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SCANNER™ Appendix

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

INDEX

Paper 1	—	Advanced Accounting	I-1
Paper 2	—	Management Accounting and Financial Analysis	I-9
Paper 3	—	Advanced Auditing	I-12
Paper 4	—	Corporate Laws and Secretarial Practice	I-15

PAPER'S

Paper - 1 : Advanced Accounting

Chapter - 2 : Accounting Standards in India

2009 - May [4] (a) The borrowings profile of Santra Pharmaceuticals Ltd. set up for the manufacture of antibiotics at Navi Mumbai is as under :

Date	Nature of borrowings	Amount borrowed Rs.	Purpose of borrowings	Incidental expenses
1st January, 2008	15% demand loan	60 lakhs	Acquisition of Fixed assets	8.33 %
1st July, 2008	14.5% Term loan	40 lakhs	Acquisition of plant & machinery	5%
1st October, 2008	14% bonds	50 lakhs	Acquisition of Fixed assets	8 %

The incidental expenses consist of commission and service charges for arranging the loans and are paid after rounding off to the nearest lakh.

Fixed assets considered as qualifying assets are as under :

	Rs.
Sterile Manufacturing shed	10,00,000
Plant and machinery (total)	90,00,000
Other fixed assets	10,00,000

The Project is completed on 1st January, 2009 and is ready for commercial production. Show the capitalization of the borrowing costs. (10 marks)

(b) A company is engaged in the business of ship building and ship repair. On completion of the repair work, a work completion certificate is prepared and countersigned by ship owner(customer). Subsequently, invoice is prepared based on the work completion certificate describing the nature of work done together with the rate and the amount. Customer scrutinises the invoice and any variation is informed to the company. Negotiations take place between the company and the customer. The negotiations may result in a deduction being allowed from the invoiced amount either as a lumpsum or as a percentage of the invoiced amount. The accounting treatment followed by the company is as follows :

- (i) When the invoice is raised, the customer's account is debited and ship repair income account is credited with the invoiced amount.
- (ii) Deduction, if any, arrived after negotiation is treated as trade discount by debiting the ship repair Income account.
- (iii) At the close of the year negotiation in respect of certain invoices had not been completed. In such cases, based on past experience, a provision for anticipated loss is created by debiting the Profit and Loss account. The provision is disclosed in Balance Sheet.

Following two aspects are settled in the negotiations :

- (i) Errors in billing arising on account of variation between the quantities as per work completion certificate and invoice and other clerical errors in preparing the invoice.
- (ii) Disagreement between the company and customer about the rate/cost on which prior agreement has not been reached between them.

Comment :

- (i) Whether the accounting treatment of deduction as trade discount is correct? If not, state the correct accounting treatment.
- (ii) Whether the disclosure of the provision for anticipated loss in Balance Sheet is correct; if not, state the correct accounting treatment.

(6 marks)

2009 - May [6] (c) Good Drugs and Pharmaceuticals Ltd. acquired a sachet filling machine on 1st April, 2007 for Rs. 60 lakhs. The machine was expected to have a productive life of 6 years. At the end of financial year 2007- 08 the carrying amount was Rs.41 lakhs. A short circuit occurred in this financial year but luckily the machine did not get badly damaged and was still in working order at the close of the financial year. The machine was expected to fetch Rs. 36 lakhs, if sold in the market. The machine by itself is not capable of generating cash flows. However the smallest group of assets comprising of this machine also, is capable of generating cash flows of Rs. 54 crore per annum and has a carrying amount of Rs. 3.46 crore. All such machines put together

could fetch a sum of Rs. 4.44 crore if disposed. Discuss the applicability of Impairment loss. (3 marks)

(d) EXOX Ltd. is in the process of finalising its accounts for the year ended 31st March, 2008. The company seeks your advice on the following:

- (i) The Company's sales tax assessment for assessment year 2005-06 has been completed on 14th February, 2008 with a demand of Rs. 2.76 crore. The company paid the entire due under protest without prejudice to its right of appeal. The Company files its appeal before the Appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of 2.10 crore.
- (ii) The Company has entered into a wage agreement in May, 2008 whereby the labour union has accepted a revision in wage from June, 2007. The agreement provided that the hike till May, 2008 will not be paid to the employees but settled to them at the time of retirement. The company agrees to deposit the arrears in Government Bonds by September, 2008. (3 marks)

Chapter - 5 : Accounting for Amalgamations

2009 - May [2] Agni Ltd and Bayu Ltd. both engaged in similar merchanting activities since 2006, decide to amalgamate their businesses. A holding company, Chandrama Ltd. would be formed on 1st January, 2008 to acquire the entire shares in both the companies.

From the information given below you are required to prepare :

- (a) A statement of purchase consideration, supported by requisite working notes,
- (b) Balance Sheet of Chandrama Ltd. after the transactions have been completed.
 - (i) The terms of the offer were :
 - Rs. 100, 15 per cent debentures for every Rs. 100 of net assets owned by each company on 31st December, 2007.
 - Rs. 100 equity shares based on two years purchase of profit before taxation. The profit is to be determined by taking weighted average profits of 2006 and 2007, weights being 1 and 2 respectively.
 - (ii) It was agreed that the accounts of Bayu Ltd. for the two years ended 31st December, 2007 be adjusted, where necessary, to conform to the accounting policies followed by Agni Ltd.

