PRIME ACADEMY

30th SESSION - PROGRESS TEST

FINAL - FINANCIAL REPORTING

No. of Pages: 4 **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 State bank of India, received a gross Rs 1500 Crores demand deposits from customers withdrawn Rs 1300 of demand deposit during the financial year 2007-08.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.

a. Operating activities, on net basis (Rs 200 Crores inflow)
b. Operating activities, on net basis (Rs 200 Crores outflow)
c. Financing activities, on total basis (Rs 1300 Crores outflow)
d. 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.

a. Operating activities
b. Investing activities
c. Financing activities
d. 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?

a. Rs 15360
b. Rs 19200
c. Rs 24000
d. 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?

a. Rs 10500
b. Rs 11000
c. Rs 12500
d. 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?

a. Rs 10500
b. Rs 11000
c. Rs 12500
d. 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?

a. Rs 96000

b. Rs 82000

c. Rs 64000

d. 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.

a. Rs 125000

b. Rs 195000

c. Rs 185000

d. 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.

a. Rs 1475000

b. Rs 1820000

c. Rs 1270000

d. 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?

a. Neither transaction.

b. Rs 100000 transaction only

c. Rs 250000 transaction only

d. 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 company and hence no disclosure is necessary as per the accounting standard. Is the Chief Accountant 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)

(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. The following is the Balance Sheet of X Ltd and its subsidiary Y Ltd as on 31st December 2009.

Liabilities	*X Ltd., Rs.*	*Y Ltd., Rs.*	*Assets*	*X Ltd., Rs.*	*Y Ltd., Rs.*
Share Capital (Rs.10)	4,00,000	2,00,000	Goodwill	50,000	30,000
Preference shares (Rs. 10)	80,000	40,000	Machinery	80,000	50,000
General Reserve	80,000	50,000	Vehicles	1,60,000	75,000
Profit and Loss Account	1,30,000	1,00,000	Furnitures and fixtures	60,000	40,000
Bank Overdraft	30,000	20,000	Investments	2,50,000	45,000
Bills payable	-	3,000	Stock in trade	50,000	50,000
Sundry Creditors	58,000	46,000	Sundry Debtors	70,000	80,000
			Cash and Bank	57,000	89,000
			Bills receivable	1,000	-
Total	**7,78,000**	**4,59,000**	**Total**	**7,78,000**	**4,59,000**

Additional Information:

1. X Ltd acquired 8000 equity shares of Y Ltd on 1.1.2009 and further acquired 7000 equity shares on 1.7.2009 at a cost of Rs 96000 and Rs 80000 respectively.
2. The Preference capital of Y Ltd includes nominal value of Rs 15000 held by X Ltd acquired on 1.1.2009 at a cost of Rs 36000.
3. The Profit and loss account of Y Ltd had a credit balance of Rs 30000 as on 1.1.2009 and that of General reserve on that date was Rs 20000.
4. Y Ltd had paid dividend @ 10% on its paid up capital out of its Profit and loss account balance on 1.1.2009 for the year 2008. The entire dividend received by X Ltd in May 2009 has been credited to its profit and loss account.

5. In term resolution dated 30th Nov 2009, Y Ltd had allotted bonus shares @ 1 for every 10 shares held out of its General reserve. No accounting effect has yet been given.
6. Bills receivable of X Ltd were drawn upon Y Ltd out of which Bills amounting to Rs 2000 have been discounted with bank.
7. During the year 2009 X Ltd purchased goods from Y Ltd for Rs 10000 at a sales price of Rs 12000. 40% of these goods remained unsold on 31.12.2009.
8. On 1.1.2009 machinery of Y Ltd was overvalued by Rs 10000 for which necessary adjustments are to be made. The company charges depreciation @ 10%

Prepare Consolidated Balance Sheet of X and its subsidiary Y Ltd as on 31st December 2009.

(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:

Rs in lakhs

	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 X Ltd. 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

30th SESSION-PROGRESS TEST

FINAL - FINANCIAL REPORTING

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 at least 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 result 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 at least 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, and 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 translated 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 favorable and unfavorable, 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 X Ltd., and its subsidiary Y Ltd., as at 31st March, 2009

	Rs.		Rs.
40000 Equity shares (Rs10)	4,00,000	Goodwill acquired	80,000
8000 Preference shares (Rs10)	80,000	Goodwill on consolidation	2,285
General Reserve	97,250	Machinery	1,21,000
Profit and Loss Account	1,73,725	Vehicle	2,35,000
Minority Interest	1,10,050	Furniture and fittings	1,00,000
Bank Overdraft	50,000	Investment	83,000
Bills payable	2,000	Stock in trade	99,200
Sundry Creditors	1,04,000	Debtors	1,50,000
		Cash	99,200
Total	**10,17,025**	**Total**	**10,17,025**

Working Notes:

WN 1:

Date of acquisitions:

First acquisition of 8000 equity shares – 01.01.2009

Second acquisition of 7000 equity shares – 01.07.2009

WN 2:

Share holding pattern

X Ltd:

First acquisition	8000 shares	40% holding
Second acquisition	7000 shares	35% holding
Total	15000 shares	75% holding
Minority Interest	5000 shares	25% holding

WN 3:

Analysis of Profit:

Note: The need for consolidation arises only after Second acquisition when control came into existence. However, analysis of profits as pre and post acquisition should be done with reference to each stage of acquisition on general principle of Investment accounting.

Out of Rs 50000 of General reserve opening balance of Rs 20000 is issued as bonus and the balance Rs 30000 is considered as a Revenue reserve.

Incremental appropriation between first and second acquisitions..

Out of the opening balance of Rs 30000 from Profit and loss account Rs 20000 dividend is paid for the previous year. Rs 1000 is added towards excess depreciation to the current profit of Rs 90000. Rs 91000 is divided equally for first and second acquisitions.

WN 4:

Particulars	Pre-acquisition Rs	Post acquisition RR Rs	Post acquisition RP Rs
General Reserve		30,000	
Profit and Loss	10,000		91,000
Revaluation loss	(10,000)		
Total	-	30,000	91,000
Minority Interest – 25%		7,500	22,750
X Ltd – 75%	-	22,500	68,250
Transfer with reference to second acquisition			
i. RR to CP = 15000 x 35%	5,250	(5,250)	
ii. RP to CP = 45500 x 35%	21,175	17,250	52,325

WN 5:

Particulars	Rs.
Equity share capital	50,000
Bonus shares	5,000
Capital profit	-
Revenue reserve	7,500
Revenue profit	22,750
Preference share capital	25,000
Less: Unrealized profit on upstream transaction	(200)
Net for Consolidated Balance sheet	1,10,050

WN 6:

Particulars	Rs.	Rs.
a. Cost of Investment		
i. Amount invested	2,12,000	
Less: Pre-acquisition dividend	(8000)	
b. X Ltd's share of net assets of Y Ltd as on date of acquisition represented by		
i. Share of paid up capital	1,50,000	
ii. Preference share capital	15,000	
iii. Bonus shares	15,000	
iv. Capital profits	21,175	2,01,175
Goodwill		**2,825**

3. Balance Sheets as at 31st March, 2009

Liabilities	**Quick Ltd., Rs.**	**Slow Ltd., Rs.**	**Assets**	**Rs.**	**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 as on 31st March, 2009

		Quick Ltd.,	Slow Ltd.,
		Rs.	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.,

	Capital Profit	Revenue Profit
	Rs	Rs
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

