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SCANNER™ Appendix

CA Final Gr. I (Old Course)
November - 2009

INDEX

PAPER'S

Paper - 1 : Advanced Accounting

Chapter-2 : Accounting Standards in India

2009- Nov [4] (a) Pankaj Ltd. is a company engaged in manufacture of Nuclear Power Stations. The Company usually resorts to long term Foreign Currency borrowings for its fund requirements. The Company had on 1st April, 2005 borrowed U.S. $100 million from Global Fund Consortium based in Washington, USA. The funds were used by Pankaj Ltd. for purposes OTHER THAN acquiring 'Depreciable Capital Assets'. The loan carries an interest rate of 3 per cent on reducing balance and is repayable in two instalments, the first one due on 1st April, 2010 and the next on 1st April, 2012. The interest due on the loan has been paid in full on 31st March of each year. The exchange rate on the date of borrowing was 1 U.S. $ = INR 40.

The accounting treatment followed by the Company for the subsequent three years with exchange rates prevailing on those dates were as under :

Year ended	Exch Rate	Accounting Treatment
31st March, 2006	1 US $ = 41	Forex Loss of Rs. 10 crore charged to Profit and Loss account;
31st March, 2007	1 US $ = 39	Forex gain of Rs. 20 crore recognised in Profit and Loss account;
31st March, 2008	1 US $ = 48	Forex Loss of Rs. 90 crore charged to Profit and Loss account;

Note : Interest payment were charged to Profit and Loss account of each year at transaction value on payment dates.

Pankaj Ltd. is in the process of finalising its accounts for the year ended 31st March, 2009 and understands that A.S. 11 has been amended and opts to follow the Companies (Accounting Standards) Amendment Rules, 2009.

(a) You are required to show treatment of the Forex Losses/ gains in the light of the above amendment to AS 11 for the years 2005-06; 06-07; 07-08 & 08-09. The exchange rate to 1 US Dollar on 31st March, 2009 is Rs. 50. Assuming that the rates of Exchange on 31st March, 2010 and 31st March, 2011 will be Rs. 51 and Rs. 52 respectively the accounting for the Forex Losses/gains may also be shown for these years also.

(b) What are the disclosure requirements to be complied with by Pankaj Ltd. as a result of having opted to follow the amendment in the Companies (Accounting Standard) Rules, 2006.

(c) Would your answer to (a) above be different of Pankaj Ltd. was not a Company and were a Co-operative Society. (10 marks)

(b) As on 1st April, 2008 the fair value of plan assets was Rs. 1,00,000 in respect of a pension plan of Zeleous Ltd. On 30th September, 2008 the plan paid out benefits of Rs. 19,000 and received inward contributions of Rs. 49,000.On 31st March, 2009 the fair value of plan assets was Rs. 1,50,000 and present value of the defined benefit obligation was Rs. 1,47,920. Acturial losses on the obligations for the year 2008 - 09 were Rs. 600.
On 1st April, 2008 the company made the following estimates, based on its market studies, understanding and prevailing prices.

	%
Interest & dividend income, after tax payable by the fund	9.25
Realised & unrealised gains on plan assets (after tax)	2.00
Fund administrative costs	1.00
Expected Rate of Return	10.25

You are required to find the expected and actual returns on plan assets. (4 marks)

2009 - Nov [5] (b) As Ltd. Leased a machine to SB Ltd. on the following terms:

	(Rs. in Lakhs)
Fair value of the machine	4.00
Lease term	5 years
Lease Rental Per annum	1.00
Guaranteed Residual value	0.20
Expected Residual value	0.40
Internal Rate of Return	15%

Depreciation is provided on straight line method at 10 per cent per annum. Ascertain unearned Financial Income. Necessary Journal entries in the books of the Lessee in first year may be shown. (8 marks)

2009 - Nov [6] In preparing the Financial Statements of Santhanam Ltd. for the year ended 31st March, 2009, you come across the following features. State with reasons, how you would deal with them in the Financial Statements :

(i) An unquoted long term investment is carried in the books at its cost of Rs. 5 lakhs. The Published Accounts of the unlisted Company received in May, 2009 showed that the Company was incurring cash losses with declining market share and the long term investment may not fetch more than Rs. 80,000. (5 marks)

(ii) The Company invested Rs. 560 lakhs in April, 2009 in the acquisition of another Company doing similar business, the negotiations for which had started during the current Financial Year. (5 marks)

(iii) There was a major theft of stores valued at Rs. 46 lakhs in the preceding year which was detected only during the current Financial Year. (6 marks)

