

Free of Cost

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SCANNER™ Appendix

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

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PAPER'S

Paper - 1 : Financial Reporting

Chapter-1 : Accounting Standards & Guidance Notes

2010 - May [1] (b) Sun Ltd. has entered into a sale contract of Rs. 5 crores with X Ltd. during 2009-10 financial year. The profit on this transaction is Rs. 1 crore. The delivery of goods to take place during the first month of 2010-11 financial year. In case of failure of Sun Ltd. to deliver within the schedule a compensation of Rs. 1.5 crore is to be paid to X Ltd. Sun Ltd. planned to manufacture the goods during the last month of the 2009-10 financial year. As on Balance Sheet date (31.3.2010), the goods were not manufactured and it was unlikely that Sun Ltd. will be in a position to meet the contractual obligation.

- Should Sun Ltd. provide for contingency as per AS-29 ?
- Should provision is measured as the excess of compensation to be paid over the profit ? (5 marks)

(c) Rainbow Limited borrowed an amount of Rs. 150 crores on 1.4.2009 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. The weighted average cost of capital is 13% p.a. The accountant of Rainbow Ltd., capitalised interest of Rs. 19.50 crores for the accounting period ending on 31.3.2010. 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. (5 marks)

(d) Y Ltd. is a full tax free enterprise for the first ten years of its existence and is in the second year of its operation. Depreciation timing difference resulting in a tax liability in year 1 and 2 is Rs. 200 lakhs and Rs. 400 lakhs respectively. From the third year it is expected that the timing difference would reverse each year by Rs. 10 lakhs. Assuming tax rate of 40%, find out the deferred tax liability at the end of the second year and any charge to the Profit and Loss account. (5 marks)

2010 - May [2] (b) Comforts Ltd. granted Rs. 10,00,000 loan to its employees on January 1, 2009 at a concessional interest rate of 4% per annum. Loan is to be repaid in five equal annual instalments alongwith interest. Market rate of interest for such loan is 10% per annum. Following the principles of recognition and measurement as laid down in AS-30—'Financial instruments : Recognition and measurement', record the entries for the year ended 31st December, 2009 for the loan transaction, and also calculate the value of loan initially to be recognised and amortised cost for all subsequent years. The present value of Re. 1 receivable at the end of each year based on discount factor of 10% can be taken as :

Year end	1	0.9090	
	2	0.8263	
	3	0.7512	
	4	0.6829	
	5	0.6208	(12 marks)

Chapter-4 : Accounting for Corporate Restructuring

2010 - May [4] The following are the Balance Sheets of Cat Ltd. and Bat Ltd. as on 31.3.2010 :

	Rs. (in thousands)	
	Cat Ltd.	Bat Ltd.
Liabilities		
Share Capital:		
Equity shares of 100 each fully paid up	2,000	1,000
Reserves	800	—
10% debentures	500	—
Loans from Banks	250	450
Bank overdrafts	—	50
Sundry creditors	300	300
Proposed dividend	200	—
	Total	4,050
		1,800
Assets		
Tangible assets/fixed asset	2,700	850
Investments (including investments in Bat Ltd.)	700	—
Debtors	400	150

Cash at bank	250	—
Accumulated loss	—	800
Total	<u>4,050</u>	<u>1,800</u>

Bat Ltd. has acquired the business of Cat Ltd. The following scheme of merger was approved :

- (i) Banks agreed to waive the loan of Rs. 60 thousands of Bat Ltd.
- (ii) Bat Ltd. will reduce its shares to Rs. 10 per share and then consolidate 10 such shares into one share of Rs. 100 each (new share).
- (iii) Shareholders of Cat Ltd. will be given one share (new) of Bat Ltd. in exchange of every share held in Cat Ltd.
- (iv) Proposed dividend of Cat Ltd. will be paid after merger to shareholders of Cat Ltd.
- (v) Sundry creditors of Bat Ltd. includes Rs. 100 thousands payable to Cat Ltd.
- (vi) Cat Ltd. will cancel 20% holding of Bat Ltd. investment, which was held at a cost of Rs. 250 thousands.

