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ISBN : 978-81-7666-687-9

SCANNER™ Appendix

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

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PAPER'S

Paper - 1 : Financial Reporting

Chapter-1 : Accounting Standards & Guidance Notes

2009 - May [1] {C} Answer of the following :

(a) From the following details of an asset

- (i) Find out impairment loss
- (ii) Treatment of impairment loss
- (iii) Current year depreciation

Particulars of asset :

Cost of asset	Rs. 56 lakhs
Life period useful	10 years
Salvage value	Nil
Current carrying value	Rs. 27.30 lakhs
Life remaining useful	3 years
Recoverable amount	Rs. 12 lakhs
Upward revaluation done in last year	Rs. 14 lakhs
	(4 marks)

(b) Rainbow Limited borrowed an amount of Rs. 150 crores on 1.4. 2008 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Rainbow Ltd. capitalised Rs. 19.50 crores for the accounting

period ending on 31.3.2009. Due to surplus fund out of Rs. 150 crores, an income of Rs. 3.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard. (4 marks)

(c) Suraj Limited wishes to obtain a machine costing Rs. 30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 5 years. It enters into an agreement with Ashok Ltd. for a lease rental for Rs. 3 lakhs p.a. payable in arrears and that implicit rate of interest is 15%. The chief accountant of Suraj Limited is not sure about the treatment of these lease rentals and seeks your advise. (4 marks)

(d) Omega Limited is working on different projects those are likely to be completed within 3 years period. It recognises revenue from these contracts on percentage of completion method for financial statement during 2006, 2007 and 2008 for Rs. 11,00,000, Rs. 16,00,000 and Rs. 21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognised revenue of Rs. 7,00,000, Rs. 18,00,000 and Rs. 23,00,000 for the years 2006, 2007 and 2008 respectively. Income-tax rate is 35%. Compute the amount the deferred tax asset/liability for the years 2006, 2007 and 2008. (4 marks)

(e) While preparing its final accounts for the year ended 31st March, 2009, a company made a provision for bad debts @ 5% of its total debtors. In the last week of February 2009, a debtor for 2 lakhs had suffered heavy loss due to a earthquake. The loss was not covered by any insurance policy. In April, 2009, the debtor became bankrupt. Can the company provide for full loss arising out of insolvency of debtor in the final accounts for year ended 31st March, 2009? (4 marks)

Chapter- 2 : IAS, IFRS and GAAP - Overview & Interpretation

2009 - May [7] (c) State the treatment of the following items with reference to Indian Accounting Standard and IFRS :

- (i) Discontinued operations – definition and measurement
- (ii) Acquired intangible assets (4 marks)

Chapter- 3 : Conceptual Framework of Accounting & Corporate

2009 - May [7] Write short notes on the following :

- (a) What are the objectives of Financial reporting ? (4 marks)

Chapter- 4 : Accounting for Corporate Restructuring

2009 - May [2] The Balance Sheet of Munna Ltd. as on 31st March, 2009, is as follows :

Liabilities	Rs. Assets	Rs.
Authorised and issued	Goodwill	2,00,000
Share capital	Plant & Machinery	18,00,000

20,000 equity shares of		Stock	3,00,000
Rs. 100 each, fully paid	20,00,000	Debtors	7,50,000
10,000, 7% Preference		Cash	1,50,000
shares of Rs. 100 each	10,00,000	Preliminary expenses	1,00,000
Sundry creditors	7,00,000	Profit and Loss A/c	7,00,000
Bank overdraft	<u>3,00,000</u>		
	<u>40,00,000</u>		<u>40,00,000</u>

Additional information :

Two years preference share dividend are in arrears. The company had bad time during the last two years and hopes for better business in future, earning profit and paying dividend, provided the capital base is reduced.

An internal reconstruction scheme was agreed to by all concerned, those are as follows :

- Creditors agreed to forego 50% of their claim.
- Preference shareholders withdrew arrear dividend claim. They also agreed to lower down their capital claim by 20% by reducing nominal value in consideration of 9% dividend effective after reconstruction, in case equity shareholders's loss exceeded 50% on the application of the scheme.
- Bank has agreed to convert overdraft into term loan to the extent required for making current ratio to 2 : 1
- Revalued amount for plant and machinery was accepted as Rs. 15,00,000.
- Debtors to the extent of Rs. 4,00,000 were considered as good.
- Equity shares shall be exchanged for the same number of equity shares at a revised denomination as required after the reconstruction.

You are required to show the following :

- Total loss to be borne by the equity and preference shareholders for the reconstruction.
- Share of loss to the individual class of shareholders.
- New structure of share capital after reconstruction.
- Working capital of the reconstructed company, and
- A proforma Balance Sheet after reconstruction. (16 marks)

Chapter- 5 : Consolidated Financial Statements of Group Companies

2009 - May [3] From the following details, prepare a consolidated Balance Sheet of Sun Limited and its subsidiaries as on 31st March, 2009.

