PRIME ACADAMY
29 th SESSION PROGRESS TEST

FINAL Advanced Accounting

No.of.pages: 2 **Total Marks: 75**

Time Allowed: 2Hrs

PART-A **25 Marks**

1. State bank of India, received a gross Rs 1500 crores demand deposits from customers withdrawn Rs 1300 of demand deposit during the financial year 2007-08. How will you classify such receipts and payments in cash flow statement of SBI and the manner of such presentation? Choose any one.
   Operating activities, on net basis (Rs 200 crores inflow)
   Operating activities, on net basis (Rs 200 crores outflow)
   Financing activities, on total basis (Rs 1300 crores outflow)
   Investing activities, on total basis (Rs 1500 crores inflow) (3 Marks)

2. A Ltd purchased fixed assets from USA for $50000 on 1-10-2008. It entered into currency option contract for purchase of foreign exchange to pay for fixed assets and paid a premium of Rs 25000. How will you classify such premium in cash flow statement of A Ltd.
   Operating activities
   Investing activities
   Financing activities
   None of the above. (2 Marks)

3. On January 1 2007, A Ltd Company purchased for Rs 240000 a machine with a useful life of 10 years and no salvage value. The machine was depreciated by diminishing balance method and the carrying amount of the machine was Rs 153600 on December 31 2008. The company changed to the straight line method on Jan 1, 2009. What should be the depreciation expenses on this machine for the year ended Dec 31 2009?
   Rs 15360
   Rs 19200
   Rs 24000
   Rs 30720 (3 Marks)

4. On January 2, 2008, M Ltd bought machinery under a contract that required a down payment of Rs 1000 plus 24 monthly payments of Rs 5000 each for total cash payment of Rs 130000. The cash equivalent price of the machinery was Rs 110000. The machinery was estimated to have useful life of 10 years and salvage value of Rs 5000. The company uses straight line depreciation. In its 2008 income statement, what amount should the company report as depreciation for this machinery?
   Rs 10500
   Rs 11000
   Rs 12500
   Rs 13000 (3 Marks)

5. On June 18, 2008 A Ltd incurred the following costs for one of its printing press:

Purchase of collating and stapling attachment	Rs 84000
Installation of attachment	Rs 36000
Replacement parts for overhaul of press	Rs 26000
Labour and overhead in connection with overhaul	Rs 14000

The overhaul resulted in a significant increase in production. Neither the attachment nor the overhaul increased the estimated useful life of the press. What amount of the above costs should be capitalized?

Rs 10500
Rs 11000
Rs 12500
Rs 13000 (3 Marks)

6. During 2008, King Company made the following expenditures relating to its plant building:

Continuing and frequent repairs	Rs 40000
Repainting the plant building	Rs 10000
Major improvement to the electrical wiring system	Rs 32000
Partial replacement of roof tiles	Rs 14000

How much should be charged to repairs and maintenance expenses in 2008?

Rs 96000
Rs 82000
Rs 64000
Rs 54000 (3 Marks)

7. A Ltd acquired 30% of B Ltd equity shares for Rs 200000 on 1/06/2007. A's 30% interest in B Ltd gave A Ltd the ability to exercise significant influence over B in operating and financial policies. During the financial year 2006-07 B Ltd earned Rs 80000 and declared dividend of Rs 50000 on 12/08/2006. B Ltd reported earning of Rs 300000 for the financial year 2007-08 and declared dividend of Rs 60000 on 12/06/2008. Calculate the carrying amount of investment in the financial statement of A ltd.

Rs 125000
Rs 195000
Rs 185000
Rs 200000 (3 Marks)

8. X Ltd purchased a flat in a group housing co-operative society on 30/04/2003 for Rs 1500000. It also purchased a membership share for Rs 25000 to acquire the flat so purchased. Calculate the value of investment property.

Rs 1475000
Rs 1820000
Rs 1270000
Rs 1525000 (2 Marks)

9. During 2007-08 AD softex India Ltd engaged in the following transactions:

Salary expenses to key employees who are also principal owners	Rs 100000
Sales to affiliated enterprises	Rs 250000

Which of the two transactions would be disclosed as related party transactions in AD Softex India Ltd 2007-08 financial statements?

Neither transaction.
Rs 100000 transaction only
Rs 250000 transaction only
Both transactions. (3 Marks)

PART-B **50 Marks**

1. State with reference to accounting standard, how will you deal with the following cases:

(a) The Chief Accountant of Sports Ltd., gives the following data regarding its six segments:

(Rs. In lakhs)

Particulars	M	N	O	P	Q	R	Total
Segment Assets	40	80	30	20	20	10	200
Segment Results	50	-190	10	10	-10	30	-100
Segment Revenue	300	620	80	60	80	60	1200

The Chief Accountant is of the opinion that segments “M” and “N” alone should be reported. Is he justified in his view? Discuss. (3 marks)

(b) Big Ltd., sold goods for Rs. 90 lakhs to Small Ltd., during financial year ended 31-3-2008. The Managing Director of Big Ltd., own 100% of Small Ltd., The sales were made to Small Ltd., at normal selling prices followed by Big Ltd., The Chief accountant of Big Ltd., contends that these sales need not require a different treatment from the other sales made by the campany and hence no disclosure is necessary as per the accounting standard. Is the Chief Accontant correct?

(4 marks)

(c) Assets and liabilities and income and expenditure items in respect of foreign branches are translated into Indian rupees at the prevailing rate of exchange at the end of the year. The resultant exchange differences in the case of profit, is carried to other Liabilities Account and the Loss, if any, is charged to revenue

(3 marks)

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(d) XYZ Ltd. Company closed its accounting year on 30.6.08 and the accounts for the period were considered and approved by the board of directors on 20th August, 2008. The company was engaged in laying pipe line for an oil company deep beneath the earth. While doing the boring work on 1.9.2008 it had met a rocky surface for which it was estimated that there would be an extra cost to the tune of Rs.80 lakhs. You are required to state with reasons, how the event would be dealt with in the financial statements for the year ended 30.6.2008.

(4 marks)

2. Quick Ltd., purchased on 31st March, 2007, 48,000 shares in Slow Ltd., at 50% premium over face value by issue of 8% debentures at 20% premium. The balance sheet of Quick Ltd., and Slow Ltd., as on 31.3.2007 the dates of purchase were as under:

Liabilities	Quick Ltd., Rs.	Slow Ltd., Rs.	Assets	Quick Ltd., Rs.	Slow Ltd., Rs.
Share Capital (Rs.10)	10,50,000	6,00,000	Fixed Assets	6,50,000	2,00,000
General reserve	1,20,000	40,000	Stock in trade	3,00,000	1,80,000
Profit and Loss A/C	80,000	-	Sundry debtors	3,20,000	2,00,000
Sundry Creditors	1,00,000	60,000	Cash in hand	60,000	30,000
			Preliminary expenses	20,000	10,000
			Profit and loss account		80,000
Total	13,50,000	7,00,000	Total	13,50,000	7,00,000

Particulars of Quick Ltd.,

(i) Profit made: Rs.

2007-2008	1,60,000
2008-2009	2,00,000

(ii) The above profit was made after charging depreciation of Rs.60,000 and Rs.40,000 respectively.

(iii) Out of profit shown above every year Rs.20,000 had been transferred to general reserve.

(iii) 10% dividend had been paid in both the years.

(iv) It has been decided to write down investment to face value of shares in 10 years and to provide for share of loss of subsidiary. Particulars of Slow Ltd.,The company incurred losses of Rs.40,000 and Rs.60,000 in 2007-2008 and 2008-09 after charging depreciation of 10% p.a. of the book value as on 1.4.2007. Prepare consolidated balance sheet as at 31.3.2009 of Quick Ltd., and its subsidiary.

(16 marks)

3. From the following Balance Sheets of a group of companies and the other information provided, draw up the consolidated Balance Sheet as on 31.3.2009. Figures are in Rupees Lakhs.

Balance Sheets as on 31.3.2009

Liabilities	**X Rs.**	**Y Rs.**	**Z Rs.**	**Assets**	**X Rs.**	**Y Rs.**	**Z Rs.**
Shares Capital (in shares of Rs.10 each)	300	200	100	Fixed Assets less depreciaiton	130	150	100
Reserves	50	40	30	Cost of investment in Y Ltd.,	180	-	-
Profit and loss balance	60	50	40	Cost of investment in Z Ltd.,	40	-	-
Bills payable	10	-	5	Cost of investment in Z Ltd.,	-	80	-
Creditors	30	10	10	Stock	50	20	20
Y Ltd.,	-	-	15	Debtors	70	10	20
Z Ltd.,	50	-	-	Bills receivables	-	10	20
				Z Ltd., balance	-	10	-
				X Ltd., balance	-	-	30
				Cash and bank balance	30	20	10
Total	500	300	200	Total	500	300	200

X Ltd., holds 1,60,000 shares and 30,000 shares respectively in Y Ltd., and Z Ltd., Y Ltd., holds 60,000 shares in Z Ltd., These investments were made on 1.7.2008 on which date the provision was as follows:

	Y Ltd.,	Z Ltd.,
Reserves	20	10
Profit and loss account	30	16

In December, 2008 Y Ltd., invoiced goods to X Ltd., for Rs.40 lakhs at cost plus 25%. The closing stock of XLtd., includes such goods valued at Rs.5 lakhs.

Z Ltd., sold to Y Ltd., an equipment costing Rs.24 lakhs at a profit of 25% on selling price on 1.1.2009. Depreciation at 10% per annum was provided by Y Ltd., on this equipment.
Bills payables of Z Ltd., represent acceptances given to Y Ltd., out of which Y Ltd., had discounted bills worth Rs.3 lakhs.