Pass necessary entries in the books of Bat Ltd. and prepare Balance Sheet after merger. (16 marks)

Chapter-5 : Consolidated Financial Statements of Group Companies

2010 - May [3] The draft Balance Sheet of three companies W, H, O, as at 31.3.2010 is as under :

	Rs. in thousands		
	W	H	O
Assets			
Fixed assets	697	648	349
Investments			
1,60,000 shares in H	562	—	—
80,000 shares in O	184	—	—
Cash at bank	101	95	80
Trade receivables	386	321	251
Inventory	<u>495</u>	<u>389</u>	<u>287</u>
Total	<u>2,425</u>	<u>1,453</u>	<u>967</u>
Liabilities			
Share capital	600	200	200
(Nominal value Re.1 per share)			
Reserves	1,050	850	478
Trade payables	375	253	189
Debentures	<u>400</u>	<u>150</u>	<u>100</u>
Total	<u>2,425</u>	<u>1,453</u>	<u>967</u>

You are given the following information :

- (a) W purchased the shares in H on 13.10.2005 when the balance in reserves was Rs. 500 thousands.
- (b) The shares in O were purchased on 11.5.2005 when the balance in reserves was Rs. 242 thousands.
- (c) The following dividend have been declared but not accounted for before the accounting year end :
- | | | |
|---|---|------------------|
| W | — | Rs. 65 thousands |
| H | — | Rs. 30 thousands |
| O | — | Rs. 15 thousands |
- (d) Included in inventory figure of O is inventory valued at Rs. 20 thousands which had been purchased from W at cost plus 25%.
- (e) Goodwill in respect of the acquisition of H has been fully written off.
- (f) On 31.3.2010 H made bonus issue of one share for every share held. This had not been accounted in the Balance Sheet as on 31.3.2010.
- (g) Included in trade payables of W is Rs. 18 thousands to O, which is included in trade receivables of O.

Prepare Consolidated Balance Sheet of W as at 31.3.2010. (16 marks)

Chapter-6 : Accounting & Reporting of Financial Instruments

2010 - May [1] (a) Mr. A bought a forward contract for three months of US \$ 1,00,000 on 1st December at 1 US \$ = Rs. 47.10 when exchange rate was US \$ 1 = Rs. 47.02. On 31st December when he closed his books, exchange rate was US \$ 1 = Rs. 47.15. On 31st January, he decided to sell the contract at Rs. 47.18 per dollar. Show how the profits from contract will be recognised in the books. (5 marks)

Chapter-8 : Financial Reporting for Financial Institutions

2010 - May [2] (a) While closing its books of account as on 31.12.2009 a non-banking finance company (NBFC) has its advances classified as under :

	Rs. in lakhs
Standard assets	10,000
Sub-standard assets	1,000
Secured portion of doubtful debts	
— Upto one year	160
— One year to three year	70
— More than three years	20
Unsecured portion of doubtful debts	90
Loss assets	30

Calculate the provision to be made against advances by NBFC as per prudential norms. (4 marks)

Chapter-10 : Valuation of Intangibles & Liabilities

2010 - May [5] The Balance Sheet of D Ltd. on 31st March, 2009 is as under :

Liabilities	Rs.	Assets	Rs.
12,500 shares of Rs. 100 each fully paid	1,25,00,000	Goodwill	10,00,000
Bank overdraft	46,50,000	Building	80,00,000
Creditors	52,75,000	Machinery	70,00,000
Provision for taxation	12,75,000	Stock	80,00,000
Profit and loss account	<u>53,00,000</u>	Debtors (all considered good)	<u>50,00,000</u>
Total	<u>2,90,00,000</u>	Total	<u>2,90,00,000</u>

In 1989, when the company started its activities the paid up capital was the same. The Profit/Loss for the last five years is as follows :

2004 - 2005 Loss (13,75,000), 2005 - 2006 Profit Rs. 24,55,000, 2006 - 2007 Profit Rs. 29,25,000, 2007 - 2008 Profit Rs. 36,25,000, 2008 - 2009 Profit Rs. 42,50,000.