- (iii) The Pre-tax profits, including investment income, of the two companies were as follows :

	2006	2007
	Rs.	Rs.
Agni Ltd.	16,38,000	18,36,000
Bayu Ltd.	17,88,300	25,74,000

- (iv) Agni Ltd. values its stock on FIFO basis while Bayu Ltd. used a different basis. To bring Bayu Ltd.'s values in line with those of Agni Ltd, value of its stock will require to be reduced by Rs. 36,000 at the end of 2006 and Rs. 1,02,000 at the end of 2007.
- (v) Both the companies use straight line method of depreciation.
- (vi) Bayu Ltd. deducts 1 per cent from trade debtors as a general provision against doubtful debts.
- (vii) Prepaid expenses in Bayu Ltd. include advertisement expenditure carried forward of Rs. 1,80,000 in 2006 and Rs. 90,000 in 2007, being part of initial advertising in 2006, which is being written off over three years. Similar expenditure in Agni Ltd. has been fully written off in 2006.
- (viii) To bring Director's remuneration on to a comparative basis, the profits of Bayu Ltd. are to be reduced by Rs. 1,20,000 in 2006 and Rs. 1,80,000 in 2007 and the net assets are also to be adjusted accordingly.

Balance Sheets as at 31st December, 2006 and 2007 were as follows :

		Agni Ltd.			
Liabilities	2006	2007	Assets	2006	2007
	Rs.	Rs.		Rs.	Rs.
Share capital issued and subscribed 12,000 shares of Rs. 100 each fully paid	12,00,000	12,00,000	Fixed assets: Furniture and fixtures: at cost	6,90,000	6,90,000
Reserves and Surplus			Less depreciation	(69,000)	(1,38,000)
Capital reserve	)	2,10,000	Investments: (Quoted investments at market value)	)	7,80,000
Revenue reserve	7,98,300	16,74,000	Current assets: Stock at cost	18,30,000	21,75,000
Current Liabilities and provisions:			Sundry debtors	18,00,000	22,20,000
Sundry creditors	15,02,700	18,21,000	Prepaid expenses	30,000	42,000
Provision for taxation	8,40,000	9,60,000	Cash at bank	60,000	96,000
	<u>43,41,000</u>	<u>58,65,000</u>		<u>43,41,000</u>	<u>58,65,000</u>

Bayu Ltd.					
Liabilities	2006	2007	Assets	2006	2007
	Rs.	Rs.	Rs.	Rs.	
Share capital :			Fixed assets :		
issued and subscribed			Furniture		
15,000 equity shares of			and fixture		
Rs.100 each fully paid	15,00,000	15,00,000	at cost	9,60,000	9,60,000
Reserves and surplus :			Less depreciation	(1,44,000)	(2,88,000)
Revenue reserve	8,58,000	21,42,000	Investments :		
Current liabilities			(Quoted		
and provisions :			investments		
Sundry creditors	14,70,000	14,82,000	(market value		
Bank overdraft	)	5,10,000	Rs. 14,70,000)	)	12,00,000
Provision for taxation	9,30,000	12,90,000	Current assets:		
			Stock at cost	17,91,000	22,26,000
			Sundry debtors		
			Less provision	17,82,000	26,73,000
			Prepaid expenses	2,16,000	1,44,000
			Cash at bank	<u>1,53,000</u>	<u>9,000</u>
	<u>47,58,000</u>	<u>69,24,000</u>		<u>47,58,000</u>	<u>69,24,000</u>

(16 marks)

Chapter - 8 : Valuation of Goodwill

2009 - May [1] (b) From the following particulars of three companies, ascertain the value of goodwill. Terms and conditions are as follows :

- (i) Assets are to be revalued.
- (ii) Goodwill is to be valued at four years' purchase of average super profits for three years. Such average is to be calculated after adjustment of depreciation at ten percent on the amount of increase/decrease on revaluation of fixed assets. Income tax is to be ignored.
- (iii) Normal profit on capital employed is to be taken at 10 per cent, capital employed being considered on the basis of net revaluation amounts of tangible assets.