Debtors of X Ltd., include Rs.5 lakhs being the amount due from Y Ltd.,X Ltd., proposes dividend at 10%

(20 marks)

PRIME ACADEMY

29th SESSION PROGRESS TEST

FINAL- Advanced Accounting

SUGGESTED ANSWERS

PART – A

1	(a)
2	(b)
3	(c)
4	(d)
5	(d)
6	(c)
7	(c)
8	(d)
9	(d)

PART - B

1

(a) As per para 27 of AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

i. Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue-external and internal of all segments; or
ii. Its segment result whether profit or loss is 10% or more of it:
    1) The combined result of all segments in profit; or
    2) The combined result of all segments in loss,
    Whichever is greater in absolute amount; or
iii. Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until atleast 75% of total enterprise revenue is included in reportable segments.

a. On the basis of turnover criteria segments M, N and R are reportable segments.
b. On the basis of the result criteria, segments M, N and R are reportable segments (since their results in absolute amount is 10% or more of Rs.200 lakhs).
c. On the basis of asset criteria, all segments except R are reportable segments.

Since all the segments are covered in atleast one of the above criteria all segments have to be reported upon in accordance with Accounting Standard (AS) 17. Hence, the opinion of chief accountant is wrong.

(b) As per paragraph 13 of AS 18 "Related Party Disclosures", Enterprises over which a key management personnel is able to exercise significant influence are related parties. This includes enterprises owned by directors or major shareholders of the reporting enterprise that have a member of key management in common with the reporting enterprise.

In the given case, Big Ltd., and Small Ltd., are related parties and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price.

Hence, the contention of Chief Accountant of Big Ltd., is wrong.

(c) The financial statements of an integral foreign operation (for example, dependent foreign branches) should be translated using the principles and procedures described in paragraphs 8 to 16 of AS 11 (Revised 2003). The individual items in the financial statements of a foreign operation are translated as if all its transactions had been entered into by the reporting enterprise itself.

Individual items in the financial statements of the foreign operation are translated at the actual rate on the date of transaction. For practical reasons, a rate that approximates the actual rate on the date of transaction is often used, for example, an average rate at for a week or a month may be used for all transactions in each foreign currency during the period. The foreign currency monetary items (for example cash, receivables, payables) should be reported using the closing rate at each balance sheet date. Non-monetary items (for example, fixed assets, inventories, investments in equity shares) which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange date at the date of transaction. Thus the cost and depreciation of the tangible fixed assets is translated using the exchange rate at the date of purchase of the asset if asset is carried at cost. If the fixed asset is carried at fair value, translation should be done using the rate existed on the date of the valuation. The cost of inventories is transalated at the exchange rates that existed when the cost of inventory was incurred and realizable value is translated applying exchange rate when realizable value is determined which is generally closing date.

Exchange difference arising on the translation of the financial statements of integral foreign operation should be charged to profit and loss account. Exchange difference arising on the translation of the financial statement of foreign operation may have tax effect which should be dealt as per AS 22 "Accounting for Taxes on Income".

Thus, the treatment by the management of translating all assets and liabilities; income and expenditure items in respect of foreign branches at the prevailing rate at the year end and also the treatment of resultant exchange difference is not in consonance with AS 11 (Revised 2003).

Note: For the purpose of translation of assets, liabilities, income and expenditure items of foreign operations, AS 11 (Revised 2003) classifies the foreign operation into two types- Integral foreign operation, Non-integral foreign operation. Integral foreign operation is a foreign operation, the activities of which are an integral part of those of the reporting enterprise. Non-integral foreign operation is a foreign operation that is not an integral foreign operation. The above answer has been given on the basis that the foreign branches referred in the question are integral foreign operations.

(d) Para 3.2 of AS 4 (Revised) on Contingencies and Events Occurring after the Balance Sheet Date defines 'events occurring after the balance sheet date' as 'significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which financial statements are approved by the Board of Directors in the case of a company'. The given case is discussed in the light of the above mentioned definition and requirements given in paras 13-15 of the said AS 4 (Revised).

In this case the incidence, which was expected to push up cost became evident after the date of approval of the accounts. So that was not an 'event occurring after the balance sheet date'. However, this may be mentioned in the Directors' Report.

2.

Consolidated Balance Sheet of Quick Ltd., and its subsidiary Slow Ltd., as at 31st March, 2009

Liabilities	Rs.	Assets	Rs.	Rs.
Share Capital:		Goodwill		2,32,000
Issued and Subscribed: 1,05,000 shares of Rs.10 each Fully paid up	10,50,000	Fixed Assets: Quick Ltd., Peace Ltd.,	5,50,000 1,60,000	7,10,000
Minority Interest	90,000	Net Current Assets: Quick Ltd., Slow Ltd.,	8,30,000 2,90,000	11,20,000
Capital Reserve	1,20,000	Net Current Assets: Quick Ltd., Slow Ltd.,	8,30,000 2,90,000	11,20,000
General Reserve	1,60,000	Preliminary Expenses		20,000

Profit & Loss Account	62,000			
8% Debentures	6,00,000			
Total	20,82,000	Total		20,82,000

Working Notes:

(1) Investment in Slow Ltd., (48,000 shares):

	Rs.
Face value of shares	4,80,000
Premium (50%) over face value	2,40,000
Cost of investment	7,20,000

Acquired by issue of debentures at 20% premium:

	Rs.
8% Debentures	6,00,000
(Nominal value=7,20,000/120x100)	
Debenture Premium	1,20,000
	7,20,000
Writing down of investment	
2007-2008:1/10x2,40,000	(24,000)
2008-2009:1/10x2,40,000	(24,000)
Investment as on 31.3.2009	6,72,000

(2) Balance of Profit and Loss Account on 31st March, 2009:

	Qiick Ltd., Rs.	Slow Ltd., Rs.
Balance as on 31.3.2007	80,000	(80,000)
Profit/(Loss)		
For 2007-2008	1,60,000	(40,000)
For 2008-2009	2,60,000	(60,000)
Investment written off		
2007-2008	(24,000)	
2008-2009	(24,000)	
Provision for share of loss in subsidiary		

2007-2008: 4/5 x 40,000	(32,000)	
2008-2009: 4/5 x 60,000	(48,000)	
Transfer to General Reserve		
2007-2008	(20,000)	
2008-2009	(20,000)	
Dividend		
2007-2008	(1,05,000)	
2008-2009	(1,50,000)	
	62,000	(1,80,000)

(In the absence of information, taxation has not been considered).

(3) Balance Sheets as at 31st March, 2009

Liabilities	Quick Ltd.,Rs.	Slow Ltd.,Rs.	Assets		Quick Ltd.,Rs.	Slow Ltd.,Rs.
Share Capital	10,50,000	6,00,000	Fixed assets*		5,50,000	1,60,000
Capital reserve (Debenture Premium)	1,20,000	-	Investment Less: Provision for loss in subsidiary	6,72,000 80,000	5,92,000	-
General reserve	1,60,000	40,000	Net current assets (Balancing figure)		8,30,000	2,90,000
Profit and loss account	62,000	-	Preliminary expenses		20,000	10,000
8% Debentures	6,00,000	-	Profit & Loss A/c		-	1,80,000
Total	19,92,000	6,40,000	**Total**		19,92,000	6,40,000

*Fixed Assets on 31st March, 2009

	Quick Ltd., Rs.	Slow Ltd., Rs.
Fixed assets on 31.3.2007	6,50,000	2,00,000
Less: Depreciation		
2007-2008	(60,000)	(20,000)
2008-2009	(40,000)	(20,000)
	5,50,000	1,60,000

Note: In the absence of information about the movement in individual current assets and current liabilities, balance sheets on 31.3.2009 have been prepared on the basis of net current assets.

(4) Computations for consolidation

(a) Analysis of Profits/(Losses) of Slow Ltd.,

	Rs. Capital Profit	Rs. Revenue Profit
General Reserve on 31.3.2007	40,000	-
Profit and Loss Account on 31.3.2007	(80,000)	
Profit/(Loss) for the years 2007-2008 and 2008-2009		(1,00,000)
	(40,000)	(1,00,000)
Minority Interest (1/5)	(8,000)	(20,000)
Share of Quick Ltd.,(4/5)	(32,000)	(80,000)

(b) Minority Interest

	Rs.
Share Capital	1,20,000
Capital profits/(Losses)	(8,000)
Revenue profits/(losses)	(20,000)
Preliminary expenses(1/5 x 10,000)	(2,000)
	90,000

(c) Cost of Control

	Rs.	Rs.
Investment in Slow Ltd.,		6,70,000
Less: Paid up value of investment	4,80,000	
Capital profit/(losses)	(32,000)	
Preliminary expenses(4/5x10,000)	(8,000)	4,40,000
Goodwill		2,32,000

(d) Profit and Loss Account- Quick Ltd.,

	Rs.
Balance	62,000
Less: Share of loss in Slow Ltd.,	80,000
	(18,000)
Add: Provision for loss in subsidiary	80,000
	62,000

3

Consolidated Balance Sheet of X Ltd., and its subsidiaries Y Ltd., as at 31st March, 2009.

