b
23. a
24. b
25. C



## Part - B

### 1. Specified Employees:

The following are the specified employees for the purpose of section 17(2)(iii):

1. A director employee of employer company.
2. An employee who has substantial interest in the employer company.
3. An employee (not covered by above) whose income under the head 'Salaries', excluding the value of all non-monetary benefits and amenities, exceeds Rs. 50,000.

While computing the limit of Rs. 50,000, the following are deducted / excluded:

- (a) All non-monetary benefits ;
- (b) Monetary benefits which are exempt under Sec.10 ;
- (c) Deduction u/s.16(ii), & (iii) i.e., deduction for entertainment allowance and profession tax.

### 2. Computation of taxable quantum of un realised rent recovered:

Where the Assessing Officer allowed the entire claim of un realised rent as deduction, the sum of Rs.15,000 recovered is chargeable to tax in the year of receipt. The position does not change even if Ms. Swathi had disposed off the property in March 2007. The sum of Rs.15,000 becomes chargeable under the head "Income from House Property" for the assessment year 2008-09.

However, if the Assessing Officer allowed only Rs.20,000 as un realised rent as against the arrears of Rs.25,000, the amount chargeable to tax out of the sum of Rs.15,000 recovered is Rs. 10,000 computed as below:

Particulars	Rs.
Un realised Rent recovered	15,000
Less: Un realised rent for which no deduction was allowed:	
Deduction claimed (Rs.25,000) less deduction allowed (Rs.20,000)	<u>5,000</u>
<b>Taxable amount recovered</b>	<b><u>10,000</u></b>

### 3. Business Connection – Sec. 9(1) (i)

**“Business connection” shall include any business activity carried out through a person who, acting on behalf of the non-resident –**

1. **has an authority to conclude contracts and habitually exercises such authority in India; or**
2. **has no such authority, but habitually maintains in India a stock of goods or merchandise from which he regularly delivers goods or merchandise on behalf of the non-resident; or**
3. **habitually secures orders in India mainly or wholly for the non-resident or for that non-resident along with other non-residents who are subjected to the same common control as that non-resident.**

Where a person has authority from a non-resident and exercises the same in India only for activities limited to the purchase of goods or merchandise for the non-resident, it would not amount to “Business connection”.

Similarly, “Business connection” shall not include any business activity carried out through a broker, general commission agent or any other agent having an independent status if such person is acting in the ordinary course of his business. Where such a broker, general commission agent or any other agent works mainly or wholly on behalf of a non-resident or on behalf of other non-residents who are controlled

by such non-resident or who are subjected to common control as that non-resident, he shall not be deemed to be a broker, general commission agent or an agent of an independent status.

According to Explanation 3, where a business is carried on in India through a person referred to in Explanation 2 referred above, only so much of income as is attributable to the operations carried out in India shall be deemed to accrue or arise in India.

4. The general principle enunciated under section 4 is that the income of a previous year is charged to income tax at the rates applicable to the relevant assessment year. There are certain circumstances under which the income of a previous year is chargeable to tax in the same year and those exceptional situations are as follows:
- i) **Shipping business of a non-resident - Sec.172:** Where a ship belonging to or chartered by a non-resident carrying passengers, livestock, mail or goods shipped at a port of India, the ship is allowed to leave the port only if the tax due thereon has been paid or satisfactory arrangements have been made for payment thereof. 7.5% of the freight paid or payable (including demurrage, handling charges or any other amount) to the owner or the charterer or to any person on his behalf whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned. [Also refer Sec.44B]
  - ii) **Persons leaving India - Sec.174 :** When it appears to the Assessing Officer that any individual may leave India during an assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the previous year for that assessment year up to the probable date of his departure from India is chargeable to tax in that assessment year, in accordance with the provisions of Sec. 174.
  - iii) **Assessment of AOP / BOI or artificial juridical person formed for a particular event or purpose – Sec. 174A:** Where it appears to the Assessing officer that any association of person or body of individuals or an artificial juridical person formed for a particular event or purpose is likely to be dissolved in the assessment year in which such AOP/BOI was formed or immediately after such assessment year, the total income of such person for the period from the expiry of the previous year for that assessment year upto the date of its dissolution shall be chargeable to tax in that assessment year itself.
  - iv) **Persons likely to transfer property to avoid tax–Sec.175:** During any current assessment year if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose off or part with any of his assets to avoid payment of any liability under the Act the total income of such person for the period from the expiry of the previous year for that assessment year to the date when the Assessing Officer commences proceeding under this section is chargeable to tax in that assessment year.
  - v) **Discontinued business or profession – Sec.176(3A):** Where any business is discontinued in any year, any sum received after the discontinuance shall be deemed to be the income of the recipient and charged to tax accordingly in the year of receipt. By virtue of sec.176(4), where any profession is discontinued in any year on account of the cessation of the profession or by the retirement or death of the person carrying on the profession, any sum received after the discontinuance shall be deemed to be the income of the recipient and charged to tax in the year of receipt.

