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SCANNER™ Appendix

**CA Final Gr. I (New Course)
November - 2009**

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PAPER'S

Paper - 1 : Financial Reporting

Chapter-1 : Accounting Standards & Guidance Notes

2009 - Nov [1] (a) The following data apply to 'X' Ltd. defined benefit pension plan for the year ended 31.03.09, calculate the actual return on Plan assets:

- | | | |
|---|--|-----------|
| — | Benefits Paid | 2,00,000 |
| — | Employer contribution | 2,80,000 |
| — | Fair market value of plan assets on 31.03.09 | 11,40,000 |
| — | Fair market value of plan asset as on 31.03.08 | 8,00,000 |
- (b) U.S.A. Ltd. purchased raw material @ Rs. 400 per kg. company does not sell raw material but uses in production of finished goods. The finished goods in which raw material is used are expected to be sold at below cost. At the end of the accounting year company is having 10000 kg. of raw material in stock. As the company never sells the raw material, it does not know the selling price of raw material and hence can not calculate the realisable value of the raw material for valuation of inventories at the end of the year. However replacement cost of raw material is Rs. 300 per kg. How will you value the inventory of raw material ?
- (c) Moon Ltd. entered into agreement with Sun Ltd. for sale of goods of Rs. 8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2009. On the same day Sun Ltd. entered into another agreement with Moon Ltd. to resell the same goods at Rs. 10.80 lakhs on 1st August, 2009. State the treatment of this transaction in the financial statements of Moon Ltd. as on 31.03.09. The pre-determined re-selling price covers the holding cost of Sun Ltd. Give the Journal Entries as on 31.03.09 in the books of Moon Ltd.

- (d) XY Ltd. was making provisions for non-moving stocks based on no issues for the last 12 months upto 31.03.08. Based on technical evaluation the company wants to make provisions during the year 31.03.09.

Total value of stock - Rs. 150 lakhs.

Provisions required based on 12 months issue Rs. 4.0 lakhs.

Provisions required based on technical evaluation Rs. 3.20 lakhs.

Does this amount to change in accounting policy ? Can the company change the method of provision ? (5 × 4 = 20 marks)

2009 - Nov [6] Write short notes on the following :

- (b) Treatment of refund of Government grants. (4 marks)
- (c) Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS—24, but that might do so in combination with other circumstances. (4 marks)
- (d) From the following information compute diluted earnings per share.
- | | |
|---|-----------------|
| Net profit for the year 2008 | Rs. 12,00,000 |
| Weighted average number of equity shares outstanding during the year 2008 | 5,00,000 shares |
| Average fair value of one equity share during the year 2008 | Rs. 20 |
| Weighted average number of shares under option during the year 2008 | 1,00,000 shares |
| Exercise price per share under option during the year 2008 | Rs. 15 |
- (4 marks)

Chapter-4: Accounting for Corporate Restructuring

2009 - Nov [2] The following is the Balance Sheets of H Ltd. and S Ltd. as at 31.03.09 :

		<i>Rs. in lakhs</i>	
<i>H Ltd.</i>	<i>S Ltd.</i>	<i>H Ltd.</i>	<i>S Ltd.</i>
<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
Share capital		Fixed assets	60
Share of 10 each	50	Investment	18
General reserve	50	in Y (60000 shares)	6
Profit and Loss	20	Debtors	35
Secured loan	20	Inventories	30
Current liabilities	30	Cash at Bank	39
	<u>170</u>		<u>170</u>
	<u>50</u>		<u>50</u>

H Ltd. holds 60% of the paid up capital of S Ltd. and balance is held by a foreign company. The foreign company agreed with H Ltd. as under :

- (i) The shares held by the foreign company will be sold to H Ltd. at Rs. 50 above than nominal value of per share.

- (ii) The actual cost per share to the Foreign Company was Rs. 11, gain accruing to Foreign Company is taxable @ 20%. The tax payable will be deducted from the sale proceeds and paid to Govt. by H Ltd. 50% of the consideration (after payment of tax) will be remitted to Foreign Company by H Ltd. and also any cash for fractional shares allotted.
- (iii) For the Balance of consideration H Ltd. would issue its shares at their intrinsic value.