Income-tax rate so far has been 40% and the above profits have been arrived at on the basis of such tax rate., From 2008 - 2009, the rate of Income-tax should be taken at 45%, 10% dividend is 2005 - 2006, 2006 - 2007 and 15% dividend in 2007 - 2008 and 2008 - 2009 has been paid. Market price of this share on 31st March, 2009 is Rs. 125. With effect from 1st April, 2009, the Managing Directors remuneration will be Rs. 20,00,000 instead of Rs. 15,00,000. The company has secured a contract from which it can earn an additional Rs. 10,00,000 per annum for the next five years.

Calculate the value of goodwill at 3 years purchase of super profit. (For calculation of future maintainable profits weighted average is to be taken)
(16 marks)

2010 - May [6] (a) From the following information, determine the possible value of brand as per potential earning model :

	Rs. in lakhs
(i) Profit After Tax (PAT)	Rs. 2,500
(ii) Tangible fixed assets	Rs. 10,000
(iii) Identifiable intangible other than brand	Rs. 1,500
(iv) Weighted average cost of capital (%)	14%
(v) Expected normal return on tangible asset	
weighted average cost (14%) + normal spread 4%	18%
(vi) Appropriate capitalisation factor for intangibles	25%
	(4 marks)

Chapter-14 : Inflation Accounting

2010 - May [6] (b) Hero Ltd. was registered on 1st April, 2008. It raised its capital as under :

(i) Issued 2,00,000 equity shares at Rs. 10 each	Rs. 20,00,000
(ii) 12.5% debenture of Rs. 100 each	Rs. 2,00,000
This money was invested as under :	
Equipments	Rs. 16,00,000
(Useful life 10 years with nil scrape value)	

Goods purchased for resale at Rs. 200 per unit Rs. 6,00,000
 Goods purchased were entirely sold upto 31st January, 2009, for Rs. 10,00,000.
 All the sale proceeds were collected except Rs. 60,000 as on 31st March, 2009.
 Goods sold were replaced at a cost of Rs. 7,20,000 at the rate of Rs. 240 per unit. Creditors outstanding as on 31.3.2009 was Rs. 40,000.

The replaced goods remained entirely in stock on 31.3.09. The replacement cost as at 31.3.09 was considered to be Rs. 280 per unit. Replacement cost of equipments was Rs. 20,00,000 as at 31.3.09, considering depreciation on straight line basis.

Prepare Profit and Loss account and Balance Sheet on replacement cost (entry value) basis. (12 marks)

Paper - 2 : Strategic Financial Management

Chapter-1 : Project Planning and Capital Budgeting

2010 - May [1] (a) XY Ltd. has under its consideration a project with an initial investment of Rs. 1,00,000. Three probable cash inflow scenarios with their probabilities of occurrence have been estimated as below :

Annual cash inflow (Rs.)	20,000	30,000	40,000
Probability	0.1	0.7	0.2

The project life is 5 years and the desired rate of return is 20%. The estimated terminal values for the project assets under the three probability alternatives, respectively, are Rs. 0,20,000 and 30,000.

You are required to :

- (i) Find the probable NPV;
- (ii) Find the worst-case NPV and the best-case NPV; and
- (iii) State the probability occurrence of the worst case, if the cash flows are perfectly positively correlated over time. (12 marks)

Chapter-2 : Lease and Hire Purchase

2010 - May [2] (a) P Ltd. has decided to acquire a machine costing Rs. 50 lakhs through leasing. Quotations from 12 leasing companies have been obtained which are summarised below :

	Quote A	Quote B
Lease term	3 years	4 years
Initial lease rent (Rs. lakhs)	5.00	1.00
Annual lease rent (payable in arrears) (Rs. lakhs)	21.06	19.66

P Ltd. evaluates investment proposals at 10% cost of capital and its effective tax rate is 30%. Terminal payment in both cases is negligible and may be ignored.