**5. Computation of Taxable Salary of Mr.Akshat for the A.Y. 2008-09**

Particulars.	Rs.
Salary Rs. 5,000 x 7	35,000
Dearness allowance Rs. 1,000 x 7	7,000
Gratuity (Note 1)	60,000
Uncommuted and Commuted pension (Note 2)	32,800
Compensation on voluntary retirement (Note 3)	Nil
Leave Salary (Note 4)	<u>30,000</u>
Gross Salary Rs.	1,64,800
Less : Deduction u/s. 16	<u>Nil</u>
<b>Total taxable salary Rs.</b>	<b><u>1,64,800</u></b>

**Working Notes:**

**1. Gratuity – Least of the following is exempt u/s.10(10)**

- (i) Rs. 3,50,000
  - (ii) Half months salary for 20 years of service Rs. 6,000 x 1/2 x 20 = Rs. 60,000
  - (iii) Actual gratuity Rs. 1,20,000.
- Rs. 60,000 being the least is exempt and balance Rs.60,000 is taxable.

2. Pension	Rs.
(i) Uncommuted pension before the date of commutation Rs. 3000 x 3	9,000
(ii) Uncommuted pension after the date of commutation Rs. 3,000 x 30% x 2	1,800
(iii) Commuted pension 42,000 Less : Exempt u/s.10(10A) 42,000 ÷ 70 x 100 = 60,000 <u>20,000</u>	
(1/3 <sup>rd</sup> of Rs. 60,000 since he is in receipt of gratuity)	<u>22,000</u>
<b>Taxable pension Rs.</b>	<b><u>32,800</u></b>

**3. Compensation on voluntary retirement - Exempt u/s.10(10C):**

- (i) 20 x 3 x 6,000 = Rs. 3,60,000 or 40 x 6,000 = Rs.2,40,000  
Whichever is less i.e. Rs. 2,40,000
  - (ii) Monetary ceiling Rs. 5,00,000
  - (iii) Actual compensation Rs. 2,00,000
- Rs. 2,00,000 being the least of the above is exempt.

<b>4. Exemption for leave salary u/s.10(10AA):</b>	
Total leave eligible on the basis of one month for each completed year of service	20 months
Total leave taken	25 months
Leave to his credit	Nil
Average of last 10 months salary	Rs.6,000
	Rs.
Least of the following is exempt :	
1. Cash equivalent of leave to the credit of employee at the time of retirement	Nil
2. 10 months salary – 6,000 x 10	60,000
3. Amount notified	3,00,000
4. Actual leave salary	30,000
Out of above, Rs. Nil being the least is exempt. Therefore, Rs. 30,000 is taxable.	