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

(Rs. In Lakhs)

Liabilities	*Amount*	*Amount*	*Assets*	*Amount*	*Amount*
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:* Unrealized	7.80	372.20
Profit and Loss		56.90	Profit		
Account			Stock	50.00	
Bills Payable	10.00		X Ltd.,	20.00	
X Ltd.,	5.00		Y Ltd.,	20.00	
Y Ltd.,	15.00		Z Ltd.,	90.00	
	2.00	13.00		1.00	89.00

Less: Mutual			*Less:* Unrealized		
indebtedness	30.00		profit	70.00	
Creditors	10.00		Debtors	10.00	
X Ltd.,	10.00		X Ltd.,	20.00	
Y Ltd.,	50.00		Y Ltd.,	100.00	
Z Ltd.,	5.00	45.00	Z Ltd.,	5.00	
					95.00
Less: Mutual	50.00		*Less:* Mutual		60.00
indebtedness	15.00		indebtedness	10.00	
Current Account	65.00			20.00	
Balances	40.00	25.00	Cash and Bank	30.00	
X Ltd.,			Balances	2.00	
Z Ltd.,		30.00	Bills Receivables		28.00
			Y Ltd.,		
Less: Mutual			Z Ltd.,		
indebtedness (10+30)					
Proposed Dividend			*Less:* Mutual		
			indebtedness		
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** (Rs In Lakhs)

Investments 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** (Rs. In Lakhs)

		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)	0.20	
	Unrealised profit on equipment(10% of 7.8)		0.78
		63.08	16.22

5) **Unrealized Profit on equipment sale**

	(Rs. In Lakhs)
Cost	24.00
Profit	8.00
Selling Price	32.00

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

6) **Profit and Loss Account – X Ltd.,** (Rs. In 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: Unrealized profit on equipment (90% of 7.8)	7.02
	57.70
Less: Unrealized profit on stock (5 x 25/125 x 80%)	.80
	56.90

7) **Reserves – X Ltd.,**

	(Rs. In Lakhs)
X Ltd.,	50.00
Share in Y Ltd.,	25.60
Share in Z Ltd.,	6.00
	81.60

PRIME ACADEMY

30th SESSION - PROGRESS TEST

STRATEGIC FINANCIAL MANAGEMENT

No. of Pages: 5 **Total Marks: 75**

Time Allowed: 2Hrs

PART A (25x1= 25 Marks)

1. A ltd paid a dividend of Rs 12 per share for the financial year ended today; The dividend is expected to perpetually grow at a rate of 8%. If the cost of equity is 12%, the intrinsic value per share today, according to Gordon's dividend growth model is
   a) Rs 100
   b) Rs 150
   c) Rs 324
   d) Rs 342.3

2. X ltd's has a policy of maintaining its dividend payout ratio at 40%.. X ltd had been historically earning 20% return on its networth, and this trend is expected to continue in the future as well. An investor of X ltd approaches you to give him an indication of the likely growth rate of dividends. What would you suggest? Use Gordon's model.
   a) 12%
   b) 8%
   c) 20%
   d) None of the above

3. Which of the following theories argue that dividend decision does not have any effect on the value of a firm?
   a) Graham and dodds
   b) Walter
   c) Gordon
   d) Modigillani- Miller

4. Who articulated the theory - "The value of a firm is sum of the present value of its future dividend and the present value of the expected capital gain"
   a) Modigillani- Miller
   b) Walter
   c) Gordon
   d) Graham and dodds

5. Which of the following is an assumption of Gordon's dividend model?
   a) Cost of equity is higher than the retention rate but lower than the growth rate of dividend
   b) Cost of equity is higher than dividend growth rate and the rate of return on investments.
   c) Cost of equity is higher than dividend growth rate, but does not bear any logical

relationship with return on investments or retention ratio

d) Cost of equity is lower than the retention ratio, but higher than dividend growth rate

6. The radical approach is distinct from other models because it considers which of the following factors in arriving at the dividend decision?
   a) The incidence of tax
   b) The incidence of leverage (i.e debt financing)
   c) The clientele effect
   d) All of the above

7. According to Modigillani- Miller, when a company wants to pay dividend but does not have cash, then
   a) It borrows money
   b) It issues new shares at face value
   c) It issues new share at current market price
   d) It issues new shares at fair value

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 cash flows from the project should be discounted?
    a) 15.2%
    b) 13.56%

c) 17%
d) 10.5%

11. Under the certainity 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
   c) iii
   d) 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

PART – B

50 Marks

1. (a) V.V. Forex dealer had entered into a cross currency deal and had sold US $ 5,00,000 against EURO at US $ 1 = EUR 1.4400 for spot delivery.

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

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

What will be the gain or loss in the transaction for the V.V. forex dealer in Indian rupees?

(6 Marks)

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

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

Calculate:

(i) How much minimum CHF amount you have to pay for 2 million GBP spot?

(ii) Considering the quotes from Bank A only, for GBP/CHF what are the implied swap points for spot over 3 months?

(8 Marks)

2. a) Kumar Ltd has been maintaining a growth rate of 10% in dividends. The company has paid dividend @ Rs.3 per share. The rate of return on market portfolio is 12% and the risk free rate of return in the market has been observed as 8 percent. The beta co-efficient of company's share is 1.50.
You are required to calculate the expected rate of return on company's share as per CAPM model and equilibrium price per share by dividend growth model.

(6 Marks)

b) Explain the assumptions under the Modigilani – Miller Model (5 Marks)

c) ABC Ltd. has 1000 shares of Rs.10 each issued at a premium of Rs.15 per share. The company's retained earnings are 675000. The company's stock sells for Rs.20 per share.
If the company declares a 1:4 reverse split, how many shares will be outstanding? What would be the new par value? What would be the new market price?
(3 Marks)

3. Mahesh Ltd. has incurred an expenditure of Rs.300 lakhs for certain research findings for developing a new product .They can sell these findings to a third party for Rs.150 lakhs. Alternatively, they can take up test runs for production. The test can lead to positive or negative results, with equal probability. If the test is positive , they have two choices . Either to sell the findings to a third party at Rs.150 lakhs or to take up marketing. If marketing is taken up , the demand can be high, medium, or low . And the cash flow after tax in these three scenarios will be Rs . 3,000 lakhs, Rs.600 lakhs or a loss of Rs .600 lakhs respectively . The chances of demand being high is rated at 30%. While for medium and low demand, the chances are 40% and 30% respectively. If the test proves negative, they will be incurring a loss of Rs .1, 800 lakhs. And still they could sell the findings for Rs. 150/ lakhs. Depict the decision alternatives in a decision tree diagram, and decide the action that the company can take. (10 Marks)

4. BPV Ltd ., is purchasing a machine at a cost of Rs. 3000 with a life of two years. The cash flow after tax for the two years has been estimated as under:

Year 1		Year 2	
Cash flow (RS)	Initial probability	cash flow (Rs)	conditional probability
1,500	0.4	2,200	0.5
		1,800	0.5
2,500	0.6	1,800	0.7
		2,000	0.3

1. What are the various joint probabilities of occurrences of various branches?
2. If the risk free rate is 12%, what are the mean and standard deviation of the probability distribution of possible NPVS?