The summarised Balance Sheets and relevant information are given below :

(Rs. In Lakhs)								
Liabilities	P	Q	R	Assets	P	Q	R	
	Ltd.	Ltd.	Ltd.		Ltd.	Ltd.	Ltd.	
Equity share				Goodwill	)	1.00)	
of Rs. 10 each	12.00	14.00	6.00	Net tangible				
Reserves	2.00	1.00	2.00	block	16.00	12.00	10.00	
10 percent				Current				
debentures	4.00	)	2.00	assets	6.00	5.00	2.00	
Trade and Expenses								
creditors	<u>4.00</u>	<u>3.00</u>	<u>2.00</u>					
	<u>22.00</u>	<u>18.00</u>	<u>12.00</u>		<u>22.00</u>	<u>18.00</u>	<u>12.00</u>	

	P Ltd. Rs.	Q Ltd. Rs.	R Ltd. Rs.
Revaluation of tangible block	20,00,000	10,00,000	12,00,000
Revaluation of Current assets	7,00,000	2,80,000	1,60,000
Average annual profit for three years before charging Debenture interest	3,60,000	2,88,000	1,56,000

(6 marks)

Chapter - 9 : Valuation of Shares

2009 - May [1] (a) Following is the information of two companies for the year ended 31 st March, 2009 :

Particulars.	Aikya Ltd. Rs.	Bakya Ltd. Rs.
Equity shares of Rs. 10 each	8,00,000	10,00,000
10 per cent Preference share of Rs.10 each	6,00,000	4,00,000
Profit after tax	3, 00,000	3,00,000

Assume that the market expectation is 18 percent and 80 percent of the profits are distributed as dividends.

- (i) What is the rate you would pay to the equity shares,
 - (a) if you are buying a small lot?
 - (b) if you are buying a controlling interest in shares?
- (ii) If you plan to invest only in Preference share, which company's preference share would you choose? (10 marks)

Chapter - 11 : Financial Reporting for Financial Institutions

2009 - May [6] (b) Amigo Mutual Fund Ltd. is a SEBI Registered Mutual fund. The Company follows the practice of valuing its investments on "mark to market basis". For the financial year ended March, 2009 the investments which were acquired at a cost of Rs. 109 crores were reflected in the Balance Sheet at Rs. 89 crore. The company insists that the depreciation in value of the investments need not be disclosed separately in its financial statements since its investment valuation policy is disclosed as part of its accounting policies. Discuss the validity of this argument. (4 marks)

Chapter - 13 : Economic Value Added Statement

2009 - May [6] (a) Pilot Ltd. supplies the following information using which you are required to calculate the economic value added.

- Financial Leverage 1.4 times
- Capital (equity and debt).

Equity shares of Rs. 1,000	34,000
Accumulated profit (Lakh Rs.)	260
10 percent Debentures of Rs. 10 each	80 lakhs nos.

- Dividend expectations of equity shareholders 17.50%
 - Prevailing Corporate Tax rate 30%
- (6 marks)

Chapter - 14 : Corporate Social Reporting

2009 - May [3] (c) From the following information taken from the books of Sunagarik Ltd. relating to staff and community benefits, you are required to prepare a statement classifying the various items under the appropriate heads, required under corporate social reporting :

Particulars	Rs. in lakhs
Environmental improvements	36.18
Medical facilities	9.00
Training programmes	18.45
Generation of job opportunities	109.35
Municipal taxes	19.26
Increase in cost of living in the vicinity due to company's operations	29.79
Concessional transport, water-supply etc.	20.25
Generation of business	45.00
Leave encashment and leave travel benefits	93.60
Education facilities for children of staff members	38.88
Subsidised canteen facilities	25.92
Extra work put in by staff and officers for drought relief	33.30

(5 marks)

Chapter - 18 : Accounting for Financial Instruments

2009 - May [3] (a) Parikshit Ltd. holds Rs. 1,00,000 of loans yielding 18 per cent interest per annum for their estimated lives of 9 years. The fair value of these loans, after considering the interest yield, is estimated at Rs. 1,10,000.

The company securitises the principal component of the loan plus the right to receive interest at 14% to Susovana Corporation, a special purpose vehicle, for Rs. 1,00,000.

Out of the balance interest of 4 percent, it is stipulated that half of such balance interest, namely 2 percent, will be due to Parikshit Ltd. as fees for continuing to service the loans. The fair value of the servicing asset so created is estimated at Rs. 3,500. The remaining half of the interest is due to Parikshit Ltd. as an interest strip receivable, the fair value of which is estimated at Rs. 6,500.

Give the accounting treatment of the above transactions in the form of journal entries in the books of originator. (6 marks)

2009 - May [5] (a) Santhosh Ltd. granted 500 options to each of its 2,500 employees in 2003 at an exercise price of Rs. 50 when the market price was the same. The contractual life (vesting and exercise period) of the options granted is 6 years with the vesting period and exercise period being 3 years each. The expected life is 5 years and the expected annual forfeitures are estimated at 3 percent. The fair value per option is arrived at Rs. 15. Actual forfeitures in 2003 were 5 percent. However at the end of 2003 the management of Santhosh Ltd. still expects that the actual forfeitures would average only 3 per cent over the entire vesting period. During 2004 the management revises its estimated forfeiture rate to 10 per cent per annum. Of the 2,500 employees 1,900 employees have completed the 3 year vesting period. 1,000 employees exercise their right to obtain shares vested in them in pursuance of ESOP at the end of 2007 and 500 employees exercise their right at the end of 2008. The rights of the remaining employees expire unexercised at the end of 2008. The face value per share is Rs. 10. Show the necessary journal entries with suitable narrations. Workings should form part of the answer. (10 marks)

(b) On 1st February, 2008, an Indian Company sold goods to an American Company at an invoice price of US \$ 20,000 when the spot market rate was Rs. 48.10 to a U.S. dollar. Payment was to be made in three months time, namely, by 1st May, 2008.

