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# SCANNER™ Appendix

CA Final Gr. I (Old Course)  
May - 2010

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## PAPER'S

### Paper - 1 : Advanced Accounting

#### Chapter - 2 : Accounting Standards in India

**2010 - May [5]** (a) A plant was acquired 15 years ago at a cost of Rs. 5 crores. Its accumulated depreciation as at 31<sup>st</sup> March, 2009 was Rs. 4.15 crores. Depreciation estimated for the Financial year 2009 -10 is Rs. 25 lakhs. Estimated Net Selling Price as 31<sup>st</sup> March, 2009 was Rs. 30 lakhs, which is expected to decline by 20 per cent by the end of the next Financial year.

Its value in use has been computed at Rs. 35 lakhs as of 1<sup>st</sup> April, 2009, which is expected to decrease by 30 per cent by the end of the Financial year.

- Assuming that other conditions for applicability of the impairment Accounting Standard are satisfied, what should be the carrying amount of this plant as at 31<sup>st</sup> March, 2010.
- How much will be the amount of write off for the financial year to end on 31<sup>st</sup> March, 2010?
- If the plant had been revalued ten years ago and the current reserves against this plant were to be Rs. 12 lakhs, how would you answer to questions (i) and (ii) above change?
- If the value in use was zero and the enterprise were required to incur a cost of Rs. 2 lakhs to dispose of the plant, what would be your response to questions (i) and (ii) above ? (8 marks)

- (b) 'Suram' Ltd. wants to re-classify its Investment in accordance with AS-13. Decide on the treatment to be given in each of the following cases:
- (1) A portion of Current Investments purchased for Rs. 20 lakhs to be reclassified as Long-term Investments, as the company has decided to retain them. The market value as on the date of Balance Sheet was Rs. 25 lakhs.
  - (2) Another portion of Current Investments purchased for Rs. 15 lakhs has to be re classified as Long-term Investments. The market value of these investments as on the date of Balance Sheet was Rs. 6.5 lakhs.
  - (3) Certain Long-term Investments no longer considered for holding purposes have to be re-classified as Current Investments. The Original cost of these was Rs. 18 lakhs but they had been written down to Rs. 12 lakhs to recognise permanent decline as per AS-13.
- (4 marks)

- (c) `On 1<sup>st</sup> December, 2009, "Sampath" Construction Company Limited undertook a contract to construct a building for Rs. 108 lakhs. On 31<sup>st</sup> March, 2010 the company found that it had already spent Rs. 83.99 lakhs on the construction. A Prudent estimate of additional cost for completion was Rs. 36.01 lakhs.

What is the provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31<sup>st</sup> March, 2010 based on AS-7 on "Accounting for Construction Contracts." (4 marks)

**2010 - May [6]** (b) Refiners and Projects Limited is a company in the oil and gas sector. It undertakes extensive research and development work as part of its operations. It has till the end of the financial year 31 March, 2008 spent Rs. 592.23 crores on research expenses.

The development of a new process was completed in the accounting year 2008-2009 after incurring an expenditure of Rs. 322.26 crores. In the accounting year 2009-2010, the company implemented the new process resulting in a post tax saving of Rs. 100 crores in the first year of operation and savings of Rs. 80 crores per annum thereafter for the next four years.

The cost of capital to the company is 12 per cent.

Kindly indicate how you will, in the background of accounting standards prescribed, proceed to record the transactions in the books of accounts of the company.

You are given to understand that the research expenses shown above do not include any general or selling and administrative expenses.

The present value discounted at 12 per cent of a Rupee can be adopted at .893, .797, .712, .636 and .567 for the purposes of calculation. (4 marks)

**Chapter - 6 : Corporate Restructuring**

**2010 - May [4]** (a) Perrotte Ltd. has the following Capital Structure as on 31.03.2009 :

Particulars	(Rs. in crores)	
(1) Equity Share Capital (Shares of Rs. 10 each fully paid)	—	330
(2) Reserves and Surplus		
General Reserve	240	—
Share Premium Account	90	—
Profit & Loss Account	90	—
Infrastructure Development Reserve	180	600
(3) Loan Funds		1,800

The Shareholders of Perrotte Ltd. have on the recommendation of their Board of Directors approved on 12.09.2009 a proposal to buy back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is Rs. 25 per share and in order to induce the existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% over market.

You are also informed that the Infrastructure Reserve is created to satisfy Income-tax Act requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the Loan funds of the company were either Rs. 1,200 crores or Rs. 1,500 crores.