(8 Marks)

5. Ram IT solutions has been in information technology business for six years and enjoy a favourable market reputation. They anticipate that the demand for IT solutions would increase sizably since many foreign firms are setting up their BPO units in India . For an expansion project ,they propose to invest Rs. 22 crores to be funded by new debt and equity on 50:50 basis. Enquiries with merchant bankers reveal that funds can be raised as under:

Debt	Rate %
First Rs. 5 crores	10%
Next Rs. 5 crores	12%
All additional funds	15.72%
Equity	12%
Risk gradation by company	2%over WMCC

Compute the appropriate risk adjusted discount rate assuming a corporate tax rate of 30% for Ram IT solutions.

(4 Marks)

PRIME ACADEMY

30^{th} SESSION-PROGRESS TEST

STRATEGIC FINANCIAL MANAGEMENT

SUGGESTED ANSWERS

PART - A

1.	**C**
2.	**A**
3.	**D**
4.	**B**
5.	**C**
6.	**A**
7.	**D**
8.	**B**
9.	**A**
10.	**B**
11.	**B**
12.	**D**
13.	**B**
14.	**B**
15.	**A**
16.	**C**
17.	**A**
18.	**B**
19.	**D**
20.	**C**
21.	**C**
22.	**B**
23.	**B**
24.	**C**
25.	**B**

PART - B

1)

a) Spot rate for US $1= EURO 1.4400 / 1.4450

	↓ (Bid)	↓ (Ask)
	Bank buying	Bank selling

(Note: Bank buying rate will be the selling rate for VV forex and vice versa)

The amount of EUR bought by selling USD 5, 00,000 * 1.4450	=	EUR 7, 22,500
The amount of EUR sold for buying USD 5, 00,000 * 1.4400	=	EUR 7, 20,000
Net Loss in the Transaction	=	EUR 2,500

USD 1 = EUR 1.4400 &

USD 1 = INR 31.4500

Cross Currency buying rate of EUR/INR is

Rs. 31.4500/1.440 i.e. Rs. 21.8403

Loss in the Transaction Rs. 21.8403 * 2,500 = Rs. 54,600.75

b) To Buy 2 Million GBP Spot against CHF

1. First to buy USD against CHF at the cheaper rate i.e. from Bank A.

1 USD = CHF 1.4655

2. Then to Buy GBP against USD at a Cheaper rate i.e. from Bank B

1 GBP = USD 1.7650.

(i) By applying chain rule buying rate would be

1 GBP = 1.7650 * 1.4655 CHF

1 GBP = CHF 2.5866

Amount payable CHF =2.5866 * 2 Million = 5.1732 Million

= CHF 51, 73,200

(ii) Spot rate Bid rate GBP 1 = CHF 1.4650 * 1.7645 = CHF 2.5860

Offer rate GBP 1 = CHF 1.4655 * 1.7660 = CHF 2.5881

GBP/USD 3 months swap points are at discount

Outright 3 months forward rate GBP 1 = USD 1.7620/1.7640

USD/CHF 3 months swap points are at premium

Outright 3 months forward rate USD 1 = CHF 1.4655/1.4665

Hence

Outright 3 months forward rate GBP 1 = CHF 2.5822/2.5869

Spot rate GBP 1 = CHF 2.5850/2.5881

Therefore 3 months swap points are at discount of 28/12.

2)

a) Dividend paid Rs.3

Growth rate 10%

Return from market (Rm) 12%

Risk free return (Rf) 8%

Beta co-efficient (ß) 1.50

CAPM = Ke = Rf + ß (Rm – Rf)

= 0.08 + 1.50 (0.12 - 0.08) = 0.14 or 14%

Dividend growth model = D1 / Ke – g

Where D1 = DPS next year = 3 + 10% of Rs.3 = 3.30

Ke = cost of equity = 14%

g = growth rate = 10%

Po = 3.3 / (0.14 – 0.10) = 3.3 / 0.04 = Rs. 82.50

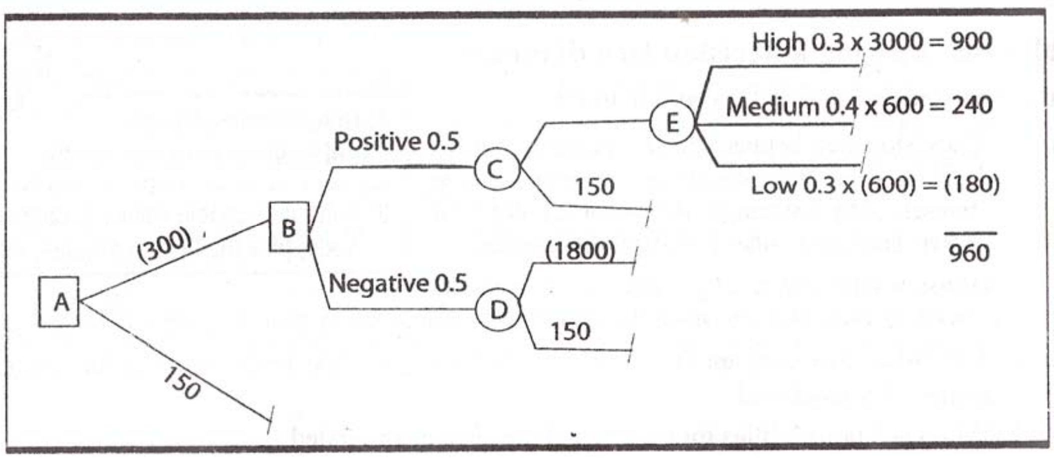
Therefore, the equilibrium price is Rs. 82.50

b) Assumptions under Modigliani – Miller Model

1. Perfect market: Companies operate in a world of perfect capital markets – decision of individual buyer / seller will not affect market price – investors behave rationally and expect high return for a high risk – Free flow of information – Nil transaction cost
2. No taxation: There are no corporate and no personal taxes or the tax rates are same for dividend and capital gains
3. Fixed investment policy is maintained by investing a specific amount each year as capital expenditure by the firm.
4. There is no risk of uncertainty – investors will be able to predict future dividends and market price
5. No external funds – all investments are funded by equity or retained earnings

c. New par value = Rs.40 (one share is given for every 4 shares held)
Number of shares = 1000 * 10/40 = 250 shares
New market price = 20 * 1000 / 250 = Rs. 80/-
Decision tree picture at page No. 163

3. Decision Tree Is shown



Evaluation

At E: Event (chance) node : Expected Monetary Value (EMV) computation shall be as under:

Demand level	Amount (Rs)	probability	Result (Rs)
High	3,000	0.3	900
Medium	600	0.4	240
Low	(600)	0.3	(180)
			960

At C: The choice is between an EMV of Rs .960, and a value of Rs .150 .The choices would be Rs .960, and EMV at C is Rs .960.

At D: The choice is between value of -1,800 and the value of Rs.150. The choice would be the value of Rs.150 and hence EV at D is Rs.150.

At B: EMV is computed as under:

Outcome of test	EV at c or D	Probability	Result
Positive	960	0.5	480
Negative	150	0.5	75
		Result	555

EMV at B, therefore, is Rs.555.

At A: Choice is between EV of Rs.555 (minus cost of Rs.300) and a value of Rs.150(less cost of Rs.300) the choice will be EV of Rs.555 less cost of Rs.300. EMV at A is therefore Rs.255. (In fact, the initial expenditure of Rs.300 is sunk cost and is not relevant for this decision).

Decision: EMV is Rs.255. The action, that the test may be undertaken, is recommended.

