

Business Organization Winter-2023

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- Q.1.** The primary focus of a manufacturing organisation is the production and sales of goods, which are its core activities. To achieve smooth production and growth in sales, it has to carry out certain other functions to support the production and sales teams. These are sometimes referred to as non-core functions. The non-core activities are equally important for any organisation, but sometimes, to save cost or to be able to concentrate on the core functions of the organisation, these non-core functions are outsourced.

The functions which a manufacturing organisation can outsource are as follows:

- (i) Cleaning and maintenance of the premises
- (ii) Security
- (iii) Professional services like legal, taxation and corporate affairs
- (iv) Transport and logistics
- (v) IT
- (vi) Finance
- (vii) HR

Total Marks 07

- Q.2.** The matters to be considered in respect of various external factors are as follows:

(a) Political Factors

- (i) Whether the country is politically stable or is it faced with internal and external conflicts.
- (ii) How is the overall law and order situation in the country?
- (iii) How consistent are the government's policies and how probable is that these are changed drastically due to any political or other reason?
- (iv) Is the country financially stable?
- (v) The country's laws governing the movement of foreign currency.
- (vi) How independent is the media?

(b) Economic factors

- (i) Per capita income of the country.
- (ii) Economic growth rate and is it sustainable.
- (iii) Rate of inflation.
- (iv) Interest rate
- (v) Sustainability of the banking system
- (vi) Position of fiscal and trade deficit.
- (vii) Rate of unemployment.
- (viii) What is the country's ranking in the ease of doing business index?
- (ix) Level of salaries and wages

(c) Social Factors

- (i) How big is the country's middle class?
- (ii) Population growth rate
- (iii) Level of education
- (iv) Age distribution of the population
- (v) Lifestyle, especially that of the middle class
- (vi) Health facilities available to the general public
- (vii) Cultural trends
- (viii) Influence of Social media
- (ix) Minimum wage as per law



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(d) Technological factors

- (i) Internet connectivity
- (ii) Level of use of E-commerce
- (iii) Which business platforms are available
- (iv) Availability of reliable public utilities like electricity and gas
- (v) Situation of cyber security

(e) Legal Factors

- (i) Consumer protection laws
- (ii) Competition laws
- (iii) Labour laws
- (iv) Copy right laws
- (v) Laws related to import and export
- (vi) Cyber security laws
- (vii) How quickly are financial disputes resolved by the Courts

Environmental Laws

- (i) Weather / Climate
- (ii) Climate change and its effects on the company
- (iii) Pollution levels
- (iv) Availability of renewal energy
- (v) History and frequency of weather related natural disasters
- (vi) Environment protection laws and costs associated with compliance thereof.

Total Marks 20

Q.3. Major information systems which are used by business organizations are described below:

a

Transaction processing systems

These are the systems which process various types of normal business transactions such as general ledger, sales processing, payroll, purchasing, etc.

Management information system

Management information system provides information regarding the company's performance and state of operations. These help in analyzing the performances by comparing it with budgets etc. and allowing the management to take routine decisions for improving the performance.

Decision support systems

Decision support systems helps the management in making more complex and unstructured decisions. Normally they contain different modules/models such as models for forecasting, statistical analysis, linear programming, etc.

Executive information systems

These are usually meant for the senior executives of the country. They can provide the senior executives with various type of information related to the organisation itself and also external information such as information related to international and local markets, competitors, etc. Further detailed analysis and information is also possible if required.

Enterprise resource planning systems (ERPs)

ERP systems are usually deployed by very large companies as they are very costly and also require a lot of efforts from all the departments of a company. The purpose is to integrate information related to various functions such as finance, production, sales, HR, procurement etc. so that information pertaining to one activity or



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generated by one department is effectively linked to and used by all other departments, allowing employee at every level to take decision with comprehensive and up to date knowledge.

Total Marks 15

Q.4. The audit committee of a listed company shall consist of:

- (i) The audit committee shall consist of at-least three non-executive directors including at-least one independent director.
- (ii) Chairman of the audit committee shall be an independent director and he shall not be the chairman of the Board of Directors.
- (iii) At least one member of the audit committee shall be “financially literate”.