**6. Income from manufacturing activities:**

Particulars	Rs.	Rs.
Sale of sugar		25,00,000
Less: Market value of sugarcane	10,00,000	
Salary of managing director	3,00,000	
Other manufacturing cost	6,00,000	
Business income		19,00,000
<b>Income from Agricultural income</b>		
Market value of sugarcane	10,00,000	
Less: Cost of cultivation	6,00,000	
Agricultural income		4,00,000

**PRIME ACADEMY**  
**27<sup>th</sup> SESSION PROGRESS TEST**  
**PCC – INFORMATION TECHNOLOGY & STRATEGIC MANAGEMENT**

**TIME : 2 HOURS**

**TOTAL : 75 MARKS**

**PART A**

**(25x1=25 Marks)**

1. There are ----- generation of Computers
  - a. Three
  - b. Four
  - c. Five
  - d. Six
  
2. Concurrent Processing is the feature of ----- generation of Computers
  - a. Third
  - b. Fifth
  - c. Sixth
  - d. None
  
3. Server in a LAN environment is a
  - a. Computer system that provides services
  - b. Computer system which receives service
  - c. Is a work station
  - d. None of the above
  
4. Mother board
  - a. Is a high speed storage device used to increase the processing speed
  - b. Is a RAM , that enables the processor access more quickly
  - c. Acts as a base to all the various components.
  - d. None of the above
  
5. Integrated Drive Electronics (IDE) Drive connector is
  - a. Port
  - b. Connector
  - c. Network Card
  - d. All of the above
  
6. Processor registers is a
  - a. Main memory
  - b. Primary Storage
  - c. Secondary storage
  - d. Offline storage
  
7. Non-volatile memory is
  - a. That which requires constant power to maintain stored information
  - b. That which requires that stored information is periodically refreshed or read without modifications
  - c. Is that which is typically used only for primary storage

- d. Is one that retains the stored information even if it is not constantly supplied with electric power
- 8.** Storage capacity refers to the
  - a. Compactness of stored information
  - b. Total amount of stored information that a storage device or medium can hold
  - c. Is expressed as megabytes per square centimeter
  - d. All of the above
- 9.** Formatting
  - a. Is the process of mapping a diskette
  - b. Is nothing but initializing the new diskette for use
  - c. Involves the creating tracks and sectors
  - d. All of the above
- 10.** Smart Terminals
  - a. Are dumb terminal
  - b. Are dependant on the connected computer
  - c. Are programmable by users
  - d. Are intelligent terminals that contain a micro processor and storage facility
- 11.** Smart Cards are
  - a. Credit cards
  - b. Debit cards
  - c. Look alikes of Credit cards used for making utility payments and for storing personal information
  - d. All of the above
- 12.** OCR stands for
  - a. Output Character Recognition
  - b. Optical Character Recognition
  - c. Optical Character Reader
  - d. None of the above
- 13.** The demand for goods depends upon
  - a. People's ability to buy
  - b. People's willingness to buy
  - c. All of the above
  - d. None of the above
- 14.** Strength, size of the market, purchasing power are determined by
  - a. Socio-cultural environment
  - b. Demographic environment
  - c. Economic environment
  - d. Political environment
- 15.** Super national Enterprise
  - a. Is a Multinational Company
  - b. Is a Global Company
  - c. Is a world wide enterprise chartered by a substantially non-political international body

- d. All of the above
- 16.** Macro environment does not include
- a. Technological environment
  - b. Global environment
  - c. Competitors
  - d. None of the above
- 17.** A Business policy is
- a. The study of business strategy
  - b. A business plan
  - c. Is a study of functions and responsibilities of the senior management
  - d. All of the above
- 18.** Strategic management consists of
- a. Situational analysis
  - b. Goal setting and analysis of alternatives
  - c. Decision making and implementation
  - d. All of the above
- 19.** Mission refers
- a. To the statement which defines the role of an organization in the society
  - b. To the statement for which an organizations strives for
  - c. To the statement that function as a yardstick for tracking the organisations' performance
  - d. All of the above
- 20.** Strategic Vision is
- a. A sort of dream or idea
  - b. A mental perception
  - c. A direction setting for an enterprise
  - d. Is an expression of the growth ambition of an enterprise
- 21.** Organisation objectives lay down
- a. Ends to be achieved
  - b. Time bound targets of results
  - c. Future state of affairs sought to be realized
  - d. All of the above
- 22.** Corporate strategy are not
- a. Conceptual
  - b. Formulated at top level
  - c. Goal oriented
  - d. Operational
- 23.** Micro environment (*pick the odd one out*)
- a. Is the internal environment or task environment
  - b. Is the immediate environment with which the firm operates
  - c. Affects business and marketing in the daily operating level

d. Establishes interacting and inter-dependant relations

24. Legal political environment refers to

- a. Government
- b. Regulatory authorities
- c. Special interest groups
- d. All of the above