Chapter-5 : Accounting for Amalgamations

2009- Nov [2] Small Ltd. & Little Ltd., two Companies in the field of speciality chemicals, decided to go in for a follow on Public Offer after completion of an amalgamation of their businesses. As per agreed terms initially a new company Big Ltd. will be incorporated on 1st January, 2010 with an authorized capital of Rs. 2 crore comprised of 20 lakh equity shares of Rs. 10 each. The holding company would acquire the entire shareholding of Small Ltd. & Little Ltd. and in turn would issue its shares to the outside holders of these shares. It is also agreed that the consideration would be a multiple of the average P/E ratio for the period 1st January, 2009 to 31st March, 2009 times the rectified profits of each company, subject to necessary adjustments for complying with the terms of the share issue.

The following information is supplied to you:

	Small Ltd.	Little Ltd.
Ordinary Shares of Rs. 10 each (Nos.)	40 lakhs	20 lakhs
10% Preference shares of Rs. 100 each (Nos.)	2 lakh	Nil
10% Preference shares of Rs. 10 each (Nos.)	Nil	2 lakh
5% debentures of Rs. 10 each (Nos.)	4 lakh	4 lakh
Investments Held		
(a) 4 lakh ordinary shares in Small Ltd.	—	Rs. 40 lakhs
(b) 2 lakh ordinary shares in Little Ltd.	Rs. 20 lakhs	—
Profit before interest & Tax (PBIT) after Considering impact of inter-company Transactions and Holdings.	Rs. 50 lakhs	Rs. 25 lakhs
Average P/E ratio Jan., 2009 to March, 2009	10	8

The following additional information is also furnished to you in respect of adjustments required to the profit figure as given above :

1. The profits of the respective companies would be adjusted for half the value of contingent liabilities as on 31st March, 2009.
2. Debtors of Small Ltd. include an irrecoverable amount of Rs. 2 lakh against which Rs. 1 lakh was recovered but kept in Advance account.
3. Little Ltd. had omitted to provide for increased FOREX liability of US$ 10,000 on loan availed in financial year 2005-06 for purchase of Machinery. The machinery was acquired on 1st January, 2006 and put to use in Financial year 2006-07. The additional liability arose due to

change in exchange rates and is arrived at in conformity with prevailing provisions of AS 11. The exchange rate is US $ 1 = INR 50.

4. Small Ltd. has omitted to invoice a sale that took place on 31st March, 2009 of goods costing Rs. 2,50,000 at a mark up of 15 per cent instead the goods were considered as part of closing inventory.
5. Closing Inventory of Rs. 45 lakhs of Little Ltd. as on 31st March, 2009 stands undervalued by 10 per cent.
6. Contingent liabilities of Small Ltd. & Little Ltd. as on 31st March, 2009 stands at Rs. 5 lakhs and Rs. 10 lakhs respectively.

The terms of the share issue are as under:

(i) Shares in Big Lid. will be issued at a premium of Rs. 13 per share for all external shareholders of Small Ltd. The Premium will be Rs. 15 per share for shares in Big Ltd. issued to all external shareholders of Little Ltd.

(ii) No shares in Big Ltd. will be issued in lieu of the investments (intercompany holdings) of both companies. Instead the shares so held shall be transferred to Big Ltd. at the close of the financial year ended 31st March, 2010 at Par Value consideration payable on date of transfer.

(iii) Big Ltd. would in addition to the issue of shares to outside shareholders of Small Ltd. and Little Ltd. make a preferential allotment on 31st March, 2010 of 2 lakhs ordinary shares at a premium of Rs. 28 per share to Virgin Capital Ltd. (VCL). These shares will not be eligible for any dividends declared or paid till that date.

(iv) Big Ltd. will go in for a 18 per cent unsecured Bank overdraft facility to meet incorporation costs of Rs. 16 lakhs and towards management expenses till 31st March, 2010 estimated at Rs. 14 lakhs. The overdraft is expected to be availed on 1st February, 2010 and closed on 31st March, 2010 out of the proceeds of the preferential allotment.

(v) It is agreed that interim dividends will be paid on 31.03.2010 for the period January, 2010 to March, 2010 by Big Ltd. at 2 per cent; Small Ltd. at 3 per cent and Little Ltd. at 2.5 per cent. Ignore Dividend Distribution tax.

(vi) The prevailing Income Tax Rate is 25 per cent.