4. Step1: There are four branches. There will be four joint probabilities.

Probability Year 1	probability Year 2	Joint probability Year 1x year 2
0.40	0.50	0.20
0.40	0.50	0.20
0.60	0.70	0.42
0.60	0.30	0.18

Step 2: computation of present values of cash flows (Rs)

Year 1			year 2			
CF (Rs)	Discount Factor @ 12%	PV (Rs)	CF (Rs)	Discount Factor @ 12%	PV (Rs)	Total pv (Rs)
1,500	0.893	1,339.50	2,200	0.797	1,753.40	3,092.90
1,500	0.893	1,339.50	1,800	0.797	1,434.60	2,774.10
2,500	0.893	2,232.50	1,800	0.797	1,434.60	3,667.10

2,500	0.893	2,232.50	2,000	0.797	1,594.00	3,826.50
		7,144.00			6,216.60	13,360.60

Computing mean. NPV of the project.

Total PV (Rs.)	Jt. Prob	product
3092.90	0.20	618.58
2774.10	0.20	554.82
3667.10	0.42	1540.18
3826.50	0.18	688.77
13360.60		3402.35
	Less: cost	(3000.00)
		NPV 402.35

Step 3: computing standard deviation of probability distribution of possible NPVS.

Total PVRS)	cost (RS)	NPV (X)	$X-\bar{X}$	$X-\bar{X}$	Joint prob	Product
3,092.90	3,000	92.90	-309.45	9, 5759.3	0.20	19.151.9
2,774.10	3,000	-225.90	-628.25	3, 94,698.1	0.20	78,939.6
3,667.10	3,000	667.10	264.75	70,092.6	0.42	29,438.9
3,826.50	3,000	826.50	424.15	1, 79,903	0.18	32,382.6
		402.35				15, 9913
						399.891

Conclusion: Mean NPV is Rs.402.35. As the project has a positive NPV it may be accepted .The standard deviation of probability distribution of possible NPVs is Rs .399.891 or say Rs .400.00.

5. Total debt = 2200 * 50/100 = 1100 lakhs

	1st slab	2nd slab	3rd slab	Total
Volume of funds	500	500	100	1100.00
Rate	10%	12%	15.72%	
Interest cost (volume * rate of int)	50	60	15.72	125.72
Tax saving 30%				37.72
Post tax cost (int – tax savings)				88.00

Cost of debt % = Post tax cost of debt / Debt * 100 = 88 / 1100 * 100 = 8%

Determination of weighted marginal cost of capital

Particulars	Cost %	Weight	Weighted cost
Debt	8.00	0.50	4.00
Equity	12.00	0.50	6.00
Weighted cost (Cut – off rate)			10.00

Risk adjusted rate = Cut off rate + Risk premium = 10 + 2 = 12%

PRIME ACADEMY

30^{th} SESSION - PROGRESS TEST

ADVANCED AUDITING AND PROFESSIONAL ETHICS

No. of Pages: 3 **Total Marks: 75**
Time Allowed: 2Hrs

PART –A ***(25x1=25Marks)***

(1) Audit risk is associated with
a. Inherent Risk
b. Control risk
c. Detection risk
d. All of the above

(2) An auditors' report
a. Is an expression of opinion on the true and fair view of financial statements
b. Is a written confirmation of accuracy of facts and figures
c. Makes him responsible for the factual accuracy of the contents
d. Is issued when he verifies certain facts

(3) The auditor assess the appropriateness of Going concern assumption considering
a. Financial indicators
b. Statutory and other legal indicators
c. Only (a) above
d. Both of the above

(4) CIS Infrastructure refers to
a. Hardware
b. Operating system
c. Application software
d. All of the above

(5) Independent review refers to
a. Audit review by auditor himself
b. Review by independent auditors
c. Review by auditor with the help of an expert
d. None of the above

(6) Pick the odd one out: Internal check refers to
a. A system of book keeping
b. A series of procedures laid down by management
c. Routine line functions
d. Control oriented

(7) Accounting estimate does not include
a. Accrued Revenue
b. Provision for Taxation
c. Provision for bad debts
d. None of the above

(8) EDI stands for
a. Electronic Data Input
b. Electronic Data information
c. Electronic Data Interchange
d. Electronic Data Index

(9) Accounting Estimates are by nature
a. Entity specific
b. Clear and precise
c. Futuristic and routine
d. All of the above

(10) An even t that provides further evidence of conditions that existed at the date of balance Sheet is an
a. Adjusting event
b. Non-adjusting event
c. Routine & recurring event
d. All of the above

(11) C& AG of India stands for
a. Comptroller and Auditor of Government of India
b. Comptroller and Audit General of India
c. Controller and Auditor General of India
d. None of the above

(12) NGO 's are
a. Non –Government organizations
b. Non-profit making organizations
c. Religious and /or charitable Institutions
d. All of the above

(13) Auditor obtains knowledge about the business from
a. Discussion with client personnel
b. Entity specific Legislations and regulations
c. Documents produced by the client
d. All of the above

(14) Service organizations are
a. BPO' s
b. Data processing organizations
c. Organizations, which are subjected to service tax
d. Organizations, which executes transactions on behalf of the other enterprise

(15) Financial statements are
a. Audited statements of accounts
b. Profit and loss account statement
c. Statements of figures and facts
d. Statements prepared for a financial period presented

(16) A letter of engagement is a
a. Management letter
b. An acceptance letter from an auditor
c. Both of the above
d. None of the above

(17) Governance of an entity refers to
a. Supervision
b. Control
c. Direction
d. All of the above

(18) Audit reports are
a. Letters written by an auditor to his client
b. An expression of an opinion on the true and fair view of the financial statement
c. An unqualified opinion on the state of affairs
d. All of the above

(19) Good Reports are
a. Clean report
b. Qualified reports
c. A disclaimer of opinion
d. None of the above

(20) An auditor before accepting an appointment in a public limited company should ensure
a. Ceiling limit
b. Resolution at AGM
c. Compliance with law
d. All of the above

(21) A statutory report is
a. An Audit report
b. A special report
c. A report by the statutory auditor
d. Report of a public limited company u/s sec 165

(22) Audit Committees refers to
a. Internal audit department
b. Statutory auditors
c. A committee of board members
d. A committee having members who ensure compliance of internal control systems

(23) Audit Assurance is obtained by
a. Reliance on internal control systems
b. Auditor from the client in writing
c. None of the above
d. All of the above

(24) CAAT stands for
a. Computer Aided Audit Techniques
b. Computer Assisted Audit Techniques
c. Computer Aided Audit Technology
d. Computer Audit And Tests

(25) Profit and loss account
a. Shall be made as clearly to disclose the result of the working of the company
b. Shall disclose every material feature of receipts and expenses
c. Shall disclose every material feature of income and expenditure
d. All of the above

PART-B 50 Marks

Question1 is compulsory and answer any three questions.

1. a. What are the statutory duties of a company auditor? *(10 Marks)*

   b. What are the factors to be considered while determining the sample size *(10 Marks)*

2. Explain the Constitution and functions of Audit Committee under Section 292A of the Companies Act, 1956. *(10 Marks)*

3. The method of collecting Audit evidence and evaluating the same changes drastically under EDP Auditing". Comment on the above. *(10 Marks)*

4. Define the terms

   a. Internal Control questionnaire

   b. Test Check

   c. Government audit

   d. Test Packs

   e. Preliminary Expenses

   (5 x 2 = 10 Marks)

5. a. What are the Management Audit Questionnaires?

   b. The Companies (Auditor's Report) Order, 2003 is applicable to specified category of Companies. Explain?