It was also decided that H Ltd. would also absorb S Ltd. simultaneously by writing down the fixed assets of S Ltd. by 10%. The Balance Sheet figure included a sum of Rs. 1 lakh due by S Ltd. to H Ltd. included stock of Rs. 1.5 lakhs purchased from S Ltd. who sold them at cost plus 20%.

Pass Journal entries in the books of H Ltd. to record the above arrangement on 31.03.09 and prepare the Balance Sheet of H Ltd. after absorption of S Ltd. workings should form part of your answer.

(16 marks)

Chapter-5: Consolidated Financial Statements of Group Companies

2009 - Nov [3] P Ltd. owns 80% of S and 40% of J and 40% of A. J is jointly controlled entity and A is an associate Balance Sheet of four companies as on 31.03.09 are :

<i>Assets</i>	<i>P Ltd.</i>	<i>S</i>	<i>J</i>	<i>A</i>
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
Investment in S	800	—	—	—
Investment in J	600	—	—	—
Investment in A	600	—	—	—
Fixed assets	1000	800	1400	1000
Current assets	2200	3300	3250	3650
Total	5200	4100	4650	4650
<i>Liabilities :</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
Share capital Re 1				
Equity share	1000	400	800	800
Retained earnings	4000	3400	3600	3600
Creditors	200	300	250	250
Total	5200	4100	4650	4650

P Ltd. acquired shares in S many years ago when S retained earnings were Rs. 520. P Ltd. acquired its shares in J at the beginning of the year when J retained earnings were Rs. 400. P Ltd. acquired its shares in 'A' on 01.04.08 when 'A' retained earnings were Rs. 400.

The Balance of goodwill relating to S had been written off three years ago. The value of goodwill in J remains unchanged.

Prepare the consolidated Balance Sheet of P Ltd. as on 31.03.09. As per AS-21, 23 and 27.

(16 marks)

Chapter-6: Accounting & Reporting of Financial Instruments

2009 - Nov [4] (a) On 1 April, 2008 Delta Ltd. issued Rs. 30,00,000, 6% convertible debentures of face value of Rs. 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31.03.12 or these may be converted into ordinary shares at the option of the holder the interest rate for equivalent debentures without conversion rights would have been 10%. Being compound financial instrument, you are required to separate equity and debt portion as on 01.04.08.

The present value of Re. 1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as :

		6%	10%	
End of year	1	0.94	0.91	
	2	0.89	0.83	
	3	0.84	0.75	
	4	0.79	0.68	(8 marks)

Chapter-8: Financial Reporting for Financial Institutions

2009 - Nov [5] (a) A Mutual Fund raised 100 lakh on April 1, 2009 by issue of 10 lakh units of Rs. 10 per unit. The fund invested in several capital market instruments to build a portfolio of Rs. 90 lakhs. The initial expenses amounted to Rs. 7 lakh. During April, 2009, the fund sold certain securities of cost Rs. 38 lakhs for Rs. 40 lakhs and purchased certain other securities for Rs. 28.20 lakhs. The fund management expenses for the month amounted to Rs. 4.50 lakhs of which Rs. 0.25 lakh was in arrears. The dividend earned was Rs. 1.20 lakhs. 75% of the realised earnings were distributed. The market value of the portfolio on 30.4.2009 was Rs. 101.90 lakh.

Determine NAV per unit. (8 marks)

2009 - Nov [6] Write short notes on the following :

(a) Capital adequacy ratio for Non-Banking Financial Companies (NBFC) (4 marks)

Chapter-13: Human Resource Reporting

2009 - Nov [5] (b) From the following details, compute according to Lav and Schwartz (1971) model the total value of human resources of the employee groups skilled and unskilled.

	Skilled	Unskilled
(i) Annual average earning of an employee till the retirement age	Rs. 50,000	Rs. 30,000
(ii) Age of retirement	65 years	62 years
(iii) Discount rate	15%	15%
(iv) No. of employees in the group	20	25
(v) Average age	62 yrs.	60 yrs.
		(8 marks)

Chapter-14: Inflation Accounting

2009 - Nov [4](b) When general price index was 100, Standard Ltd. purchased fixed assets of Rs. 2 crore and it had also permanent working capital of Rs. 80 lakhs. The entire amount required for purchase of fixed assets and permanent working capital was financed by way of 12% redeemable share capital. Standard Ltd. wants to maintain its physical capital.