(Rs. in lakhs)

Assets	Sun Ltd.	Moon Ltd.	Star Ltd.
Fixed assets (net)	816	312	126
Investment (at cost)			
7,50,000, equity shares of			

Moon Ltd.	75	—	—
2,40,000, equity shares of Star Ltd.	24	—	—
4,80,000, equity shares of Star Ltd.	—	60	—
30,000, cumulative preference shares of Sun Ltd.	—	—	30
4,500 mortgage debenture of Sun Ltd.	—	—	42
Current assets	1,059	369	336
Profit and Loss account	288	108	63
	<u>2,262</u>	<u>849</u>	<u>597</u>
Liabilities			
Equity share capital (Rs. 10 each fully paid up)	180	144	120
$7\frac{1}{2}\%$ cumulative preference share capital (Rs. 100 each fully paid up)	45	36	30
Capital reserve (revaluation of fixed assets).	360	—	—
General reserve	75	45	30
7,500, 8% mortgage debenture bonds of Rs. 1,000 each.	75	—	—
Secured loans and advances :			
From banks	513	249	165
Unsecured loans :			
From Moon Ltd.	—	—	36
From Star Ltd.	45	—	—
Current liabilities and provisions :			
Inter-company balances	27	—	—
Other liabilities	942	375	216
	<u>2,262</u>	<u>849</u>	<u>597</u>

Other information are as follows :

- Moon Ltd. subscribed for 2,40,000 shares of Star Ltd. at par at the time of first issue and further acquired 2,40,000 shares from the market at Rs. 15 each, when the Reserve and Surplus account of Star Ltd. stood at Rs. 15 lakhs.
- Sun Ltd. subscribed for shares of Moon Ltd. and Star Ltd. at par at the time of first issue of shares by both the companies.
- Current assets of Moon Ltd. and Star Ltd. includes Rs. 12 lakhs and Rs. 18 lakhs respectively being Current account balance against Sun Ltd.

(16 marks)

Chapter- 6 : Accounting & Reporting of Financial Instruments

2009 - May [7] Write short notes on the following :

- (e) Forward contract. (4 marks)

Chapter- 8 : Financial Reporting for Financial Institutions

2009 - May [4] (a) On 1.4.2008, a mutual fund scheme had 18 lakhs of unit of face value of Rs. 10 each was outstanding. The scheme earned Rs. 162 lakhs in 2008-09, out of which Rs. 90 lakhs was earned in the first half of the year . On 30.9.2008, 2 lakhs of unit were sold at a " NAV" of Rs. 70.

Pass journal entries for sale of units and distribution of dividend at the end of 2008 - 09. (6 marks)

2009 - May [7] Write short notes on the following :

- (b) What do you mean by "net asset value"(NAV) in case of mutual fund units ? (4 marks)

- (d) Non - performing assets (4 marks)

Chapter- 10 : Valuation of Intangibles & Liabilities

2009 - May [5] The Balance Sheet of R Ltd. for the year ended on 31st March, 2006, 2007 and 2008 are as follows :

	(Rs. in thousands)		
Liabilities	31.3.2006	31.3.2007	31.3.2008
3,20,000 equity shares of			
Rs. 10 each, fully paid	3,200	3,200	3,200
General reserve	2,400	2,800	3,200
Profit and Loss account	280	320	480
Creditors	<u>1,200</u>	<u>1,600</u>	<u>2,000</u>
	<u>7,080</u>	<u>7,920</u>	<u>8,880</u>
Assets			
Goodwill	2,000	1,600	1,200
Building and Machinery less,			
depreciation	2,800	3,200	3,200
Stock	2,000	2,400	2,800
Debtors	40	320	880
Bank balance	<u>240</u>	<u>400</u>	<u>800</u>
	<u>7,080</u>	<u>7,920</u>	<u>8,880</u>

Additional information :

- (a) Actual valuations were as under
- | | | | |
|---|-------|-------|-------|
| Building and machinery less, depreciation | 3,600 | 4,000 | 4,400 |
| Stock | 2,400 | 2,800 | 3,200 |

Net profit (including opening balance
after writing off depreciation, goodwill,
tax provision and transferred to general
reserve) 840 1,240 1,640

- (b) Capital employed in the business at market value at the beginning of 2005-06 was Rs. 73,20,000 which included the cost of goodwill. The normal annual return on average capital employed in the line of business engaged by R. Ltd. as 12 1/2 %.
- (c) The balance in the general reserve on 1st April, 2005 was Rs. 20 lakhs.
- (d) The goodwill shown on 31.3.2006 was purchased on 1.4.2005 for Rs. 20 lakhs on which date the balance in the Profit and Loss account was Rs. 2,40,000. Find out the average capital employed in each year.
- (e) Goodwill is to be valued at 5 year's purchase of Super profit (Simple average method). Find out the total value of the business as on 31.3.2008.
- (16 marks)

Chapter- 11 : Valuation of Shares & Business

2009 - May [4] (b) Following is the Balance Sheet of Rampal Limited as on 31st March, 2009 :

Liabilities	Rs.	Assets	Rs.
1,00,000 equity shares of Rs. 10 each	10,00,000	Goodwill	5,00,000
10,000 12% preference shares of Rs. 100 each	10,00,000	Buildings	15,00,000
General reserve	6,00,000	Plant	10,00,000
Profit and Loss account	4,00,000	Investment in 10%	
15% debentures	10,00,000	Stock	4,80,000
Creditors	8,00,000	Stock-in - trade	6,00,000
		Debtors	4,00,000
		Cash	1,00,000
		Preliminary expenses	2,20,000
	48,00,000		48,00,000

Additional information are given below :

- (a) Nominal value of investment is Rs. 5,00,000 and its market value is Rs. 5,20,000.
- (b) Following assets are revalued :
- | | |
|----------------------|---------------|
| (i) Building | Rs. 32,00,000 |
| (ii) Plant | Rs. 18,00,000 |
| (iii) Stock-in-trade | 4,50,000 |
| (iv) Debtors | Rs. 3,60,000 |

- (c) Average profit before tax of the company is Rs. 12,00,000 and 12.50% of the profit is transferred to general reserve, rate of taxation being 50% .
- (d) Normal dividend expected on equity shares is 8% while fair return on closing capital employed is 10% .
- (e) Goodwill may be valued at three year's purchase of super profits.
- Ascertain the value of each equity share under fair value method.