   (2 x 5 =*10 Marks)*

PRIME ACADEMY
30th SESSION- PROGRESS TEST
ADVANCED AUDITING AND PROFESSIONAL ETHICS
SUGGESTED ANSWERS

PART – A

Q. No.	Answers
1	**d**
2	**a**
3	**d**
4	**d**
5	**c**
6	**d**
7	**c**
8	**c**
9	**a**
10	**a**
11	**d**
12	**d**
13	**d**
14	**d**
15	**d**
16	**b**
17	**d**
18	**b**
19	**d**
20	**d**
21	**d**
22	**d**
23	**a**
24	**b**
25	**d**

PART – B

1)

(a) The auditor owes large number of duties as explained below: -

a. Duties to Share Holders:

i. **Report** shareholders about the true & fair state of affairs of the company u/s 227

ii. Ensure that the **Balance Sheet** and **Profit & Loss A/c** gives the required information as per sec. 227 (2)

iii. State in his report that he has obtained all the **necessary Information** u/s 227(3)

iv. State in his report that whether the co. **has maintained** all required books of accountsu/s227(3).

v. Report whether the **Balance Sheet and Profit & Loss A/c agrees** with the books of accounts u/s 227 (3).

vi. State in his report whether the B/S and **Profit & Loss** A/C comply with the **Accounting standards or not .**

vii. Give the reasons behind **qualifying** his report u/s 227(4)

viii. Report whether he has received the audit report on the **branch** accounts audited by other auditor & how he has dealt with the same in preparing his report u/s 227(3)

ix. Auditor shall state in his report whether **–**

a. The **loans** are properly secured & the terms are not against the interest of the company.

b. The **transactions** merely representing book-entries as recorded in the books

c. are not against the interest of the company

d. The **securities** have been sold by co.'s other than banking investment co.', at a price-less than purchase price.

e. **Loans** made by co. have been shown as fixed deposits.

f. **Personal expenses** have been charged to revenue account sec. 227(1-A)

g. Report whether the company has complied the requirements of CARO-2003 (Sec. 227 (4A)

b. Duties towards company:

i. **Prospectus:** Auditor has to certify profits or losses, assets & liabilities, dividend paid etc. disclosed in the prospectus (sec 56.)

ii. **Statutory Report:** Auditor has to certify the statutory Report of the company which requires to present it in it's Statutory Meeting (sec. 165.)

iii. **Public deposits:** Auditor has to report about whether the co. has complied the requirement of RBI in regard to public deposits or not. (Sec. 58AA)

iv. **Signature** Auditor should sign the audit report prepared by him (Sec. 229.)

v. **Insolvency:** Auditor should make a report on the co's profit loss &A/C .for the period from last audited P&L account to the date of declaration required to be accompanied with the declaration of solvency by the company (sec 488(2).)

c. Duties towards Government:

i. **CARO-2003:** It prescribes verification of large no. of corporate activities & this order imposed various responsibilities on auditor & it is the duty of the auditor to verify the records of the company from these angles & ensure that the scares recourses of the company are properly utilized.

ii. **Investigation**: It is the duty of the company auditor to assist the investigator appointed by the Central Govt. u/237 to investigate into the matters regarding the affairs of the company.

d. Duties towards general public:

i. Auditor has to bear in mind the interest of general public as his office is of public confidence & faith.

ii. While conducting audit he should see that his report does not fail to disclose material information, which may affect the company's state of affairs.

iii. While certifying prospectus he should see that it does not include misleading statements which may cause the general public to subscribe to the co's share issue & may suffer a financial loss in future, **(Hadley Byrney & Co. LTD VS Hiller & Partners)**

iv. Not to practice as an auditor unless he is a member of the ICAI & holds a certificate of practice granted by the Council of the Institutes.

(b) The factors which the auditor should consider in determining the sample size are as follows:

i. *The efficiency and effectiveness of the internal control systems to process transactions without error*: The auditor has to determine the expected error rate. The auditor's estimate of this depends, amongst other things, upon his evaluation of internal control.

ii. *The level of assurance which the auditor requires*: The auditor has to determine the amount of the risk which he is prepared to accept. This would be determined by the auditor's assessment of the audit risk attached to a particular client. There is considerable information available to the auditor about the organisation, its management and the expectations of company performance, for example, and these factors would play a role in determining sample size.

iii. *The results of previous audit work*: The auditor has to assess the expected error rate based upon the results of audit work in this and previous years. The higher the expected error rate, the greater the sample size, although if very high error rates are expected it may not be appropriate to use a sampling approach.

2) **Constitution and Functions of Audit Committee:** Section 292A of the Companies Act, 1956 requires that every public company having not less than Rs. 5 crores of paid up capital shall constitute a committee of Board known as Audit Committee. It shall consist of not less than three directors and such number of other Directors as the Board may determine of which two-third shall be directors other than the Managing Director and whole time director. They shall elect one such member amongst them as Chairman. The auditors, the internal auditor, if any, and the director-in-charge of finance shall attend and participate at meetings of the Audit Committee but shall not have the right to vote.

Every audit committee constituted as above shall act in accordance with the terms of reference specified in writing by a Board. The function of the audit committee as specified in the Companies Act, 1956 are as under:

i. The audit committee should have discussions with the auditors periodically about the internal control systems, the scope of audit, the audit observations and review the periodical financial statements before submission to the board and also ensure compliance with the internal control systems.

ii. It shall have the authority to investigate any matter in relation to the items specified in this section or reference to it by the Board and shall have access to the information contained in the records of the company and external professional advice, if necessary.

iii. Its recommendations on all financial matters including audit report shall be binding on the board.

iv. The auditors, the internal auditor, if any, and the director-in-charge of finance shall attend and participate at meetings of the Audit Committee but shall not have the right to vote.

v. To advise and check the compliance of the organisation for policy and regulation

vi. aspects.

While performing the aforesaid key functions, the energy auditor is required to carry out the following activities:

i. To analyze the historical energy consumption and cost data.

ii. To conduct preliminary energy audit with the objectives to identify:

(a) Major energy consuming equipment and process;

(b) Obvious inefficiencies and energy wastes; and

(c) Priority areas for further detailed investigation.

(i) To conduct detailed technical and economic analysis of energy efficiency measures involving large efficiency measures involving large capital investment or long payback periods.

3) **Effects of EDP Auditing:** Auditor must provide a competent, independent opinion as to whether the financial statements records and report a true and fair view of the state of affairs of an entity. However, computer systems have affected how auditors need to collect and evaluate evidence. These aspects are discussed below:

1. **Changes to Evidence Collection -** Collecting evidence on the reliability of a Computer system is often more complex than collecting evidence on the reliability of a manual system. Auditors have to face a diverse and complex range of internal control technology that did not exist in manual system, like:
   a. Accurate and complete operations of a disk drive may require a set of hardware controls not required in manual system,
   b. System development control include procedures for testing programs that again are not necessary in manual control.

   Since, Hardware and Software develop quite rapidly, understanding the control technology is not easy. With increasing use of data communication for data transfer, research is focused an cryptographic controls to project the privacy of data. Unless auditor's keep up with these developments, it will become difficult to evaluate the reliability of communication network competently. The continuing and rapid development of control technology also makes it more difficult for auditors to collect evidence on the reliability of controls. Even collection of audit evidence through manual means is not possible. Hence, auditors have to run through computer system themselves if they are to collect the necessary evidence. Though generalized audit softwares are available the development of these tools cannot be relied upon due to lack of information. Often auditors are forced to compromise in some way when performing the evidence collection.