Assuming that the entire buy back is completed by 09.12.2009, show the accounting entries in the company's books in each situation. Narrations should form part of your answer. (8 marks)

**Chapter - 7 : Valuation of Assets**

**2010 - May [4]** (b) Friendly Ltd. granted Rs. 100 lakhs as loan to its employees on 1<sup>st</sup> January, 2009 at a concessional rate of interest of 4 per cent per annum on the condition that the loan is to be repaid in five equal annual instalments alongwith interest thereon. You are informed that the prevailing lending rate for such risk profiles is 10% p.a. You are required to find out at what value the loan should be recognised initially and the amount of annual amortization till closure thereof. Show Journal Entries with appropriate narrations that will be recorded in the company's Books in the year 2009.

[Present value of an Indian Rupee at a discount rate of 10 per cent per annum will be .9090, .8263, .7512, .6829 and .6208 which is to be adopted for purposes of calculation]. (8 marks)

**Chapter - 8 : Valuation of Goodwill**

**2010 -May [3]** (a) Modern Cars Ltd. is engaged in the business of manufacture of electric Passenger Cars. The Company requires you to determine the value of its goodwill also showing the leverage effect on goodwill. Its Balance Sheet is as on 31.03.2010 is as under :

Balance Sheet of Modern Cars Ltd. as at 31<sup>st</sup> March, 2010

Liabilities	Rs. (Lakh)	Assets	Rs.₹ (Lakh) (Lakh)
Share Capital : (Equity Shares of Rs. 10 each)	1,500	Gross Fixed Assets	1,500
General Reserve	500	Less : Depreciation till date	<u>500</u>
12% Term Loan from bank	500	Investments :	
Creditors	210	Non-trade	300
Provision for Tax	10	Trade	<u>90</u>
Proposed Dividend	140	Current Assets :	390
		Overseas Debtors (1\$=INR 42)	420
		Indian Debtors	<u>400</u>
		Stock in Trade	350
		Cash and Bank Balances	<u>300</u>
	<u>2,860</u>		<u>2,860</u>

Additional information :

The closing exchange rate for the U.S. dollar was INR 48. Income from Non-trade Investments was a loss for the year ended 31.03.2010 owing to write down of cost of acquisition by 4%. There was no other transaction under Non-trade Investments during the year.

Current Year depreciation charged on historical cost was Rs. 100 lakhs. Current cost of Fixed assets is determined at Rs. 2,000 lakhs.

While Current cost of Closing Stock is Rs. 367 lakhs, that of the opening stock was Rs. 200 lakhs against its historical cost of Rs. 148 lakhs. The market value of Non-trade Investments at the year end was Rs. 300 lakhs.

The Overseas debtors made settlements in U.S. \$ only.

The Industry Average rate of return on current cost of capital employed is 12% on long-term debt and 15% on equity. The opening balance in General reserve was Rs. 150 lakhs. While prevailing tax rate is 30% such rate is expected to decline by 5%.

Using the above information you are required to arrive at value of the goodwill of the company under equity and long-term fund approaches and also show the leverage effect on Goodwill. (10 marks)

2010 - May [2] (a) The Summarized Balance Sheet of 'Janmejy' Private Ltd. as on 31.03.2010 is as under :

Liabilities	Amount Rs.	Assets	Amount Rs.
Share Capital :		Fixed Assets :	
Equity Shares of		Goodwill	1,75,000
Rs. 10 each	5,00,000	Leasehold Property:	1,60,000
8% Preference Shares of		(-) Depreciation	<u>70,000</u>
Rs. 10 each fully paid	2,00,000	Plant & Machinery	2,50,000
Reserve & Surplus :		(-) Depreciation	<u>25,000</u>
General Reserve	1,00,000	Investment at cost	4,00,000
Profit & Loss A/c	2,20,250	Current Assets :	
Current Liabilities :		Stock at cost	82,500
Bank Loan	1,00,000	Sundry Debtors	40,500
Sundry Creditors	<u>49,750</u>	Balance at Bank	<u>1,57,000</u>
	<u>11,70,000</u>		<u>11,70,000</u>

A holder of 10,000 of the Equity Shares in the company has agreed to sell these shares at a value based on the above Balance Sheet, but subject to adjustment of the valuation of the following :

- (1) The leasehold property was acquired on 1.4.2000 and at the Balance Sheet date the lease has a further six years to run. The cost should be written off over the term of the lease of equal annual charges. To date Rs.7,000 per annum had been written off.
- (2) In 2007-08, goods costing Rs. 6,000 were purchased and have been included since that date at cost in the Stock lists. The goods were valueless on the Balance Sheet date.
- (3) An expense Creditors Rs. 3,750 of the current year has been omitted from being recorded in the books.
- (4) A General Reserve of 10 per cent on total Debtors, after specific provision for Doubtful Debts, has been made for the First time in the current year accounts.
- (5) Goodwill is to be valued at two years' purchase of the average Profits, after the above adjustments, of three years 2007 - 08; 2008-09; and 2009 -10, such profits being those available for dividend for Equity shareholders.
- (6) The profits of the company as shown by the accounts before appropriations and before providing for preference dividends were as follows :