(10 marks)

Chapter- 12 : Statements of Value Addition

2009 - May [6] (b) From the following information of Vinod Ltd., compute the economic value added :

(i) Share capital	Rs. 2,000 lakhs
(ii) Reserve and surplus	Rs. 4,000 lakhs
(iii) Long-term debt	Rs. 400 lakhs
(iv) Tax rate	30 %
(v) Risk free rate	9%
(vi) Market rate of return	16%
(vii) Interest	Rs. 40 lakhs
(viii) Beta factor	1.05
(ix) Profit before interest and tax	Rs. 2,000 lakhs

(8 marks)

Chapter- 14 : Inflation Accounting

2009 - May [6] (a) Rajkumar Ltd. is adopting historical cost system. From the following details furnished, prepare current cost Profit and Loss account for the year ended on 31.3.2009 :

Statement of Profit and Loss :	(Rs.)
Sales	24,00,000
Cost of sales :	
Opening stock	1,80,000
Purchases	15,60,000
Less, closing stock	<u>2,40,000</u>
Gross profit	15,00,000
Operating expenses	9,00,000
Depreciation	3,60,000
Interest on loan	1,20,000
Provision for tax	1,80,000
Net profit	90,000
Dividend (proposed)	1,50,000
Retained profit	30,000
	1,20,000

The chief finance officer of Raj kumar Ltd. furnished the additional information as below :

(a) Gearing adjustment for the year	Rs. 20,232
(b) Cost of sales adjustment for the year	Rs. 37,998
(c) Depreciation adjustment for the year	Rs. 18,000
(d) Monetary working capital adjustment for the year	Rs. 13,500
	(8 marks)

Paper - 2 : Strategic Financial Management

Chapter- 2 : Lease and Hire Purchase

2009 - May [3] (a) M/s Gama & Co. is planning of installing a power saving machine and are considering buying or leasing alternative. The machine is subject to straight-line method of depreciation. Gama & Co. can raise debt at 14% payable in five equal annual instalments of Rs. 1,78,858 each, at the beginning of the year. In case of leasing, the company would be required to pay an annual end of year rent of 25% of the cost of machine for 5 years. The Company is in 40% tax bracket. The salvage value is estimated at Rs. 24,998 at the end of 5 years.

Evaluate the two alternatives and advise the company by considering after tax cost of debt concept under both alternatives.

P.V. factors 0.9225, 0.8510, 0.7851, 0.7242, 0.6681 respectively for 1 to 5 years. (12 marks)

Chapter- 4 : Indian Capital Market and Security Analysis

2009 - May [1] {C} (a) Consider a two year American call option with a strike price of Rs. 50 on a stock the current price of which is also Rs.50. Assume that there are two time periods of one year and in each year the stock price can move up or down by equal percentage of 20%. The risk free interest rate is 6%. Using binomial option model, calculate the probability of price moving up and down. Also draw a two step binomial tree showing prices and payoffs at each node. (8 marks)

(c) The share of X Ltd. is currently selling for Rs. 300. Risk free interest rate is 0.8 % per month. A three months futures contract is selling for Rs. 312. Develop an arbitrage strategy and show what your riskless profit will be 3 months hence assuming that X Ltd. will not pay any dividend in the next three months. (4 marks)

2009 - May [2] (b) Calculate the value of share from the following information:

Profit of the company	Rs. 290 crores
Equity capital of company`	Rs. 1,300 crores
Par value of share	Rs. 40 each
Debt ratio of company	27
Long run growth rate of the company	8%
Beta 0.1; risk free interest rate	8.7%
Market return	10.3%
Capital expenditure per share	Rs. 47
Depreciation per share	Rs. 39
Change in Working capital	Rs. 3.45 per share
	(6 marks)

2009 - May [3] (b) ABC Ltd. Rs. 300 million, 12 per cent bonds outstanding with six years remaining to maturity. Since interest rates are falling, ABC Ltd. is contemplating of refunding these bonds with a Rs. 300 million issue of 6 year bonds carrying a coupon rate of 10 per cent. Issue cost of the new bonds will be Rs. 6 million and the call premium is 4 per cent. Rs. 9 million being the unamortized portion of issue cost of old bonds can be written off no sooner the old bonds are called off. Marginal tax rate of ABC Ltd. is 30 per cent. You are required to analyse the bond refunding decision. (6 marks)

2009 - May [6] (a) Consider two bonds, one with 5 years to maturity and the other with 20 years to maturity. Both the bonds have a face value of Rs. 1,000 and coupon rate of 8% (with annual interest payments) and both are selling at par. Assume that the yields of both the bonds fall to 6%, whether the price of bond will increase or decrease ? What percentage of this increase/ decrease comes from a change in the present value of bond's principal amount and what percentage of this increase/decrease comes from a change in the present value of bond's interest payments ? (8 marks)