(Rs. In Lakhs)

Liabilities	*Amount Rs.*	*Amount Rs.*	*Assets*	*Amount Rs*	*Amount Rs.*
Share Capital		300.00	Fixed Assets		
Minority Interest			X Ltd.,	130.00	
Y Ltd.,	63.08		Y Ltd.,	150.00	
Z Ltd.,	16.22	79.30	Z Ltd.,	100.00	
Capital Reserve		13.40		380.00	
Other Reserves		81.60	*Less:* Unrealised Profit	7.80	372.20
Profit and Loss Account		56.90	Stock		
Bills Payable			X Ltd.,	50.00	
X Ltd.,	10.00		Y Ltd.,	20.00	
Y Ltd.,	5.00		Z Ltd.,	20.00	
	15.00			90.00	
Less: Mutual indebtedness	2.00	13.00	*Less:* Unrealised profit	1.00	89.00
Creditors			Debtors		
X Ltd.,	30.00		X Ltd.,	70.00	
Y Ltd.,	10.00		Y Ltd.,	10.00	
Z Ltd.,	10.00		Z Ltd.,	20.00	
	50.00			100.00	
Less: Mutual indebtedness	5.00	45.00	*Less:* Mutual indebtedness	5.00	
Current Account Balances					95.00
X Ltd.,	50.00		Cash and Bank Balances		60.00
Z Ltd.,	15.00		Bills Receivables	10.00	
	65.00		Y Ltd.,	20.00	
Less: Mutual indebtedness (10+30)	40.00	25.00	Z Ltd.,	30.00	
Proposed Divident				2.00	
		30.00	*Less:* Mutual indebtedness		28.00
Total		644.20	Total		644.20

Working Notes: (Rs. In Lakhs)

(1) Analysis of Profits of Z Ltd.,

	Capital Profit	Revenue Reserve	Revenue Profit
Reserves on 1.7.2008	10.00		
Profit & Loss A/C on 1.7.2008	16.00		
Increase in Reserves		20.00	
Increase in Profit			24.00
	26.00	20.00	24.00
Less: Minority Interest (10%)	2.60	2.00	2.40
	23.40	18.00	21.60
Share of X Ltd.,	7.80	6.00	7.2
Share of Y Ltd.,	15.60	12.00	14.40

(2) Analysis of Profits of Y Ltd.,

Reserves on 1.7.2008	20.00		
Profit and Loss A/c on 1.7.2008	30.00		
Increase in Reserves		20.00	
Increase in Profit			20.00
	50.00	20.00	20.00
Share in Z Ltd.,		12.00	14.40
	50.00	32.00	34.40
Less: Minority Interest (20%)	10.00	6.40	6.88
Share of X Ltd.,	40.00	25.60	27.52

(3) Cost of Control

Investmnets in Y Ltd.,			180.00
Investments in Z Ltd.,			120.00
			300.00
Less: Paid up value of investments			
In Y Ltd.,	160.00		
In Z Ltd.,	90.00	250.00	
Capital Profit			
In Y Ltd.,	40.00		
In Z Ltd.,	23.40	63.40	313.40
Capital Reserve			13.40

(4) Minority Interest

	Y Ltd.,	Z Ltd.,
Share Capital	40.00	10.00
Capital Profit	10.00	2.60
Revenue Reserves	6.40	2.00
Revenue Profits	6.88	2.40
	63.28	17.00
Less: Unrealised profit on stock (20% of 1)	.20	
Unrealised profit on equipment(10% of 7.8)		.78
	63.08	16.22

(5) Unrealised Profit on equipment sale

Cost	24.00
Profit	8.00
Selling Price	32.00

Unrealised profit= 8 – 8 x10/100 x 3/12 =8.00-0.20=7.80

(6) Profit and Loss Account – X Ltd.,

	Rs.(Lakhs)
Balance	60.00
Less: Proposed Dividend	30.00
	30.00
Share in Y Ltd.,	27.52
Share in Z Ltd.,	7.20
	64.72
Less: Unrealised profit on equipment (90% of 7.8)	7.02
	57.70
Less: Unrealised profit on stock (5 x 25/125 x 80%)	.80
	56.90

(7) Reserves – X Ltd.,

X Ltd.,	50.00
Share in Y Ltd.,	25.60
Share in Z Ltd.,	6.00
	81.60

PRIME ACADEMY
29th SESSION - PROGRESS TEST
FINAL- MAFA

No.of.pages: 4 **Total Marks: 75**
Time Allowed: 2Hrs

PART A (25x1= 25 marks)

1. The cash-inflows for "Project A" for the next 4 years are Rs 1mn, Rs 2mn, Rs 3mn & Rs 4mn respectively. What is the standard deviation of the cash flows? Is "Project B"with an annuity cash flow of Rs 2mn for the next 4 years riskier than Project A?
   a) Rs 1.29 mn; Project A is riskier
   b) Rs 1.29 mn; Project B is riskier
   c) Rs 2.5mn; Project A is riskier
   d) Rs 2.5 mn; Project B is riskier

2. The expected return from "Project C" is 20% per annum, with a standard deviation of 2%. Then what is the most probable range of the likely actual return?
   a) 20%
   b) 18% to 22%
   c) 16% to 24%
   d) Greater than 20%

3. Based on the information given in the table, ascertain which project makes the most financial sense for a conservative investor, assuming that all the projects involve the same capital outlay.

	D	E	F
Mean NPV	50	60	70
Std deviation of NPV	15	10	20

   a) D
   b) E
   c) F
   d) Cannot be determined. More information is required.

4. Which of the following measures cannot be a negative number?
   a) Discount rate & sensitivity
   b) NPV & capital outlay
   c) Standard deviation & terminal growth rate
   d) None of the above

5. Which of the following will lead to an arbitrage situation?
   (i) Bid rate is lesser than the ask rate
   (ii) Interest rate in home country is higher than that in the foreign country
   (iii) Inflation rate in home country is lesser than that in the foreign country
   (iv) The forward bid is higher than the forward ask
   a) (i) & (iii)
   b) (iv) only
   c) All of the above
   d) None of the above

6. Which of the following statements are wrong?
   (i) Decision trees are drawn and evaluated from left to right
   (ii) Sensitivity analysis uses a random number approach to visualise various probable outcomes
   (iii) The discount rate for a project cannot be less than the risk free rate
   (iv) An exporter would take a forward cover if believes that the foreign currency would appreciate against the home currency.
   a) (i) & (iv)
   b) (i) & (ii)
   c) (ii) & (iii)
   d) (iii) & (iv)

7. The following quotes are available: US$/Re = 0.02; Euro/Re = 0.015. What will be the quote for Euro/US$?
   a) 0.76
   b) 1.3
   c) 0.003
   d) None of the above.

8. For a project, there is a 40% chance that it will earn a profit of Rs 20,000, 30% chance that it will earn a profit of 5,000 and 30% chance that it will result in a loss of Rs 8,000. The expected value of the project is
   a) Rs 11,900
   b) Rs 7,100
   c) Rs 17,000
   d) Rs 9,500

9. Which of the following are NOT true?
   i. Between two projects with same return, the one with lower risk will be preferred
   ii. Between two projects with different risks and return, the one with higher return will be preferred
   iii. Between two projects with same risks, the one with lower return will be preferred
   iv. Between two projects with different risks and return, the choice will depend upon the risk preference of the investor
   a) ii & iii
   b) ii,iii & iv
   c) iii & iv
   d) i & iii

10. The estimated outlay of a project is Rs 100 crores which is planned to be financed by debt/equity mix of 40:60. It is also estimated that the lenders would demand an interest of 12% and equity holders would expect a return of 17%. Given that the rate of tax is 30%, what is the hurdle rate at which the free cashflows from the project should be discounted?
    a) 15.2%
    b) 13.56%
    c) 17%
    d) 10.5%

11. Under the certainty equivalent approach, in order to arrive at the NPV,
    a) The uncertain cash flows are discounted at risk free rate
    b) The certain cash flows are discounted at risk free rate
    c) The uncertain cash flows are discounted at risk adjusted discount rate
    d) The certain cash flows are discounted at the marginal cost of capital assuming a reasonable debt/equity mix

12. The NPV of a project turns zero when the discount rate is increased by 20% or when the initial cost increased by 10% or when the annual cash inflows reduce by 15%; This said, which of the following is NOT true?
    a) The project is more sensitive to initial cost than to discount rate
    b) The project is less sensitive to cash inflows than to initial cost
    c) The project is less sensitive to discount rate than to cash inflow
    d) The project is more sensitive to cash inflows than to initial cost

13. The initial cost of a project is Rs 10,000 ; the project has a life of 3 years giving an annual net cash inflow of Rs 4,000. If the NPV of the project is Rs 275 , What is the sensitivity of the project to the discount rate?

    a) 11%
    b) 16.6%
    c) 15%
    d) 1.6%

14. The base discount rate is 8% and the risk premium is 7%; If the corporate tax rate is 30%, According to Irvin fisher model, the risk adjusted discount rate is
    a) 8%
    b) 15.5%
    c) 15%
    d) 10.1%

15. The following are the return from four projects:

	A	B	C	D
Yr 1	5,000	8,000	10,000	9,000
Yr 2	15,000	9,000	10,000	12,000
Yr 3	10,000	13,000	10,000	9,000
Avg annual return	10,000	10,000	10,000	10,000

Which of the above projects is the riskiest?
    a) A
    b) B
    c) C
    d) D

16. The spot rate for Euro is Rs 50-52. The forward rate is 53-56. What is the swap ask?
    a) 2
    b) 3
    c) 4
    d) 5

17. The Re/Pound spot rate is 70-72. what is the relevant pound/Re spot rate?
    a) 0.0139 - 0.0143
    b) 0.0143 – 0.0139
    c) 0.972 – 1.028
    d) 1.028 – 0.972

18. Which of the following are NOT correct?
    i. Bid (Re/$) =1/Ask (Re/$)
    ii. Ask (Re/$) = 1/Bid ($/Re)
    iii. Bid (Re/$) =1/Ask ($/Re)
    iv. Ask (Re/$) = 1/Ask ($/Re)
    a) i & ii
    b) i & iv
    c) ii & iii
    d) iii & iv

19. Which of the following are correct?
    i. If fwd rate is > spot, then foreign currency is appreciating, in a direct quote
    ii. If fwd rate is > spot, then foreign currency is depreciating, in a direct quote
    iii. If spot rate is > fwd rate, then home currency is depreciating, in an indirect quote
    iv. If spot rate is > fwd rate, then home currency is appreciating, in an indirect quote
    a) I & iv
    b) Ii & iii
    c) ii & iv
    d) I & iii