You are required to compute the number of shares to be issued to the shareholders of each of the companies and prepare the projected Profit and Loss Account for the period from 1st January, 2010 to 31.03.2010 of Big Ltd. and its Balance Sheet as on 31st March, 2010. (20 marks)

Chapter-6 : Corporate Restructuring

2009- Nov [3] (a) Timby Ltd. is in the business of making sports equipment. The Company operates from Thailand. To globalise its operations Timby has identified Fine Toys Ltd. an Indian Company, as a potential take over candidate. After due diligence of Fine Toys Ltd. the following information is available:

(a) Cash Flow Forecasts (Rs. in Crore):

Year	10	9	8	7	6	5	4	3	2	1
Fine Toys Ltd.	24	21	15	16	15	12	10	8	6	3
Timby Ltd.	108	70	55	60	52	44	32	30	20	16

(b) The Net worth of Fine Toys Ltd. (in lakh Rs.) after considering certain adjustments suggested by the due diligence team reads as under :

Tangible		750
Inventories		145
Receivables		75
		970
Less:		
Creditors	165	
Bank Loans	250	(415)
Represented by equity shares of Rs. 1000 each		555

Talks for take over have crystallized on the following :

1. Timby Ltd. will not be able to use Machinery worth Rs. 75 lakhs which will be disposed of by them subsequent to take over. The expected realization will be Rs. 50 lakhs.
2. The inventories and receivables are agreed for takeover at values of Rs. 100 and Rs. 50 lakhs respectively which is the price they will realize on disposal.
3. The liabilities of Fine Toys Ltd. will be discharged in full on take over alongwith an employee settlement of Rs. 90 lakhs for the employees who are not interested in continuing under the new management ?
4. Timby Ltd. will invest a sum of Rs. 150 lakhs for upgrading the Plant of Fine Toys Ltd. on takeover. A further sum of Rs. 50 lakhs will also be incurred in the second year to revamp the machine shop floor of Fine Toys Ltd.
5. The Anticipated Cash Flows (in Rs. crore) post takeover are as follows:

Year	1	2	3	4	5	6	7	8	9	10
	18	24	36	44	60	80	96	100	140	200

You are required to advise the management the maximum price which they can pay per share of Fine Toys Ltd. if a discount factor of 20 per cent is considered appropriate. (10 marks)

Chapter-10 : Holding Company Accounts

2009- Nov [1] The Balance Sheets of Aqua Ltd. and Baqa Ltd. as on the dates of last closing of Accounts are as under:

Liabilities	Aqua As on 31.03.2009 Rs.	Baqa As on 31.12.2008 Rs.
Share capital (equity shares of Rs. 10 each)	11,00,000	5,00,000
Accumulated Profits & Reserves	4,50,000	2,05,000
15% Rs. 100 non-convertible debentures	—	3,00,000
Accounts Payable	4,80,000	2,80,000

Other liabilities	1,00,000	40,000
Tax Provision	1,50,000	2,50,000
Total	22,80,000	15,75,000
Assets	Aqua As on 31.03.2009 Rs.	Baqa As on 31.12.2008 Rs.
Fixed Assets at Cost	8,45,000	5,26,500
Less Depn.	1,95,000	1,21,500
	6,50,000	4,05,000
Investments :		
40,000 share in Baqa Ltd.	8,00,000	—
1,000 debentures in Baqa Ltd.	1,50,000	—
Current Assets :		
Inventories	2,00,000	3,50,000
Accounts Receivable	2,50,000	4,65,000
Cash & Bank	2,30,000	3,55,000
Total	22,80,000	15,75,000

The following information is also available :

1. On 8th February, 2009 there was a fire at the factory of Baqa Ltd. resulting in inventory worth Rs. 20,000 being destroyed. Baqa received 75 per cent of the loss as insurance.
2. The same fire resulted in destruction of a machine having a written down value of Rs. 1,00,000. The Insurance Company admitted the Company's claim to the extent of 80 per cent. The machine was insured at its fair value of Rs. 1,50,000.
3. On 13th March, 2009 Aqua sold goods costing Rs. 1,50,000 to Baqa at a mark-up of 20 per cent. Half of these goods ware resold to Aqua who in turn was able to liquidate the entire stock of such goods before closure of accounts on 31st March, 2009. As on 31st March, 2009 Baqa's accounts payable show Rs. 60,000 due to Aqua on the two transactions.
4. Aqua acquired the holdings in Baqa on 1st January, 2007 when the reserves and accumulated profits of Baqa Ltd. stood at Rs. 75,000.
5. Both Companies have not provided for tax on current year profits. The Current year taxable profits are Rs. 33,000 and Rs. 66,000 for Aqua Ltd. and Baqa Ltd. respectively. The tax rate is 33%.
6. The incremental profits earned by Baqa Ltd. for the period January, 2009 to March 2009 over that earned in the corresponding period in 2008 was Rs. 56,000. Expect for the profits that resulted from the transactions with Aqua in the aforesaid period the entire profits have been realised in cash before 31st March, 2009.