On 31.03.09, the company had reserves of Rs. 3.50 crores. The general price index on that was 200. The written down value of fixed assets was Rs. 20 lakhs and they were sold for 3 crores. The proceeds were utilised for redemption of shares on the same day (31.03.09) the company purchased new factory for Rs. 20 crores. The ratio of permanent working capital to cost of assets to be maintained at 0.4 : 1.

The company raised the additional funds required for the purpose by issue of equity shares :

(A) Calculate the amount of equity capital raised.

(B) Show the Balance Sheet as on 01.04.09.

(8 marks)

Paper - 2 : Strategic Financial Management

Chapter-2 : Lease and Hire Purchase

2009 - Nov [1] (a) M/s ABC Ltd. is to acquire a personal computer with modem and a printer. Its price is Rs. 60,000. ABC Ltd. can borrow Rs. 60,000 from a commercial bank at 12% interest per annum to finance the purchase. The principal sum is to be repaid in 5 equal year-end instalments.

ABC Ltd. can also have the computer on lease for 5 years.

The firm seeks your advise to know the maximum lease rent payable at each year end. Consider the following additional information :

- (i) Interest on bank loan is payable at each year end.
- (ii) The full cost of the computer will be written off over the effective life of computer on a straight-line basis. This is allowed for tax purposes.
- (iii) At the end of year 5, the computer may be sold for Rs. 1,500 through a second-hand dealer, who will charge 8% commission on the sale proceeds.
- (iv) The company's effective tax rate is 30%.
- (v) The cost of Capital is 11%.

Suggest the maximum Annual lease rental for ABC Ltd. :

PV Factor at 11%

1	0.901
2	0.812
3	0.731
4	0.659
5	0.593

(12 marks)

Chapter-3 : Dividend Decisions

2009 - Nov [4] (c) A firm had been paid dividend at Rs. 2 per share last year. The estimated growth of the dividends from the company is estimated to be 5% p.a. Determine the estimated market price of the equity share if the estimated growth rate of dividends (i) rises to 8%, and (ii) falls to 3%. Also find out the present market price of the share, given that the required rate of return of the equity investors is 15.5%. (6 marks)

Chapter-4 : Indian Capital Market and Security Analysis

2009 - Nov [2] (c) Following Financial data are available for PQR Ltd. for the year 2008 : (Rs. in lakh)

8% debentures	125
10% bonds (2007)	50
Equity shares (Rs. 10 each)	100
Reserves and Surplus	300
Total Assets	600
Assets Turnovers ratio	1.1
Effective interest rate	8%
Effective tax rate	40%
Operating margin	10%
Dividend payout ratio	16.67%
Current market Price of Share	14
Required rate of return of investors	15%

You are required to :

- Draw income statement for the year
- Calculate its sustainable growth rate
- Calculate the fair price of the Company's share using dividend discount model, and
- What is your opinion on investment in the company's share at current price ? (6 marks)

2009 - Nov [3] (a) Closing values of BSE Sensex from 6th to 17th day of the month of January of the year 200X were as follows :

Days	Date	Day	Sensex
1	6	THU	14522
2	7	FRI	14925
3	8	SAT	No Trading
4	9	SUN	No Trading
5	10	MON	15222
6	11	TUE	16000
7	12	WED	16400
8	13	THU	17000
9	14	FRI	No Trading
10	15	SAT	No Trading
11	16	SUN	No Trading
12	17	MON	18000

Calculate Exponential Moving Average (EMA) of Sensex during the above period. The 30 days simple moving average of Sensex can be assumed as 15,000. The value of exponent for 30 days EMA is 0.062.

Give detailed analysis on the basis of your calculations. (6 marks)

- (b) XYZ company has current earnings of Rs. 3 per share with 5,00,000 shares outstanding. The company plans to issue 40,000, 7% convertible preference shares of Rs. 50 each at par. The preference shares are convertible into 2 shares for each preference shares held. The equity share has a current market price of Rs. 21 per share.
- What is preference shares' conversion value ?
 - What is conversion premium ?
 - Assuming that total earnings remain the same, calculate the effect of the issue on the basic earning per share (a) before conversion (b) after conversion.
 - If profits after tax increases by Rs. 1 million what will be the basic EPS (a) before conversion and (b) on a fully diluted basis ?