To avoid the risk of foreign exchange fluctuations the Indian exporter acquired a forward contract to sell U.S. \$ 20,000 at Rs. 47.90 per U.S. dollar on 1st May, 2008.

The Indian company's accounting year ended on 31st March, 2008 and the spot rate on this date was Rs. 47.20 per U.S. dollar. The spot rate on 1st May, 2008, the date by which the money was due from the American buyer, was Rs. 50 per dollar.

Show what accounting entries will have to be made in the books of the Indian exporter at the relevant period of time. (10 marks)

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

2009 - May [3] (b) The Annuity fund of Patiala University accepts an annuity –based gift from an alumnus who specifies that he receives a monthly payment of Rs. 25,000 for the remainder of his life. The gift consists of cash of Rs. 20 lakh and securities having a market value of Rs. 15 lakh at the time of the gift. The investment income of annuity fund for a particular month comes to Rs. 38,500.

Draft journal entries in the University's books. (5 marks)

Paper - 2 : Management Accounting and Financial Analysis

Chapter - 1 : Capital Budgeting

2009 - May [1] {C} (a) Shivam Ltd. is considering two mutually exclusive projects A and B. Project A costs Rs. 36,000 and project B Rs. 30,000. You have been given below the net present value probability distribution for each project :

Project A		Project B	
NPV estimates (Rs.)	Probability	NPV estimates (Rs.)	Probability
15,000	0.2	15,000	0.1
12,000	0.3	12,000	0.4
6,000	0.3	6,000	0.4
3,000	0.2	3,000	0.1

- (i) Compute the expected net present values of projects A and B.
- (ii) Compute the risk attached to each project i.e. standard deviation of each probability distribution.
- (iii) Compute the profitability index of each project.
- (iv) Which project do you recommend ? State with reasons. (14 marks)

2009 - May [3] (b) Briefly explain the term “capital rationing”. (6 marks)

2009 - May [5] (b) X & Co. is contemplating whether to replace an existing machine or to spend money in overhauling it. X & Co. currently pays no taxes. The replacement machine costs Rs. 95,000 and requires maintenance of Rs. 10,000 every year at the year end for eight years. At the end of eight years, it would have a salvage value of Rs. 25,000 and would be sold. The existing machine requires increasing amounts of maintenance each year and its salvage value falls each year as follows :

Year	Maintenance (Rs.)	Salvage (Rs.)
Present	0	40,000
1	10,000	25,000
2	20,000	15,000
3	30,000	10,000
4	40,000	0

The opportunity cost of capital for X & Co. is 15%. You are required to state, when should the firm replace the machine :

(Given : Present value of an annuity of Re. 1 per period for 8 years at interest rate of 15% - 4.4873; present value of Re. 1.00 to be received after 8 years at interest rate of 15%-0.3269). (10 marks)

2009 - May [6] (a) What is sensitivity analysis in Capital budgeting? (6 marks)

Chapter - 4 : Types of Financing

2009 - May [4] (c) Explain the term “debt securitisation”. (6 marks)

Chapter - 5 : Capital Market instruments

2009 - May [4] (a) The equity share of VCC Ltd. is quoted at Rs.210. A 3 – month call option is available at a premium of Rs. 6 per share and a 3 – month put option is available at a premium of Rs. 5 per share.

Ascertain the net payoffs to the option holder of a call option and a put option, given that :

- (i) the strike price in both cases is Rs. 220; and
- (ii) the share price on the exercise day is Rs. 200, 210, 220, 230, 240.

Also indicate the price range at which the call and the put options may be gainfully exercised. (10 marks)

Chapter - 7 : Financial Services

2009 - May [3] (a) Sundaram Ltd. discounts its cash flows at 16% and is in the tax bracket of 35%. For the acquisition of a machinery worth Rs. 10,00,000, it has two options-either to acquire the asset by taking a bank loan @ 15% p.a. repayable in 5 yearly instalments of Rs.2,00,000, each plus interest or to lease the asset at yearly rentals of Rs. 3,34,000 for five (5) years. In both the cases, the instalment is payable at the end of the year. Depreciation is to be applied at the rate of 15% using 'written down value' (WDV) method. You are required to advise which of the financing options is to be exercised and why.

Year	1	2	3	4	5
P.V. factor @ 16%	0.862	0.743	0.641	0.552	0.476

(14 marks)

Chapter - 11 : Mutual Funds

2009 - May [4] (b) A mutual fund that had a net asset value of Rs. 16 at the beginning of a month, made income and capital gain distribution of Re. 0.04 and Re. 0.03 respectively per unit during the month, and then ended the month with a net asset value of Rs. 16.08. Calculate monthly and annual rate of return.

(4 marks)

2009 - May [6] (c) Explain briefly the advantages of investing in mutual funds.