You are requested to consolidate the accounts of the two companies and prepare a Consolidated Balance Sheet of Aqua Limited and its subsidiary as at 31st March, 2009. (20 marks)

Chapter-11 : Financial Reporting for Financial Institutions

2009- Nov [3] (b) Investors Mutual Fund is registered with SEBI and having its registered office at Pune. The fund is in the process of finalising the annual statement of accounts of one of its Open ended Mutual Fund Schemes. From the information furnished below you are required to prepare a statement showing the movement of unit holders funds for the Financial year ended 31st March, 2009.

Opening Balance of net assets	12,00,000
Net Income for the year (Audited)	85,000
850200 units issued during 2008-09	96,500
752300 units redeemed during 2008-09	71,320

The par value per unit is Rs. 100.

(Figures given above are in Rs. '000) (4 marks)

Chapter-20 : Accounting for Not-For-Profit Organisations

2009 - Nov [5] (a) Global Health Foundation furnishes the following information with regard to its Development fund for the year 2009 :

	Rs.
UN Grant received for Building Construction in Afganisthan	50,00,000
Development Grant from Prize Foundation	40,00,000
Grants from Private charities for acquiring land at Afganisthan	30,00,000
Interest received on Fixed Deposits invested in Trust Bank @ 10 per cent per annum on 1st July, 2009	2,00,000
Cost of Land purchased for setting up Rehabilitation Centre at Afganisthan	12,25,000
Transfers from unrestricted fund for purchasing moveable assets	45,00,000
Advance payment for acquiring balance land at Afganisthan	7,00,000
Furniture purchased for Rehabilitation Project	3,00,000
Cost of 5 Desert Deuller Jeeps	35,00,000
Amount settled to builders for construction of Rehabilitation Centre Building at Afganisthan based on percentage of work completed	12,50,000

Prepare a statement of Changes in Development Fund and a Balance Sheet of the Fund at the year end. (8 marks)

Paper - 2 : Management Accounting and Financial Analysis

Chapter-1 : Capital Budgeting

2009 - Nov [1] (a) From the following details relating to a project, analyse the sensitivity of the project to changes in initial project cost, annual cash inflow and cost of capital :

Initial Project Cost (Rs.)	1,20,000
Annual Cash Inflow (Rs.)	45,000
Project Life (Years)	4
Cost of Capital	10%

To which of the three factors, the project is most sensitive ? (Use annuity factors : for 10% ... 3.169 and 11% ... 3.109). (10 marks)

2009 - Nov [2] (a) New Projects Ltd. is evaluating 3 projects, P-I, P-II, P-III. Following information is available in respect of these projects :

	P-I	P-II	P-III
Cost	Rs. 15,00,000	Rs. 11,00,000	Rs. 19,00,000
Inflows- Year 1	6,00,000	6,00,000	4,00,000
Year 2	6,00,000	4,00,000	6,00,000
Year 3	6,00,000	5,00,000	8,00,000
Year 4	6,00,000	2,00,000	12,00,000
Risk Index	1.80	1.00	0.60

Minimum required rate of return of the firm is 15% and applicable tax rate is 40%. The risk free interest rate is 10%.

Required :

(i) Find out the risk-adjusted discount rate (RADR) for these projects.

(ii) Which project is the best ? (10 marks)

Chapter-5 : Capital Market instruments

2009 - Nov [2] (b) The following data relate to Anand Ltd.'s share price :

Current price per share	Rs. 1,800
6 months future's price/share	Rs. 1,950

Assuming it is possible to borrow money in the market for transactions in securities at 12% per annum, you are required :

(i) to calculate the theoretical minimum price of a 6-months forward purchase; and

(ii) to explain arbitrating opportunity. (6 marks)

(c) Saranam Ltd. has issued convertible debentures with coupon rate 12%. Each debenture has an option to convert to 20 equity shares at any time until the date of maturity. Debentures will be redeemed at Rs. 100 on maturity of 5 years. An investor generally requires a rate of return of 8% p.a. on a 5-year security. As an investor when will you exercise conversion for given market prices of the equity share of (i) Rs. 4, (ii) Rs. 5 and (iii) Rs. 6.