Make calculations and show which quote is beneficial to P Ltd. Present value factors at 10% rate for years 1-4 are respectively 0.91, 0.83, 0.75 and 0.68. Calculations may be rounded off to 2 decimals in lakhs. (10 marks)

Chapter-4 : Indian Capital Market and Security Analysis

2010 - May [1] (b) Mr. A purchased a 3-month call option for 100 shares in XYZ Ltd. at a premium of Rs. 30 per share, with an exercise price of Rs. 550. He also purchased a 3 month put option for 100 shares of the same company at a premium of Rs. 5 per share with an exercise price of Rs. 450. The market price of the share on the date of Mr. A's purchase of options, is Rs. 500. Calculate the profit or loss that Mr. A would make assuming that the market price falls to Rs. 350 at the end of 3 months. (4 marks)

2010 - May [2] (c) How is a stock market index calculated ? Indicate any two important stock market indices. (4 marks)

2010 - May [5] (a) Consider the following data for Government Securities :

Face Value (Rs.)	Interest Rate %	Maturity (Years)	Current Price (Rs.)
1,00,000	0	1	91,000
1,00,000	10.5	2	99,000
1,00,000	11.0	3	99,500
1,00,000	11.5	4	99,900

Calculate the forward interest rates. (8 marks)

Chapter-6 : Financial Services in India

2010 - May [3] (c) List and briefly explain the main functions of an investment bank. (4 marks)

Chapter-7 : Mutual Funds

2010 - May [2] (b) Based on the following information, determine the NAV of a regular income scheme on per unit basis :

	Rs. Crores
Listed shares at Cost (ex-dividend)	20
Cash in hand	1.23
Bonds and debentures at cost	4.3
Of these, bonds not listed and quoted	1
Other fixed interest securities at cost	4.5
Dividend accrued	0.8
Amount payable on shares	6.32
Expenditure accrued	0.75
Number of units (Rs. 10 face value)	20 lacs
Current realizable value of fixed income securities of face value of Rs. 100	106.5
The listed shares were purchased when Index was	1,000

Present index is	2,300
Value of listed bonds and debentures at NAV date	8
There has been a diminution 20% in unlisted bonds and debentures Other fixed interest securities are at cost.	(6 marks)
2010 - May [4] (b) Briefly explain what is an exchange traded fund.	(4 marks)

Chapter-8 : Money Market Operations

2010 - May [5] (c) Write a short note on Debt Securitisation. (4 marks)

Chapter-10 : Foreign Exchange Exposure and Risk Management

2010 - May [3] (b) The rate of inflation in India is 8% per annum and in the U.S.A. it is 4%. The current spot rate for USD in India is Rs. 46. What will be the expected rate after 1 year and after 4 years applying the Purchasing Power Parity Theory. (4 marks)

2010 - May [5] (b) The following market data is available :

Spot USD/JPY 116.00

Deposit rates p.a.	USD	JYP
3 months	4.50%	0.25%
6 months	5.00%	0.25%

Forward Rate Agreement (FRA) for YEN is NIL.

1. What should be 3 months FRA rate at 3 months forward ?
2. The 6 & 12 months LIBORS are 5% & 6.5% respectively. A bank is quoting 6/12 USD FRA at 6.50 – 6.75%. Is any arbitrage opportunity available ?

Calculate profit in such cases. (8 marks)

Chapter-11 : Merge Acquisition, Restructuring & Business Valuation

2010 - May [4] (a) T Ltd. and E Ltd. are in the same industry. The former is in negotiation for acquisition of the latter. Important information about the two companies as per their latest financial statements is given below :

	T Ltd.	E Ltd.
Rs. 10 Equity shares outstanding	12 lakhs	6 lakhs
Debt :		
10% Debentures (Rs. lakhs)	580	—
12.5% Institutional Loan (Rs. lakhs)	—	240
Earnings before interest, depreciation and Tax (EBIDTA) (Rs. lakhs)	400.86	115.71
Market Price/share (Rs.)	220.00	110.00

T Ltd. plans to offer a price for E Ltd., business as a whole which will be 7 times EBIDTA reduced by outstanding debt, to be discharged by own shares at market price.