20. Interest in India and USA are 10% and 4% respectively.If the spot Re/US$ is 43.20, what is the 1 year fwd rate, if IRPT holds good?
    a) 43.2
    b) 43.5
    c) 45.6
    d) 47.1

21. Which of the following is an European Quotes?
    i. Re/Euro
    ii. US$/Euro
    iii. Euro/US$
    iv. US$/CAD
    a)iv
    b)i & ii
    b) iii
    c)iii & 1v

22. The spot rate for Euro is Rs 50-52. The forward rate is 53-56. What is the Forward spread?
    a) 2
    b) 3
    c) 4
    d) 5

23. Which of the following rules is used to find the expected NPV as per Hilliers model for independent cash flows?
    a) Standard deviation the cash flows is discounted at (1+r) ^2n and summed up
    b) Variance of the cash flows is discounted at (1+r) ^2n and summed up
    c) Standard deviation of the cash flows is discounted at (1+r) ^ n and summed up
    d) Variance of the cash flows is discounted at (1+r) ^ n and summed up

24. For the quote Rs 40 – 41 per US$, the bid, ask & spread respectively are
    a) 1, 41, 40
    b) 41, 40 & 1
    c) 40,41 & 1
    d) 40,1 & 41

25. The spot rate Re/CAD is Rs 35.00 – 20. 1 month swap points are 30-20. What is the likely rupee realisation if you want to sell 25,000 CAD 1 month Fwd?
    a) Rs 885,000
    b) Rs 867,500
    c) Rs 882,500
    d) Rs 875,000

PRIME ACADEMY

29th session PROGRESS TEST

MANAGEMENT ACCOUNTING AND FINANCIAL ANALYSIS
SUGGESTED ANSWERS
PART - A

1	a	16	c
2	c	17	a
3	d	18	b
4	a	19	d
5	d	20	c
6	b	21	c
7	a	22	b
8	b	23	b
9	a	24	c
10	b	25	b
11	b		
12	d		
13	b		
14	b		
15	a		

PART – B

1.

Step 1

Compute Expected Value of Initial Outflow

Observation	Value Rs	Probability	Expected Value Rs
1	20,000	0.3	6,000
2	25,000	0.4	10,000
3	40,000	0.3	12,000
			28,000

Step 2

Compute Expected Value of In – Between Cash Flows

Observation	Value Rs	Probability	Expected Value Rs	Rs
1	4,000	0.2	800	
2	5,000	0.4	2,000	
3	5,000	0.3	1500	
4	7,000	0.1	700	5000
5	5,000	0.2	1,000	
6	6,000	0.6	3,600	
7	7,000	0.1	700	
8	8,000	0.1	800	6100

Step 3

Terminal Flow – NIL

Step 4

Working Note 1

Discount rate	=	Risk	+	Premium
	=	7 %	+	3 %
	=	10 %		

Working Note 2

Computation of NPV

Observation	**Cash Flow Rs**	**Discount Factor 10%**	**Discounted Cash Flow Rs**
0	(28,000)	1.000	(28,000)
1-5	5,000	3.791	18955
6-10	6,100	2.354	14,359
			5,314

Conclusion:

Since NPV is +ve, the Project should be accepted.

2.

Step 1 - Basic Data

Size → Parameter – (40k)

Life → Parameter – 5 yrs

Discount Rate → Parameter – 12%

Cash Flow → Variable

[Revenue Cash Flow & Cost Cash Flow → Variable]

Step 2

Working Note 1 → Revenue Cash Flows

Cash Flow (Rs '000s)	Probability	Cumulative probability	Random Numbers – I
40	0.15	0.15	0-14
50	0.40	0.55	15-54
55	0.30	0.85	55-84
60	0.15	1.00	85-99

Working Note 2 → Cost Cash Flows

Cash Flow	Probability	Cumulative probability	Random Numbers – II
25	0.1	0.10	0-9
30	0.25	0.35	9-34
35	0.35	0.70	35-69
40	0.30	1.00	70-99

Step 3

	Revenue		**Cost**	
Set	**Random Numbers**	**Cash Flow**	**Random Numbers**	**Cash Flow**
1	37	50	84	40
2	20	50	01	25
3	56	55	89	40

Step 4

Computation of NPV

For set I

(Rs '000s)

Year	Cash Flow (Rev-Cost)	Discounted Factor @12%	Discounted Cash Flow
0	(40)	1	(40)
1-5	10	3.605	36.05
			(3.95)

For set II

(Rs in '000s)

Year	Cash Flow (Rev-Cost)	Discounted Factor @12%	Discounted Cash Flow
0	(40)	1	(40)
1-5	25,000	3.605	90.125
			50.125

For set III

(Rs in '000s)

Year	CF (Rev-Cost)	DFE12%	DCF
0	(40)	1	(40)
1-5	15	3.605	54.075
			14.075

Final NPV = Simple Average of NPV

$$= \frac{(3.95) + 50.125 + 14.075}{3}$$

= 20.083

Conclusion:

The Project may be accepted.

3.

Policy	**Payout [100-Retention Ratio]**	**Do [Profit x Payout ratio]**	**G**	**D1 D0 (1+g) (Rs in crores)**	**Ke**	**P0 (Ex-Dividend) [D1 / Ke-g]**	**P0 (Cum-Dividend) (Po+Do)**
		(Rs in Crores)					
A	100%	100 (Rs.100cr x P/0)	0%	100	14%	714	814
B	85%	85	5%	89.25	15%	892.5	977.5
C	80%	80	8%	86.40	16%	1,080	1,160
D	75%	75	10%	82.5	20%	825	900

Note: 80% Payout is recommended since market price is maximised at this Payout (p/o)

4. a Constant Dividend Plan

Year	(A) PAT (Rs'000s)	(B) DPS	(C) =B x10Lac Shares Div Paid (Rs'000s)	(D) Cap Exp	(E) = [D- (A-B)] External Fund Required
1	1,800	1.8	1,800	1,000	1,000
2	2,000	1.8	1,800	2,000	1,800
3	2,500	1.8	1,800	2,000	1,300
4	2,000	1.8	1,800	2,500	2,300
5	2,000	1.8	1,800	1,800	1,600

b. Constant Dividend Payout Plan

Year	(A) PAT	(B) Dividend @ 50%	(C) =A x B DPS	(D) Capital Expenditure	(E) = [D- (A-B)] External Fund Required
1	1,800	900	0.90	1,000	100
2	2,000	1,000	1.00	2,000	1,000
3	2,500	1,250	1.25	2,000	750
4	2,000	1,000	1.00	2,500	1,500
5	2,000	1,000	1.00	1,800	800

c. Constant Dividend plus Plan

Year	(A) PAT	(B) Dividend 750 or 30%	(C) DPS	(D) Capital Expenditure	(E) = [D- (A-B)] External Fund Required
1	1,800	750	0.75	1,000	Nil
2	2,000	750	0.75	2,000	750
3	2,500	750	0.75	2,000	250
4	2,000	750	0.75	2,500	1,250
5	2,000	750	0.75	1,800	550

d. Residual Plan [Capital Structure Altered]

Year	(A) PAT	(B) Capital Expenditure	(C) Dividend	(D) DPS	(E) = (A-B) External Fund Required
1	1,800	1,000	800	0.80	Nil
2	2,000	2,000	Nil	-	Nil
3	2,500	2,000	500	0.50	Nil
4	2,000	2,500	Nil	-	500
5	2,000	1,800	200	0.20	Nil

e.

Residual Plan [Capital Structured Unaltered]

Year	(A) PAT	Capital Expenditure Total = Debt + Equity (B) = (C) + (D)	(E) = (A-D) Dividend	(F) DPS	(G) = C External Fund Required
1	1,800	1,000 = 400 + 600	1,200	1.2	400
2	2,000	2,000 = 800 + 1,200	800	0.80	800
3	2,500	2,000 = 800 + 1,200	1,300	1.30	800
4	2,000	2,500 = 1,000 + 1,500	500	0.50	1,000
5	2,000	1,800 = 720 + 1,080	920	0.92	720

PRIME ACADEMY
29 th SESSION PROGRESS TEST
FINAL - ADVANCED AUDITING

NO.OF.PAGES: 4 **TOTAL MARKS: 75**
TIME ALLOWED: 2HRS

PART-A **25 X 1 = 25 MARKS**

1. In verifying the amount of goodwill recorded by a client, the most convincing evidence that an auditor can obtain is by comparing the recorded value of assets acquired with the

   (a) Assessed value, as evidenced by tax bills
   (b) Seller's book value as evidenced by financial statements
   (c) Insured value, as evidenced by insurance policies
   (d) Appraised value, as evidenced by independent appraisals

2. A lawyer's response to an auditor's request for information about litigation, claims and asssessments will ordinarily contain which of the following?

   (a) An explanation regarding the limitations of the scope of the response
   (b) A statement of concurrence with the client's determination of which unasserted possible claims warrant specification
   (c) Confidential information that if publicized would be prejudicial to the client's defense
   (d) An assertion that the list of unasserted possible claims identified by the client represents all such claims of which the lawyer may be aware.

3. In pursuing its quality control objectives with respect to assigning personnel to engagements, a CA firm may use policies and procedures such as-

   (a) Randomly rotating employees from assignment to assignment to expand their training
   (b) Requiring timely identification of the staffing requirements of specific engagements, so that enough qualified personnel can be made available
   (c) Allowing staff members to select their own assignments so as to promote better client relationship
   (d) Assigning more employees to each engagement than needed so as not to overburden the staff and lower the quality of the audit work.

4. A firm of chartered accountants may use policies and procedures such as notifying professional personnel the names of audit clients having publicly held securities and confirming periodically with such personnel that porhibited relations do not exist. This is done to achieve effectivel quality control in which of the following areas?