2. **Changes to Evidence Evaluation -** With increasing complexity of computer systems and control technology, it is becoming more and more difficult for the auditors to evaluate the consequences of strength and weaknesses of control mechanism for placing overall reliability on the system.

   Auditors need to understand:

   a. whether a control is functioning reliably or multi functioning,
   b. traceability of control strength and weakness through the system. In a shared data environment a single input transaction may update multiple data item used by diverse, physically disparate user, which may be difficult to understand.

   Consequence of errors in a computer system is a serious matter as errors in computer system tend to be deterministic, i.e., an erroneous program will always execute data incorrectly. Moreover, the errors are generated at high speed and the cost and effort to correct and rerun program may be high. Errors in computer program can involve extensive redesign and reprogramming. Thus, internal controls that ensure high quality computer systems should be designed implemented and operated upon. The auditors must ensure that these control are sufficient to maintain assets safeguarding, data integrity, system effectiveness and system efficiency and that they are in position and functioning.

4)

a. <u>Internal Control questionnaire</u>

Internal control questionnaire is a set of questions designed to provide a thorough view of the state of internal control in an organization. The questionnaire is usually issued to the client and the client is requested to get it answered by the concerned executives and employees.

b. <u>Test Check</u>

Test checking means to select and examine a representative sample from a large number of similar items

Test checking is accepted auditing procedure wherein instead of checking all transactions only a part of it is checked in detail to form an opinion on the whole

c. Government Audit

The objective, systematic, professional and independent examination of financial, administrative and operations of a public entity for the purpose of evaluating and verifying them to present a report containing comments and professional opinion.

d. 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.

5)

(a) 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 organization's management and its assigned

tasks. Overall it is concerned with the appraisal of management actions in accomplishing the organization's objectives. Its primary objective is to highlight weaknesses and deficiencies of the organization. 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 organization'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 manner; 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 must 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 analyze the current situation; more importantly, it enables the management auditors to synthesize those elements that are causing organizational difficulties and deficiencies.

(b) Companies Covered by the Order: The Order applies to all companies except certain categories of companies specifically exempted from the application of the Order.

The Order also applies to foreign companies as defined in section 591 of the Act. According to
sub-section (1) of the aforesaid section, companies falling under the following two classes are construed as foreign companies:

a. companies incorporated outside India which, after the commencement of the Act, establish a place of business within India; and
b. companies incorporated outside India which have, before the commencement of the Act, established a place of business within India and continue to have an established place of business within India at the commencement of the Act.

In respect of foreign companies, an established place of business in India would include a liaison office.

The Order is also applicable to the audits of branch(es) of a company under the Act since subsection 3(a) of section 228 of the Act clearly specifies that a branch auditor has the same duties in respect of audit as the company's auditor. It is, therefore, necessary that the report submitted by the branch auditor contains a statement on all the matters specified in the Order, except where the company is exempt from the applicability of the Order, to enable the company's auditor to consider the same while complying with the provisions of the Order.

Companies not Covered by the Order: Paragraph 2 of the Order provides that it shall not apply to:

i. a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);

ii. an insurance company as defined in clause (21) of section 2 of the Companies Act, 1956 (1 of 1956);

iii. a company licensed to operate under section 25 of the Companies Act, 1956 (1 of 1956);and

iv. a private limited company with a paid-up capital and reserves not more than rupees fifty lakh and which does not have outstanding loan exceeding rupees twenty five lakhs from any bank or financial institution and does not have a turnover exceeding rupees five Crores at any point of time during the financial year.

PRIME ACADEMY

30th SESSION PROGRESS TEST

CORPORATE AND ALLIED LAWS

No. of Pages: 7 **Total Marks: 75**

Time Allowed: 2Hrs

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

1) Which section of the Companies Act, 1956 defines an Executive Director?
   a) Sec 2(13)
   b) Sec 370(4)
   c) Sec 2(31)
   d) None
2) Appointment of which of the following directors is forbidden by law now?
   a) Inside Director
   b) Special Director
   c) Whole time Director
   d) Part time Director
3) What is the duration of a Govt. Director appointed under section 408 of the Companies Act,1956?
   a) One year
   b) Two years
   c) Not exceeding three years
   d) 5 years
4) Mr. Suresh Verma is a founder member of XYZ Ltd. Though he is not in the Board, he gives commands on certain important matters occasionally. Can he be considered as a deemed director?
   a) Yes
   b) No
   c) May be
   d) May not be

5) Which of the following statements about an Audit Committee is incorrect?
   a) Every public company having paid up capital of not less than Rs. 5 crore shall constitute an Audit Committee.
   b) 2/3 rd of total number of members of an Audit Committee shall be directors other than the Managing Director or Whole Time Director.
   c) Annual report of the company shall disclose the composition of Audit Committee.
   d) Audit Committee shall consist of not less than 2 directors.

6) The Articles of Association of PKR Ltd specifies that “a director must obtain and possess qualification shares of 10 in number within 75 days of his appointment”. Accordingly Mr.Ramalinga who was appointed on 1.1.2009 as a director acquired 5 shares on 15.2.2009 and remaining 5 shares on 15.3.2009. Can it be construed that he had fulfilled the requirements with regard to holding of qualification shares?
   a) NO
   b) Yes
   c) May be
   d) May not be

7) According to Articles of Association of M/s. Jokes Ltd. A director should possess 10 numbers of shares as his qualification share. Mr.V.Mani on 60th day of his appointment was possessing 5 Equity Shares of Rs.10/- each, 3 Preference Shares of Rs.100/- each and 2 share warrants issued by the Company. What is the legal status with regard to the qualification shares?

   a) He has fulfilled the requirements of Sec.270
   b) He has not fulfilled
   c) He has partly fulfilled
   d) None of these

8) To which type of directors listed below, the disqualifications prescribed under Section 274 of the Companies Act, 1956 does not apply?
   a) Whole Time Director
   b) Nominee Director

c) Inside Director

d) Professional Director

9) Mr.Amit Kumar born on 10.10.1999 wants to become a director of ABC Pvt. Ltd. Can he be appointed as a director?

a) Yes

b) No

c) Yes, only on attaining the age of majority

d) Yes, but should be represented by a guardian

10) Under (appointment of Small Shareholders Director) Rules 2001, a Small Shareholder is one who holds shares of nominal value of

a) Less than Rs.5000/-

b) Less than Rs.20000/-

c) Less than Rs.1000/-

d) Less than Rs.100000/-

11) Mr. Gurupreeth was appointed as a director of XYZ Ltd. In the Annual General Meeting thereby the number of directors has rose to 13. For this appointment, an Ordinary Resolution was passed in the AGM. What is the legal status of this appointment?

a) Valid

b) Void

c) Can be ratified with a special resolution

d) None of these

12) PQR and Friends, a firm of Post Graduates in different fields of Business Administration from a reputed business school at Bangalore, extends professional advice to the Board of ABC Ltd. Shares are allotted to them as consideration for this service. Since all the members hold shares more than the qualification shares prescribed for directors in the Articles of Association of the Company, the Board of ABC Ltd. Wants to appoint PQR as their professional director. What is the course of action needed for this appointment?

a) Convene an Extra Ordinary General Meeting exclusively for this purpose.

b) Pass a Special Resolution in the Annual General Meeting.

c) File the consent letters of all the partners of PQR and Friends with Registrar.

d) None of these.