The powers and responsibilities of the audit committee shall be as follows:

1. Recommending appointment and remuneration of External auditors to the Board.
2. Recommending appointment and removal of the head of internal audit.
3. Review of scope of internal audit, audit plan and reporting framework.
4. Determination of measures to safeguard the company's assets.
5. Review of annual and interim financial statements of the company, prior to approval by the Board.
6. Review of preliminary announcement of results prior to external communication and publication.
7. Review of management letter issued by the External Auditors and management's response thereto.
8. Facilitating external audit and discussion of any observations which external auditors may like to discuss, with or without the presence of the management.
9. Co-ordination between external and internal auditors of the company.
10. Ensuring the adequacy on internal control system in the company.
11. Review of company's statement on internal control systems prior to endorsement by the Board.
12. Determination of Compliance with relevant statutory requirements.
13. Monitoring company's compliance with Code of Corporate Governance and identification of violations, if any.
14. Review of scope of internal audit, audit plan and reporting framework.
15. Ensuring that internal audit function has adequate resources.
16. Considering of any other issue as may be assigned by the Board.

Total Marks 18

Q.5. In order to carry out any business, an organisation needs to take some risk. Companies usually decide to take those risks which they feel are justified based on the expectations of a profit. Risk appetite means the amount of risk which an organisation is willing to take in the hope of a certain amount of profit and in the given circumstances.

08

Risk Based Approach

It is an approach under which decisions are taken after detailed evaluation of risks and exposures. Under this approach, policy guidelines are prepared regarding the acceptable level of risk.

The risk based approach works on the view that some risk must be accepted. However, risk exposures must be kept within reasonable limits. Therefore, decision to take a risk should be based on the expected benefits.



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Q.5. The risk appetite of a company has to be decided by the Board of Directors. The Board's decision would depend on: 06

- The importance and the nature of decision
- Potential gain and size of risk involved
- The reliability of the information available, while making the decision. The board then needs to communicate the policy to the management. This would provide guidance to the managers about the levels of risks they may take under varying circumstances.

The Board would then be responsible to keep a watch to see that management's decisions are in accordance with the stated policy.

Total Marks 12

Q.6. As the company moves towards manufacturing operations, the complexities which it would need to deal with will increase significantly. The impact on the given factors is discussed below:

(a) Rule of Law

Manufacturing operation are significantly more complex as compared to retail operations. Some of the factors which the company would now need to consider would be as follows:

- Manufacturing operations would need compliance with a variety of labour laws such as those related to safety of operations, accident prevention, etc.
- The company would most likely be required to deal with CBAs and would have to introduce appropriate regulations in this regard.
- The cases of misconduct are likely to rise. Hence the company would be required to engage a competent team of internal and external legal experts.
- The penalties for violation are quite high and hence a continuous review of our labour practices would be imperative.
- The company would also be required to comply with environmental laws.

(b) Responsiveness

The relationships of a company dealing in retail are quite simple. While moving towards manufacturing operations they would become more complex and would need to be responded accordingly, as discussed below:

- The supply chain would be considerably more complex. The company would need to be alert to the possibility of any break in the supply chain due to any temporary or permanent reasons.
- The number of materials which would have to be purchased would increase significantly. Company would need to be alert with regard to change or expected change in prices and respond with appropriate and timely actions to obtain maximum benefit.
- As requirement for compliance with various laws and regulations would increase, the company would need to remain alert and respond to any unplanned event on a timely basis.
- The size of the workforce would increase significantly; hence HR challenges would become more sophisticated requiring adequate and timely response from the management.



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(c) Competence and Capacity

Manufacturing operations are very complex as compared to retail operations. Any faults or compromises in quality are bound to prove very costly. Moreover, finding and retaining competent personnel is a much bigger challenge when it comes to manufacturing operations. Hence, management would need to give extreme importance to its HR policies, to be able to hire, train, motivate and retain its workforce.

(d) Innovation and openness to change

To compete effectively in the market, a manufacturer needs a high degree of innovation and openness to change. The company cannot afford to be reactive in this regard as delays in introducing change may prove very costly. Hence a proactive approach would be required. A research and development department with adequate resources would be needed to be ready to exploit and opportunities leading to increase in marketability of the company's products and control of costs.

Total Marks 20

Q.7. The requirements with regard to holding of meetings of the Audit Committee of a listed company are as follows:

- The committee should meet at least once every quarter.
- The meetings should be held prior to approval of interim results of the company and after completion of external audit.
- A meeting of the Committee shall also be held if requested by Chairman of Audit Committee, head of internal audit or the external auditors.
- At least once in each year, the audit committee should meet the external auditors, without the presence of CFO and head of internal audit.
- At least once in each year, the audit committee should meet the head of internal audit and other members of the internal audit function without the presence of CFO and external auditors.

Attendance

- Head of internal audit and the external auditors shall attend the meeting of the audit committee in which matters related to accounts and audit are discussed.
- CEO and CFO should be available for attending the meeting of the audit committee at the invitation of the chairman of the audit committee.

Total Marks 06