   (a) Acceptance and continuance of clients
   (b) Assigning personnel to engagements
   (c) Indepencence
   (d) Inspection

5. In client EDP system, the auditor will encounter general controls and application controls. Which of the following is an application control?
   (a) Password
   (b) Hash total
   (c) System flowchart
   (d) Control over program changes

6. Control activities within EDP activity may leave no visible evidence indicating the were performed. In such instances, the auditor should test these controls by

   (a) Making corroborative inquiries
   (b) Observing the separation of personnel duties
   (c) Reviewing transactions submitted for processing and comparing them to related output
   (d) Reviewing the run manual.

7. What is the meaning of independence of auditor as per AAS-1?
   (a) The auditor must perform without bias with respect to client under audit.
   (b) The auditor must adopt critical attitude during the audit.
   (c) The auditor sole obligation is to third parties
   (d) The auditor may have a direct ownership interest in the client's business

8. What is the major reason for independent auditor to gather evidence?

   (a) To form an opinion on the financial statements.
   (b) To detect fraud
   (c) To evaluate management
   (d) To assess internal control

9. During an audit engagement important data are compiled and included in audit working papers. The working papers are mainly considered to be:

   (a) A client owned records of conclusions reached by the auditors who perform the audit
   (b) Evidence supporting the financial statement
   (c) Support for the auditors' representations as to compliance with generally accepted auditing standards.
   (d) A record to be used as a basis for next year's engagement.

10. What does 'sufficient appropriate' audit evidence mean?

    (a) The amount of audit evidence that can be obtained given the time budget on the task.
    (b) Adequate evidence has been obtained in the auditor's professional judgement.
    (c) All material errors have been detected.
    (d) A qualified audit report does not need to be issued.

11. Audit reports on PSUs are-

    (a) submitted to the President/Governor for being laid before the parliament.
    (b) sent to concerned ministries/departments
    (c) submitted to BODs of concerned PSU
    (d) Any of the above

12. The quantity of audit working papers compiled on engagement would most be effected by-

    (a) management's integrity
    (b) auditor's experience and professional judgement
    (c) auditor's qualification
    (d) control risk

13. An auditor who accepts an audit but does not possess the industry expertise of the business entity should

(a) engage experts
(b) obtain knowledge of matters that relate to the nature of entity's business
(c) inform management about it
(d) take help of other auditors

14. Which of the following is not a quality control consideration on accepting a new client?

(a) Availability of audit assistants with necessary skills and competence.
(b) Provision of other services to the client which may impair independence.
(c) Predecessor auditor's advice as to whether audit fees were paid promptly.
(d) Review of audit work done by one partner by the other.

15. The nature, timing and extent of substantive procedures is related to assessed level of control risk-

(a) randomly
(b) disproportionately
(c) directly
(d) inversely

16. Which of the following is not a coroborative evidence?

(a) Miniutes of meetings
(b) Confirmations from debtors
(c) Information gathered by auditor through observation
(d) Worksheet supporting consolidated financial statements.

17. What would most effectively describe the risk of incorrect acceptance in terms of dubstantive audit testing?

(a) The auditor has ascertained that the balance is materially correct when in actual fact it is not
(b) The auditor has rejected an item for sample which was not supported by documentary evidence
(c) The auditor has rejected an item from sample which was not supported by documentary evidence
(d) He applies random sampling on data which is inaccurate and inconsistent

18. Which of the following statement is true of the test data approach in a test of computerised accounting system?

(a) Test data tests only those controls which the auditor wishes to rely
(b) Test data should consist of data related to all controls prevalent in the organisations
(c) The result of test data indicates that all the application and general controls are functioning properly
(d) Test data are processed by the client's computer programme under the auditor's control

19. Which of following is not true about GAS?

(a) It helps to select a sample of items and evaluate sample results
(b) Data can be compared on separate files with its help
(c) It assists the auditor in performing compliance and substantive tests
(d) The auditor of a small entity should prepare data or create performance only after assessing audit risk

20. In using the work of an expert, an auditor may refer to the work of expert in the auditor's report if, as a result of his findings, the auditor-

(i) adds an explanatory paragraph emphasizing a matter raising going concern doubt.
(ii) gives an adverse opinion.
(iii) the client insists the auditor to refer to the work of an expert
(a) only (ii)
(b) both (i) and (ii)
(c) only (i)
(d) All of these- (i), (ii) and (iii)

21. Which of the following statements is correct about the auditor's use of the work of a specialist?

(a) The auditor should perform substantive procedures to verify the specialist assumptions and findings
(b) The specialist should know about the corroborative evidence auditor is using to substantiate his findings
(c) The auditor should obtain an understanding of the methods and assumptions used by the specialist
(d) Both (a) and (c)

22. Which of the following is not true about auditor's duty?

(a) The auditor should express an opinion on financial statements
(b) His opinion is no guarantee to future viability of business
(c) He is responsible for detection and prevention of frauds and errors in financial statements
(d) He should examine whether recognised accounting principles have been consistently followed.

23. Which of the following statements is correct concerning the required documentation in working papers of fraud risk assessment undertaken by the auditor?

(a) All risk factors, as mentioned in AAS-4, should be considered and documented along with response to them.
(b) Document the identificaions of fraud risk factors along with response to them.
(c) Document material fraud risk factors and response to them.
(d) No documentation is required.

24. The Delhi Government had constructed six bungalows for its ministers. They are lying unoccupied for last three years. This would be a matter of concern for-

(a) Propriety Auditor
(b) Performance Auditor
(c) Financial Auditor
(d) None of the above

25. Of the following, which is the least persuasive type of audit evidence?

(a) Bank statements obtained from the client.
(b) Documents obtained by auditor from third parties directly
(c) Carbon copies of sales invoices inspected by the auditor
(d) Computations made by the auditor.

PART – B 50 Marks

1. Write short notes on: (2x4 marks)

(i) Categories of Non-banking Finance Companies (NBFCs)
(ii) Test Packs

2. Briefly describe how an auditor can use the work of an expert. (8 marks)

3. What is an Audit Trail? Briefly describe the special audit technique using the computer as an audit tool. (8 marks)

4. What are the Management Audit Questionnaires? Give a sample questionnaire for Audit of Inventory. (8 marks)

5. While examining the going concern assumption of an entity, what important indications should be evaluated and examined?

(8 marks)

6. Define Propriety Audit. What are the principles involved regarding Propriety Audit in Public Sector undertakings? (10 marks)

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29th SESSION PROGRESS TEST

FINAL ADVANCED AUDITING

SUGGESTED ANSWERS

PART – A

1: (d)	**6:** (d)	**11:** (b)	**16 :** (d)	**21:** (c)
2: (c)	**7:** (a)	**12:** (b)	**17:** (a)	**22:** (c)
3: (b)	**8:** (a)	**13:** (b)	**18:** (b)	**23:** (b)
4: (c)	**9:** (c)	**14:** (c)	**19:** (d)	**24:** (d)
5: (b)	**10:** (b)	**15:** (c)	**20:** (b)	**25:** (c)

PART - B

1

(i) Categories of Non-banking Finance Companies (NBFCs):

As per Reserve Bank of INDIA Act, NBFC is one whose principal business is that of receiving deposit or that of a financial institution, such as lending, investment in securities, hire purchase finance or equipment leasing, etc. Categories of such companies are:

(a) Equipment leasing company engaged in equipment leasing or financing of such activity.

(b) Hire purchase company engaged in hire purchase transaction or financing of such transaction.

(c) Investment company engaged in acquisition of securities and trading of securities to earn a profit.

(d) Loan company engaged in providing finance by making loans and advances, or otherwise for any activity other than its own.

(e) Residuary non-banking company which receives deposits under scheme or arrangement, by whatever name called, in one lump sum or in installments by way of contributions or subscriptions or by sale of units or other instruments or in any manner.

(ii) Test Packs:

Test pack is a technique to determine the correctness of the computer programming used to record transactions through the computer. Preparation of test pack requires a great deal of expertise. It may be prepared by the auditor himself with the help of the entity's staff or by the Internal Control department of the entity. Normally test packs are used where:

(a) a significant part of the control system is embodied in the programme;

(b) there are gaps in audit trail making it difficult to trace output from input and to verify intermediate calculation; and

(c) the volume of records is large, so that it may be more economical and more effective to use test packs rather then to trace the transactions manually.

The operations of a test pack involve following steps:

(i) The auditor or the Internal Audit Department prepares a set of spacial data covering different types of transactions containing valid and unvalid conditions.

(ii) Data will include both that falling outside the control parameters (and printed out as an eror or conception) and that falling within the parameters (and hence should be processed normally).

(iii) The test data are seen on the client's computer with the client's programme but under audit supervision.

(iv) The results of the test data are also prepared separately, independent of the computer/programme, and are compared with the results obtained by running the programme through the computer.

(v) If the results are identical, reliability of the computer programme is proved.

2 Using the Work of an Expert:

AAS-9 on, "Using the Work of an Expert" discusses the auditor's responsibility in relation to, and the procedures the auditor should consider in, using the work of an expert as audit evidence. The auditor has to first determine the need to use the work of an expert considering the materiality of the item, its nature and complexity. It would be necessary in cases of valuation of certain types of assets, determining the physical condition of the assets like minerals, acturial valuation of gratuity, determining work in progress in case of construction contracts, etc. Generally, the auditor's education and experience enable him to be knowledgeable about business matters in general, but he is not expected to have the expertise of a person trained for, or qualifies to engage in, the practice of another profession or occupation such as an actuary or engineer.

When the auditor plans to use the expert's work as audit evidence, the auditor is required to assess skill and competence of the expert, his objectivity and, finally, evaluate the work done by him. Sol first of all, the auditor should satisfy himself as to the expert's skills and competence by considering the expert's:

- Professional qualifications, license or membership in an appropriate professional body and
- Experience and reputation in the filed in which the evidence is sought.
  However, when the auditor uses the work of an expert employed by him, he will not need to inquire into his skills and competence. The auditor should also consider the objectivity of the expert. Finally, when the auditor intends to use the work of an expert, he should examine evidence to gain knowledge regarding the terms of the expert's engagement and such other matters as:
- the objectives and scope of the expert's work,
- a general outline as to the specific items in the expert's report,
- confidentiality of the expert's work, including the possibility of its communication to third parties,
- the expert's relationship with the client, if any,
- confidentiality of the client's information used by the expert.