(5 marks)

Chapter - 12 : Business Valuation

2009 - May [2] (b) X Ltd. reported a profit of Rs. 65 Lakhs after 35% tax for the financial year 2007-08. An analysis of the accounts revealed that the income included extraordinary items Rs. 10 lakhs and an extraordinary loss Rs. 3 lakhs. The existing operations, except for the extraordinary items, are expected to continue in the future; in addition, the results of the launch of a new product are expected to be as follows :

	<i>Rs. lakhs</i>
Sales	60
Material costs	15
Labour costs	10
Fixed costs	8

You are required to :

- (a) Compute the value of the business, given that the capitalisation rate is 15%.
- (b) Determine the market price per equity share, with X Ltd.'s share capital being comprised of 1,00,000, 11% preference shares of Rs. 100 each and 40,00,000 equity shares of Rs. 10 each and the P/E ratio being 8 times. (10 marks)

Chapter - 13 : Mergers & Acquisitions

2009 - May [2] (a) Following information is provided relating to the acquiring company Mani Ltd. and the target company Ratnam Ltd. :

	Mani Ltd.	Ratnam Ltd.
Earning safter tax (Rs. lakhs)	2,000	4,000
No. of shares outstanding (lakhs)	200	1,000
P/E ratio (No. of times)	10	5

Required :

- (i) What is the swap ratio based on current market prices ?
- (ii) What is the EPS of Mani Ltd. after the acquisition ?
- (iii) What is the expected market price per share of Mani Ltd. after the acquisition, assuming its P/E ratio is adversely affected by 10% ?
- (iv) Determine the market value of the merged Co.
- (v) Calculate gain/loss for the shareholders of the two independent entities, due to the merger. (10 marks)

Chapter - 16 : Foreign Exchange Exposure and risk Management

2009 - May [5] (a) The following 2-way quotes appear in the foreign exchange market :

	Spot	2-Months Forward
RS/US \$	Rs.46.00/Rs. 46.25	Rs. 47.00/Rs. 47.50

Required :

- (i) How many US dollars should a firm sell to get Rs. 25 lakhs after 2 months?
- (ii) How many Rupees is the firm required to pay to obtain US \$ 2,00,000 in the spot market ?
- (iii) Assume the firm has US \$ 69,000 in current account earning no interest. ROI on Rupee investment is 10% p.a. Should the firm encash the US \$ now or 2 months later ? (6 marks)

Chapter - 17 : Money Market and their operations

2009 - May [6] (b) Z Co. Ltd. issued commercial paper worth Rs. 10 crores as per following details :

Date of issue :	16th January, 2009
Date of maturity	17th April, 2009
No. of days :	91
Interest rate	12.04% p.a.

What was the net amount received by the company on issue of CP? (Charges of intermediary may be ignored) (4 marks)

Chapter - 19 : Dividend Policy

2009 - May [5] (c) According to the position taken by Miller and Modigliani, dividend decision does not influence value. Please state briefly any two reasons, why companies should declare dividend and not ignore it. (4 marks)

Chapter - 20 : Miscellaneous

2009 - May [1] {C} (b) Presently a company is working with an earning before interest and taxes (EBIT) of Rs. 90 lakhs. Its present borrowings are as follows:

	Rs. in lakhs
12% term loan	300
Working capital borrowings :	
Borrowing from bank at 15%	200
Fixed deposits at 11%	90

The sales of the company are growing and to support this, the company proposes to obtain additional borrowing of Rs. 100 lakhs at a cost of 16%. The increase in EBIT is expected to be 18%. Calculate the present and the revised interest coverage ratio and comment. (6 marks)

New Chapter :

2009 - May [6] (d) Write a brief note on the Small Industries Development Bank of India. (5 marks)

Paper - 3 : Advanced Auditing**Chapter - 1 : Audit Planning**

2009 - May [8] Write short notes on the following :

- (a) Usefulness of careful and adequate audit planning.
- (d) Purposes for which analytical procedures are used by auditors.
- (f) Assessing the reliability of Audit evidence. (4 Marks each)

Chapter - 6 : Company Audit

2009 - May [1] {C} (b) During the audit for the year ended on 31st March, 2009 of XYZ Ltd. you come across certain personal expenses of employees have been debited to Profit and Loss account. (4 marks)

(c) While conducting the audit of ABC Ltd. for the year ended on 31st March, 2009, you find that the company has disposed off substantial part of the fixed assets, but the management of the company represents to you that they will continue in business. (4 marks)

Chapter - 7 : Divisible Profit, Dividends and Reserves

2009 - May [1] {C} (d) A Ltd. has not made provisions for proposed dividends in its accounts but proposes to charge the dividends to Profit and Loss account as and when paid. (5 marks)

Chapter - 9 : Audit Reports - I

2009 - May [3] (c) State your views on reference to an expert in the Auditor's report. (4 marks)

2009 - May [6] (b) When should an auditor make a disclaimer opinion in his Audit report ? (5 marks)

2009 - May [8] Write short notes on the following :

(e) Unqualified opinion in the context of the Auditor's report. (4 marks)