Year

Rupees

2007-08	80,400
2008-09	92,900
2009-10	89,650

You are required to compute the total consideration due to the Vending Shareholder. (10 marks)

**Chapter - 10 : Holding Company Accounts**

**2010 - May [1]** The summarized Balance Sheets of Kush Ltd. and Shuk Ltd. as at 31<sup>st</sup> March, 2010 are as follows :

(Figures in lakhs)

Liabilities	Kush Ltd. Rs.	Shuk Ltd. Rs.	Assets	Kush Ltd. Rs.	Shuk Ltd. Rs.
Share Capital :			Plant at Costless		
Equity Shares of Rs. 10 each	216.0	108.0	Depreciation	86.4	72.9
Share Premium	32.4	—	Furniture, Fixtures & Fittings	23.4	7.2
Capital Reserve on 1.04.09	—	7.2	Stock at Cost	18.0	13.5
General Reserve on 1.04.09	13.5	9.0	Debtors	73.8	47.6
Profit & Loss A/c	70.2	21.6	Trade Investment	—	2.7
Creditors	29.7	19.7	Goodwill at Cost	45.0	13.6
			Investment :		
			8.64 lakhs Shares of Shuk Ltd. at Cost	97.2	—
			Balance at Bank	18.0	8.0
	<u>361.8</u>	<u>165.5</u>		<u>361.8</u>	<u>165.5</u>

Additional information :

- On 1<sup>st</sup> April, 2009 Kush Ltd. acquired from the shareholders of Shuk Ltd. 8.64 lakhs shares of Rs. 10 each in Shuk Ltd. and allotted in consideration thereof 6.48 lakhs of its own shares of Rs. 10 each at a premium of Rs. 5 per share.
- The consideration for the shares of Shuk Ltd. was arrived at inter-alia by valuing certain assets of Shuk Ltd. on 1<sup>st</sup> April, 2009 as under :
  - Plant at Rs. 90 lakhs
  - Furniture, Fixtures & Fittings at Rs. 8 lakhs
  - No value on Trade Investment and Goodwill.

No adjustments were made in the books of accounts of Shuk Ltd. in respect of the above valuation.

During 2009 -10 there was no purchase or sale of these Assets. It is desired that such adjustments should however be made in the Consolidated Accounts.

- (3) The figures for Plant and Furniture-Fixtures and Fittings at 31.3.2010 shown in the Balance Sheet are after providing depreciation for, 2009 - 10 at the rates of 10 per cent per annum and 20 per cent per annum respectively, on the Book values as at 1.04.09.
- (4) The Profit and Loss Account of Shuk Ltd. showed a Credit balance of Rs. 27 lakhs on 1.04.09. A dividend of 10% was paid in January, 2010 for the year 2008 - 09. This dividend was credited to Profit and Loss A/c of Kush Ltd.
- (5) The following point was not considered in making out the accounts :  
In the year expenses at Rs. 4,500 per month were incurred by Kush Ltd. on behalf of Shuk Ltd. It was by mistake debited to Profit and Loss Account of Kush Ltd. and nothing has been done in the accounts of Shuk Ltd.
- (6) The stock of Shuk Ltd. included Rs. 4.5 lakhs of goods received from Kush Ltd. invoiced at cost plus 25 per cent.
- (7) Debtors of Shuk Ltd. include Rs. 3.5 lakhs due from Kush Ltd. whereas Creditors of Kush Ltd. include Rs. 3.1 lakhs due to Shuk Ltd., the difference being represented by a cheque in transit.