13) XYZ Ltd. Appoints Mr.Ramesh as its Executive Director in its 33rd AGM. At that time Mr.Ramesh was already holding directorship in 15 public companies. If the appointment has to take effect, he has to give up directorship of one of those 15 companies as per Sec.277 of the Companies Act, 1956. Within how many days of his appointment he should do so?

a) One month

b) 2 months

c) 15 days

d) 3 months

14) Mr. X is a director in 20 public companies out of which 2 are Sec.25 companies. In one company he is an alternate director and in another company he is a small shareholders' director and all other companies are Public Limited companies. Now, he has been offered directorship of RVN Ltd. How many companies' directorship should be given up by him to take up the appointment in RVN Ltd and make it effective?

a) 1

b) 2

c) 3

d) 4

15) Mr. Y was a director of PQR Ltd. Due to ill-health, he resigned the post with effect from 1.4.2009. Since the number of directors had gone below 6 (as per the Articles of Association of the company a minimum of 6 directors should be in office) the Board had decided to appoint Mr.Chota Y, son of Mr.Y as a director. Explain the course of action needed now.

a) Pass a circular resolution

b) Wait till the next AGM

c) Call for an EGM

d) Pass a Resolution in the next Board Meeting.

16) Which of the following statements about an Alternate Director is correct?

a) He is an agent of the original director
b) He is a representative of the original director
c) He is a director in his own right
d) Provisions of Sec. 297 and Sec.299 of interested contract shall not apply to him.

17) Mr.Y is due for retirement by rotation on 1.4.1999 when the AGM is to take place. But due to delay in finalization of accounts, with the permission of Central Govt., the AGM was postponed to 1.7.2009. What is the status of Mr.Y in such a situation?

a) He can continue to be a director till 1.7.2009
b) He cannot continue after 1.4.2009
c) He can seek extension from Central Govt.
d) His tenure can be extended by Board through a Resolution at Board Meeting.

18) Which of the following statements is /are true about the removal of a director before the expiry of his period of office by company?

1) Special Resolution can be passed in a General Meeting.
2) If calling of General Meeting is avoided wantedly by the director to be removed then Central Govt. can call the meeting.
3) Shareholders themselves can remove him

(a) Only 1 is correct
(b) Only 1 and 2 are correct
(c) Only 2 and 3 are correct
(d) All are correct

19) Which of the following statements about DIN is incorrect?

a) It is optional for existing directors
b) Sec. 266 A to 266 G of the Companies (Amendment) Act, 2006 deal with DIN
c) Every individual who is intending to be a director shall make an application electronically to Central Govt.
d) Filing of DIN details vide form DIN3 by a company is not required for directors appointed on or after 1.7.2007

20) Mr.X has absented himself from a Board Meeting of ABC Ltd. held on1.7.2009. Since he has not attended 3 consecutive Board Meetings, he was disqualified to act as a director under Section 274 of the Companies Act, 1956. But, he argues that the he did not receive notice for any of the board meetings held in the past at his usual address and hence he could not attend the meetings. What is the legal status of his plea?

a) Is tenable

b) Is not tenable

c) Is tenable if no other director had attended those meetings.

d) Is not tenable only if dates of Board Meeting are already mentioned in the Articles of Association of the company.

21) To which of the following businesses a Resolution of Circulation can be made?

a) Approval of draft advertisement

b) Filling of a casual vacancy occurring in the Board

c) Making a political contribution

d) None of these

22) Which of the following businesses is to be done only at a Board meeting?

a) Make a loan

b) Appointment of auditors

c) Retirement of a director by rotation

d) Removal of a director before the end of this normal tenure

23) Which of the following powers of directors are required to be exercised only by passing a resolution at a Board meeting with the consent of all the directors present and entitled to vote?

a) Appointment of Company Secretary

b) Making a loan beyond the limit prescribed in the Articles of Association

c) Making of loans to other bodies corporate

d) Issue of debentures.

24) Which of the following transactions with interested parties attract the provisions of Sec.297?

a) Sale, Purchase or supply of goods, materials or services.

b) Purchase of goods for cash at prevailing market price

c) Ordinary course of business carried out by a banking company

d) Sale/purchase of goods in which company or interested parties ordinarily deals in but value of which does not exceed Rs.5000/-

25) Which of the following is ensured by an Audit Committee?

a) Better internal audit

b) Corporate governance

c) Management by objectives

d) Effective statutory audit

PART - B

Answer **any Five** **5 X 10 = 50 Marks**

1) What is a Casual Vacancy? Explain the provisions of the Companies Act, 1956 with respect to filling of a Casual Vacancy in the office of a director?
2) Narrate the provisions of the Companies Act, 1956 with respect to removal of a director by shareholders.
3) What is DIN. What are the provisions introduced by the Companies (Amendment) Act, 2006 in connection with DIN? Elaborate with specific reference to DIN of Non Residents Directors?
4) What are the powers of Board to be exercised only at Board meetings?
5) What is an Audit Committee? What is its role? What is the penalty likely to be attracted by a Company for not constituting an Audit Committee?
6) Explain the powers of a company to contribute funds towards
   a) Political parties
   b) National Defence Fund

PRIME ACADEMY

30th SESSION– PROGRESS TEST

FINAL – CORPORATE AND ALLIED LAWS

SUGGESTED ANSWERS

Part- A

Question No.	Answer	Question No.	Answer
1	D	16	C
2	B	17	B
3	C	18	C
4	B	19	A
5	D	20	D
6	A	21	D
7	B	22	A
8	B	23	C
9	A	24	A
10	B	25	B
11	B		
12	D		
13	C		
14	B		
15	D		

Part- B

1. **Casual Vacancy in the office of directors:**
    1. Casual vacancy means the vacancy created in the office of director who has been appointed by shareholders in General Meeting, before the expiry of his tenure of office. It may be due to death, resignation, disqualification, removal or for any other reasons. **<u>(sec.262)</u>**
    2. In default of Articles of Association, Board may fill the casual vacancy at a Board Meeting. (only at a board meeting).
    3. However, if Articles of Association contains condition for filling up of casual vacancies then the same are also to be followed.
    4. Casual vacancy cannot be filled by passing a circular resolution.
    5. The newly appointed director shall hold office up to the date till which his predecessor would have held office had he not vacated the same.
    6. The above shall apply only to directors appointed in a general meeting and not to a director appointed against a casual vacancy.
    7. Central Govt. has stated that casual vacancies can be filled in at any number of times.
    8. It is not obligatory on the part of the company to fill a casual vacancy.
    9. When a director, who has been appointed in a general meeting, does not assume office then it will not be considered as a casual vacancy.

2. **Removal of a director by shareholders:**

    Sec. 284 read with Sec. 190

    Company can remove a director before the expiry of his tenure of office by passing a resolution at General Meeting.

    If director try to avoid their removal by not calling for a meeting or by not attending it to create a situation of no quorum then Court or Central Govt. may call for the meeting. [Re. Elsanbrero Ltd.]