Chapter - 12 : EDP Audit

2009 - May [7] (a) "When the computer information systems are significant, the auditor should obtain an understanding of the CIS environment and whether it may influence the assessment of inherent and control risk." What factors an auditor has to consider in such risk assessment ? (12 marks)

Chapter - 13 : Investigations

2009 - May [3] (a) State the points in an investigation of frauds through suppliers ledger. (6 marks)

Chapter - 14 : Cost Audit

2009 - May [3] (b) State the circumstances that may warrant the introduction of Cost audit. (6 marks)

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

2009 - May [6] (c) What are the general principles that propriety audit need to conform ? (5 marks)

Chapter - 16 : Audit of Banks

2009 - May [4] (a) State the internal controls in the area of Loans and Advances of Banks. (12 marks)

Chapter - 17 : Audit of Insurance Company

2009 - May [6] (a) State the audit procedures for verification of outstanding premium and agents' balances of General Insurance companies. (6 marks)

Chapter - 18 : Tax Audit

2009 - May [5] (b) State the reporting requirement regarding books of account (prescribed, maintained and examined), in Form No. 3CD of Tax Audit under Section 44AB of the Income Tax Act, 1961. (8 marks)

Chapter - 19 : Audit of Members of Stock Exchange

2009 - May [8] Write short notes on the following :

(b) Verification of Margin Deposit Book in the audit of Members of Stock Exchanges. (4 marks)

Chapter - 20 : Special Aspects

2009 - May [4] (b) What shall comprise the auditor's report of Mutual Funds?
(4 marks)

Chapter - 21 : Professional Ethics

2009 - May [2] {C} 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) Mr. B, a practising Chartered Accountant, expressed his opinion on the financials of M/s ABC Ltd. for the year ended on 31st March, 2009. It was later found that the closing stock was valued arbitrarily by Management which was accepted by him without verification and large amount of revenue expenditure was capitalised. (5 marks)

(b) Mr. A was appointed by H Ltd. to audit the PF trust maintained by the company. While conducting the audit he noticed that large amount of loans have been given out of the trust to the employer company in contravention of the rules of the PF trust. He had disclosed the irregularities to the trustees and to the company but not to the individual subscribers of the PF. When queried on his omission to disclose, he explained that he owed no duty to the individual members. (5 marks)

(c) Mr. B was appointed as auditor of XYZ Ltd. in place of Mr. A. Mr. B had sent a letter of communication to Mr. A under certificate of posting and proceeds to conduct the audit. Mr A makes a complaint to the institute on the basis of non-receipt of communication. (4 marks)

(d) A Chartered Accountants firm pays share in the profits to a widow of its deceased partner. (4 marks)

2009 - May [8] Write short notes on the following :

(c) Professional Negligence. (4 marks)

Chapter - 22 : Management and Operational Audit

2009 - May [7] (b) In an operational audit performance evaluation, what factors can cause unsatisfactory production performance ? (4 marks)

Chapter - 23 : Auditing Assurance Standards

2009 - May [5] (a) State briefly the communication/reporting requirements as per AAS 21 on non-compliance in an audit of financial statement :

(i) To the management

(ii) To the users of the auditor's report on the financial statements.

(iii) To the regulatory and enforcement authorities. (8 marks)

Chapter - 24 : Accounting Standards & Schedule VI

2009 - May [1] {C} (a) As an auditor, how would you deal with the following? In the audit of an Organisation whose objects are charitable or religious, holds that the Accounting Standards are not applicable to it, since only a very small proportion of its activities consist of business in nature. (5 marks)

Paper - 4 : Corporate Laws and Secretarial Practice**Chapter - 2 : Directors**

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

- (a) The Board of Directors of XYZ Ltd. filled up a casual vacancy caused by the death of Mr. P by appointing Mr. C as a director on 3rd April, 2009. Unfortunately Mr. C expired on 15th May, 2009 after working about 40 days as a director. The Board now wishes to fill up the casual vacancy by appointing Mrs. C in the forthcoming meeting of the Board. Advise the Board in this regard. (5 marks)

2009 - May [6] (a) As per their Articles of Association the maximum number of Directors of each of the following companies is 9 :

- (i) Goodheart Company Limited.
- (ii) Frontline Trading Private Limited
- (iii) Hindustan Zinc Limited (a Government company under Section 617 of the Companies Act, 1956.

The Board of Directors of the aforesaid companies propose to increase the number of Directors to 15. Advise, whether under the provisions of the Companies Act, 1956, the Board of Directors can do so? (8 marks)

(b) Mr. Ramnathan is a Director of Fraudulent Ltd. Honest Ltd. and Regular Ltd. For the financial year ended on 31st March, 2008 two irregularities were discovered against Fraudulent Ltd. Fraudulent Ltd. did not file its annual accounts for the year ended 31.3.2008 and failed to pay interest on loans taken from a financial institution for the last three years.