E Ltd. is planning to seek one share in T Ltd. for every 2 shares in E Ltd. based on the market price. Tax rate for the two companies may be assumed as 30%.

Calculate and show the following under both alternatives — T Ltd.'s offer and E Ltd.'s plan :

- (i) Net consideration payable.
- (ii) No. of shares to be issued by T Ltd.
- (iii) EPS of T Ltd. after acquisition.
- (iv) Expected market price per share of T Ltd. after acquisition.
- (v) State briefly the advantages to T Ltd. from the acquisition.

Calculations (except EPS) may be rounded off to 2 decimals in lakhs.

(16 marks)

Chapter-12 : Miscellaneous

2010 - May [3] (a) The following information is given for 3 companies that are identical except for their capital structure :

	Orange	Grape	Apple
Total invested capital	1,00,000	1,00,000	1,00,000
Debt/assets ratio	0.8	0.5	0.2
Shares outstanding	6,100	8,300	10,000
Pre tax cost of debt	16%	13%	20%
Cost of equity	26%	22%	15%
Operating Income (EBIT)	25,000	25,000	25,000
Net Income	8,970	12,350	14,950

The tax rate is uniform 35% in all cases.

- (a) Compute the Weighted average cost of capital for each company.
- (b) Compute the Economic Valued Added (EVA) for each company.
- (c) Based on the EVA, which company would be considered for best investment ? Give reasons.
- (d) If the industry PE ratio is 11x, estimate the price for the share of each company.
- (e) Calculate the estimated market capitalisation for each of the Companies.

(12 marks)

New Chapter :

2010 - May [1] (c) Explain briefly, how financial policy is linked to strategic management. (4 marks)

Paper - 3 : Advanced Auditing and Professional Ethics

Chapter-1 : Auditing and Assurance Standards & Guidance Notes

2010 - May [3] (c) What are the auditors responsibilities in respect of corresponding figures ? (4 marks)

Chapter-2 : Accounting Standards & Schedule VI

2010 - May [1] Comment on the following :

- (a) T Ltd. an Indian company, subject to Indian Income tax Act, 1961, discloses advance Income-tax paid (Current tax asset) and provision for Income-tax (Current tax liability), separately in Balance Sheet for the year ended 31.3.2010., i.e., it do not offset the amount. (5 marks)

Chapter-3 : Audit Strategy, Planning, Programming & Techniques

2010 - May [3] (a) In the course of audit of ABC Ltd. its management refuses to provide written representations. As an auditor what is your duty?(4 marks)

(b) While planning the audit of S Ltd. you want to apply sampling techniques. What are the risk factors you should keep in mind ? (4 marks)

2010 - May [5] (c) In th audit planning process of X Ltd., you would like to consider audit risk at the financial statement level. What are the factors can influence your decision? (3 marks)

Chapter-4 : Risk Assessment and Internal Control

2010 - May [5] (b) As auditor of Z Ltd., you would like to limit your examination of account balance tests. What are the control objectives you would like the accounting control system to achieve to suit your purpose ? (4 marks)

Chapter-5 : Audit under CIS Environment

2010 - May [3] (d) IT systems also pose specific risks to an entity's internal control ? What are those risks ? (4 marks)

Chapter-6 : The Company Audit

2010 - May [1] Comment on the following :

- (c) S Ltd. issued Bonds to the tune of Rs. 100 lacs and provided security to the tune of Rs. 80 lacs for the same. It insists that it will disclose the Bonds as "Secured" in the Balance Sheet of the Company. (5 marks)
- (d) F Limited includes in the Schedule of Inventory, those items of Fixed assets which have not been in active use and held for disposal, as inventory item. (5 marks)