  The auditor should seek reasonable assurance that the expert's work constitutes appropriate audit evidence in support of the financial information, by considering:

- the source data used.
- The assumptions and methods used and, if appropriate, their consistency with the prior period.
- The results of the expert's work in the light of the auditor's overall knowledge of the business and of the results of his audit procedures, and
- The auditor should also satisfy himself that the substance of the expert's findings is properly reflected in the financial information.

  The auditor should consider whether the expert has used some data which are appropriate in the circumstances. The procedures to be applied by the auditor should include:

- Making inquiries of the expert to determine how he has satisfied himself that the source data are sufficient, relevant and reliable, and
- Conducting audit procedures on the data provided by the client to the expert to obtain reasonable assurance that the data are appropriate.

The appropriateness and reasonableness of assumptions and methods used and their application are the responsibility of the expert. The auditor does not have the same expertise and, therefore, cannot always challenge the expert's assumptions and methods. However, the auditor should obtain an understanding of those assumptions and methods to determine that they are reasonable based on the auditor's knowledge of the client's business and on the results of his audit procedures.

If after performing all these procedures the auditor concludes that the work of the expert is not consistent with the information in the financial statements or that it does not constitute sufficient appropriate audit evidence, the auditor should express a qualified, disclaimer or an adverse opinion. In other cases, the opinion has to be unqualified. If while giving his report the auditor considers it appropriate to disclose the identity of the expert, he should obtain his prior consent.

3 Audit Trail:

Changes in hardware and software of data processing system have significantly changed the approach to auditing. The work of an auditor would be hardly affected if "audit trail" is maintained i.e., if it were still possible to relate, on a 'one-to-one' basis, the original input with the final output. In a manual accounting system, it is possible to relate the recording of a transaction at each successive stage enabling an auditor to locate the identify all documents from beginning to end for the purposes of examining documents, totallying and cross-referencing.

In first and early second-generation computer systems, a complete audit trail was generally available. However, with the advent of modern machines, the EDP environment has become more complex. This led to use of exception reporting by the management which effectively eliminated the audit trail between input and output. The lack of visible evidence may occur at different stages in the accounting process, for example:

(i) Input documents may be non-existent where sales orders are entered online. In addition accounting transactions, such as discounts and interest calculations, may be generated by computer programme with no visible authorisation of individual transactions.

(ii) The system may not produce a visible audit trail of transactions processed through the computer. Delivery notes and suppliers' invoices may be matched by a computer programme. In addition, programmed control procedures, such as checking customer credit limits, may provide visible evidence only on an exception basis. In such cases, there may be no visible evidence that all transactions have been processed.

(iii) Output reports may not be produced by the system. In addition, a printed report may only contain summary totals while supporting details are retained in computer files.

Special Audit Techniques: In the absence of audit trail, the auditor needs the assurance that the programmes are functioning correctly in respect of specific items by using special audit techniques. The absence of input documents or the lack of visible audit trail may require the use of Computer Assisted Audit Techniques (CAATs) i.e., using the computer as an audit tool. The effectiveness and efficiency of auditing procedures may be enhanced through the data and audit software or computer audit programmes. Normally speaking, special audit techniques may be used under the following circumstances:

a) To ensure the correct functioning of important programme controls;
b) To overcome losses of audit trail;
c) To reduce audit costs or increase the efficiency of the audit.

Audit Software: Audit software consists of computer programmes used by the auditor, as part of his auditing procedures, to process data of audit significance from the entity's accounting system. It may consist of package programmes, purpose-written programmes, and utility programmes. Regardless of the source of the programmes, the auditor should substantiate their validity for audit purposes prior to use.

i. Package programes are generalised computer programmes designed to perform data processing functions which include reading computer files, selecting information, performing calculations, creating data files and printing reports in a format specified by the auditor.

ii. Purpose-written programmes are computer programmes designed to perform audit tasks in specific circumstances. These programmes may be prepared by the auditor, by the entity or by an outside programmer engaged by the auditor. In some cases, existing entity programmes may be used by the auditor in their original or in a modified state because it may be more efficient than developing independent programmes.

iii. Utility programmes are used by the entity to perform common data processing functions, such as sorting, creating, and printing files. These programmes are generally not designed for audit purposes and, therefore, may not contain such features as automatic record counts or control totals.

Test Data: Test data techniques are used in conducting audit procedures by entering data (e.g. a sample if transactions) into ab entity's computer system, and comparing the results obtained with predetermined results. This enables to ascertain whether the controls residing in the hardware and in the programmes are operating correctly. Test data is used to test specific controls in computer controls in computer programmes, such as online password and data access controls. Examples of such uses are:

i. Test transactions selected from previously processed transactions or created by the auditor to test specific processing characteristics and an entity's normal processing.

ii. Test transactions in an integrated test facility where a "dummy" unit (e.g., a department or employee) is established and to which test transactions are posted during the normal processing cycle.

When test data is processed with the entity's normal processing, the auditor should ensure that the test transactions are subsequently eliminated from the entity's accounting records.

4 Management Audit Questionnaire:

A management audit questionnaire is an important tool for conducting the management audit. It is through these questionnaires that the auditors make an inquiry into important facts by measuring current performance. Such questionnaires aim at a comprehensive and constructive examination of an organisation's management and its assigned tasks. Overall it is concerned with the appraisal of management actions in accomplishing the organisation's objectives. It includes a review of how well or badly the management functions of planning, organizing, directing and controlling are being performed. In addition it evaluates how effective the decision-making process is accomplishing the stated organization objectives Within this framework, the questionnaire provides a means for evaluating an organisation's ongoing operations by examining its major functional areas. There are three possible answers to the management audit questions: "Yes", "No" and "N.A"(not applicable). A "Yes" answer indicates that the specific area, function, or aspect under study is functioning in an acceptable manger; no written explanation is needed in that case. On the other hand, a "no" answer indicates unacceptable performance and should be explained in writing. Questionnaire comments on negative answers not only provide documentation for future reference, but more important, provide background information for undertaking remedial action. Those questions that are not applicable and should be ignored in the audit are checked in the "N.A." column. The management audit questionnaire does not give answers, but simply asks questions. If all questions are answered with a 'Yes", operations are proceeding as desired. On the other hand, if there are one or more 'no" answers, difficulties are being experienced and most be explained in writing. If the question does not apply, the N.A. (not applicable) column is checked. Thus, management audit questionnaire for this part of the audit not only serves as a management tool to analyse the current situation; more importantly, it enables the management auditors to synthesise those elements that are causing organizational difficulties and deficiencies.

Audit of Inventory

A management audit questionnaire for audit of inventory is given below;

Long Range Plans

- Is inventory management sufficiently qualifies to meet long-range company objectives?
- Are long-range inventory management plans coordinated with: production, purchasing and finance?
- Is inventory properly and efficiently stored to reduce obsolescence, pilferage, etc.
- Is there an adequate system to plan inventory in the long run at optimum levels?
- Are inventory plans and procedures audited periodically?

Short or Medium Range Plans

- Is inventory management sufficiently qualifies to meet short or medium range objectives?
- Are inventories under control as to type and amount?
- Are short-range inventory management plans an integral part of production and purchasing?
- Is there an adequate inventory system to plan current inventory at optimum levels detect theft and compare physical to perpetual inventories?
- Are lead times figured into inventory levels for purchasing and manufacturing?
- Are reorder levels set?
- Do the plans include 'make' or 'buy' decisions to lower costs?

Organisation Structure

- Is the inventory department under directions of a suitable person?
- Are the inventories and their in-plant movements organized and reported by their basic types, i.e., raw materials, work- in-progress and finished goods?
- Is there an effective system of physical inventory to disclose any irregularities or losses?
- Is the ABC analysis followed for the inventory control?

Communication

- Is there an information system utilized that employs efficient management, methods and techniques to control inventories and to prepare periodic inventory reports that are of great value to management?
- Is there an effective communication system designed at assist in, keeping the inventory turnover rate high?
- Is there good managerial control over movement of work-in-progress materials so that this inventory is kept at a minimum?

Control

- Are inventory management control reports, methods and techniques integrated with production and purchasing?
- Are inventories properly stored to provide a minimum of :
    a. Obsolescence?
    b. Deterioration?
    c. Pilferage?
- Is inventory control integrated with:
    a. Economic order qualities?
    b. Re-order points?
- Have steps been taken to balance the cost generated by too small an inventory against the cost of carrying excessive inventories to determine an optimum inventory turnover?
- Are inventory items physically counted to make sure that perpetual inventory records are accurate?
- Is inventory controlled through the use of the ABC concept (A= high-value items, B=medium-value items, C=low value items)?
- Is there an effective management control system for receiving materials that re not on a purchase order, i.e., products returned by customers?

5 AAS 16, “Going Concern”,

Requires that while planning a performing audit procedures and in evaluating the results thereof, the auditor should consider the appropriateness of the going concern assumption underlying the preparation of the financial statements. In assessing such a risk, the auditor should examine the following indications.

I. Financial indications:

- Negative networth or negative working capital
- Excessive use of short term borrowing for long term assets
- Fixed term borrowings approaching maturity without prospect of renewal or repayment
- Adverse key financial ratio
- Substantial negative cash flow from operations
- Substantial operating losses
- Arrears or discontinuance of dividend payment
- Inability to pay directors in time
- Default in compliance with loan agreements
- Change from credit to cash term with suppliers
- Inability to arrange finance for new development need
- Arrangement with creditors for reduction in liabilities

II. Operating Indications:

- Turnover and departure of key management personnel without replacement
- Loss of market, franchise, license or key supplier
- Labour difficulties or shortage of important supplies

III. Other Indications:

- Non-compliance with statutory requirements
- Legal cases with possibility of adverse judgement which could not be met
- Changes in legislations or government policy
- Sickness of the entity under any statutory definition.