(b) Consider a bond selling at its par value of Rs. 1,000, with 6 years to maturity and a 7 % coupon rate (with annual interest payment), what is bond's duration? (6 marks)

(c) If the YTM of the bond in (b) above increases to 10%, how it affects the bond's duration? And why? (3 marks)

(d) Why should the duration of a coupon carrying bond always be less than the time to its maturity ? (3 marks)

Chapter- 5 : Portfolio Theory

2009 - May [1] {C} (b) Mr. X owns a portfolio with the following characteristics:

	Security A	Security B	Risk free security
Factor 1 sensitivity	0.80	1.50	0
Factor 2 sensitivity	0.60	1.20	0
Expected Return	15%	20%	10%

It is assumed that security returns are generated by a two factor model.

- If Mr. X has Rs. 1,00,000 to invest and sells short Rs. 50,000 of security B and purchases Rs. 1,50,000 of security A what is the sensitivity of Mr. X's portfolio to the two factors ?
- If Mr. X borrows Rs. 1,00,000 at the risk free rate and invests the amount he borrows along with the original amount of Rs. 1,00,000 in security A and B in the same proportion as described in part (i), what is the sensitivity of the portfolio to the two factors ?
- What is the expected return premium of factor 2? (8 marks)

2009 - May [2] (a) An investor has two portfolios known to be on minimum variance set for a population of three securities A, B and C having below mentioned weights :

	WA	WB	WC
Portfolio X	0.30	0.40	0.30
Portfolio Y	0.20	0.50	0.30

It is supposed that there are no restrictions on short sales.

- What would be the weight for each stock for a portfolio constructed by investing Rs. 5,000 in portfolio X and Rs. 3,000 in portfolio Y ?
 - Suppose the investor invests Rs. 4,000 out of Rs. 8,000 in security A. How he will allocate the balance between security B and C to ensure that his portfolio is on minimum variance set ? (6 marks)
- (c) The returns on stock A and market portfolio for a period of 6 years are as follows :

Year	Return on A (%)	Return on market portfolio (%)
1	12	8
2	15	12
3	11	11
4	2	-4
5	10	9.5
6	-12	-2

You are required to determine :

- (i) Characteristic line for Stock A
- (ii) The systematic and unsystematic risk of stock A. (8 marks)

Chapter- 7 : Mutual Fund

2009 - May [3] (c) Mr. X earns 10% on his investments in equity shares. He is considering a recently floated scheme of a Mutual Fund where the initial expenses are 6% and annual recurring expenses are expected to be 2%. How much the Mutual Fund scheme should earn to provide a return of 10% to Mr. X? (2 marks)

Chapter-10 : Foreign Exchange Exposure and Risk Management

2009 - May [4] (a) Your forex dealer had entered into a cross currency deal and had sold US \$ 10,00,000 against EURO at US \$ 1 = EUR 1.4400 for spot delivery.

However, later during the day, the market became volatile and the dealer in compliance with his management's guidelines had to square-up the position when the quotations were :

Spot US \$ 1	INR 31.4300/4500
1 month margin	25/20
2 months margin	45/35
Spot US \$ 1	Euro 1.4400/4450
1 month forward	1.4425/4490
2 months forward	1.4460/4530

What will be the gain or loss in the transaction ? (6 marks)

(b) On 19 th April following are the spot rates

Spot EUR/USD 1.20000 USD/INR 44.8000

Following are the quotes of European Options:

Currency Pair	Call/Put	Strike Price	Premium	Expiry date
EUR/USD	Call	1.2000	\$ 0.035	July 19
EUR/USD	Put	1.2000	\$ 0.04	July 19
USD/INR	Call	44.8000	Rs. 0.12	Sep. 19
USD/INR	Put	44.8000	Rs. 0.04	Sep. 19

- (i) A trader sells an at-the-money spot straddle expiring at three months (July 19).
Calculate gain or loss if three months later the spot rate is EUR/USD 1.2900.
- (ii) Which strategy gives a profit to the dealer if five months later (Sep.19) expected spot rate is USD /INR 45.00. Also calculate profit for a transaction USD 1.5 million. (8 marks)

(c) You have following quotes from Bank A and Bank B:

	Bank A	Bank B
SPOT	USD/CHF 1.4650/55	USD/CHF 1.4653/60
3 months	5/10	
6 months	10/15	
SPOT	GBP/USD 1.7645/60	GBP/USD 1.7640/50
3 months	25/20	
6 months	35/25	

Calculate :

- How much minimum CHF amount you have to pay for 1 Million GBP spot ?
- Considering the quotes from Bank A only, for GBP/CHF what are the Implied Swap points for Spot over 3 months. ?.

