

PRIME ACADEMY
31ST SESSION PROGRESS TEST – FINANCIAL REPORTING

No. of Pages: 2

Total Marks: 75
Time Allowed: 2Hrs
25 Marks

PART - A

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 State bank of India, received a gross Rs 1500 crores demand deposits from customers withdrawn Rs 1300 of demand deposit during the financial year 2007-08.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?
- 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

1. A Ltd purchased 1,00,000 MT for Rs 100 each MT of raw material and introduced in the production process to get 85,000 MT as output. Normal wastage is 5%. In the process company incurred the following expenses:
- | | |
|--|---------------|
| Direct Labour | Rs. 10,00,000 |
| Direct Variable overheads | Rs. 1,00,000 |
| Direct Fixed overheads (Including interest Rs. 40,625) | Rs. 1,00,000 |
- Of the above 80,000 MT was sold during the year and remaining 5,000 MT remained in closing stock. Due to fall in demand in market the selling price for the finished goods on the closing day was estimated to be Rs 105 per MT. Calculate the value of closing stock.
(5 Marks)

2. From the following summary cash account of X Ltd, prepare Cash Flow Statement for the year ended 31st March 2010 in accordance with the AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2010

	Rs. '000		Rs. '000
Balance on 1.4.2009	50	Payment to suppliers	2,000
Issue of Equity shares	300	Purchase of Fixed assets	200
Receipts from customers	2,800	Overhead expenses	200
Sale of Fixed Assets	100	Wages and salaries	100
		Taxation	250
		Dividend	50
		Repayment of loan	300
		Balance as on 31.3.2010	150
	3250		3250

(5 Marks)

3. On 1.1.2009, VC Co Ltd, undertook a contract to construct a building for Rs.85 lakhs On 31.3.2010 the company found that it had already spent Rs.64.99 Lakhs on the construction. Prudent estimate of additional cost for completion was Rs.32.01 Lakhs. What amount should be charged to revenue in the final accounts for the year ended 31.3.2010 as per the provisions of AS 7?
(5 Marks)
4. SCL Ltd sells agriculture products to dealers. One of the condition of sale is that interest is payable at the rate of 2% p m for delayed payments. Percentage of interest recovery is only 10% on such overdue outstanding due to various reasons. During the year 2009-10 the company wants to recognize the entire interest receivable. Do you agree?
(5 Marks)
5. Mr. A bought a forward contract for three months of US \$ 1,00,000 on 1st December at 1 US \$ = Rs.47.10 when exchange rate was 1 US \$ = Rs.47.02. On 31st December when he closed his books exchanged rate was 1 US \$ = Rs.47.15. On 31st January, he decided to sell the contract at Rs47.18 per dollar. Show how the profits from contract will be recognized in the books.
(5 Marks)
6. Describe the conditions required for amalgamation in the nature of merger? (5 Marks)

7. Prepare the consolidated Balance sheet as on 31.12.2006 of group of companies A Ltd, B Ltd, C Ltd. Their Balance Sheet on that date are given below:

Liabilities:	Rs	Rs	Rs
	A Ltd	B Ltd	C Ltd
Share Capital (Rs 100 each)	1,25,000	1,00,000	60,000
Reserves	18,000	10,000	7,200
Profit and Loss account	16,000	4,000	5,000
Sundry Creditors	7,000	3,000	
A Ltd		7,000	
C Ltd	3,300		
Total	1,69,300	1,24,000	72,200

Assets	Rs	Rs	Rs
	A Ltd	B Ltd	C Ltd
Fixed Assets	28,000	55,000	37,400
Investment in shares			
B Ltd	85,000		
C Ltd		53,000	
Stocks	22,000	6,000	
B Ltd	8,000		
Debtors	26,300	10,000	31,500
A Ltd			3,300
Total	1,69,300	1,24,000	72,200

Other information:

- (i) A Ltd holds 750 shares in B Ltd and B Ltd holds 400 shares in C Ltd These holdings were acquired on 30th June, 2006
- (ii) On 1st Jan 2006 the following balances stood in the books of B Ltd and C Ltd.