6 Definition of Propriety Audit: Propriety Audit stands for verification of transactions on the test of public interest commonly accepted customs and standards of conduct. E.L.Kohler defined the term propriety, “ as that which meets the tests of public interest, commonly accepted customs and standards of conduct and particularly as applied to professional performance, requirements of law, Government regulations and Professional Codes”. On an analysis, the tests boil down to tests of economy, efficiency and faithfulness. Thus propriety audit is concerned with scrutiny of executive actions and decisions bearing on financial and profit and loss situations of the company with special regard to public interest and commonly exercised the same vigilance in respect of expenditure incurred from public money, as a person of ordinary providence would exercise in respect of expenditure of his own money under similar circumstances.

Propriety Audit in PSUs: The scope and extent of audit in PSUs is not restricted to financial and compliance audit; it extends also to efficiency, economy and effectiveness with which these operate and fulfil their objectives and goals. Another aspect of audit relates to questions of propriety; this audit is directed towards and examination of management decisions in sales. Purchases, contracts, etc to see whether these have been taken in the best interests of the transaction in involving expenditure to conform to general principles as under:

1. That expenditure is not prime facie more than occasion demands and the every official exercise the same degree of vigilance in respect of expenditure, as a person of ordinary providence would exercise in respect of his own money.

2. That the authority exercises its power of sanctioning expenditure to pass an order which will not directly or individually accrue its own advantage.

3. That the funds are not utilised for the benefit of a particular person or a group of persons.

4. That, apart from the agreed remuneration or reward, no other avenue is kept open to individually benefit the management personnel employees and others.

Prime Academy
29 th SESSION PROGRESS TEST
Final - CORPORATE LAWS AND SECRETARIAL PRACTICE

No.of.pages: 4 **Total Marks: 75**
Time Allowed: 2Hrs

PART -A (25x1= 25 Marks)

1. Any Director who is appointed on or after July 1, 2007 is
   i. required to file DIN2
   ii. required to file DIN3
   iii. is not required to file DIN3
   iv. None.

2. A Director is required to obtain qualification shares if he is a
   i. Director of a Public Limited Company the Articles of Association of which provides for issue of qualification shares
   ii. Director of a private company which is not a subsidiary of a public company
   iii. Director appointed by Central Government
   iv. Nominee Director of a financial institution.

3. One of the following Directors is not a Non Executive Director.
   i. Nominee Director
   ii. Professional Director
   iii. Inside Director
   iv. Government Director

4. A person who can be a Director is a
   i. Body Corporate
   ii. Firm
   iii. Association of persons
   iv. Individual

5. A Director may be elected by small shareholders if the company is a
   i. Private company with a paid up capital of Rs.5 Crores
   ii. Public company with a paid up capital of Rs.5 Crores and above and one thousand or more shareholders.
   iii. Listed Public company
   iv. Company with a paid up capital of Rs.10 lakhs

6. A director who is interested in any contract or arrangement shall
   i. Not participate in the discussion or vote on the resolution.
   ii. Participate in the discussion but not vote on the resolution
   iii. Participate in the discussion and also vote on the resolution
   iv. Participate and vote depending on the matter of resolution.

7. Appointment of a Managing Director or a Manager requires
   i. Majority approval by the Board of Directors
   ii. Need not take any approval
   iii. Unanimous consent of the Board of Directors at a Board Meeting
   iv. Unanimous consent either at a board meeting or by a circular resolution.

8. If the number of directors is lesser than the quorum for a board meeting, then the remaining directors may act
   i. For increasing the number of directors and for calling for a general meeting.
   ii. For discussing the vital points at the Board Meeting as per the agenda
   iii. Notwithstanding the fact that the quorum is not present.
   iv. Just for calling for a general meeting.

9. Section 295 of the Companies Act, 1956 pertaining to loans to Directors shall
   i. Apply to all Companies.
   ii. Not apply to a public limited company.
   iii. Not apply to a private limited company
   iv. Optional and depends on the nature of the loan.

10. Section 297 of the Companies Act, 1956 applies to
   i. Contract for sale, purchase or supply of any goods, materials or services
   ii. Contract for sale, purchase or supply of any goods, materials or services for cash at prevailing market price.
   iii. Contract for sale, purchase or supply of any immovable property
   iv. Contract for sale, purchase or supply of any goods, materials or services between two public limited companies.

11. An audit committee must be formed by
   i. A company having a paid up capital of Rs.5 crores and above
   ii. A public company having a paid up capital of Rs.5 crores and above
   iii. A private company having a paid up capital of Rs.5 crores and above
   iv. Any company.

12. Every director who is unable to attend a board meeting must
   i. Obtain leave of absence and the same must be granted at the Board Meeting.
   ii. Inform the Board when questioned.
   iii. Need not inform the Board.
   iv. Inform the Board after the meeting.

13. A Wholetime Director is categorized under
   i. Non Executive Director
   ii. Independent Director
   iii. Executive Director
   iv. None

14. A motion for appointment of two or more persons as directors shall
   i. be made by a single resolution at the general meeting
   ii. not be made by a single resolution
   iii. optional
   iv. depends on the candidate.

15. A Managing Director may resign when
   i. He submits his resignation.
   ii. he conveys by word of mouth to all directors
   iii. his resignation is formally accepted by the company
   iv. need not inform.
   v.

16. A general notice u/s 299 of the Companies Act, 1956 has to be given by a Director
   i. At the end of every month
   ii. At the beginning of every calendar year
   iii. At the end of every financial year.
   iv. Optional.

17. The total managerial remuneration payable to directors, managing director(s) or wholetime director or manager shall not exceed in any financial year

   i. 10% of the net profits of the company
   ii. 5% of the net profits of the company
   iii. 15% of the net profits of the company
   iv. 11% of the net profits of the company.

18. The minimum number of directors for a public limited company is

    i. Five
    ii. Two
    iii. Three
    iv. Six

19. In the case of appointment of Managing Director or Wholetime Director or manager, a return in form 25 C must be filed with the Registrar of Companies within

    i. 30 days from the date of appointment
    ii. 90 days from the date of appointment
    iii. 120 days from the date of appointment
    iv. 1 year from the date of appointment

20. A wholetime Director who receives commission from a company shall
    i. Receive any remuneration from its subsidiary company.
    ii. Not be entitled to receive any commission or remuneration from its subsidiary company.
    iii. Receive commission provided the total commission received from the two companies does not exceed 3% of the net profits of the company.
    iv. There is no restriction.

21. A person is not disqualified from being appointed as Managing Director if he is a person
    i. Who is an undischarged insolvent or at any time adjudged as an insolvent.
    ii. Who has suspended payment to its creditors
    iii. Who has been convicted by a court involving moral turpitude.
    iv. Who has not paid the salary to its employees on the first day of a month.

22. Appointment of a Managing Director under Schedule XIII requires
    i. The directors' approval
    ii. There is no need of any approval
    iii. Approval of the shareholders in a general meeting.
    iv. Approval of the employees.

23. A person may not be a managing director in more than two companies if
    i. One out of the two companies is a public company or a private company.
    ii. One out of the two companies is a public company or a private company which is a subsidiary of a public company.
    iii. The two companies are private companies.
    iv. No restriction.

24. An advocate who is rendering professional services in a company in which he is a director is
    i. said to be in office or place of profit.
    ii. Deemed to be an independent director
    iii. Deemed to be a wholetime director
    iv. Just like any other director.

25. Appointment of Directors beyond a number of twelve will require
    i. Shareholders' approval
    ii. Board's approval
    iii. Central Government's approval
    iv. No limit on the number of directors in a company

PART - B

Answer Any Five - **50 Marks**

1. Explain the circumstances in which the Small Shareholders' Director will vacate office

(10 Marks)

2. What are the powers that can be exercised by the Board of Directors with the approval of the General Meeting.

(10 Marks)

3. Explain the provisions of section 297 of the Companies Act, 1956 with respect to contracts in which the Directors are interested.

(10 Marks)

4. Briefly list out the points to be kept in mind while drafting minutes of the Board Meeting.

(10 Marks)

5. Explain the provisions of sections 255 and 257 for appointment of a Director retiring by rotation and of person other than retiring director respectively?

(10 Marks)

6. Briefly explain the following provisions-

   a. Duty of Director to make disclosure u/s 305 of the Companies Act, 1956
   b. Register of Directors' Shareholding u/s 307 of the Companies Act, 1956

(10 Marks)

PRIME ACADEMY

29 th SESSION PROGRESS TEST

FINAL CORPORATE LAWS AND SECRETARIAL PRACTICE

SUGGESTED ANSWERS

Part A

1. **iii**
2. **i**
3. **iii**
4. **iv**
5. **ii**
6. **i**
7. **iii**
8. **i**
9. **iii**
10. **i**
11. **ii**
12. **i**
13. **iii**
14. **ii**
15. **iii**
16. **iii**
17. **iv**
18. **iii**
19. **ii**
20. **ii**
21. **iv**
22. **iii**
23. **ii**
24. **i**
25. **iii**

PART B

1. A person appointed as small shareholders' director shall have to vacate the office if-

i. Such person so elected, as director of small shareholders ceases to be a small shareholder; director on and from such date on which he ceased to be a small shareholder.

ii. He has been rendered disqualified by virtue of sub rule (1) of rule (5).

iii. He fails to pay any call in respect of shares of the company held by him, whether alone or jointly with others, within six months from the last date fixed for the payment of the call;

iv. He absents himself from three consecutive meetings of the Board of directors or from all meetings of the Board for a continuous period of three months, whichever is longer, without obtaining leave of absence from the Board.

v. Any firm of which he is a partner of or any private company of which he is a director, accepts a loan or any guarantee or security for a loan, from the company in contravention of section 295

vi. He acts in contravention of section 299

vii. He becomes disqualified by an order of court under section 203.

viii. He is removed in pursuance of section 284.