(6 marks)

Chapter- 11 : Merge Acquisition, Restructuring & Business Valuation

2009 - May [5] The following information relating to the acquiring Company Abhiman Ltd. and the target Company Abhishek Ltd. are available. Both the Companies are promoted by Multinational Company, Trident Ltd. the promoter's holding is 50% and 60% respectively in Abhiman Ltd. and Abhishek Ltd. :

	Abhiman Ltd.	Abhishek Ltd.
Share Capital (Rs.)	200 lakh	100 lakh
Free Reserves and Surplus (Rs.)	800 lakh	500 lakh
Paid up Value per share (Rs.)	100	10
Free float Market Capitalisation (Rs.)	400 lakh	128 lakh
P/E Ratio (times)	10	4

Trident Ltd. is interested to do justice to the shareholders of both the Companies. For the swap ratio weights are assigned to different parameters by the Board of Directors as follows :

Book Value	25%
EPS (Earning per share)	50%
Market Price	25%

- What is the swap ratio based on above weights ?
- What is the Book Value, EPS and expected Market price of Abhiman Ltd. after acquisition of Abhishek Ltd. (assuming P.E. ratio of Abhiman Ltd. remains unchanged and all assets and liabilities of Abhishek Ltd. are taken over at book value).
- Calculate :
 - Promoter's revised holding in the Abhiman Ltd.
 - Free float market capitalization.

- (iii) Also calculate No. of Shares, Earning per Share (EPS) and Book Value (B.V.), if after acquisition of Abhishek Ltd., Abhiman Ltd. decided to :
- (1) Issue Bonus shares in the ratio of 1 : 2; and
 - (2) Split the stock (share) as Rs. 5 each fully paid. (20 marks)

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

2009 - May [1] {C} Comment on the following :

- (a) You are appointed to compile financial statements of Y & Co. for tax purposes. During the course of work, you learn that the inventory is grossly understated. On pointing the same, the partners of Y & Co. tell you that since you are not conducting an audit, the said figures duly certified by the firm should be accepted. (5 marks)

Chapter- 2 : Accounting Standards & Schedule VI

2009 - May [1] {C} Comment on the following :

- (c) Z Ltd. had appointed an outside expert to assess accrued gratuity liability of the company. Based on the said report, the company provides Rs. 80 lakhs as gratuity in the financial statements. (4 marks)
- (d) A Company's net worth is eroded and creditors are unpaid due to liquidity constraints. The management represents to the statutory auditor that the promoter's wife is expected to give an unsecured loan to meet the liquidity constraints and that negotiations are underway to secure large export orders. (4 marks)

Chapter- 3 : Audit Strategy, Planning Programme & Techniques

2009 - May [5] (c) What are the considerations to be kept in mind while performing analytical procedures on data prepared by the client. (6 marks)

2009 - May [8] Answer the following :

- (a) What are the points to be considered while evaluating the "Knowledge of the Business" in the conduct of an audit ? (8 marks)

Chapter- 6 : The Company Audit

2009 - May [1] {C} Comment on the following :

- (b) While conducting statutory Audit of ABC Ltd., you come across IOUs amounting to Rs. 2 crores as against a cash balance shown in books of Rs. 2.10 crores. You also observe that despite similar high balances throughout the year, small amounts of Rs. 50,000 are withdrawn from the bank to meet day-to-day expenses. (5 marks)

2009 - May [4] Answer the following :

- (a) What are the duties of a statutory auditor regarding disqualification of a director u/s 274(1)(g) of the Companies Act, 1956? (8 marks)

2009 - May [5] Answer the following :

- (a) Loans were given out of the funds of an Employees Provident Fund to the employer company in contravention of the applicable rules. As the auditor of the said Provident Fund, M discloses the contravention to the Trustees of the fund, but failed to do so to the members of the fund. Comment. (5 marks)

Chapter- 9 : Audit Report

2009 - May [3] Answer the following :

- (b) The audit report of P. Ltd. for the year 2007-08 contained a qualification regarding non-provision of doubtful debts. As the statutory auditor of the company for the year 2008-09, how would you report, if :

- (i) The company does not make provision for doubtful debts in 2008-09?
(ii) The company makes adequate provision for doubtful debts in 2008-09? (8 marks)

2009 - May [5] (b) X Ltd. did not follow the applicable Accounting Standard for disclosing Earnings Per Share (EPS) in the financial statements. The fact of such non-disclosure was however, mentioned in the notes forming part of accounts. As the statutory auditor of X Ltd., how would you report in the above case ? (5 marks)

Chapter- 13 : Audit of Co-operative Societies

2009 - May [6] Answer the following :

- (a) List the special features involved in the audit of a Cooperative Society. (8 marks)

Chapter- 14 : Audit of Non Banking Financial Companies

2009 - May [7] Answer the following :

- (a) Enumerate the verification procedures in relation to audit of a Hire-Purchase Finance Company. (8 marks)

Chapter- 15 : Audit under Fiscal Laws

2009 - May [6] Answer the following :

- (b) Draft an Audit Programme for conducting the audit of a Public Trust registered under section 12 A of the Income Tax Act, 1961. (8 marks)

2009 - May [7] Answer the following :

- (b) As the tax auditor of a non-corporate entity u/s 44 AB of the Income Tax Act, 1961, how would you ensure compliance of section 145 of the Income Tax Act, 1961 ? (8 marks)

Chapter- 17 : Special Audit Assignments

2009 - May [8] (b) Write short notes on :

- (i) Probable format of Environmental Statement. (4 marks)

Chapter- 19 : Internal Management and Operational Audit

2009 - May [3] Answer the following :

- (a) You are appointed statutory auditor of X Ltd. X. Ltd. has an internal audit system and Reports for the same are given to you. Mention the factors you will consider to ensure that the said system of internal audit of X Ltd. is commensurate with the size of the company and nature of its business. (8 marks)