25. Conservative approach is

- a. least resistance in nature
- b. Adaptive in nature
- c. Dynamic in nature
- d. Confident approach

**PART - B**

**(Total 50 Marks)**

**Question 1 is compulsory and answer any three from the rest**

**1a. (i)** Describe different categories of the computer system that is used at every level of system operation

**1a. (ii)** Differentiate between Micro Computer and Work Station

**1 b.** What is Strategic Management? What benefits accrue by following a strategic approach to managing?

**(5 + 5+10 =20Marks)**

**2.a.** Describe the various input devices used to input and capture the data.

**2.b.** Describe in brief the methods of producing computer output.

**(5+5=10 marks)**

**3.a.** Briefly describe the Main components of a computer system



- 3. b.** Explain the concept of cooperation in relation to a competitive environment  
**(5+5=10 marks)**
- 4. a.** Explain how technological factors present an opportunity as well as threat to a particular business organization.
- 4.b.** Do you think that competition is always bad for organisations? Comment  
**(5+5=10 marks)**
- 5.a.** What are the advantages and disadvantages of Direct Access Storage?
- 5.b.** What do you understand by environmental influences on the environment? Discuss the problems associated with the efforts for understanding the environment.  
**(5+5=10 marks)**

**PRIME ACADEMY**  
**27<sup>th</sup> SESSION PROGRESS TEST**  
**PCC – INFORMATION TECHNOLOGY & STRATEGIC MANAGEMENT**  
**SUGGESTED ANSWERS**

**PART –A**

1. c- Five
2. b- Fifth
3. a- Which provides services
4. c- Acts as a base to all the various components
5. b- Connector
6. b- Primary Storage
7. d- Is one that reins the stored information even if it is not constantly supplied with electric power
8. b- Total amount of stored information that a storage device or medium can hold
9. d- All of the above
10. d- Are intelligent terminals that contain a micro processor and storage facility
11. c- Look alikes of Credit cards used for making utility payments and for storing personal Information
12. b- Optical Character Recognition
13. c- All of the above
14. c- Economic environment
15. c- Is a world wide enterprise chartered by a substantially non-political international body
16. c- Competitors
17. c- Is a study of functions and responsibilities of the senior management
18. d- All of the above
19. a- To the statement which defines the role of an organization in the society
20. c- A direction setting for an enterprise
21. d- All of the above
22. d- Operational
23. d- Establishes interacting and inter-dependant relations
24. d- All of the above
25. a- Least resistance in nature

## PART – B

1a. (i) Computers may be classified as under –

1. Super Computer
2. Main frame Computer
3. Mini Computer
4. Micro Computer
5. Work Stations
6. Server

1a. (ii) **Microcomputer** is a full-fledged computer system that uses a microprocessor as its CPU. These are also called personal computers. Between minicomputer and microcomputer, in terms of processing power, there is a class of computers known as workstation. It looks like a personal computer and is typically used by one person. Most microcomputers can run on DOS, Windows and Windows NT operating system

**Workstations** differ significantly from microcomputers in two areas. Internally, workstations are constructed differently than microcomputers. They are based on different architecture of CPU called Reduced Instruction Set Computing (RISC), which results in faster processing of instructions compared to microprocessor-based personal computers. Workstations are generally used by scientists and engineers. Workstations generally run on the Unix operating system or a variation of it. Although workstations are still more powerful than the average personal computer, the difference in the capabilities of these types of machines are growing smaller.

1b. In a highly competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. So to meet changing conditions in their industries, companies need to be farsighted and visionary, and must have a system of managing strategically.

Strategic management starts with developing a company mission (to give it direction), objectives and goals (to give it means and methods for accomplishing its mission), business portfolio (to allow management to utilize all facets of the organization), and functional plans (plans to carry out daily operations from the different functional disciplines).

The overall objective of strategic management is two fold:

To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.