(8 marks)

2009 - Nov [4] (b) An investor is considering the purchase of the following Bond :

Face value	Rs. 100
Coupon rate	11%
Maturity	3 years

- If he wants a yield of 13% what is the maximum price he should be ready to pay for ?
- If the Bond is selling for Rs. 97.60, what would be his yield ?

(4 marks)

Chapter-5 : Merge Chapter 4 & 5 "Indian Capital market and security Analysis"

Chapter-6 : Portfolio Theory

2009 - Nov [2] (a) An investor holds two stocks A and B. An analyst prepared ex-ante probability distribution for the possible Economic scenarios and the conditional returns for two stocks and the market index as shown below :

Economic scenario	Probability	Conditional Returns %		
		A	B	Market
Growth	0.40	25	20	18
Stagnation	0.30	10	15	13
Recession	0.30	- 5	- 8	- 3

The risk free rate during the next year is expected to be around 11%. Determine whether the investor should liquidate his holdings in stocks A and B or on the contrary make fresh investments in them. CAPM assumptions are holding true. (10 marks)

2009 - Nov [5] (b) A study by a Mutual fund has revealed the following data in respect of three securities :

Security	σ (%)	Correlation with Index, P_m
A	20	0.60
B	18	0.95
C	12	0.75

The standard deviation of market portfolio (BSE Sensex) is observed to be 15%.

- What is the sensitivity of returns of each stock with respect to the market ?
 - What are the covariances among the various stocks ?
 - What would be the risk of portfolio consisting of all the three stocks equally ?
 - What is the beta of the portfolio consisting of equal investment in each stock ?
 - What is the total, systematic and unsystematic risk of the portfolio in (iv) ?
- (8 marks)

Chapter-7 : Financial Services in India

2009 - Nov [2] (b) What are the limitations of Credit Rating ? (4 marks)

Chapter-8 : Mutual Funds

2009 - Nov [1] (b) A mutual fund made an issue of 10,00,000 units of Rs. 10 each on January 01, 2008. No entry load was charged. It made the following investments :

	Rs.
50,000 Equity shares of Rs. 100 each @ Rs. 160	80,00,000
7% Government Securities	8,00,000
9% Debentures (Unlisted)	5,00,000
10% Debentures (Listed)	<u>5,00,000</u>
	<u>98,00,000</u>

During the year, dividends of Rs. 12,00,000 were received on equity shares. Interest on all types of debt securities was received as and when due. At the end of the year equity shares and 10% debentures are quoted at 175% and 90% respectively. Other investments are at par.

Find out the Net Assets Value (NAV) per unit given that operating expenses paid during the year amounted to Rs. 5,00,000. Also find out the NAV, if the Mutual fund had distributed a dividend of Re. 0.80 per unit during the year to the unit holders.

(8 marks)

Chapter-10 : FDI, FII and International Financial Management

2009 - Nov [3](c) What is the impact of GDRs on Indian Capital Market ?
(6 marks)

Chapter-11 : Foreign Exchange Exposure and Risk Management

2009 - Nov [5] (a) M/s Omega Electronics Ltd. exports airconditioners to Germany by importing all the components from Singapore. The company is exporting 2,400 units at a price of Euro 500 per unit. The cost of imported components is S\$ 800 per unit. The fixed cost and other variables cost per unit are Rs. 1,000 and Rs. 1,500 respectively. The cash flows in Foreign currencies are due in six months. The current exchange rates are as follows :

Rs/Euro	51.50/55
Rs/S\$	27.20/25

After six months the exchange rates turn out as follows :

Rs/Euro	52.00/05
Rs/S\$	27.70/75

- (1) You are required to calculate loss/gain due to transaction exposure
- (2) Based on the following additional information calculate the loss/gain due to transaction and operating exposure if the contracted price of airconditioners is Rs. 25,000 :

- (i) the current exchange rate changes to

Rs/Euro	51.75/80
Rs/S\$	27.10/15

- (ii) Price elasticity of demand is estimated to be 1.5
 - (iii) Payments and receipts are to be settled at the end of six months.