Chapter-8 : Liabilities of Auditor

2010 - May [5] (d) Explain the liability of the auditor under section 62 of the Companies Act, 1956, for making an untrue statement in the report (as an expert forming a part of the prospectus). (5 marks)

Chapter-9 : Audit Report

2010 - May [1] Comment on the following :

- (b) A Private Limited reports the following position as on 31st March, 2010 :

Paid up capital	30 lacs
Revaluation reserve	10 lacs
Capital reserve	11 lacs
P&L A/c [Dr. Balance]	2 lacs

The Management of the Company contends that CARO 2003 is not applicable to it. (5 marks)

Chapter-11 : Audit of Banks

2010 - May [4] (a) While auditing the Branch of a Bank you are required to examine Inter Branch adjustments. Which points require your special attention ? (6 marks)

(b) How do you examine claims against the Bank not acknowledged as debts? (4 marks)

Chapter-12 : Audit of General Insurance Company

2010 - May [4] (c) While auditing the claims paid in respect of a General Insurance Company what aspects need to be looked into ? (6 marks)

Chapter-14 : Audit of Non Banking Financial Companies

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

(a) Special points that may be covered in the audit of equipment leasing finance company. (4 marks)

Chapter-15 : Audit under Fiscal Laws

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

(c) Major steps required in preparation of Tax audit under VAT. (5 marks)

Chapter-16 : Cost Audit

2010 - May [5] (a) What is the purpose served by Introduction of Cost audit ? (4 marks)

Chapter-17 : Special Audit Assignments

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

(b) Mark to Market margins. (4 marks)

Chapter-21 : Peer Review

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

(d) Focus of a Peer review. (3 marks)

Chapter-22 : Professional Ethics

2010 - May [2] Give your comments with reference to the Chartered Accountants Act, and Schedules thereto :

(a) Mr. A, a practising Chartered Accountant, took over as the executive chairman of a Software Company on 1.4.2010. On 10.4.2010 he applied to the Council for permission. (4 marks)

(b) Mr. X, a practicing Chartered Accountant, issued a circulation certificate for a periodical on the basis of outward memos, which was later found to be false. (4 marks)

- (c) Mr. Z, a practicing Chartered Accountant, received a sum of Rs. 1 lac on 1.9.2009 from a client who intends to leave abroad for a period of a year, with a request that his advance tax liabilities to be paid over the three instalments. On 15th September, 2009, 15th December, 2009 and 15.3.2010. After remitting the 1st instalment of advance tax on 15.9.2009, Z did not keep the Balance Money in a separate Bank account and he is of the opinion he will remit the money within reasonable time as per payment schedule of Advance tax. (4 marks)
- (d) Mr. X, a Chartered Accountant, employed as a paid Assistant with a Chartered Accountant, firm. On 31st December, 2008 he leaves the services of the firm. Despite many reminders from ICAI he fails to reply regarding the date of leaving the services of the firm. (4 marks)

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

2010 - May [2] (a) Mr. Ramesh and his supporters hold more than 50% of the equity share capital of Progressive Realtors Ltd. Dissatisfied with the performance of the company, Mr. Ramesh sends a notice to the Board of Directors about his intention to inspect the account books of the company. Explain the provisions of the Companies Act, 1956 regarding the persons who can inspect the books of account and the right of Mr. Ramesh in this matter. (5 marks)

2010 - May [3] (a) Ambitions Engineering Consultants Ltd., whose financial year ends on 31st March, has acquired Struggling Techies Ltd. making it a subsidiary company. The financial year of the subsidiary company ends on 30th June. The management of the holding company wants to change the financial year of the subsidiary company, if possible, so as to coincide with the financial year of the holding company. State the relevant provisions of the Companies Act, 1956 regarding the financial year and the maximum period upto which the accounts can be prepared in a Financial Year and the approvals, if any, required to be taken to accomplish this task. (5 marks)