Cumulative PV factor for 8% for 5 years : 3.993

PV factor for 8% for year 5 : 0.681 (4 marks)

2009 - Nov [5] (a) XYZ established the following spread on the Delta Corporation's stock :

(i) Purchased one 3-month call option for 100 Nos. with a premium of Rs. 30 and an exercise price of Rs. 550.

(ii) Purchased one 3-month put option for 100 Nos. with a premium of Rs. 5 and an exercise price of Rs. 450.

The current price of Delta Corporation's stock is Rs. 500. Determine XYZ profit or loss if the price of Delta Corporation :

(i) Stays at Rs. 500 after 3 months.
(ii) Falls to Rs. 350 after 3 months.
(iii) Rises to Rs. 600. (6 marks)

Chapter-7 : Financial Services

2009 - Nov [3] (b) Classic Finance, a Leasing Company, has been approached by A prospective customer intending to acquire a machine whose cash down price is Rs. 6 crores. The customer, in order to leverage his tax position, has requested a quote for a three year lease with rentals payable at the end of each year but in a diminishing manner such that they are in the ratio of 3 : 2 : 1. Depreciation can be assumed to be on WDV basis at 25% and classic finance's marginal tax rate is 35%. The target rate of return for classic finance on the transaction is 10%. You are required to calculate the lease rents to be quoted for the lease for three years. (8 marks)

Chapter-8 : Portfolio Management

2009 - Nov [3] (c) Explain briefly the capital Asset pricing model used in the context of valuation of securities. (6 marks)

2009 - Nov [5] (c) A stock costing Rs. 120 pays no dividends. The possible prices that the stock might sell for at the end of the year with the respective probabilities are :

Price	Probability
115	0.1
120	0.1
125	0.2
130	0.3
135	0.2
140	0.1

Required :

(i) Calculate the expected return.
(ii) Calculate the Standard deviation of returns. (8 marks)

Chapter-11 : Mutual Funds

2009 - Nov [3] (a) Mr. Sinha has invested in three Mutual fund schemes as per details below :

	Scheme X	Scheme Y	Scheme Z
Date of Investment	01.12.2008	01.01.2009	01.03.2009
Amount of Investment	Rs. 5,00,000	Rs. 1,00,000	Rs.50,000
Net Asset value at entry date	Rs. 10.50	Rs. 10.00	Rs. 10.00
Dividend received upto 31.03.2009	Rs. 9,500	Rs. 1,500	Nil
Nav as at 31.3.2009	Rs. 10.40	Rs. 10.10	Rs. 9.80

You are required to calculate the effective yield on per annum basis in respect of each of the three schemes to Mr. Sinha upto 31.03.2009. (6 marks)

Chapter-13 : Mergers & Acquisitions

2009 - Nov [1] (b) ABC Company is considering acquisition of XYZ Ltd. which has 1.5 crores shares outstanding and issued. The market price per share is Rs. 400 at present. ABC's average cost of capital is 12%. Available information from XYZ indicates its expected cash accruals for the next 3 years as follows :

Year	Rs. Cr.
1	250
2	300
3	400

Calculate the range of valuation that ABC has to consider. (PV factors at 12% for years 1 to 3 respectively : 0.893, 0.797 and 0.712). (4 marks)

2009 - Nov [4] (a) B Ltd. is a highly successful company and wishes to expand by acquiring other firms. Its expected high growth in earnings and dividends is reflected in its PE ratio of 17. The Board of Directors of B Ltd. has been advised that if it were to take over firms with a lower PE ratio than it own, using a share-for-share exchange, then it could increase its reported earnings per share. C Ltd. has been suggested as a possible target for a takeover, which has a PE ratio of 10 and 1,00,000 shares in issue with a share price of Rs. 15.B Ltd. has 5,00,000 shares in issue with a share price of Rs. 12.

Calculate the change in earnings per share of B Ltd. if it acquires the whole of C Ltd. by issuing shares at its market price of Rs. 12. Assume the price of B Ltd. shares remains constant. (8 marks)

Chapter-16 : Foreign Exchange Exposure and Risk Management

2009 - Nov [4](b) An exporter is a UK based company. Invoice amount is $3,50,000. Credit period is three months. Exchange rates in London are :

Spot Rate ($/£) 1.5865 – 1.5905

3-Month Forward Rate ($/£) 1.6100 – 1.6140.