(12 marks)

Chapter-12 : Merge Acquisition, Restructuring & Business Valuation

2009 - Nov [4] (a) You have been provided the following Financial data of two companies :

	Krishna Ltd.	Rama Ltd.
Earnings after taxes	Rs. 7,00,000	Rs. 10,00,000
Equity shares (outstanding)	Rs. 2,00,000	Rs. 4,00,000
EPS	3.5	2.5
P/E ratio	10 times	14 times
Market price per share	Rs. 35	Rs. 35

Company Rama Ltd. is acquiring the company Krishna Ltd., exchanging its shares on a one-to-one basis for company Krishna Ltd. The exchange ratio is based on the market prices of the shares of the two companies.

Required :

- (i) What will be the EPS subsequent to merger ?
- (ii) What is the change in EPS for the shareholders of companies Rama Ltd. and Krishna Ltd. ?
- (iii) Determine the market value of the post-merger firm : PE ratio is likely to remain the same.
- (iv) Ascertain the profits accounting to shareholders of both the companies.

(10 marks)

Paper - 3 : Advanced Auditing and Professional Ethics**Chapter-1 : Auditing and Assurance Standards & Guidance Notes**

2009 - Nov [1] Comment on the following :

- (c) Moon Limited replaced its statutory auditor for the Financial year 2008-09. During the course of audit, the new auditor found a credit item of Rs. 5 lakhs. On enquiry, the company explained him that it is a very old credit balance. The creditor had neither approached for the payment nor he is traceable. Under the circumstances, no confirmation of the credit balance is available. (5 marks)

2009 - Nov [3] Answer the following :

- (a) Briefly explain :
(i) Audit procedures on subsequent events. (4 marks)

Chapter-2 : Accounting Standards & Schedule VI

2009 - Nov [1] Comment on the following :

- (b) XYZ Limited received a grant of Rs. 25 lakhs under the Governments' Subsidy Scheme, for acquiring an imported machinery for setting up new plant. The entire grant received is credited to Profit and Loss Account. (5 marks)

Chapter-4 : Risk Assessment and Internal Control

2009 - Nov [6] Answer the following :

- (c) Explain briefly the Flow Chart technique for evaluation of the Internal Control system. (4 marks)

Chapter-5 : Audit under CIS Environment

2009 - Nov [6] Answer the following :

- (a) The role of an auditor in collecting audit evidences under EDP system is more complex than under the manual system—Discuss. (8 marks)

Chapter-7 : Divisible Profit, Dividends, Reserves & Depreciation

2009 - Nov [6] Answer the following :

- (b) What do you understand about Reserved Capital as provided under Section—99 of the Companies Act, 1956 ? How is it different from Capital Reserve ? (4 marks)

Chapter-8 : Liabilities of Auditor

2009 - Nov [4] Answer the following :

- (c) Explain briefly duties and responsibilities of an auditor in case of material misstatement resulting from Management Fraud. (6 marks)

Chapter-9 : Audit Report

2009 - Nov [1] Comment on the following :

- (d) The statutory audit of Fortune Limited for the year ended on 31.03.2009 was completed and auditor also submitted his report with the audited Financial Statements to the management of the company. Thereafter, the management of the company approached the auditor to revise certain items in the Financial Statements. (5 marks)

Chapter-11 : Audit of Banks**2009 - Nov [4]** Answer the following :

- (a) How will you evaluate the Internal Control system in the area of Credit Card operations of a Bank ? (5 marks)

Chapter-12 : Audit of General Insurance Company**2009 - Nov [4]** Answer the following :

- (b) Enumerate the steps to be taken by an auditor for the verification of Re-insurance outward in case of a General Insurance Company. (5 marks)

Chapter-13 : Audit of Co-operative Societies**2009 - Nov [5]** Answer the following :

- (c) Under what circumstances, an auditor is required to submit a special report to the registrar of Co-operative Societies ? (4 marks)

Chapter-15 : Audit under Fiscal Laws**2009 - Nov [1]** Comment on the following :