    Alternatively shareholders have every right to hold a meeting to remove an existing director and place new ones. **<u>[LIC Vs. Escorts ltd.]</u>**

The procedure for removal of a director:

1. A special notice shall be served on the company at least 14 days before the meeting by the shareholders.
2. I f no notice is given then resolution passed to remove a director will be invalid.
3. The director concerned can present his case at the meeting. He can also make a representation in writing.
4. Company shall send a copy of representation to every member thereof.
5. If the representation could not be forwarded due to its late receipt then the same may be read out in the meeting with the consent of the concerned director.
6. He enjoys qualified privilege (Sec. 284). He cannot be sued for defamation based on the representation.
7. The Central Govt. may permit non-circulation or reading out of the representation, if it is felt that the director is trying to obtain needless publicity through the representation.
8. Removed director shall be eligible for compensation for loss of office or damage.
9. Vacancy arising out of such removal can be filled in the same meeting provided notice is given in that behalf.
10. If not, the vacancy may be filled up as a casual vacancy u/s 262.
11. Director removed cannot be re-appointed in such casual vacancy.

Exception to Sec. 284

The following persons cannot be removed by shareholders under the powers of Sec. 284.

1. Private companies in which a director is holding office for life as on 1st day of Apr.1952.
2. A Company that has adopted the principle of proportional representation for appointing its director u/s 265.
3. Nominee directors of Govt. , Financial Institution, etc.
4. Govt. Director u/s 408

3. Director Identification Number:

1. This concept was introduced by the insertion of Sections 266 A to 266 G to the Companies (Amendment) Act, 2006.
2. All existing and intending directors have to obtain DIN.

3. This is the number which Central Govt. may allot to any individual for the purpose of identification.

Procedure for obtaining DIN

1. The application has to be made electronically by intending/ existing director in form DIB-1 using the module available at Ministry of Company Affairs official web site.
2. On submission of application, a provisional DIN will be allotted by the module.
3. On obtaining provisional number, the director have to submit physical forms along with Photographs, proof of age and address duly attested, payment service number to MCA's DIN cell at Noida by post within 60 days.
4. MCA's DIN cell shall on scrutiny the application may allot a permanent DIN or reject the same quoting proper reasons for such rejection.
5. The director should intimate the DIN to all companies in which he holds directorship within 1 month of receipt of the same. (form DIN-2)
6. Company in turn shall furnish the same to the Registrar (form DIN-3)
7. But the above is not required for director appointed on or after 1.7.2007.
8. Any change in particulars presented are to be intimated to Central Govt. by the director in DIN-4. Also he shall inform the companies in which he is a director.
9. Requisite Payment has to be made by cheque or online using payment gateway.

4. Powers to be exercised by Board only at the Board meeting: (Sec. 292)

Boards of directors are the agent of shareholders. Since the shareholders cannot take part in the day to day affairs of a company, Board of directors are elected and appointed by them to manage the affairs of the company on their behalf. Company Law, has conferred a number of powers which directors can exercise for the proper management of a company. They may be individual powers and collective powers which are to be exercised only after being approved by majority of directors.

The following are the powers which can be exercised by Board only at the Board meeting:

a. Power to make calls on shareholders in respect of money unpaid on their shares.

b. Power to authorize buy-back u/s 77A.
c. Power to issue debentures.
d. Power of borrow money otherwise than on debentures.
e. Power to invest funds of the company.
f. Power to make loans.

Powers mentioned from (d) to (f) may be delegated to any Committee, MD, Manager, Principal Officer, Principal branch officer etc.

1. The powers shall not apply to acceptance of deposits from public by a banking company in the ordinary course of its business.
2. Power to issue debentures shall not apply to borrowings by a banking company from other banking companies.
3. The section is not applicable to operation on OD, CC or On account by means of which ordinary business is carried out.

Additionally, following powers are also to be exercised only at a board meeting:

1. Filling of casual vacancy (sec. 262)
2. Extending sanction or consent to a contract with any director (Sec. 297)
3. Contribution to political fund (Sec. 293A)
4. Receive notice of discloser of interest. (Sec. 299)
5. Receive notice disclosure of shareholding of director (Sec. 307 and 308)
6. Appoint a person as MD who is already a MD or Manager of another company (sec. 316)
7. Appoint a person as Manager who is already a Manager or MD of another company (Sec. 386)
8. Sanction investment in group company (Sec. 372 A)
9. Declare insolvency in voluntary winding up (sec. 488)

5. Every public company having paid-up capital of not less than Rs. 5 crores shall constitute a Committee of the Board know as "Audit Committee" (Sec. 292 A)

Constitution of the Committee:

1. It shall consist not less than 3 directors.

2. 2/3 rds of the total number of members of the Committee shall be directors other than Managing Director or Whole-time Director.
3. Annual Report of the company shall disclose the composition of the audit Committee.
4. Chairman of the committee shall be elected by the member of the Committee among themselves.
5. The Chairman shall attend the AGM of the company to provide any clarification on matters relating to audit.
6. The auditors, the internal auditors, if any and the director-in-charge of finance shall attend and participate at meeting of the Audit Committee but shall have to right to vote.

Term of Reference:

Every Audit Committee constituted under sub-sec (1) shall act in accordance with terms of reference to be specified in writing by the Board.

Role played by the Committee:

1. It shall have discussion with the auditors periodically about
   i) Internal control system
   ii) The scope of audit including the observations of the auditors and
2. Review the half-year and annual financial statements before submission to the Board.
3. The audit committee shall also ensure compliance of internal control systems.
4. The Audit Committee shall have authority to investigate into any matter in relation to the items specified in this section or referred to it by the Board.
5. It shall have full access to information contained in the records of the company and extend professional advice, if necessary.
6. Recommendations of the Audit Committee with respect to any financial matters including the audit report shall be binding on the Board.
7. If the Board does not accept the recommendations of the Committee, it shall record the reasons therefore and communicate such reasons to the shareholders.

6. **Penalty for default:**

If a default is make in complying with the provisions of Sec. 292 A, the Company and every officer who is in default shall be punishable with imprisonment for a term which may extend to one year, or with fine which may extend to fifty thousand rupees, or with both.

a. Political parties
b. National Defence Fund

a) Political Contribution Sec. 293 (A)

Political contribution means contribution of any amount or amounts, directly or indirectly

1. to any political party
2. to any person for any political purpose

The following are examples of political contribution:

a. Donation/Subscriptions/Payment given by a company on its behalf to a person who is believed to be carrying any activity which can reasonably be regarded to effect public support for a political party.
b. The amount of expenditure incurred, directly or indirectly by a company on advertisement in any publication by or on behalf of a political party or for its advantage.

The following companies cannot make political contribution:

a. Govt. Companies
b. Companies in existence for less than 3 years
c. Producer companies

Amount of contribution:

The total amount of contribution in a year should not exceed 5% of average net profit during 3 financial years proceeding the current financial year.

Procedure for making political contribution:

1. Resolution to be passed at a Board meeting.
2. Proper disclosure to be made in its P&L A/c about the amount contributed to any political party or to any person for political purpose.
3. Name of the party or person to whom the contribution was made are to be disclosed along with the amount.

Penal provisions:

Contravention of provision of sec. 293 A is punishable with fine that may extend to 3 times of the amount contributed.

Every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to 3 years and also liable to fine.

b) Contribution to National Defence Fund (Sec. 293 B)

Any amount can be contributed by a company towards National Defence Fund or any other fund approved by Central Govt. for the purpose of National Defence.

Proper disclosure has to be made in P&L A/c about such contribution.

A resolution has to be passed in a Board meeting enabling such contribution.