Chapter-2 : Dividend

2010 - May [2] (b) X & Co. Ltd. made a loss of Rs. 20 lakhs after providing for depreciation for the year ended 31st March, 2009 and as a result the company was not in a position to declare any dividend for the said year out of profits. However, the Board of Directors of the company announced the declaration of dividend of 15% on the equity shares payable out of free reserves. The paid up share capital of the company and its free reserves as on 31st March, 2009 are Rs. Two crores and Ten crores respectively. The average

dividend declared by the Company in the last five years is 25%. Examine the validity of declaration of dividend. (5 marks)

Chapter-3 : Meetings of Directors and Related Party Transactions

2010 - May [1] (a) Mr. Sachin was appointed as an additional Director of Conservative Finance Ltd. w.e.f. 1st October, 2009, in a casual vacancy by way of a circular resolution passed by the Board of Directors. The next annual general meeting of the company was due on 31st March, 2010, but the same was not held due to delay in the finalisation of the accounts. Some of the shareholders of the company have questioned the validity of the appointment of Mr. Sachin and his continuation as additional director beyond 31st March, 2010. Advise the company on the complaints made by the shareholders.

(5 marks)

2010 - May [4] (b) Mr. Ravindranathan is holding the post of Director in three companies out of which Goodluck Colours Limited is one. For the financial year ended on 31st March, 2009, Goodluck Colours Limited failed to pay interest on loans taken from a financial institution and also failed to repay the matured deposits. On 1st June, 2009 Mr. Ravindranathan accepting the post of Additional Director in Soma Footwear Limited, submitted a declaration that the disqualification specified in Section 274 of the Companies Act, 1956 is not applicable in his case. Decide whether the declaration submitted by Mr. Ravindranathan to Soma Footwear Limited is in order. (5 marks)

2010 - May [6] (a) ABC Limited, over years, enjoys high reputation and its General Reserve is many times more than the paid up capital of the Company. There is apprehension of cornering the shares of the company by some persons likely to result in change in the Board of Directors which may be prejudicial to the Public interest.

Advise, as to how can ABC Limited block the transfer of shares of the company under the provisions of the Companies Act, 1956. (5 marks)

2010 - May [6] (b) The Articles of Association of Rajasthan Toys Private Limited provide that the maximum number of Directors in the company shall be 10. Presently, the company is having 8 Directors. The Board of Directors of the said company desire 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. (5 marks)

2010 - May [7] (a) Advise the Board of Director of Spectra Papers Limited regarding validity and extent of their powers, under the provisions of the Companies Act, 1956 in relation to the following matters :

- (i) Buy-back of the shares of the Company, for the first time, upto 10% of the paid up equity share capital without passing a special resolution.
- (ii) Delegation of Power to the Managing Director of the company to invest surplus funds of the company in the shares of some companies.

(5 marks)

(b) Non-executive Directors of ABC Limited, who are neither in the whole time employment of the company nor Managing Directors have been given the following remuneration —

- (i) Guarantee Commission has been paid to them for having guaranteed the term loans obtained from a Financial institution.
- (ii) Commission payable to them is calculated on the basis of book-profits arrived at after providing for depreciation as per straight line method, Examine the validity of these payments in the light of the provisions of the Companies Act, 1956. (5 marks)

Chapter-7 : Compromise, Arrangements & Reconstructions

2010 - May [5] (a) A scheme of reconstruction of Southern Stone Company Limited was approved by its shareholders and creditors in their meeting and resolutions to that effect were passed. Afterwards a few shareholders and creditors of the company raised objections against the said arrangements of reconstruction. The entire paid up capital of the company was wiped out by the accumulated losses. Advise the Directors of the said company about the steps to be taken to give effect to the proposed scheme under the Companies Act, 1956. (5 marks)

Chapter-10 : Corporate Winding up and Dissolution

2010 - May [3] (b) Ganesh Textiles Private Limited has discontinued its Business since 2006. Negligible assets are available with the company, but also some liabilities. The company has been regular in filing Annual Returns and Balance Sheets. The Director of the Company propose to apply to the Registrar of Companies for striking the name of the company on the ground that it is a defunct company.