You are required to consolidate the accounts of the two companies and prepare a Consolidated Balance Sheet of Kush Ltd. and its subsidiary as at 31<sup>st</sup> March, 2010. (20 marks)

**Chapter - 13 : Economic Value Added Statement**

**2010 - May [2]** (b) From the following data compute the Economic Value Added :

Share Capital	Rs. 1,600 crores
Long-term Debt	Rs. 320 crores
Interest	Rs. 32 crores
Reserve and Surplus	Rs. 3,200 crores
Profit before Interest and Tax	Rs. 1,432 crores
Tax Rate	30%
Beta Factor	1.05%
Market Rate of Return	14%
Risk Free Rate	10%

(6 marks)

**Chapter - 15 : Human Resource Accounting**

**2010 - May [6]** (a) From the following data in respect of an employer kindly calculate the total value of Human Capital under 'Lev and Schwartz' Model:

Age Group	No.	Distribution of Employees		
		Unskilled Annual Annual	Semi-skilled Average Annual	Skilled Average Annual
		No.	No.	No.

		earning Rs.		earning Rs.		earning Rs.
30-39	100	18,000	60	36,000	40	84,000
40-49	50	30,000	30	48,000	20	1,20,000
50-54	30	36,000	20	60,000	10	1,80,000

Retirement age is 55 years. Apply discount factor of 20%. In calculation of total value of Human factor the lowest value of each class should be taken.

Annuity factor @ 20 per cent.

for 5 years	2.991	
for 10 years	4.192	
for 15 years	4.675	
for 20 years	4.870	
for 25 years	4.948	(12 marks)

**Chapter - 18 : Accounting for Financial Instruments**

**2010 - May [3]** (b) Aakshaya Ltd. has given a 12.50% fixed rate loan to its subsidiary Shaya Ltd. Aakshaya Ltd. measures this loan at an amortised cost of Rs. 2,50,000. Aakshaya Ltd. has plans to hive off the receivable at a later stage and as a measure to safeguard against fall in value of its due enters into a pay-fixed, received floating interest rate swap to convert the fixed interest receipts into floating rate receipts. Aakshaya Ltd. designates the swap as a Hedging instrument in a fair value hedge of the Loan Asset.

Over the following months market interest rates increase and Aakshaya Ltd. earns interest income of Rs. 25,000 on the loan and Rs. 1,000 as net interest payments on the swap. The Fair value of the Loan Asset decreases by Rs. 5,000 while that of the interest rate swap increases by 5,000. You are informed that all conditions required for the Hedge Accounting are satisfied. You are required to pass Journal Entries, with suitable narrations, in the books of Aakshaya Ltd. to record the above transactions. (6 marks)

**Paper - 2 : Management Accounting and Financial Analysis**

**Chapter - 6 : Indian Stock Market**

**2010 - May [3]** (a) A call and put exist on the same stock each of which is exercisable at Rs. 60.

They now trade for :	
Market price of Stock or stock index	Rs. 55
Market price of call	Rs. 9
Market price of put	Re. 1

Calculate the expiration date cash flow, investment value, and net profit from:

- (i) Buy 1.0 call
- (ii) Write 1.0 call
- (iii) Buy 1.0 put
- (iv) Write 1.0 put

for expiration date stock prices of Rs. 50, Rs. 55, Rs. 60, Rs. 65, Rs. 70.

(6 marks)

**2010 - May [5]** (c) What are the reasons for stock index futures becoming more popular financial derivatives over stock futures segment in India ?

(6 marks)

#### **Chapter - 7 : Financial Services**

**2010 - May [4]** (c) What is a depository ? Who are the major players of a depository system ? What advantages does the depository system offer to the clearing member ?

(4 marks)

#### **Chapter - 8 : Portfolio Management**

**2010 - May [1]** (a) Alfa Ltd. desires to acquire a diesel generating set costing Rs. 20 lakh which will be used for a period of 5 years. It is considering two alternatives (i) taking the generating set on lease or (ii) purchasing the asset outright by raising a loan. The company has been offered a lease contract with a lease payment of Rs. 5.2 lakh per annum for five years payable in advance. Company's banker requires the loan to be repaid @ 12% p.a. in 5 equal annual installments, each installment being due at the beginning of the each year. Tax relevant depreciation of the generator is 20% as per WDV method. At the end of 5<sup>th</sup> year the generator can be sold at Rs. 2,00,000. Marginal Tax rate of Alfa Ltd. is 30% and its post tax cost of capital is 10%.

Determine :

- (a) The net advantage of leasing to Alfa Ltd. and recommend whether leasing is financially viable.
- (b) Break even lease rental.

(12 marks)

(b) The credit sales and receivables of M/s M Ltd. at the end of the year are estimated at Rs. 3,74,00,000 and Rs. 46,00,000 respectively.

The average variable overdraft interest rate is 5% M Ltd. is considering a proposal for factoring its debts on a non-recourse basis at an annual fee of 3% on credit sales. As a result, M Ltd. will save Rs. 1,00,000 per year in administrative cost and Rs. 3,50,000 as bad debts. The factor will maintain a receivables collection period of 30 days and advance 80% of the face value thereof at an annual interest rate of 7%. Evaluate the viability of the proposal. Note : 365 days are to be taken in a year for the purpose of calculation of receivables.