	Rs	Rs
	B Ltd	C Ltd
Reserves	8,000	6,000
Profit and loss account	1,000	1,000

- (iii) C Ltd, sold goods costing Rs.2,500 to B Ltd for Rs.3,100. These goods still remain unsold. (20 Marks)

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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. Cost of Purchase (1,00,000 x 100) | Rs.1,00,00,000 |
| Direct Labour | Rs.10, 00,000 |
| Variable overhead | Rs.1, 00,000 |
| Fixed overhead (100000-40625) x 85000/95000 | Rs.53125 |
| Total Cost of Production | Rs.1, 11, 53,125 |
| Cost of closing stock per unit (1, 11, 53,125 / 85000) | Rs.131 |
| Net Realisable value | Rs.105. |
- Since the net realisable value is less than cost, closing stock will be valued at Rs.105.
Therefore closing stock is Rs.5, 25,000 (5000x105)

2. Cash flow statement of X Ltd for the year ended 31st March 2010 (Direct Method)
- | | Rs in 000 | Rs in 000 |
|---|-----------|-----------|
| Cash flows from operating activities | | |
| Cash receipts from customers | 2,800 | |
| Cash payment to suppliers | (2,000) | |
| Cash paid to employees | (100) | |
| Cash payment for overheads | (200) | |
| Cash generated from operations | 500 | |
| Income tax paid | (250) | |
| Net Cash from operating activities | 250 | 250 |
| Cash flow from investing activities | | |
| Payments for purchase of fixed assets | (200) | |
| Proceeds from sale of fixed assets | 100 | |
| Net cash used in investing activities | (100) | 100 |
| Cash flow from financing activities | | |
| Proceeds from issuance of equity shares | 300 | |
| Bank loan repaid | (300) | |
| Dividend paid | (50) | |
| Net cash used in financing activities | (50) | (50) |
| Net increase in cash | | 100 |
| Cash at the beginning of the period | | 50 |
| Cash at the end of the period | | 150 |

- | | |
|--|-------------------|
| 3. | Rs |
| Cost incurred till 31 st March 2010 | 64,99,000 |
| Prudent estimate of additional cost for completion | <u>32, 01,000</u> |
| Total cost of construction | 97, 00,000 |
| Less: Contract price | <u>85, 00,000</u> |
| Total foreseeable loss | <u>12, 00,000</u> |

According to Para 35 of AS 7 (Revised 2002), the amount of Rs.12, 00,000 is required to be recognized as an expenses.

Contract work in progress = Rs (64,99,000 x 100)/9700000 = 67%

Proportion of total contract value recognized as turnover as per Para 21 of AS 7 on construction contracts is 67% of Rs.85 Lakhs = Rs.56.95 Lakhs.

4. As per Para 9.2 of AS 9 on Revenue Recognition, where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g. for

escalation of price, export incentives, interest etc, revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognize revenue only when it is unreasonably certain that the ultimate collection will be made. Where there is no uncertainty as to ultimate collection, revenue is recognized at the time of sale or rendering of service even though payments are made in installments.

Thus, SCL Ltd cannot recognize the interest amount unless the company actually receives it. 10% rate of recovery on overdue outstanding is also an estimate and is not certain. Hence the company is advised to recognize interest receivable only on receipt basis.

5. Since the forward contract was for speculation purpose the premium on contract i.e. the difference between the spot rate and contract rate will not be recorded in the books. Only when the contract is sold the difference between the contract rate and sale rate will be recorded in the Profit and Loss Account.