On 1st June, 2009 Mr. Ramnathan is proposed to be appointed as additional director of Goodwill Ltd., which company has sought a declaration from Mr. Ramnathan and he also submitted the declaration stating that the disqualification specified in Section 274 of the Companies Act, 1956 is not attracted in his case. Decide under the provisions of the Companies Act :

- (i) Whether the declaration submitted by Mr. Ramnathan to Goodwill Ltd. is in order?
- (ii) Whether Mr. Ramnathan can continue as a Director in Honest Ltd. and Regular Ltd.? (7 marks)

2009 - May [8] (a) A mortgage was created over the property of a public company. The loan was advanced by the son of the director. All the directors already knew this fact. Thus the director was interested in the transaction. But he has neither disclosed his interest nor abstained from voting while approving the said transaction. Later on a suit was filed for setting aside the mortgage on the ground that since the interested director voted on the matter, the contract was void. Advise with reasons :

- (i) Whether the contract became void due to non- disclosure of interest by the concerned director?
- (ii) Is there any ban on such a contract under the Companies Act, 1956?
(8 marks)

(b) Decide in the light of the provisions of the Companies Act, 1956 the validity and extent of powers of Board of Directors and the procedure to be complied with in the following matters :

- (i) Delegation of power to the Managing Director of the company to invest surplus funds of the company in the shares of some companies.
- (ii) Donation of Rs. 5 lakhs to a hospital established exclusively for the benefit of employees and a donation of Rs. 5 lakhs to a charitable trust registered under Section 12 A and exempted under Section 80 G of the Income-tax Act, 1961.
- (iii) Donation of Rs. 5 lakhs to a political party registered with the appropriate authority.
(7 marks)

Chapter - 3 : Inter Corporate Loans and Investments

2009 - May [4] (a) The following information is available from the audited Balance Sheet of Makewell Ltd :

	Rs. in lakhs
Equity Share Capital	60
Calls outstanding	01
Preference Share Capital	21
Share application money	10
Securities Premium Account	15
Capital Redemption Reserve	18
Fixed Assets Revaluation Reserve	09
General Reserve	30
Profit and Loss Account (credit balance)	17
Dividend Equalisation Reserve.	05

The company proposes to acquire 3 lakh equity shares of Rs. 10 each of PQR Ltd. It also intends to execute a corporate guarantee for Rs. 25 lakhs in favour of Goodwill Ltd. a wholly owned subsidiary company and a corporate loan of Rs. 50 lakhs to ABC Ltd. State the legal requirements to be complied with to give effect to the above proposals.
(8 marks)

Chapter - 4 : Compromise, Arrangement & Reconstruction

2009 - May [9] (a) The shareholders and creditors of Wagonbound Company Limited, in meetings convened for approval of a scheme of reconstruction of the company, passed resolutions. The scheme of reconstruction provided for the following :

- (i) Sale of vacant land and appropriation of proceeds for payment of outstanding wages, tax dues and repayment of loan.

- (ii) Unsecured creditors to forego 40% of their claims against the company and receive debentures for the balance amount.

A few shareholders and creditors raised objections against the said arrangements. Advise the directors about the steps to be taken to give effect to the proposed scheme under the Companies Act, 1956. (8 marks)

Chapter - 5 : Oppression & Mismanagement

2009 - May [5] (a) The issued, subscribed and paid-up share capital of ABC Company Limited is Rs. 10 lakhs consisting of 90,000 equity shares of Rs. 10 each fully paid up and 10,000 preference shares of Rs. 10 each fully paid up. Out of the members of company, 400 members holding one preference share each and 50 members holding 500 equity shares applied for relief under Sections 397 and 398 of the Companies Act, 1956. As on the date of petition, the company had 600 equity shareholders and 5,000 preference shareholders.

State with details whether the above petition under Section 397 and 398 is maintainable. Will your answer be different, if preference shareholders have subsequently withdrawn their consent ? (8 marks)

Chapter - 7 : Winding up

2009 - May [7] (b) A. B. Ltd. fails to raise its paid up capital upto Rs. 5 lakhs so as to comply with the provisions of the Companies (Amendment) Act, 2000. The Registrar of companies New Delhi struck off the name of the company from the Register in 2003. Mr Mercy a creditor of the company having information that there are assets available with the company, seeks your advice on the following issues :

- (i) Can the name of the company be restored ?
- (ii) If the answer of the above question is in the affirmative, who can apply for restoration and who is the competent authority for considering the restoration of name ?
- (iii) Is there any time limit for making application for restoration and if so how many years ? (7 marks)

2009 - May [9] (b) High Value Builders Ltd. is financially insolvent and is unable to pay its debts. Mr X an unsecured creditor has to recover a sum of Rs. 5 lakhs from the company. Advise Mr. X about the steps and the procedure to be followed to put the company into compulsory winding up, as an alternative for the recovery of his dues. (7 marks)

Chapter - 9 : Accounts & Audit

2009 - May [4] (b) Sunrise Limited is a subsidiary company of Hotline Limited. The financial year of Sunrise Limited is 1st July to 30th June, whereas the financial year of Hotline Limited is from 1st April to 31st March every year. To maintain uniformity and consolidation of annual accounts the Board of Directors of Hotline Limited decided that the accounting year of Sunrise

Limited for the year 1st July, 2007 to 30th June, 2008 be extended from present 12 months to 21 months i.e. 1st July, 2007 to 31st March, 2009.