(8 marks)

#### **Chapter - 9 : Credit Rating**

**2010 - May [3]** (c) Ramesh wants to invest in stock market. He has got the following information about individual securities :

Security	Expected Return	Beta	$\sigma_{ci}^2$
A	15	1.5	40
B	12	2	20
C	10	2.5	30
D	09	1	10
E	08	1.2	20
F	14	1.5	30

Market index variance is 10 percent and the risk free rate of return is 7% .

What should be the optimum portfolio assuming no short sales ? (10 marks)

**Chapter - 12 : Business Valuation**

**2010 - May [2]** (b) A Mutual Fund has a NAV of Rs. 20 on 1.12.09. During December, 2009, it has earned a regular income of Re. 0.0375 and capital gain of Re. 0.03 per unit. On 31.12.09, the NAV was Rs. 20.06. Calculate the monthly return and annual return. (5 marks)

**Chapter - 13 : Mergers & Acquisitions**

**2010 - May [2]** (a) Following informations are available in respect of XYZ Ltd. which is expected to grow at a higher rate for 4 years after which growth rate will stabilize at a lower level :

Base year information :

Revenues	—	Rs. 2,000 crores
EBIT	—	Rs. 300 crores
Capital expenditure	—	Rs. 280 crores
Depreciation	—	Rs. 200 crores

Information for high growth and stable growth period are as follows :

	<u>High Growth</u>	<u>Stable Growth</u>
Growth in Revenue & EBIT	20%	10%
Growth in capital expenditure and depreciation	20%	Capital expenditure are offset by depreciation
Risk free rate	10%	9%
Equity beta	1.15	1
Market risk premium	6%	5%
Pre-tax cost of debt	13%	12.86%
Debt equity ratio	1 : 1	2 : 3

For all time, Working capital is 25% of revenue and corporate tax rate is 30%. What is the value of the firm ? (10 marks)

**Chapter - 14 : Foreign Collaborations and Joint Venture**

**2010 - May [4]** (a) ABC, a large business house is planning to sell its wholly owned subsidiary KLM. Another large business entity XYZ has expressed its interest in making a bid for KLM. XYZ expects that after acquisition the annual earning of KLM will increase by 10%.

Following information, ignoring any potential synergistic benefits arising out of possible acquisitions, are available :

- (i) Profit after tax for KLM for the financial year which has just ended is estimated to be Rs. 10 crore.
- (ii) KLM's after tax profit has an increasing trend of 7% each year and the same is expected to continue.
- (iii) Estimated post tax market return is 10% and risk free rate is 4%. These rates are expected to continue.
- (iv) Corporate tax rate is 30%.

	XYZ	ABC	Proxy entity for KLM in the same line of business
No. of shares	100 lakh	80 lakh	—
Current share price	Rs. 287	Rs. 375	—
Dividend pay out	40%	50%	50%
Debt : Equity at market values	1 : 2	1 : 3	1 : 4
P/E ratio		10	1312
Equity beta	1	1.1	1.1

Assume gearing level of KLM to be the same as for ABC and a debt beta of zero.

You are required to calculate :

- (a) Appropriate cost of equity for KLM based on the data available for the proxy entity.
- (b) A range of values for KLM both before and after any potential synergistic benefits to XYZ of the acquisition. (8 marks)

**Chapter - 17 : Money Market and their Operations**

**2010 - May [4]** (b) A Ltd. of U.K. has imported some chemical worth of USD 3,64,897 from one of the U.S. suppliers. The amount is payable in six months time. The relevant spot and forward rates are :

Spot rate	USD 1.5617-1.5673
6 month's forward rate	USD 1.5455-1.5609

The borrowing rate in U.K. and U.S. are 7% and 6% respectively and the deposit rates are 5.5% and 4.5% respectively.

Currency options are available under which one option contract is for GBP 12,500. The option premium for GBP at a strike price of USD 1.70/GBP is USD 0.037 (call option) and USD 0.096 (put option) for 6 months period.

The company has 3 choices :

- (i) Forward cover
- (ii) Money market cover, and
- (iii) Currency option.

Which of the alternatives is preferable by the company ? (8 marks)

**2010 - May [5]** (a) ABC Bank is seeking fixed rate funding. It is able to finance at a cost of six months LIBOR + 1/4% for Rs. 200 million for 5 years. The bank is able to swap into a fixed rate at 7.5% versus six month LIBOR treating six months as exactly half a year.

- (a) What will be the “all in cost” funds to ABC Bank ?
- (b) Another possibility being considered is the issue of a hybrid instrument which pays 7.5% for first three years and LIBOR - 1/4% for remaining two years.