Rate of Interest in Money Market :

	Deposit	Loan
$	7%	9%
£	5%	8%

Compute and show how a money-market hedge can be put in place. Compare and contrast the outcome with a forward contract. (7 marks)

Chapter-18 : Financial Management in PSUs

2009 - Nov [4] (c) Explain the importance of the budget and the revised budget to public sector undertakings. (5 marks)

Chapter-19 : Dividend Policy

2009 - Nov [5](b) Subhash & Co. earns Rs. 8 per share having capitalisation rate of 10 per cent and has a return on investment at the rate of 20 per cent. According to Walter's model, what should be the price per share at 25 per cent dividend payout ratio ? Is this the optimum payout ratio as per Walter ? (6 marks)

Chapter-20 : Miscellaneous

2009 - Nov [1] (c) Describe the interface of Financial policy with Corporate strategic management. (6 marks)

Paper - 3 : Advanced Auditing

Chapter-6 : Company Audit

2009 - Nov [1] As an auditor, how would you deal with the following :

(a) During the audit of ABC Pvt. Ltd. for the year ended 31^{st} March, 2009, it is noticed that the company has not maintained proper books of account and the final accounts were drawn up from the bank summaries. The number of transactions in the entire year for the company were only 30. (5 marks)

(d) The statutory auditor of the Holding Company demands for the working papers of the auditors of the subsidiary company, of which you are the auditor. (4 marks)

Chapter-8 : Depreciation

2009 - Nov [1] As an auditor, how would you deal with the following :

(b) PQR Ltd. had acquired a Brand from another company for Rs. 100 lakhs. PQR Ltd. contends that since the said brand is a very popular and famous brand, no depreciation or amortisation needs to be provided. (4 marks)

Chapter-9 : Audit Reports-I

2009 - Nov [3] (b) Give an illustration of an Audit Report containing 'Emphasis of Matter' for a significant uncertainty. (8 marks)

Chapter-15 : Audit of PSU's and Propriety Audit

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

(d) Propriety elements in CARO, 2003. (4 marks)

Chapter-16 : Audit of Banks

2009 - Nov [4] (a) In the context of Audit of Banks, how will you verify the following :

(i) Contingent liabilities. (4 marks)

(ii) Inter office adjustments. (4 marks)

Chapter-17 : Audit of Insurance Company

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

(a) Register of Claims for General Insurance Companies (4 marks

Chapter-18 : Tax Audit

2009 - Nov [4] (b) Discuss the reporting requirements in Form 3CD of the Tax Audit Report u/s 44AB of the Income-tax Act, 1961 for the following :

(i) Tax on distributed profits. (4 marks)

(ii) Brought forward loss or depreciation allowance. (4 marks)

Chapter-21 : Professional Ethics

2009 - Nov [2] Comment on the following with reference to the Chartered Accountants Act, 1949 as amended by the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto :

(a) M/s MN & Co., a firm of Chartered Accountants prepared and signed the forecast of a company's earnings contingent upon future transactions without mentioning the basis on which the said estimates were prepared. A bank granted a loan to the said company based on the above forecast signed by M/s MN & Co. When the company defaulted in repayment of the loan, the bank filed a complaint against M/s MN & Co. (5 marks)

(b) Mr. P, a Chartered Accountant, did not maintain any books of account on the ground that his income did not exceed the limits prescribed u/s 44AA of the Income-tax Act, 1961. (4 marks)

(c) M/s ABC, a Kolkata based firm of Chartered Accountants having 5 partners accepts the statutory audit of D Pvt. Ltd for 2008-09 at an audit fee of Rs. 5,000. D Pvt. Ltd was incorporated on 1st October, 2005. (5 marks)

(d) An auditor of a cooperative society has agreed to charge fees @ 5% of the profits of the society. (4 marks)

Chapter-23 : Auditing Assurance Standards

2009 - Nov [3] (a) What are the procedures to be followed by a Statutory Auditor in the audit of opening balances if the financial statements for the preceding year were audited by another auditor ? (8 marks)

2009 - Nov [5] (a) As a Statutory Auditor, how do you verify the existence of Related Parties and disclosure of Related Party Transactions ? (8 marks)

(b) Draft an illustrative engagement letter for an engagement to compile financial statements of DEF Ltd. (8 marks)

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

(c) External Confirmations in Audit (4 marks)

Chapter-24 : Accounting Standards & Schedule VI

2009 - Nov [1] As an auditor, how would you deal with the following :