Chapter- 21 : Peer Review

2009 - May [8] (b) Write short notes on :

- (ii) "Reporting" stage in Peer Review. (4 marks)

Chapter- 22 : Professional Ethics

2009 - May [2] {C} Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto :

- (a) H, a Chartered Accountant in practice is a partner in 3 firms. On the personal Letter Heads of H, names/ address of all the 3 firms are mentioned. (4 marks)
- (b) D, who conducts the tax audit u/s 44AB of the Income Tax Act, 1961 of M/s ABC, a partnership firm, has received the entire audit fees of Rs. 25,000 in April, 2009 in respect of the tax audit for the year ended 31.3.2009. The audit report was, however, signed on 25.5.2009. (4 marks)
- (c) M/s LMN, a firm of Chartered Accountants having 5 partners accepts an audit assignment of a newly formed private limited company for audit fees of Rs. 5,000. (5 marks)
- (d) P, a Chartered Accountant in practice, accepts appointment as statutory auditor for LMN Pvt. Ltd. Q, brother of P has substantial interest in LMN Pvt. Ltd. (5 marks)

Chapter-23 : Audit of Consolidated Financial Statements

2009 - May [4] Answer the following :

- (b) While doing the audit of consolidated Financial Statements, which current period consolidation adjustments are to be taken into account ? (8 marks)

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

2009 - May [1] {C} Answer any **two** of the following :

- (a) Examine the validity of the following with reference to the provisions of the Companies Act, 1956 :
- (i) The Balance Sheet and Profit and Loss Account of TXN Ltd. for the year ended 31st March, 2009 was signed by one of its Directors and the Secretary.
 - (ii) Mr. Prakash, a Chartered Accountant in full time practice was appointed as the auditor of ABC Ltd., a company which is a subsidiary of DGH Ltd. and DGH Ltd. has another subsidiary called PKM Ltd. Mr. Prakash had taken a loan of Rs. 25,000 from PKM Ltd. and the loan is outstanding as on the date of his appointment as auditor of ABC Ltd. (5 marks)

2009 - May [8] (b) Explain, how the provisions of the Companies Act, 1956 relating to Audit Committee will help in achieving some of the objectives of Corporate Governance. (5 marks)

Chapter- 2 : Dividend

2009 - May [1] {C} (b) Board of Directors of M/s RPP Ltd. in its meeting held on 29th May, 2009 declared an interim dividend payable on paid up Equity Share Capital of the Company. In the Board Meeting scheduled for 10th June, 2009, the Board wants to revoke the said declaration. You are required to state with reference to the provisions of the Companies Act, 1956 whether the Board of Directors can do so. (5 marks)

Chapter- 3 : Meetings of Directors and Related Party Transactions

2009 - May [1] {C} (c) Chairman of Board of Directors of ABC Ltd. came across a matter, which required the approval by way of a board resolution. In the prevailing circumstances, it is not possible to convene and hold a Board Meeting. The Chairman approaches you to advise him of the way and the relevant procedure to obtain such approval without holding the Board Meeting. You are required to advise him on the matter as per the provisions of the Companies Act, 1956. (5 marks)

2009 - May [2] (a) ABC Ltd. has 12 directors on its Board and has the following clause in its Articles of Association :

“The questions arising at any meeting of the Board of Directors or any Committee thereof shall be decided by a majority of votes, except in cases where the Companies Act, 1956 expressly provides otherwise”.

In one of the meetings of the Board of Directors of ABC Ltd., 8 directors were present. After completion of discussion on a matter, voting was done. 3 directors voted in favour of the motion, 2 directors voted against the motion while 3 directors abstained from voting.

You are required to state with reference to the provisions of the Companies Act, 1956 whether the motion was carried or not. It is clarified that the motion being voted upon was not concerning a matter which requires consent of all the directors present in the meeting. (5 marks)

(b) The Articles of Association of MKP Limited incorporated with an Authorised Share Capital of Rs. 50 crores divided into 5 crores Equity Shares of Rs. 10 each contained the following clause :

“The qualification of a director shall be the holding of at least 1,000 Equity Shares in the Company and such a director if not already so qualified shall have to obtain his qualification within a period of 30 days from the date of his appointment as director.”

Examine the validity of the above clause in the light of the provisions of the Companies Act, 1956. (5 marks)

2009 - May [3] (a) (i) Examine the validity of the following with reference to the relevant provisions of the Companies Act, 1956 and/or decided case laws: The Articles of Association of Big Limited provide that a meeting of the Board of Directors of the company shall be held at 11.00 A.M. on the last day of every quarter ending 31st March, 30th June, 30th September and 31st December. Relying on such a clause in the Articles, the company did not send notices to the directors in respect of the Board meeting held on 30th September, 2008. Some of the directors have questioned the validity of the board meeting on the ground that individual notices have not been sent to the directors. (2.5 marks)

2009 - May [4] (a) (i) Mr. KMP is director of XLS Ltd. He intends to construct a residential building for his own use. The cost of construction is estimated at Rs. 1.50 Crores, which Mr KMP proposes to finance partly from his own sources to the tune of Rs. 60 lacs and the balance Rs. 90 lacs from housing loan to be obtained from a housing finance company. For the purpose of obtaining the loan, he has approached the housing finance company which has in principle agreed to grant the loan, but has put a condition. The condition put by the housing finance company is that the Company XLS Ltd. of which Mr. KMP is a director should provide the guarantee for repayment of the loan and interest as per the terms of the proposed agreement for granting the loan to Mr. KMP. You are required to advise Mr. KMP on the matter with reference to the provisions of the Companies Act, 1956 (5 marks)

(b) Big Ben Ltd., a reputed public company had advanced certain sum of money to one of its Directors, namely, Mr. Tanmay on certain terms and conditions and fixing the time limit for repayment thereof. Now, Mr. Tanmay has approached the Company with a request to extend the time limit for repayment of balance of loan amounting to Rs. 12.00 lacs by another six months.