Given a three year swap rate of 8%, suggest the method by which the bank should achieve fixed rate funding. (10 marks)

- (b) What do you know about swaptions and their uses ? (4 marks)

#### **Chapter - 19 : Dividend Policy**

**2010 - May [2]** (c) Write a short note on the role of the financial advisor in a public sector undertaking. (5 marks)

#### **New Chapter**

**2010 - May [3]** (b) Mr. A is thinking of buying shares at Rs. 500 each having face value of Rs. 100. He is expecting a bonus at the ratio 1 : 5 during the fourth year. Annual expected dividend is 20% and the same rate is expected to be maintained on the expanded capital base. He intends to sell the shares at the end of seventh year at an expected price of Rs. 900 each. Incidental expenses for purchase and sell of shares are estimated to be 5% of the market price. He expects a minimum return of 12% per annum.

Should Mr. A buy the share ? If so, what maximum price should he pay for each share ? Assume no tax on dividend income and capital gain.

(4 marks)

### **Paper - 3 : Advanced Auditing**

#### **Chapter - 1 : Audit Planning**

**2010 - May [5]** Answer the following :

- (a) As an Internal Auditor of a Cement Manufacturing Company, draft an audit program for verification of transportation charges for despatches from the factory. (8 marks)
- (c) What are the broad matters to be considered while obtaining knowledge of business for a new audit engagement of a manufacturing concern ? (4 marks)

#### **Chapter - 2 : Internal Control**

**2010 - May [6]** Write short notes on the following :

- (b) Use of ‘Check Lists’ in Audit (4 marks)

#### **Chapter - 6 : Company Audit**

**2010 - May [1]** As an auditor how would you deal with the following ?

- (a) There is a Sales-tax demand of Rs. 3 crores against X Ltd. relating to prior years against which the company has gone in appeal. (5 marks)
- (b) When the audit team visited the client to perform substantive audit of debtors, the client produced Ledger accounts of customers and confirmations for the top 10 debtors. One of the debtors was more than 5 years old, but had confirmed his balance. (5 marks)
- (c) A Ltd. prepared an invoice for an export consignment on FOB basis on 30<sup>th</sup> March, 2010. The goods were despatched from the factory on 30<sup>th</sup> March, 2010 and the Bill of Lading was made on 3<sup>rd</sup> April, 2010. A Ltd. had booked the invoice in the Sales Register for March, 2010. (5 marks)
- (d) LMN Pvt. Ltd. is a dealer in government securities. The turnover on account of sale of securities for the year ended 31<sup>st</sup> March, 2010 is Rs. 85 crores whereas the net profit is Rs. 0.10 crores. While finalising the accounts, the company did not prepare the Cash Flow Statement. (5 marks)

**2010 - May [3]** Answer the following :

- (a) What are the procedures to be followed by a statutory auditor for verifying the provision for accrued liability for retirement benefits which is based on a certificate of an reputed actuary. (8 marks)

**Chapter - 9 : Audit Reports - I**

**2010 - May [3]** Answer the following :

- (b) Describe the areas where the-Statutory Auditor of a company has to make :
- (i) Statement of facts
- (ii) Give his opinion. (8 marks)

**Chapter - 10 : Audit Reports - II**

**2010 - May [6]** Write short notes on the following :

- (c) CEO/CFO Certification to the Board (4 marks)

**Chapter - 13 : Investigations**

**2010 - May [4]** Answer the following :

- (b) Describe briefly the major verification areas in a due diligence for a proposed merger. (6 marks)

**Chapter - 16 : Audit of Banks**

**2010 - May [4]** Answer the following :

- (a) What are the additional matters which the Statutory Auditor of a banking company has to state in his report ? (4 marks)

**Chapter - 18 : Tax Audit**

**2010 - May [5]** Answer the following :

- (b) Discuss the reporting requirements in Form 3CD of the Tax Audit Report u/s 44AB of the Income-tax Act, 1961 for Accounting Ratios.(4 marks)

**2010 - May [6]** Write short notes on the following :

- (d) Audit report under VAT. (4 marks)

**Chapter - 20 : Special Aspects**

**2010 - May [6]** Write short notes on the following :

- (a) Energy Audit (4 marks)

**Chapter - 21 : Professional Ethics**

**2010 - May [2]** Comment on the following with reference to the Chartered Accountants Act, 1949 as amended by the Chartered Accountants Act, 2006 and schedules thereto :