(c) XY Ltd. had entered into derivative transactions in foreign currency which were based on probable export orders. As at the year end on 31st March, 2009, the mark-to-market (MTM) loss on the said derivatives was Rs. 250 lakhs. The company contends that since the MTM loss is notional and likely to be recouped in the next year, the same need not be provided for. (5 marks)

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

(b) Current Period Consolidation Adjustments (4 marks)

Paper - 4 : Corporate Laws and Secretarial Practice

Chapter-1 : Directors Meetings and Proceedings

2009 - Nov [4] (b) PQR Limited held three board meetings till 31st December, 2008 during the financial year 2008-09. The next board meeting was due to be held on 27th March, 2009, but for want of quorum the meeting could not be held. A group of shareholders complained that the company has violated the provisions of Section 285 of the Companies Act, 1956 in not holding the required board meetings. Further, Mr. P and Mr. Q who are the directors of the company informed the company their inability to attend the meeting because the notice of the meeting was not served on them. Discuss whether there is any default on the part of the company and the consequences thereof. What will be the quorum in the given situation ? (7 marks)

Chapter-2 : Directors

2009 - Nov [5] (a) Mr. Weldon was appointed as a director of Esquire Engineering Ltd. with effect from 1st October, 2008. Since the company wanted to take full advantage of the wisdom and experience of Mr. Weldon, it offered him attractive remuneration payable on monthly basis and made an application to the Central Government for approval to pay such remuneration. Anticipating the approval of the Central Government. Esquire Engineering Ltd. started paying such remuneration from the date of appointment and continued to do so till 31st March, 2009. The Central Government did not fully approve the remuneration proposed by the company and restricted the same to a lower amount. On scrutiny of accounts, the company noticed that till 31st March, 2009 it has paid to Mr. Weldon a total sum of Rs. 5.50 lakhs in excess of the remuneration sanctioned by the Central Government.

Explain the relevant provisions of the Companies Act, 1956, in respect of recovery and waiver of recovery of the excess remuneration so paid. Draft a resolution for recovery/waiver of recovery of the excess remuneration paid by the company. (8 marks)

Chapter-3 : Inter Corporate Loans and Investments

2009 - Nov [6] (a) MDV Ltd. is an infra-structure company with paid up capital and free reserves of Rs. two crores and one crore respectively. The Board of directors granted a loan of Rs. 50 lakhs to ABC Ltd. and also gave a guarantee to IDBI for giving a loan of Rs. one crore to RMA Co. MDV Ltd. has not given any other loan or guarantee to any one. A group of shareholders of MDV Ltd. objected to the above deals on the ground that they are violative of the provisions of the Companies Act, 1956. Applying the provisions of the said enactment relating to inter-corporate loans and investments in the given case, decide :

(i) Whether the objection raised by the shareholders is tenable ?

(ii) Would your answer be the same in case the amount of loan granted is Rs. one crore and the guarantee given is for an amount of Rs. one and half crores ?

(iii) What would be your answer in case MDV Ltd. is a private company not being the subsidiary of any public limited company ? (8 marks)

Chapter-5 : Oppression & Mismanagement

2009 - Nov [7] (b) A group of shareholders holding more than 15% of the issued capital of M/s Defraud Ltd. have filed a petition before the Company Law Board alleging various acts of illegal, invalid and irregular transactions entered into in the name of the company. Examine the merits of the petition in the light of the judicial pronouncements made in this regard. (7 marks)

Chapter-7 : Winding up

2009 - Nov [7] (a) X Ltd. had gone into liquidation and a liquidator was appointed to administer the assets and liabilities of the company. The liquidator of the company finds that the assets of the company are not sufficient to meet out the liabilities. He therefore, calls on the contributories including the part members as per List B, to contribute towards the assets. The past members object to the liquidator's act on the ground that since they are no more members of the company, they are not liable to contribute. Referring to the provisions of the Companies Act, 1956 decide :

(i) Whether the contention of the past members is tenable and can they be exempted from the liability to contribute ?

(ii) What would be your answer in case the members in question are the present members ? (8 marks)

Chapter-8 : Miscellaneous Provisions

2009 - Nov [5] (b) SKD an employee of M/s Moreh Ltd. met with an accident and died. The accident occurred when SKD was on company's duty. He held one hundred shares partly paid. Normally the company has a first and paramount lien on the shares. The Board of directors, however, relaxed the said provision with regard to the hundred shares held by SKD as a goodwill gesture on the part of the company. Is the action of the company valid ? State the reasons. Also state whether the company's lien can be extended to dividend payable on such shares. (7 marks)

2009 - Nov [6] (b) (i) The Comptroller and Auditor General of India has appointed KOL & Co. to conduct a supplementary audit of XYZ Ltd. a subsidiary of a Government company. XYZ Ltd., however, is of the opinion that the Comptroller and Auditor General has no power to authorise such audit, it being merely a subsidiary of the Government company. Is the argument correct ? Discuss.