Sale Rate	Rs.47.18
Less: Contract rate	Rs.47.10
Premium on contract	Rs.00.08
Contract Amount	US\$100000
Total Profit (100000x0.08)	Rs.8000

6. The conditions required to be satisfied for amalgamation in the nature of merger is
- All the assets and liabilities of the transferor company become, after amalgamation become the assets and liabilities of the transferee company.
 - Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.
 - The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except cash which may be paid in respect of any fractional shares.
 - The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company
 - No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

7. Working Notes:
Analysis of profits:
C Ltd

	Capital profit Rs	Revenue Reserve Rs	Revenue Profit Rs
Reserve as on 1.1.2006	6000		
Additional reserve created in 2006	600	600	
Profit and loss account balance on 1.1.2006	1000		
Profit for 2006	2000		2000
	<hr/>	<hr/>	<hr/>
	9600	600	2000
Due to outsiders – 1/3	3200	200	667
Share of B Ltd – 2/3	<hr/>	<hr/>	<hr/>
	6400	400	1333

B Ltd			
From C Ltd	6400	400	1333
Reserve on 1.1.2006	8000		
Additional reserve created in 2006	1000	1000	
Profit and loss account:-			
Balance on 1.1.2006	1000		
Profit during 2006	1500		1500
	<hr/>	<hr/>	<hr/>
	17900	1400	2833
Due to outsiders – ¼	4475	350	708
Share of A Ltd	<hr/>	<hr/>	<hr/>
	13425	1050	2125
A Ltd		18000	16000
			18125
Less: Stock Reserve			600
		<hr/>	<hr/>
		19050	17525

Notes:

During 2006 Rs.1200 has been added to the Reserves of C Ltd and Rs.2000 to the reserves of B Ltd. The profit must have been earned during the whole of the year, hence half of these figures (i.e. up to 30.6.2006) must be considered as capital pre-acquisition and the remaining revenue.

Total unrealized profit is Rs.600 i.e. Rs.3100 less Rs.2500

Minority Interest:

	B Ltd (Rs)	C Ltd (Rs)
Share capital	25000	20000
Share of capital profits	4475	3200
Share of Revenue Reserves	350	200
Share of Revenue Profits	708	667
Total	<hr/>	<hr/>
	30533	24067
Grand Total		54600
Cost of control		
Amount Paid		
A Ltd	85000	
B Ltd	<hr/>	138000
Less: Par value of shares in		
B Ltd	75000	
C Ltd	40000	
Capital profits	<hr/>	128425
Cost of control/Goodwill		9575

Since X Ltd shows Rs.8000 against B Ltd whereas B Ltd shows only Rs.7000 in favour of A Ltd., it must be assumed that B Ltd has remitted Rs.1000 to A Ltd not yet received by A Ltd. The amount is in transit.

If capital profit is increased by Rs.1600 cost of control will be Rs.7975.

Consolidated Balance Sheet of A Ltd and its subsidiaries B Ltd and C Ltd as on 31.12.06

Liabilities	Rs	Assets	Rs
Share capital (Rs100 each)	125000	Goodwill	9575
Reserves	19050	Fixed Assets	120400
Profit and Loss account	17525	Stock	28000
Sundry Creditors	10000	Less: Reserve	600
Minority Interest	54600	Debtors	67800
		Cash in Transit	1000
Total	<hr/>	Total	<hr/>
	226175		226175

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31ST SESSION PROGRESS TEST – STRATEGIC FINANCIAL MANAGEMENT

No. of Pages: 3

Total Marks: 75
Time Allowed: 2Hrs
25 x 1 = 25 Marks

PART - A

1. A direct quote expresses the exchange rate in terms of
 - a) Home currency per Unit of foreign currency
 - b) Foreign currency per unit of home currency
 - c) Number of foreign currencies required
 - d) Foreign currency

2. Bid price means
 - a) "Price at which a dealer will be willing to buy foreign currency"
 - b) Price at which a dealer will be willing to sell foreign currency
 - c) Price at which a custom will be selling home currency
 - d) None of the above

3. The difference between the bank's buying rate and the bank's selling rate is called as
 - a) Bid-Rate
 - b) Ask-Rate
 - c) Spread
 - d) Exchange Rate

4. In a direct quote if the forward rate is less than the spot rate,
 - a) Home currency is depreciating
 - b) The foreign currency is appreciating
 - c) The foreign currency is depreciating and the home currency is Appreciating
 - d) The foreign currency is appreciating and home currency is depreciating