You are required to state with reference to the provisions of the Companies Act, 1956, the answer to the following :

- (i) Who is authorised to grant the extension as requested by Mr. Tanmay?
- (ii) Draft an appropriate notice for the meeting where such extension may be granted. (5 marks)

2009 - May [6] (a) A company wants to include the following clause in its Articles of Association :

“Each director shall be entitled to be paid out of the funds of the company for attending meetings of the Board or a Committee thereof including adjourned meetings such sum as sitting fees as shall be determined from time to time by the Directors but not exceeding a sum of Rs. 30,000 for each such meeting to be attended by the Director.”

You are required to advise the company as to the validity of such a clause and the correct legal position under the provisions of the Companies Act, 1956.

(5 marks)

2009 - May [8] (a) LMB Ltd., Kolkata is a multiproduct manufacturing company having paid up capital of Rs. 5.00 crores. In order to increase the product portfolio, the said company intends to procure certain machines and equipments worth Rs. 1.00 crore from a partnership firm, namely, M/s. MLPK, in which the son of managing director of LMB Ltd. is a partner. The contract for purchase of said machines and equipments is to be placed before the Board of Directors of the company for its consideration.

In view of above facts, you are required to explain briefly the procedure under the provisions of the Companies Act, 1956 to be followed by LMB Ltd. to enter into the said contract. (5 marks)

Chapter- 4 : Inter Corporate Loans and Investments

2009 - May [7] (b) Amar Textiles Ltd. is a company engaged in manufacture of fabrics. The Company has investments in shares of other bodies corporate including 70% shares in Amar Cotton Co. Ltd. and it has also advanced loans to other bodies corporate. The aggregate of all the investments made and loans granted by Amar Textiles Ltd. exceeds 60% of its paid up share capital and free reserves and also exceeds 100% of its free reserves. In course of its business requirements, Amar Textiles Ltd. has obtained a term loan from

Industrial Development Bank of India and the said loan is still subsisting. Now the Company wants to increase its holding from 70% to 80% of the equity share capital in Amar Cotton Co. Ltd. by purchase of additional 10% shares from other existing shareholders.

State the legal requirements to be complied with by Amar Textiles Ltd. under the provisions of the Companies Act, 1956 to give effect to the above proposal. (5 marks)

Chapter- 8 : Prevention of oppression and Mismanagement

2009 - May [6] (b) State the conditions which must be satisfied before filing a petition under Section 397 of the Companies Act, 1956 for prevention of oppression. (5 marks)

Chapter-11 : Producer Companies

2009 - May [3] (a) (ii) A Producer Company wants to issue bonus shares. You are required to state the relevant provisions of the Companies Act, 1956 in this regard. (2.5 marks)

Chapter-12 : Foreign Companies

2009 - May [5] (b) A company incorporated in Singapore has established its place of business at Chennai. State the documents which are required to be furnished on such establishment of business in India under the Companies Act, 1956 and the authorities to whom such documents are to be furnished. (5 marks)

Chapter-14 : E-Governance

2009 - May [3] (b) What do you understand by the term “Director Identification Number” (DIN)? Describe the procedure to obtain the same as enumerated under the Companies Act, 1956 read with the relevant Rules (5 marks)

Chapter-16 : Corporate Secretarial Practice

2009 - May [4] (a) (ii) Draft a Board Resolution of XLS Ltd. for providing guarantee for Rs. 90.00 lacs in respect of a Loan to be obtained by Mr.KMP, a director thereof from a Housing Finance Company for construction of a residential house for his own use. (5 marks)

2009 - May [5] (a) A group of shareholders has approached you for advice regarding the affairs of LPM Paper Mills Ltd. According to them, the management of the company is not carrying out its functions in accordance with the prudent commercial practice and if the affairs of the company are allowed to run in future in the same manner, the company's solvency would be in danger. They want that a Special Audit under the Companies Act, 1956 be conducted to find out the actual nature of the transactions. You are required to draft an application to be submitted to the appropriate authority in this respect. (5 marks)

2009 - May [7] (a) Draft a board resolution for appointment of Mr. Paul as the Managing Director for 5 years with effect from 1st July, 2009 of DBM Limited passed in the board meeting of the said company held on 6th June, 2009.