(ii) CRE Ltd. a Government company wants to appoint Parasnath & Co. as its auditors for the period 2009-10. State with reference to the provisions applicable to Government companies, the procedure to appoint the auditors. (7 marks)

Chapter-10 : Foreign Exchange Management Act, 1999

2009 - Nov [2] (a) (i) Mr. Ruchi resided for a period of 170 days in India during the financial year 2008-09 and thereafter went abroad. He came back to India on 1st April, 2009 as an employee of a business organisation. What would be his residential status during financial year 2009-10 under Foreign Exchange Management Act, 1999.

(ii) Pamtop is a London based company having several business units all over the world. It has a manufacturing unit called Laptop with headquarters in Bengaluru. It has a branch in Seoul. South Korea which is controlled by the headquarters in Bengaluru. What would be the residential status under FEMA 1999 of Laptop in Bengaluru and that of Seoul branch ? (7 marks)

2009 - Nov [2] (b) Referring to the provisions of Foreign Exchange Management Act, 1999, examine whether V, an exporter is bound to make declaration of the following goods exported from India to United Kingdom :

(i) Exports software valuing Rs. 50,000.

(ii) V gifts certain items of jewellery valued at Rs. 20,000 to his friend in Australia.

(iii) V exports certain goods valuing US $ 5,000 to Myanmar under Barter Trade Agreement. (7 marks)

Chapter-11 : SEBI

2009 - Nov [3] (a) AVD Limited was incorporated on 1st April, 2006. The company got its shares listed at Bombay Stock Exchange on 30th September, 2007. The company at an extra-ordinary general meeting held on 31st October, 2009, decided to go for public issue of equity shares to an extent of Rs. 300 crores. The net worth of the company as per the audited Balance Sheets in the financial years 2007-08 and 2008-09 was Rs. 50 crores and 60 crores respectively. During the financial year 2008-09 the company had already issued equity shares amounting to Rs. 20 crores. There is no change in the name of the company or its business activities during the financial year 2008-09. Referring to the guidelines issued by Securities and Exchange Board of India, advise the company on the following :

(i) Whether the company can go ahead with the public issue of equity shares as stated above.

(ii) What would be your advice in case the net worth of the company as per audited balance sheets in the financial years 2007-08 and 2008-09 was Rs. 20 crores and 30 crores respectively ?

(iii) What would be the position in case the company in question changed its name to AJD Limited during the year 2008-09, three months before filing the offer document and the revenue due to change of business activity suggested by the new name during the financial year 2008-09 was 40% less than the total revenue for the financial year 2007-08 reckoned from the date of filing the offer document ? (8 marks)

Chapter-12 : Interpretation of Statutes, Deeds and Documents

2009 - Nov [4] (a) (i) Many a time a proviso is added to a section of the enactment. Explain the function of such a proviso while carrying out the interpretation.

(ii) Discuss the rules of interpretation of deeds and documents. (8 marks)

Chapter-15 : Securities Contracts (Regulation) Act, 1956

2009 - Nov [1] (a) A stock exchange desirous of taking over another stock exchange, seeks your advice on corporatisation. Examining the provisions of the Securities Contracts (Regulation) Act, 1956 and the meaning of the terms 'corporatisation' and 'demutualisation', advise the stock exchange about the steps to be taken to give effect to the scheme of corporatisation. (5 marks)

(b) Mr. Veer a newly entered investor in the field of securities business seeks your advice on the investments to be made in securities of large companies for long term purposes. With this object in view, he wants to know the meaning of the following terms commonly used in any stock exchange.

(i) Derivative
(ii) Option in securities
(iii) Spot delivery contract.
Advise suitably (5 marks)

Chapter-17 : Competition Act, 2002

2009 - Nov [3] (b) (i) An arrangement has been made among the cotton producers that the cotton produced by them will not be sold to mills below a certain price. The arrangement is in writing but it is not intended to be enforced by legal proceeding. Examine whether the said arrangement can be considered as an agreement within the meaning of Section 2(b) of the Competition Act, 2002.

(ii) The orange producers of Nagpur have formed an association to control the production of oranges. Examine whether it will be considered as a cartel within the meaning of Section 2(c) of the Competition Act, 2002. (8 marks)

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