5. Spot rate = 1.4468 Euro = 1 Pound, One month forward = 1.4456 Euro = 1 Pound which of the following statement is true?
 - a) Pound is appreciating and more expensive
 - b) Euro is appreciating and more expensive
 - c) Both are appreciating.
 - d) Both are depreciating

6. R.A. Ltd has earnings of Rs.12 per share for the year ending 31-03-10. The dividend payout is 75%. A multiplier of 7 is considered reasonable under current market conditions. What is the likely market price under Graham & Dodd Model?
 - a) 91
 - b) 75
 - c) 63
 - d) 84

7. Sundar Ltd. has 10lakh equity shares. Current market price is Rs.400. The company wants to buy back 1lakh shares. What should be the buy back price per share?
 - a) 400
 - b) 395
 - c) 444
 - d) 474

8. The right tail in T value diagram represents
 - a) Positive value
 - b) Negative value
 - c) Mid point (0.5)
 - d) '0' Value

9. Which of the following cash flows carries more risk
 - a) Perfectly correlated cash flows
 - b) Less perfectly correlated cash flows
 - c) Normal cash flows
 - d) Independent cash flows

10. The formula for standard deviation is
 - a) $\sqrt{\text{Variance}}$
 - b) $X - X / 2$
 - c) 1 + Risk premium
 - d) 1 + Base discount rate

11. Certainty equivalent factor (CEF) is
 - a) the ratio of assured (or certain) cash flows to uncertain cash flows
 - b) discount rate
 - c) uncertain flow
 - d) net present value

12. Expected value means
 - a) Simple average of possible values
 - b) Probability distribution
 - c) Chances of outcome
 - d) Uncertain cash flows

13. Sensitivity analysis measures the percentage
 - a) Change in cash flow
 - b) Change in product life
 - c) Change in input parameter, which leads to a reversal of an investment decision
 - d) Change in investment cost

14. Gordon's model doesn't work if the growth rate turns out to be greater than cost of equity
 - a) True
 - b) False
 - c) Partly true
 - d) None of the above

15. Graham Dodd model assumes that the
 - a) investors are irrational
 - b) investors are rational
 - c) investors are not risk average
 - d) investors are uncertain

16. The Modigliani-Miller model presumes
 - a) Perfect market
 - b) No corporate or personal taxes
 - c) No rate of uncertainty
 - d) All of the above

17. Stock split represents
 - a) Splitting of the inventory into various categories
 - b) Grading of the stock
 - c) Reduction in face value of shares
 - d) Consideration of shares

18. Consider the following EURO / USD direct quote: 0.7525-0.7550. What is the cost of buying Euro 1,25,000?
 - a) \$ 1,66,113
 - b) \$ 1,25,113
 - c) \$ 1,32,890
 - d) \$ 1,65,894

19. Consider the following EURO / USD direct quote: 0.7525-0.7550. How much \$s would you receive if 50,000 Euros are sold?
 - a) 65,225
 - b) 66,225
 - c) 65,113
 - d) 64,750

20. Consider the following EURO / USD direct quote: 0.7525-0.7550. What is the cost of buying USD 80000?
 - a) € 36,750
 - b) € 37,750
 - c) € 45,150
 - d) € 60,400

21. Consider the following EURO / USD direct quote: 0.7525-0.7550. What is your receipt if you sell USD 60000?
 - a) € 45,300
 - b) € 37,750
 - c) € 45,150
 - d) € 66,113

22. A company has a book value per share of Rs.137.80. It's return on equity is 15% and it follows a policy of retaining 60 % of its earnings. If the opportunity cost of capital is 18 % what is the growth rate using Gordon's Model?
 - a) 10%
 - b) 9%
 - c) 10.8 %
 - d) 18%

23. In problem no.22 what will be the price of share today using Gordon's Model?
 - a) 137.80
 - b) 162.60
 - c) 158.47
 - d) 91.89

24. In problem no.22 what will be the dividend after a year using Gordon's Model?
 - a) 7.80
 - b) 2.60
 - c) 15.47
 - d) 8.27

25. Dheena Ltd's stock trade at Rs.90 per share. The company is contemplating a 3 for 2 split. What will be the stock price post split?
 - a) 135
 - b) 90
 - c) 60
 - d) None of the above

PART - B

1. On 30th June 2009 when a forward contract matured for execution you are asked by an importer customer to extend the validity of the forward sale contract for US\$ 10,000 for a further period of three months.