To guide the company successfully through all changes in the environment.

The following are the benefits of strategic approach to managing:

Strategic management helps organizations to be more proactive instead of reactive in shaping its future. Organizations are able to analyze and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.

Strategic management provides framework for all the major business decisions of an enterprise such as decisions on businesses, products, and markets, manufacturing facilities, investments and organizational structure. It provides better guidance to entire organization on the crucial point - what it is trying to do.

Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organizations are able to identify the available opportunities and identify ways and means as how to reach them.

Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It helps organizations to avoid costly mistakes in product market choices or investments. Over a period of time strategic management helps organization to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

**2a.** The various input devices are:

- (1) **Keyboard:** A microcomputer's keyboard is normally its primary input and control device. One can enter data and issue commands via the keyboard. Besides the standard typewriter keyboard, most micro keyboards have function keys, also called soft keys of a document or worksheet that extend past the bottom, top, or sides of the screen. This is known as scrolling. The user can use the up and down arrow keys to scroll vertically and the left and right keys to scroll horizontally.
- (2) **Mouse:** The Mouse is a small box, from the bottom of which protrudes a small ball bearing. The ball bearing rotates when the user moves the Mouse across his desk and, as it is linked by cable to the microcomputer, this moves the cursor on the display screen. When the cursor alights on the facility required, the user presses a button on the top of the Mouse and it is activated. A mouse may have one, two or three buttons. A mouse may be classified as a mechanical mouse or an optical mouse, depending on the technology it uses.
- (3) **Touch Screen:** An invisible microwave beam 'matrix' cross crosses the screen, emanating from holes along the bottom and sides of the display unit. By pressing the finger against a function or program displayed on the screen, the infrared beam is broken at that intersection and the system activated. Touch screens are used in information-providing systems.
- (4) **Light Pen:** A light pen is a pointing device which can be used to select an option by simply pointing at it, or draw figures directly on the screen and move the figures around. A light pen has a photo-detector at its tip. This detector can detect changes in brightness of the screen. When the pen is pointed at a particular point on the screen, it records the instant change in brightness that occurs and informs the computer about this. Light pens are useful for menu-based applications. Instead of moving the mouse around or using a keyboard, the user can select an option by pointing at it. A light pen is also useful for drawing graphics in CAD.
- (5) **The Track Ball:** A track ball is a pointing device that works like an upside-down mouse. The user rests his thumb on the exposed ball and his fingers on the buttons. To move the cursor around the screen, the ball is rolled with the thumb. Since the whole device is not moved, a track ball requires less space than a mouse. So when space is limited, a track ball can be a boom. Track balls are particularly popular among users of notebook computers.
- (6) **Joystick:** It is a screen pointing input device. It is a vertical lever usually placed in a ball socket, which can be fitted in any direction to control cursor movements for computer games and for some professional applications.

**2b.** Various methods of producing computer outputs are:

**(1) Printed Output: Printers**

Printer is one of the most common output devices. It provides the user with a permanent visual record of the data output from the computer. Printers can print on ordinary paper or on specially prepared forms such as dispatch notes, invoices or packing slips. Printers have been developed that are capable of printing from 150 to 2,500 lines per minute, each line consisting of as many as 150 characters. Printers can broadly be subdivided into two categories: impact and non-impact printers. The former are the most common.

**(2) Computer output MICROFILM (microfiche)**

It is an output technique that records output from a computer as microscopic images on rolls or sheet film. The images stored on COM are the same images, which would be printed on paper. It reduces characters 24, 42, or 48 times smaller than normal size. The information is then recorded on 16 mm, 35 mm or 105 mm Microfilm. The data to be recorded is displaced on CRT and a camera takes a picture of it and places it on the film. The film is then processed either in the recorder unit or separately. After it is processed, it can be retrieved and viewed by the user.