(5 marks)

Chapter-17 : SEBI Act, 1972

2009 - May [9] {C} (a) Answer **any one** of the following :

Following information is available from the Records of Star Chemicals & Engineering Ltd. :

- (i) The Company is closely held unlisted company.
- (ii) The paid up share capital of the company since 1st April, 1999 is Rs.3.00 crores and its net worth as at 31st March, 2008 was Rs. 5.00 crores as per audited Balance Sheet.
- (iii) The Net Tangible Assets of the Company as per last 3 (three) audited Balance Sheets as at 31st March, 2005, 2006 and 2007 were Rs. 4.00 crores, 4.50 crores and 5.00 crores respectively, out of which monetary assets were less than Rs. 50 lacs in each of the three years.
- (iv) The Company was incorporated in 1996 and commenced its business on 1st April, 1996 and since then it has earned good profits and it has not incurred any loss in any year in past.
- (v) The Company has not declared any dividend so far, but according to the profits earned so far, the management could have declared the dividend in each of the last five years.
- (vi) The name of the Company was changed from Star Engineering Ltd. to its present name with effect from 1st January, 2007.
- (vii) The Company's turnover in the years ended 31st March, 2006, 2007 and 2008 was Rs. 20 crores, 30 crores and 35 crores respectively.

The Company wants to make a public issue of shares to raise Rs. 20.00 crores by issuing equity shares at premium. For the purpose of including the information in the prospectus, the Company has prepared its accounts for 12 months ended 31st December, 2007 showing segmentwise revenue which reveals that revenue from Chemical segment is more than the revenue from Engineering segment.

You are required to state the relevant guidelines issued by SEBI and your conclusion whether the Company can make the desired issue of equity shares based on the facts stated above.

(6 marks)

(b) Excel Ltd., a public limited company listed with The Stock Exchange, Mumbai, wants to issue equity shares on preferential basis pursuant to a scheme approved under Corporate Debt Restructuring framework specified by Reserve Bank of India, to various persons as may be selected by the Board of Directors of the company. Following information relevant to the preferential issue is available :

- (i) Total No. of equity shares to be issued. 50 lac equity shares of Rs.10 each out of which 30 lac equity shares will be allotted on 31st December, 2008 as fully paid up and balance 20 lac equity shares shall be allotted on the same date but paid up to Rs. 5 each and balance Rs.5 shall be called upon at a later date and shall be paid up on 31st May, 2009.
- (ii) Out of the proposed allottees some persons are holding their shares in Excel Ltd. in physical form and not in dematerialised form and some persons had sold their entire shareholding in Excel Ltd. in July, 2008.
- (iii) The meeting of general body of shareholders for approving the preferential issue was held on 15th October, 2008.

Based on the above information you are required to answer the following queries with reference to the SEBI (Disclosure and Investor Protection) Guidelines, 2000 :

- (i) What would be the lock-in period for the shares allotted on preferential basis ?
- (ii) Who are the persons not entitled for allotment of shares on preferential basis? (6 marks)

Chapter-18 : SCRA, 1956

2009 - May [10] Industrial Finance Corporation of India, established under the Industrial Finance Corporation Act, 1948 having its registered office at Mumbai issued 8% Redeemable Bonds redeemable after 7 years. These bonds were issued directly to the members of the public and not through the mechanism of Stock Exchanges.

You are required to state with reference to the provisions of Securities Contracts (Regulation) Act, 1956, whether such direct issue of Bonds by the Industrial Finance Corporation of India is not violating the provisions of the said Act. (6 marks)

Chapter-19 : FEMA, 1999

2009 - May [11] (i) Mr. Sekhar resided in India for a period of 150 days during the financial year 2007-2008 and thereafter went abroad. He came back to India on 1st April, 2008 as an employee of a business organisation. What would be his residential status under Foreign Exchange Management Act, 1999 during the financial year 2008-2009?

- (ii) Mr. Atul, an Indian National desires to obtain Foreign Exchange for the following purposes :
- (a) Remittance of US Dollars 10,000 for payment for goods purchased from a party situated in Nepal.
 - (b) US Dollars 10,000 for remitting as commission to his agent in U.S.A. for sale of Commercial plot situated near Bangalore, consideration in respect of which was received by Mr. Atul by way of foreign currency inward remittance amounting to US Dollars 1,00,000.

Advise him, if he can get the Foreign Exchange and under what conditions for making the above remittances. (6 marks)

Chapter-21 : Banking Regulation Act, 1949

2009 - May [12] (i) The promoters of a company to be registered under the Companies Act, 1956 having its main object of carrying on the business as manufacturers and stockists of Iron and Steel proposes that the name of the company is to be "ABC Steel Bank Limited". You are required to state with reference to the provisions of the Banking Regulation Act, 1949 whether the said company with the proposed name can be registered.

- (ii) Union Bank of India, a National Bank acquired on 1st January, 2002 a building, fully occupied by various tenants, from Mr. Rahul, the owner of the building, in discharge of a term loan advanced to Mr. Rahul, who had mortgaged the said building as security with the said Bank and failed to repay the loan. The said bank wants to keep the building permanently with it and earn the rent from tenants. You are required to state with reference to the provisions of the Banking Regulation Act, 1949 whether the said bank can do so. (6 marks)

Chapter-23 : Interpretation of Statutes, Deeds and Documents

2009 - May [14] Explain the principles of "Rule of Beneficial Interpretation". (6 marks)

New Chapter

2009 - May [13] (i) With reference the provisions of Insurance Act, 1938, what do you mean by “Life Insurance Business”?

- (ii) What are the provisions in the Insurance Act, 1938, regarding nomination by a Life Insurance Policy holder ? Whether a minor can be a nominee in a Life Insurance Policy ? (6 marks)

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