Advise, as to what steps can be taken to get the name of the company struck off under the provisions of the Companies Act, 1956. (5 marks)

2010 - May [5] (b) Mr. X is an unsecured creditor and has to recover a sum of Rs. 7 lakhs from Global Footwear Company Limited. The said company has become financially insolvent and hence unable to pay its debts. With the object of recovery of the said amount Mr. X is willing to proceed for compulsory winding up of the company. Advise the steps and procedure in this relation under the provisions of the Companies Act, 1956. (5 marks)

Chapter-15 : Miscellaneous Provisions of Companies Act, 1956

2010 - May [1] (b) Mewar Instrumentations Limited is a subsidiary of a Government company. The comptroller and Auditor General of India appointed Sobman & Company to conduct a supplementary audit of Mewar Instrumentations Limited. Discuss, under the provisions of the Companies Act, 1956 whether the Comptroller and Auditor General's power to authorise such audit for the said subsidiary company is in order ? (5 marks)

Chapter-16 : Corporate Secretarial Practice

2010 - May [4] (a) Mr. Mutthu Swami is working as Chief Accountant is Eastern Pharmaceuticals Ltd. The Board of Director of the said company propose to charge him with the duty of ensuring compliance with the provisions of the Companies Act, 1956 so that accounts and Balance Sheet and Profit and Loss account can be maintained and prepared in accordance with the provisions of law for the time being in force. Draft a “Board Resolution” for the said purpose. Also point out the consequences in case of default, when such resolution is passed. (5 marks)

Chapter-17 : SEBI Act, 1992

2010 - May [8] A to Z Ltd. an unlisted public company, eligible to make a public issue, desires to get its securities listed on Mumbai Stock Exchange, pursuant to a public issue to be made shortly. The company seeks your advice in respect of the following :

- (a) Whether the company can freely price its equity shares; and
- (b) Whether it can issue equity shares to those applicants in the firm allotment category at a price different from the price at which, equity shares are offered to the public.

Advise, keeping in view the SEBI guidelines in this regard. (6 marks)

Chapter-19 : FEMA, 1999

2010 - May [9] (i) The Reserve Bank of India issued certain directions to Dream Construction Limited, an authorised person under the Foreign Exchange Management Act, 1999 to file certain returns. The Company failed to file the said returns. Decide, as to what penal provisions are applicable against the said authorised person under the said Act. (3 marks)

- (ii) Examine under the Foreign Exchange Management Act, 1999 whether “Payment of remuneration to foreign technicians” is a permissible transaction under the provisions of the said Act. (3 marks)

Chapter-20 : Competition Act, 2002

2010 - May [10] P Ltd. and Q Ltd. both dealing in chemicals and fertilizers have entered into an agreement to jointly promote the sale of their products. A complaint has been received by the Competition Commission of India (CCI) stating that the agreement between the two is anti-competitive and against the interests of others in the trade. Examine with reference to the Provisions of the Competition Act, 2002, what are factors the CCI will take into account to determine whether the agreement in question will have any appreciable adverse effect on competition in the market. (6 marks)

Chapter-21 : Banking Regulation Act, 1949

2010 - May [11] Mr. Gopal is a director in a Bank. The Reserve Bank of India terminates him on the ground that his conduct is detrimental to the interest of

the depositors. Decide, whether the Reserve Bank of India can do so under the Banking Regulation Act, 1949. Can the Reserve Bank of India appoint Additional Director in a Bank under the said Act ? (6 marks)

Chapter-24 : Interpretation of Statutes, Deeds and Documents

2010 - May [12] Gaurav Textile Company Limited has entered into a contract with a Company. You are invited to read and interpret the document of contract. What rules of interpretation of deeds and documents would you apply while doing so ? (6 marks)

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