**(3) Microphones and Voice Recognition**

Microphones are becoming increasingly important as input devices. Sound is used most often in multimedia, where the presentation can benefit from narration, music, or sound effects. In software, sounds are used to alert the user to a problem or to prompt the user for input. For this type of sound input, basically a digitized recording is required. All that one needs to make such a recording are a microphone (or some other audio input device, such as a CD player) and a sound card that translates the electrical signal from the microphone into a digitized form that the computer can store and process. Sound cards can also translate digitized sounds back into analog signals that can then be sent to the speakers. Translating voice to text is a capability known as voice recognition (or speech recognition) With it; one can speak to the computer rather than having to type. The user can also control the computer with oral commands, such as "shut down" or "print status report". Voice recognition software takes the smallest individual sounds in a language, called phonemes, and translates them into text or commands. Even though English uses only about 40 phonemes, a sound can have several different meanings ("two" versus "too," for example) making reliable translation difficult. The challenge for voice recognition system is to distinguish meaningful sounds from background noise.

**(4) Graph Plotter**

A graph plotter is a device capable of tracing out graphs, designs and maps into paper and even into plastic or metal plates. A high degree of accuracy can be achieved, even up to one thousandth of an inch. Plotters may be driven on-line or off-line. Computer systems dedicated to design work often operate plotter on-line but systems used for other applications as well as graphic applications operate them off-line. There are two types of plotters, drum and flatbed. A drum plotter plots on paper affixed to a drum. The drum revolves back and forth, and a pen suspended from a bar above moves from side-to-side taking up new plot positions or plotting as it moves. This device is suitable for routine graph plotting and also for fashion designs. On a flat-bed plotter, the paper lies flat. The bar on which the pen is suspended itself moves on a gantry to provide the necessary two-way movement. Color plotting is usually possible. Plotters are now increasingly being used in application like CAD, which requires high quality graphics on paper. A plotter can be connected to a PC through the parallel port.

A plotter is more software dependent than any other peripheral, and needs much more instructions than the printer for producing output

**3a.** A computer is a group of integrated parts that have common purpose of performing the required operations in the program being executed. The components of this system are called input, processing, output and memory. Each of these units performs specific functions, which are enumerated below:

**Input:** The entry of program statements and data into a computer occurs by means of an input device. Some of the more common input devices are keyboard, floppy disk drives and cartridge tape device.

**Central processing unit:** The heart of any computer is the central processing unit (CPU). It is this central processor that makes comparisons, performs calculations, reads, interprets and controls the execution of the instructions. It consists of two separate sub-units.

- (1) The control unit;
- (2) The arithmetic and logic unit;

**Control Unit:** The control unit, as the name implies, supervises the operations of the entire Computer. It selects the program statement from the storage unit, interprets the statement and sends the appropriate electronic impulses to the arithmetic/logic and storage units to cause these units to carry out the operations required.

**Arithmetic/Logic Unit:** Arithmetic and logic unit performs mathematical calculations, compares numeric and non-numeric values and makes decisions. The data flows between this unit and the storage unit during processing. Specifically, data is transferred as needed from the storage unit to the arithmetic/logic unit, manipulated and returned to the storage unit.

**Storage:** The storage, or primary memory section of the computer consists of the devices used to store the information which will be used during the computations. The storage section of the computer is also used to hold both intermediate and final results as the computer proceeds through the program. Common storage devices are bubble memory, RAM chips etc.

**Secondary storage:** Because the primary storage capacity of most computers is limited, it is both expensive and not always possible to hold a large volume of data and instructions in the primary storage. Hence, it becomes necessary to have secondary or auxiliary storage for holding data and programs not currently in use. The various secondary storage devices are the magnetic tape drives and magnetic disk drives.

**Output devices:** Output devices like input units are instruments of communication between people and machines. They are used to record the results obtained by the computer and present them to the outside world. The most commonly used output devices are printers, graph-plotters, magnetic disc drives, visual display unit etc

**3b.** In a competitive environment cooperation between different member firms in an industry ensures coordination and unification of the members and to determine the best means for safeguarding their interests, individually and collectively

For example, organization of oil exporting countries (OPEC) which is collective group of nations extracting and exporting oil is an oligopoly to protect the member nation's interests and to stabilize market prices