- (a) 'A' Limited has paid minimum alternate tax under Section 115 JB of the Income Tax Act, 1961, for the year ended 31st March, 2009. The company wants to disclose the same as an 'Asset' since the company is eligible to claim credit for the same. (5 marks)

2009 - Nov [3] Answer the following :

- (b) ABC Printing Press, a proprietary concern, made a turnover of above Rs. 43 lacs for the year ended 31.03.2009. The Management explained its auditor Mr. Z, that it undertakes different job work orders from customers. The raw materials required for every job are dissimilar. It purchases the raw materials as per specification/requirements of each customer, and there is hardly any balance of raw materials remains in the stock, except pending work-in-progress at the year end. Because of variety and complexity of materials, it is rather impossible to maintain a stock-register.

Give your comments. (5 marks)

- (c) A Co-operative Society having receipts above Rs. 40 lakhs gets its accounts audited by a person eligible to do audit under Co-operative Societies Act, 1912, who is not a Chartered Accountant ? State with reasons whether such audit report can be furnished as tax audit report under Section 44 AB of the Income Tax Act, 1961 ? (3 marks)

2009 - Nov [5] Answer the following :

- (b) Discuss briefly Accounting standards to be followed by assesseees under the Income-tax Law. (4 marks)

Chapter-21 : Peer Review**2009 - Nov [3]** Answer the following :

- (a) Briefly explain :
(ii) Collection of evidences by Peer reviewer. (4 marks)

Chapter-22 : Professional Ethics

2009 - Nov [2] Give your comments with reference to the Chartered Accountants Act, and schedules thereto :

- (a) Mrs. Fair is a Director of XYZ Private Limited, having 15% share-holdings in the company. During 2003, the company appointed C.A. Mr. Lovely, Mrs. Fair's spouse, as its statutory auditor. On Mr. Lovely's advice, the company issued fresh equity shares in 2003-04, in the ratio of one share for every two shares held by the shareholders of the company. Mr. Lovely used to deliver audit report for subsequent years without any comments or disclosures, thereupon. (4 marks)
- (b) Mr. A, a Chartered Accountant was the auditor of 'A Limited'. During the Financial year 2007-08, the investments appeared in the Balance Sheet of the company of Rs. 10 lakhs and was the same amount as in the last year. Later on, it was found that the company's investments were only Rs. 25,000, but the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. (4 marks)
- (c) An advertisement was Published in a Newspaper containing the Photograph of Mr. X,—A member of the institute wherein he was congratulated on the occasion of the opening ceremony of his office. (4 marks)
- (d) Mr. X, a Chartered Accountant and the proprietor of X & Co., wrote several letters to the Assistant Registrar of Co-operative Societies stating that though his firm was on the panel of auditors, no audit work was allotted to the firm and further requested him to look into the matter. (4 marks)

Chapter-24 : Sarbans -Oxley Act of 2002

2009 - Nov [5] Answer the following :

- (a) State briefly eight provisions of the Sarbanes-Oxley Act of 2002, which shall, if strictly applied to Indian Corporates, get fruitful results. (8 marks)

Paper - 4 : Corporate and Allied Laws**Chapter-1 : Accounts & Audit**

2009 - Nov [1] (a) Prakash Carriers Limited appointed Mr. Raman as its auditor in the Annual General Meeting held on 30th September, 2009. Initially, he accepted the appointment. But he resigned from his office on 31st October, 2009. For personal reasons. The Board of Directors seeks your advice for filling up the vacancy by appointment of Mr. Albert as auditor. Advise.

Also suggest the procedure to be adopted in case Mr. Albert is proposed to be removed from his office before the expiry of his term. (5 marks)

Chapter-2 : Dividend

2009 - Nov [1] (b) A Public Company has been declaring dividend at the rate of 20% on equity shares during the last 5 years. The Company has not made adequate profits during the year ended 31st March, 2009, but it has got adequate reserves which can be utilised for maintaining the rate of dividend at 20%. Advise the Company as to how it should go about if it wants to declare dividend at the rate of 20% for the year 2008-2009. Would your answer be different if the company utilised only the profits made in the previous years and retained in the profit and loss account for the purpose of payment of dividend at the rate of 20% for the year 2008-2009 ? (5 marks)

Chapter-3 : Meetings of directors and Related Party Transactions

2009 - Nov [2] (b) Mr. Kamlesh, son of Managing Director of a Public Company, is proposed to be appointed as Chief Executive of the Company on a Monthly remuneration of Rs. 75,000. State the provisions of the Companies Act, 1956 which are required to be complied with by the company in this regard ?