Mention, in the light of the provisions of the Companies Act, 1956, the steps to be taken by the Hotline Limited in this regard. (7 marks)

Chapter - 10 : Foreign Exchange Management Act, 1999

2009 - May [2] {C} Answer any **two** of the following :

(a) State the kind of approval required for the following transactions under the Foreign Exchange Management Act, 1999 :

- (i) L a famous playback singer of India wants to perform a musical night in Paris for Indians residing there. Foreign exchange to the extent of US D 20,000 is required for this purpose.
- (ii) M requires US D 5,000 to make payment related to 'call back services' of telephone.
- (iii) N wants to pursue a course in business management in New York. He wants to draw US D 50,000 towards expenses for studying abroad.
- (iv) R wants to draw US D 20,000 to make donation to a charitable trust situated in South Korea. (7 marks)

(b) Mr. Raman is a software engineer of Armtex Ltd. The company sent him to Japan to develop a software programme there on deputation for 2 years. He earned a sum of US \$ 3,000 as a honorarium there. On his return to India he wants to hold this foreign currency with him. Whether, Mr. Raman will be allowed to keep the foreign currency with him? (7 marks)

Chapter - 11 : SEBI

2009 - May [3] {C} (a) Answer any **two** of the following :

(a) Point out the circumstances whereunder the following powers may be exercised by the Securities and Exchange Board of India.

- (i) Prohibiting a company from issuing or publishing any document or advertisement soliciting money from public for the issue of securities.
- (ii) Pass cease and desist order in relation to any listed company.

What remedies are available to the companies against such orders under the Securities and Exchange Board of India Act, 1992. (8 marks)

(b) The Balance Sheet of Get Well Soon Ltd. as at 31.3.2009 disclosed the following details :

(i) Authorised share capital	Rs. 400 crores
(ii) Paid up share capital	Rs. 150 crores
(iii) Reserves and surplus	Rs. 750 crores

The company has issued in the year 2004, Fully Convertible Debentures of Rs. 100 crores which are due for conversion in the year 2009. The company proposes, after conversion of Debentures to issue Bonus shares in the ratio of

1 : 1. Explain briefly the requirements of the Companies Act, 1956 and the Securities and Exchange Board of India (SEBI) guidelines to be followed by the company in this regard. (8 marks)

Chapter - 12 : Interpretation of Statutes, Deeds and Documents

2009 - May [3] {C} (c) The word “May” doesn't mean “Shall”. Yet the word 'May' under certain circumstances mean “Shall”. Discuss the statement in the context of interpretation of statutes and the importance of distinction between mandatory and directory provisions. (8 marks)

Chapter - 13 : Corporate Secretarial Practice - I

2009 - May [5] (b) Mr. Shrikant is working as Chief Accountant in Black Marbles Limited. The Board of Directors of the said company propose to charge him with the duty of ensuring compliance with the provisions of the Companies Act, 1956 so that books of account can be properly maintained and Balance Sheet and Profit and Loss Account can be prepared as per the provisions of law. Draft a “Board Resolution” for the said purpose. Also point out the consequences in case of default, when such a resolution is passed. (7 marks)

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

2009 - May [1] {C} (b) M/s Goyanka & Company, which is a member of a recognised stock exchange desire to buy and sell shares of Crossroads Company Limited on their own count as well as on behalf of investors. Advise M/s Goyanka & Company whether there are any restrictions for dealing in securities on their own count under the provisions of the Securities Contracts (Regulation) Act, 1956. (5 marks)

(c) The Mewar Rural Financial Corporation, Udaipur, established under a special statute issued 5 years bonds to public directly and not through any Stock Exchange. Decide whether the said act of the Mewar Rural Financial Corporation is in violation of the provisions of the Securities Contracts (Regulation) Act, 1956. (5 marks)

Chapter - 17 : Competition Act, 2002

2009 - May [2] {C} (c) The Central Government on the recommendation of selection committee appoints Mr. RKP aged 56 years as Member of the Competition Commission of India to be effective from 1st January, 2009. State with reference to the provisions of Competition Act, 2002 the term for which he will be appointed and whether he can be reappointed as such and also if he resigns after two years whether the vacancy can be filled up by the Chairman of the commission.

You are further required to mention the composition of the selection committee on whose recommendation the Central Government appoints Chairman and other members of the Competition Commission of India.

(7 marks)

Chapter - 18 : Producer Company

2009 - May [7] (a) The promoters of Balaji Producer Company Ltd., proposed to be registered under Section 581C of the Companies Act, 1956 desire to have the following information :

- (i) Can the company be registered with seven individuals ?
- (ii) What is the minimum number of directors required to be appointed?
- (iii) The time limit within which the first annual general meeting of the company should be held after incorporation.
- (iv) Whether the funds of the company can be given as loans to any of the directors of the company ?

Advise the promoters on the above said issues with relevant details.

(8 marks)

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