Cooperation can take any of the following forms-

- a. a small number of manufacturers/sellers joining together to form a **Cartel** to decide market prices, shares and profits
- b. Business under the control of the **same family** eg., Tata, Birla, reliance etc
- c. Business arrangements with enterprises in **related activities** eg. co- branding, tie up etc
- d. **Kieretsus**

**4a.** Technology is the most dynamic of all the environmental factors. An individual

Enterprise is concerned with the dynamics of its product and process technology, research and development activities in the industry and elsewhere, innovations in products and processes, technological obsolescence and so on. Changes in technology vitally affect the enterprise's costs, profitability, plant location decisions, product lines, growth and development. The technology and business are highly interrelated and interdependent also. Technology is patronized by business. Technology also drives business and makes a total change on how it is carried out.

Technology can act as both opportunity and threat to a business. It can act as opportunity as business can take advantage of adopting technological innovations to their strategic advantage. However, at the same time technology can act as threat if organizations are not able to adopt it to their advantage. For example, an innovative and modern production system can act as weakness if the business is not able to change their production system. New entrants or existing competitors can always use availability of technological improvements in products or production methods that can be a threat to a business.

Technological opportunities and threats are not limited to the product or production.

Technology permeates whole gambit of business. It can transform how a business acts and functions.

**4b.** Although competition makes organizations work harder, intense

Competition is neither a coincidence nor bad luck. All organizations have competition. The benefit of competition are also enjoyed by the markets in which organizations operate. The customers are able to get products at lower costs and better quality. They get better value of their money because of competition. To gain a deep understanding of a company's industry and competitive environment, managers do not need to gather all the information they can find and waste a lot of time digesting it. Rather, the task is much more focused. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition.

Competition is prevalent in any business environment irrespective of size, nature and type of customer etc

While preparing and implementing their plans business have to consider competitors strategies, profit levels products and services Competition leads to newer products, processes better quality in products and improved customer service.

Thus competition is not bad for organizations but serves as a stimulator for their growth.

**5(a).** The advantages of direct access devices are:

1. Magnetic rigid disk is a direct access storage medium; therefore, individual records can be retrieved without searching through the entire file.
2. The costs of disks are steadily declining.
3. For real-time systems where direct access is required, disks are currently the only practical means of file storage. Other new types of storage, such as bubble storage, are not widely used yet.
4. Records can be readily updated by writing the new information over the area where the old information was stored.
5. With removable disk packs, a single disk drive can store large quantities of data although all but one of the disks is offline at any given point in time. However, being Offline is not a disadvantage for many applications, especially batch applications.
6. Interrelated files stored on magnetic disk can allow a single transaction to be processed against all of these files simultaneously.

**The disadvantages of magnetic disk include:**

Updating a master file stored on disk destroys the old information. Therefore, disk does not provide an automatic audit trail. When disk is used, back-up and audit trail require that each old master file records be copied to another medium prior to update.

- 5b.** Businesses function within its relevant environment and have to continuously interact with it. To be successful businesses have to recognize different elements of the environment. They have to adapt or evolve themselves or have to manage and influence the elements. Disturbances in the environment may spell extreme threats or open up new opportunities for the firm. A successful business has to identify, appraise, and respond to the various opportunities and threats in its environment.

Business functions as a part of broader environment. The inputs in the form of human, physical, financial and other related resources are drawn from the environment. The business converts these resources through various processes into outputs of products and/or services. The latter are partly exchanged with the external client groups, say customers. The exchange process brings in some surplus (or profits, reputation, good public image and so on) to the business, which could be stored and used for further development and growth.

In trying to understand the environment, managers face different problems as follows:

- The environment encapsulates many different influences; the difficulty is in making sense of this diversity in a way, which can contribute to strategic decision-making. Listing all conceivable environmental influences may be possible, but it may not be of much use.
- The second difficulty is that of uncertainty. Managers typically claim that the pace of technological change and the speed of global communications mean more and faster change now than ever before. It is very difficult to understand future external influences on an organization.
- Managers are no different from other individuals in the way they cope with complexity. They tend to simplify such complexity by focusing on aspects of the environment, which, perhaps, have been historically important, or confirm prior views. These are the natural behavior of everyone faced with complexity.