Will it make any difference if Mr. Kamlesh is appointed as whole-time Director on the same remuneration ? (5 marks)

2009 - Nov [3] (a) Proximo Limited has 9 Directors out of whom 3 Directors have gone abroad. The Chairman had an urgent matter to be approved by the Board of Directors which could not be postponed till the next Board meeting. The Company, therefore, circulated the resolution for approval of the Directors. 4 out of 6 Directors in India approved the resolution. The Company claimed that the resolution was passed. Examine with reference to the provisions of Section 289 of the Companies Act, 1956 the validity of the resolution. (5 marks)

- (b) Premier Machineries Limited having paid-up share capital of Rs. 90 lakhs proposes to enter into contract with the following parties for supply of components with effect from 1st January, 2008 for a period of 3 years :
- (i) XYZ Metal Forging Private Limited in which Mr. John, a Director of Premier Machineries Limited, is a Director and member.
 - (ii) ABC Casting Limited in which Mr. Philips, a Director of Premier Machineries Limited, holds 30% of the paid-up share capital.

The capital of Premier Machineries Limited was increased to Rs. 1.50 crores on 1st January, 2009 by issue of further shares.

Briefly discuss the legal requirements to be complied with under the Companies Act, 1956 to give effect to the above proposals taking into account the increase in the paid-up share capital on 1st January, 2009. (5 marks)

2009 - Nov [7] (b) The Board of Directors of LM Limited propose to donate Rs. 3,00,000 to a school established exclusively for the benefit of children of employees and also donate Rs.50,000. to a political party during the Financial year ending 31st March, 2010. The average net profits determined in accordance with the provisions of Sections 349 and 350 of the Companies Act,

1956 during the three immediately preceding financial years is Rs. 40,00,000. Examine with reference to the provisions of the Companies Act, 1956 whether the proposed donations are within the powers of the Board of Directors of the Company. (5 marks)

Chapter-5 : Sole Selling Agents

2009 - Nov [7] (a) A Company proposes to appoint a Sole Selling Agent for its products. State the cases in which such appointment requires approval of Central Government. Draft a Board Resolution to appoint a sole selling agent in a case where such appointment does not require approval of Central Government. (5 marks)

Chapter-6 : Inspection and Investigation

2009 - Nov [4] (a) The report submitted by the inspector appointed under Section 235/237 of the Companies Act, 1956 to investigate the affairs of a Company revealed that substantial funds of the company have been misappropriated by the Managing Director of the Company. The Central Government is of the opinion that effective action may not be taken by the company for recovery of the funds misappropriated by the Managing Director. Examine with reference to the provisions of the Companies Act, 1956 the action that can be taken by the Central Government for recovery of damages or funds misappropriated by the Managing Director. (5 marks)

Chapter-7 : Compromise, Arrangements & Reconstructions

2009 - Nov [4] (b) Answer the following explaining the relevant provisions of the Companies Act, 1956 :

- (i) Whether the companies being amalgamated must be companies registered under the Companies Act, 1956.
- (ii) Whether the Companies seeking sanction of the court for a scheme of amalgamation must have specific power to amalgamate in the object clause of their Memorandum of Association. (5 marks)

Chapter-8 : Prevention of oppression and Mismanagement

2009 - Nov [2] (a) Explain the action that can be taken by the Central Government. When a complaint is received from some shareholders of a Public Company that a person has been appointed as the Managing Director of the Company without seeking the approval of the Central Government, when such approval is required. Also examine the validity of the acts of the Managing Director, if the complaint is found to be true. (5 marks)