2. According to Section 292, the following powers shall be exercised on behalf of the company only by means of resolution passed at the meeting of the Board.

1. Powers to make calls on shareholders in respect of moneys unpaid on their shares
2. Powers to authorise the buyback under Section 77A
3. Powers to issue debentures
4. Powers to borrow moneys otherwise than on debentures
5. Powers to invest the funds of the company
6. Powers to make loans

Out of the above 6 powers, powers in pt 4, 5, 6 can be delegated by way of <u>Board Resolution</u> to the any of the following:

1. Any committee of Directors
2. Managing Director
3. Manager
4. Principal officer of the company
5. Principal officer in case of Branch office

The board resolution delegating the powers to specify the following:

1. The total amount outstanding at any one time up to which the delegate may borrow moneys(power in pt 4)

2. The total amount up to which the funds may be invested and the nature of investment which may be made by the delegate(pt 5)

3. Total amount upto which loans may be made by the delegate, the purpose and the maximum amount for each such purpose in individual cases. (pt 6)

The above restrictions shall not apply to

a) Banking Company for the following done in the ordinary course of business:

1. Acceptance of deposits from public
2. Deposits/ borrowings with other banking companies/RBI

b) The day-to-day operation on Overdraft /cash credit or other accounts by means of which the arrangement is availed of.

The company may in the general meeting impose restrictions on the above powers.

OTHER SECTIONS:

Apart from Section 292, the following powers are required to be exercised only at the meeting of the Board:

1. <u>Section 262</u>- Filling of casual vacancy
2. <u>Section 297(4)</u>-Sanctioning or giving consent to contracts of / with any director
3. <u>Section 293A</u>- Contribution to political funds
4. <u>Section 299</u>- Receiving of notice of disclosure of interest
5. <u>Section 308</u>- Receiving of notice of disclosure of shareholdings of directors
6. <u>Section 316(2) & 386(2)</u>- Appointment of a person as MD/ Manager in a company who is already a MD/Manager in any other company
7. <u>Section 372A</u>- Inter corporate loans and investment
8. <u>Section 488(1) –</u> Declaration of solvency
9. <u>Section 58A read with Rule 4(4) of the Companies (Acceptance of deposits) Rules 1975 –</u> Approval of text of advertising for inviting public deposits

3. Board's sanction to be required for certain contracts in which particular directors are interested.

297. (1) Except with the consent of the Board of directors of a company, a director of the company or his relative, a firm in which such a director or relative is a partner, any other partner in such a firm, or a private company of which the director is a member or director, shall not enter into any contract with the company—

(*a*) for the sale, purchase or supply of any goods, materials or services; or

(*b*) after the commencement of this Act, for underwriting the subscription of any shares in, or debentures of, the company:

[**Provided** that in the case of a company having a paid-up share capital of not less than rupees one crore, no such contract shall be entered into except with the previous approval of the Central Government.]

[(2) nothing contained in clause (*a*) of sub-section (1) shall affect—

(*a*) the purchase of goods and materials from the company, or the sale of goods and materials to the company, by any director, relative, firm, partner or private company as aforesaid for cash at prevailing market prices; or

(*b*) any contract or contracts between the company on one side and any such director, relative, firm, partner or private company on the other for sale, purchase or supply of any goods, materials and services in which either the company or the director, relative, firm, partner or private company, as the case may be, regularly trades or does business:

Provided that such contract or contracts do not relate to goods and materials the value of which, or services the cost of which, exceeds five thousand rupees in the aggregate in any year comprised in the period of the contract or contracts; or

(*c*) in the case of a banking or insurance company any transaction in the ordinary course of business of such company with any director, relative, firm, partner or private company as aforesaid.

(3) Notwithstanding anything contained in sub-sections (1) and (2), a director, relative, firm, partner or private company as aforesaid may, in circumstances of urgent necessity, enter, without obtaining the consent of the Board, into any contract with the company for the sale, purchase or supply of any goods, materials or services even if the value of such goods or cost of such services exceeds five thousand rupees in the aggregate in any year comprised in the period of the contract; but in such a case, the consent of the Board shall be obtained at a meeting within three months of the date on which the contract was entered into.

(4) Every consent of the Board required under this section shall be accorded by a resolution passed at a meeting of the Board and not otherwise; and the consent of the Board required under sub-section (1) shall not be deemed to have been given within the meaning of that sub-section unless the consent is accorded before the contract is entered into or within three months of the date on which it was entered into.

(5) If consent is not accorded to any contract under this section, anything done in pursuance of the contract shall be voidable at the option of the Board.

(6) Nothing in this section shall apply to any case where the consent has been accorded to the contract before the commencement of the Companies (Amendment) Act, 1960.]

4. The following points must be kept in mind while drafting minutes of the Board Meetings:

a. Minutes must be prepared within 30 days of the conclusion of the meeting

Minutes should include the following particulars

i. Names of the Directors present at the meeting
ii. Names of the directors absent and asking for grant of leave of absence by the Board.
iii. Names of the directors voting for or against the various resolutions under respective items of business
iv. Notice given by the Directors with regard to their directorships to other companies and their shareholdings under the Act.
v. Any unanimous decisions of Directors as contemplated u/s 316, 372A and 386.
vi. Appointment of officials made at the Board meetings.

Board Minutes book must be numbered consecutively.

Every page shall be signed by

- the chairman of the same meeting or
- chairman of the next succeeding meeting

The minutes of the Board meeting are not open for inspection by the members.

The minutes may be inspected by

- Any director
- Auditors of the company
- Registrar of Companies
- Any officer authorized by the Central Government.

Minutes may be maintained in loose leaf form. In such a case, they should be bound at reasonable intervals and must be safeguarded against manipulation.

b) Corporate Governance is about promoting corporate fairness, transparency and accountability. Corporate Governance denotes the process, structure and relationship through which the Board of Directors overseas what the management does. It is also about answerable to different stakeholders.

Listed companies should comply with the provisions contained in clause 49 of the listing agreement.

The concept of audit committee will help in achieving some of the objectives of corporate governance because:

i. It provides a periodic review of internal control system and acts as an early warning system about corporate failure.
ii. It ensures an independence review of the financial position of company independence is ensured because two thirds of the audit committee shall be non-whole time directors who would normally be independent.

If implemented in accordance with the spirit of sec. 292A, it would ensure inclusion of seasoned professional and experts on corporate boards thus enhancing the effectiveness of corporate board decision

5. The provisions of Section 255 with respect to appointment of directors who are to retire by rotation are as follows.

(1) Unless the articles provide for the retirement of all directors at every annual general meeting, not less than two-thirds] of the total number of directors of a public company, or of a private company which is a subsidiary of a public company, shall—
   (*a*) be persons whose period of office is liable to determination by retirement of directors by rotation; and
   (*b*) save as otherwise expressly provided in this Act, be appointed by the company in general meeting.

(2) The remaining directors in the case of any such company, and the directors generally in the case of a private company which is not a subsidiary of a public company, shall, in default of and subject to any regulations in the articles of the company, also be appointed by the company in general meeting.

Appointment of other than retiring directors as directors

Section 257 allows a person who is not a retiring director to be eligible for appointment to the office of director at any general meeting, if he or some member, intending to propose him has, not less than 14 days before the meeting, left at the office of the company a notice in writing under his hand signifying his candidature for the office of director or the intention of such member to propose him as a candidate for that office, along with a deposit of Rs. 500 which shall be refunded to such person or, as the case may be, to such member, if the person succeeds in getting elected as a director.

After getting the notice, the company shall inform its members of the candidature not less than seven days before the meeting.

In the alternative, the company can also advertise the candidature in atleast two newspapers of which one shall be in English and other in the regional language of the place where the registered office is situated.

If a director retires by rotation, and the company proposes to appoint a person other than the retiring director, section 257 will have to be adhered to.

Section 257 does not apply to a private company unless it is a subsidiary of a public company. For the purpose of section 257, a retiring director means a director retiring by rotation

6 a. Duty of directors, etc., to make disclosure under section 305 of the Companies Act, 1956.

(1) Every director, managing director, manager or secretary of any company, who is appointed to, or relinquishes, the office of director, managing director, manager or secretary of any other body corporate, shall, within twenty days of his appointment to, or as the case may be, relinquishment of, such office, disclose to the company aforesaid the particulars relating to the office in the other body corporate which are required to be specified under sub-section (1) of section 303; and if he fails to do so, he shall be punishable with fine which may extend to five thousand rupees.

(2) The provisions of sub-section (1) shall also apply to a person deemed to be a director of the company by virtue of the *Explanation* to sub-section (1) of section 303 when such person is appointed to, or relinquishes, any of the offices in the other body corporate referred to in sub-section (1).]

b. Register of directors' shareholding (Section 307)

- A Register must be maintained by every company showing, as regards each director, the number, description and the amount of shares in or debentures of the company or any other body corporate, being its subsidiary or its holding company which are held by him or in trust for him or of which he has any right to become the holder whether on payment or not.
- The nature and extent of interest in relation to a director must be indicated in the register.
- The register must contain the date of transfer of shares or debentures and price or other consideration.
- The register shall be kept at the registered office of the company
- The register can be inspected by any member or debenture holder may inspect any time during 14 days before the date of the Annual General Meeting and 3 days after the conclusion of the meeting.
- The Central Government or its representative can inspect at any time.
- Any default in the matter or the entries referred to in this section is punishable with a fine extending to Rs.50000/- and also with further fine to Rs.200/- for every day during which the default continues.