- (a) M/s PQR a firm of Chartered Accountants responded to a tender from a State Government department for switching over to double entry system of accounting. For the purpose the firm also paid Rs. 20,000 as earnest money deposit as per the terms of the tender. (4 marks)
- (b) K, a Chartered Accountant in practice takes up appointment as Managing Director of XY Ltd. (4 marks)
- (c) X was appointed statutory auditor in ABC Ltd. for the year ended 31<sup>st</sup> March, 2010. On inquiry, X found that his wife had acquired before a few years, 100 shares in the said company. She was still holding the shares with the name of X as joint holder. Can X accept the appointment ? (4 marks)
- (d) A is a partner of Z firms, M/s ABC & Company and M/s A & Associates. For most of the audits handled by him, the appointment is in the name of M/s ABC & Company. The visiting cards of A carries the names of both the firms. (4 marks)

**Chapter - 23 : Auditing Assurance Standards**

**2010 - May [4]** (c) As an auditor, what are the indicators you would consider while verifying compliance with Laws and Regulations ? (6 marks)

**Paper - 4 : Corporate Laws and Secretarial Practice**

**Chapter - 2 : Directors**

**2010 - May [6]** (a) Prince Ltd., desires to appoint an additional director on its board of directors. The Articles of the company confer upon the board to exercise the power to appoint such a director. As such M is appointed as an additional director. In the light of the provisions of the Companies Act, 1956, examine :

- (i) Whether M can continue as director if the annual general meeting of the company is not held within the stipulated period and is adjourned to a later date ?
- (ii) Can the power of appointing additional director be exercised by the Annual General Meeting ?
- (iii) As the Secretary of the company what checks would you make after M is appointed as an additional director ? (8 marks)

**2010 - May [7]** (a) ADJ Company Limited has 10 directors on its board. Two of the directors have retired by rotation at an Annual General Meeting. The place of retiring directors is not so filled up and the meeting has also not expressly resolved 'not to fill the vacancy'. Since the AGM could not complete its business, it is adjourned to a later date. At this adjourned meeting also the place of retiring directors could not be filled up, and the meeting has also not expressly resolved 'not to fill the vacancy'.

Referring to the provisions of the Companies Act, 1956, decide :

- (i) Whether in such a situation the retiring directors shall be deemed to have been re-appointed at the adjourned meeting ?
- (ii) What will be your answer in case at the adjourned meeting, the resolutions for re-appointment of these directors were lost ?
- (iii) Whether such directors can continue in case the directors do not call the Annual General Meeting ? (8 marks)

#### **Chapter - 5 : Oppression & Mismanagement**

**2010 - May [5]** (b) The profits of MJR Company Limited for the financial year 2009-2010 fell considerably due to recession. The Board of Directors of the company, therefore, bonafide did not recommend any dividend for the year. At the Annual General Meeting of the company, a group of shareholders/members objected to the Board's decision and wanted the Board to make recommendation for dividend. On refusal by the Board, the members, who feel oppressed by the Board's decision to skip the dividend, move to the Company Law Board/Tribunal and complain against the Board on the ground of oppression and mismanagement.

Examining the provisions of the Companies Act, 1956, decide :

- (1) Whether the members contention shall be tenable ?
- (2) Whether the act of Board of Directors not to recommend any dividend shall amount to oppression and mismanagement ? (7 marks)

#### **Chapter - 7 : Winding up**

**2010 - May [7]** (b) The Official Liquidator of a public company in liquidation instituted misfeasance proceedings against the Managing Director of the company. During the pendency of the proceedings in the High Court, the Managing Director died. The Official Liquidator has applied to the court that

the legal representatives of the Managing Director be impleaded in the place of the deceased Managing Director and the proceedings be continued.

Examining the provisions of the Companies Act, 1956 decide whether the contention of the Official Liquidator be tenable. (7 marks)

**Chapter - 8 : Miscellaneous Provisions**

**2010 - May [5]** (a) On 24<sup>th</sup> January, 2010, the Board of Directors BUI Limited appointed Mr. A as the company's Sole Selling Agent for a period of 5 years. At the first general meeting of the company, held after the Board meeting, on April 10, 2010, the above appointment was disapproved. Referring to the provisions of the Companies Act, 1956 :

- (i) State the date from which the above appointment comes to an end.
- (ii) What would be your answer in case a condition in the above appointment that "the appointment must be made by the company in General Meeting" was not attached thereto ? (8 marks)

**Chapter - 10 : Foreign Exchange Management Act, 1999**

**2010 - May [2]** (a) The Reserve Bank of India receives a complaint that an authorized person has submitted incorrect statements and information to the Reserve Bank of India in respect receipt and utilization of Foreign Exchange. Explain the powers of the Reserve Bank of India with regard to inspection of records of the above authorized person in respect of the above complaint.