2009 - Nov [5] (a) A group of members of XYZ Limited has filed a petition before the Company Law Board alleging various acts of oppression and mismanagement by the majority shareholders of the Company. The Petitioner group holds 12% of the issued share capital of the company. During the pendency of the petition, some of the petitioner group holding about 5% of the issued share capital of the company wish to disassociate themselves from the petition and they alongwith the other majority shareholders have submitted before the Company Law Board that the petition may be dismissed on the

ground of non-maintainability. Examine their contention having regard to the provisions of the Companies Act, 1956. (5 marks)

Chapter-10 : Corporate Winding up and Dissolution

2009 - Nov [5](b) M/s, Raman Ltd. was wound up by the Court. The official liquidator invited claims from its creditors which stood as under :

Income tax dues	:	Rs. 11 lakhs
Sales tax dues	:	Rs. 5 lakhs
Dues of Workers	:	Rs. 25 lakhs
Unsecured loans payable to directors	:	Rs. 25 lakhs
Trade creditors who supplied raw material	:	Rs. 15 lakhs
Secured creditor being the bankers of the company	:	<u>Rs. 75 lakhs</u>
		<u>Rs. 156 lakhs</u>

Official Liquidator could realise only Rs. 80 lakhs by sale of assets and realisations made from the company's debtors, which is not sufficient to pay to all the creditors. Please decide the order of priority for payment to creditors explaining the relevant provisions of the Companies Act, 1956. (5 marks)

Chapter-11 : Producer Companies

2009 - Nov [6](b) A producer company has received applications from Mr. Ramanathan, a Director of the company, and Mr. Prem, a member of the Company, for grant of loan of Rs. 2,00,000 and Rs. 25,000 respectively. Discuss the relevant provisions of the Companies Act, 1956 as to how the applications for grant of loan will be disposed of by the Company. (5 marks)

Chapter-12 : Foreign Companies

2009 - Nov [6] (a) Examine whether the following companies can be considered as 'Foreign Companies' under the Companies Act, 1956 :

- (i) A company which is incorporated outside India employs agents in India but has no place of Business in India.
- (ii) A company incorporated outside India having shareholders who are all Indian citizens.
- (iii) A company incorporated in India but all the shares are held by foreigners. (5 marks)

Chapter-17 : SEBI Act, 1992

2009 - Nov [8] An Unlisted Public Company, having a paid-up equity share capital of Rs. 5 crores consisting of 50,00,000 equity shares of Rs. 10 each fully paid-up, proposes to reduce the denomination of equity shares to less than Rs. 10 per share and make an initial public offer of equity shares at a premium. Examine whether it is possible for the company to issue shares at a denomination of less than Rs. 10 and, if so, state the minimum issue price and other conditions to be fulfilled under the SEBI (Disclosure and Investor Protection) Guidelines, 2000. (6 marks)

Chapter-19 : FEMA, 1999

2009 - Nov [9] A Company incorporated in United Kingdom established a branch at Chennai. What is the residential status of the Chennai branch? The

Chennai branch proposes to purchase some immovable property at Chennai for the purpose of its business. Is it a 'Capital Account Transaction' within the meaning of Section 2(e) of the Foreign Exchange Management Act, 1999? Are there any restrictions under the Foreign Exchange Management Act, 1999 in respect of such acquisition ? (6 marks)

Chapter-20 : Competition Act, 2002

2009 - Nov [10] Mr. Raj Behari retired as a Member of Competition Commission of India (CCI) on 31st October, 2008. He was offered the post of Chief Executive in M/s. LSD Ltd. which was earlier a party in the proceedings before CCI. Can he join the company with effect from 1st November, 2009? What will be the position if Mr. Raj Behari joins Oil & Natural Gas Commission Ltd., a Government Company with effect from 1st April, 2009? ONGC was also earlier a party in the proceedings before CCI. (6 marks)

Chapter-21 : Banking regulation Act, 1949

2009 - Nov [11] XLR Bank Limited is not managing its affairs properly. Employees as well as depositors of the bank have complained to the Central Government from time to time about such mismanagement and requested the Central Government to acquire the undertaking of the Banking Company. Explain the powers of the Central Government in this regard under the Banking Regulation Act, 1949. (6 marks)

Chapter-24 : Interpretation of Statutes, deeds and Documents

2009 - Nov [12] Briefly discuss the Rule of '*ejusdem generis*' as applied in the interpretation of statute. (6 marks)

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