Referring to the provisions of Foreign Exchange Management Act, 1999, state the duties of the above authorized person. (7 marks)

- (b) Referring to the provisions of the Foreign Exchange Management Act, 1999, state the kind of approval required for the following transactions :
- (i) M requires U.S. \$ 5,000 for remittance towards hire charges of transponders.
  - (ii) D requires U.S. \$ 14,000 per annum for donation to Mr. White in U.S.A.
  - (iii) P requires U.S. \$ 2,000 for payment related to call back services of telephones.
  - (iv) XYZ Limited, a company incorporated in India under the Companies Act, 1956, wants to withdraw U.S. \$ 5,00,000, for short-term credit to its overseas office situated in Australia. (7 marks)

**Chapter - 11 : SEBI**

**2010 - May [3]** (a) Examining the provisions of the Securities and Exchange Board of India Act, 1992, state the penalties to which the following shall be subject to :

- (i) In case of default committed by a registered stock broker, in payment of amount due to an investor.
- (ii) In case of a registered broker communicating some unpublished price sensitive information to a person on his request.

- (iii) What factors shall the adjudicating officer take into account while adjudging the quantum of penalty under the Act ? (8 marks)

**Chapter - 12 : Interpretation of Statutes, Deeds and Documents**

**2010 - May [4]** (a) (i) Explain the rules relating to interpretation of the terms 'Subject to' and 'Notwithstanding' as used in the different provisions of the Acts. What is the effect of the term 'Notwithstanding anything contained in this Act' used in Section 408 of the Companies Act, 1956 empowering the Central Government to prevent oppression and mismanagement ? (4 marks)

- (ii) In what way are the following terms considered as 'internal aid' in the interpretation of statutes ?

(A) Illustrations

(B) Explanation. (4 marks)

**Chapter - 13 : Corporate Secretarial Practice - I**

**2010 - May [6]** (b) DVJ Limited decide to appoint Mr. A, as its Managing Director for a period of 5 years with effect from 1<sup>st</sup> May, 2010. A, fulfils all the conditions as specified in Part I and Part II of Schedule XIII of the Companies Act, 1956. The terms of appointment are as under :

- (i) Salary Rs. 1 lac per month.  
(ii) Commission, as may be decided by the Board of Directors of the Company.  
(iii) Perquisites :  
Free Housing  
Medical reimbursement upto Rs. 10,000 per month.  
Leave Travel concession for the family.  
Club Membership Fee.  
Personal Accident Insurance Rs. 10 lacs.

Gratuity; and

Provident Fund as per company's policy.

You, being the Secretary of the company, are required to draft a resolution to give effect to the above, assuming that A is already the Managing Director of a public limited company. (7 marks)

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

**2010 - May [1]** (a) MNC Limited whose shares are listed on a recognized Stock Exchange, are delisted by the Stock Exchange. The company seeks your advise on the remedies available to the company against the order of the Stock Exchange. Referring to the provisions of the Securities Contracts (Regulation) Act, 1956, advise the company. (5 marks)

(b) Referring to the provisions of the Securities Contracts (Regulation) Act, 1956 :

- (i) Examine the extent to which the Central Government is empowered to suspend business of a recognized Stock Exchange.
- (ii) The Central Government has granted recognition to a Stock Exchange. To what conditions may such a recognition be subject to ? (5 marks)

**Chapter - 16 : Investigation**

**2010 - May [4]** (b) The Central Government has appointed an Inspector under Section 237 of the Companies Act, 1956, to investigate into the affairs of ABC Limited. It is alleged by the company that during the course of investigation, Mr. Z, an Assistant Company Secretary has revealed certain confidential information relating to the affairs of the company. The Managing Director of the company, therefore, decided to dispense with the services of Mr. Z.

The Managing Director of the company seeks your advise whether the proposed action of the company is in order under the provisions of the Companies Act, 1956. (7 marks)

**Chapter - 17 : Competition Act, 2002**

**2010 - May [3]** (b) (i) The competition commission has received a complaint from a State Government alleging that X Limited and Y Limited have entered into an informal agreement, not enforceable at law, to limit or control production, supply and market, to determine the sale price of their products. Such an action of these companies has an appreciable effect on competition. Examining the provisions of the Competition Act, 2002 :

- (A) Decide whether the above agreement has appreciable effect on competition.
- (B) What factors shall the Competition Commission consider while taking the above decision.
  
- (C) What orders can the Competition Commission pass on completion of the inquiry ? (5 marks)
- (ii) Explain the provisions of the Competition Act, 2002 relating to the constitution of benches of the commission under the Act. (3 marks)

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