Contracted Rate US\$1 = Rs.41.87

The US Dollar quoted on 30.6.2009

Spot Rs.40.4800/Rs.40.4900

Premium July 0.1100/0.1300

Premium August 0.2300/0.2500

Premium September 0.3500/0.3750

Calculate the cost for your customer in respect of the extension of the forward contract. Rupee values to be rounded off to the nearest Rupee.

Margin 0.080% for Buying Rate

Margin 0.25% for Selling Rate

(10 Marks)

2. MCL Technologies is evaluating new software for ERP. The software will have a 3-year life and cost €1,000 thousands. Its impact on cash flows is subject to risk. Management estimates that there is a 50-50 chance that the software will either save the company €1,000 thousands in the first year or save it nothing at all. If nothing at all, savings in the last 2 years would be zero. Even worse, in the second year an additional outlay of €300 thousands may be required to convert back to the original process, for the new software may result in less efficiency. Management attaches a 40 percent probability to this occurrence, given the fact that the new software “failed” in the first year. If the software proves itself, second-year cash flows may be € 1,800 thousands, €1,400 thousands, or €1,000 thousands, with probabilities of 0.20, 0.60, and 0.20, respectively. In the third year, cash, inflows are expected to be €200 thousands greater or €200 thousands less than the cash flow in period 2, with an equal chance of occurrence. (Again, these cash flows depend on the cash flow in period 1 being €1,000 thousands.) All the cash flows are after taxes.

a) Set up a probability tree to depict the foregoing cash-flow possibilities.

b) Calculate a net present value for each three-year possibility, using a risk-free rate of 5 percent.

c) What is the risk of the project?

(16 Marks)

3. Sahu and company earns Rs.6 per share having capitalization rate of 10% and has a return on investment at the rate of 20%. According to Walter’s model, what should be the price per share at 30% dividend payout ratio? Is this the optimum payout ratio as per Walter? (4 Marks)

4. X ltd has 25000 equity shares outstanding at the beginning of the year. The current market price is Rs.100 and the directors have recommended a dividend of Rs.5 per share. The appropriate capitalization rate is 10%.

Applying MM model calculate the market price of the share when the recommended dividend is (i) declared and (ii) not declared. The investment budget is Rs.5lakhs and the anticipated profits are Rs.2.5lakhs, compute how many new shares have to be issued if dividends are declared and if dividends are not declared.

Show that the declaration or non- declaration of dividends does not change the market price.

(10 Marks)

5. Following information relates to AKC Ltd. which manufactures some parts of an electronics device which are exported to USA, Japan and Europe on 90 days credit terms.

Cost and Sales information:

	Japan	USA	Europe
Variable cost per unit	Rs.225	Rs.395	Rs.510
Export sale price per unit	Yen 650	US\$ 10.23	Euro 11.99
Receipts from sale due in 90 days	Yen 78,00,000	US\$ 1,02,300	Euro 95,920

Foreign Exchange rate information:

	Yen/Rs.	US\$/Rs.	Euro/Rs.
Spot market	2.417-2.437	0.0214-0.0217	0.0177-0.0180
3 Months forward	2.397-2.427	0.0213-0.0216	0.0176-0.0178
3 Months spot	2.423-2.459	0.02144-0.02156	0.0177-0.0179

Advice AKC Ltd. by calculating average contribution to sales ratio whether it should hedge it’s foreign currency risk or not. (10 Marks)

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SUGGESTED ANSWERS

PART A

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

PART - B

1. This extension of forward Contract involves following steps
 (i) Cancel the contract at TT buying rate.
 (ii) Rebook the contract for three months at the current rate of exchange.
 Accordingly

Step 1: Cancel the contract at TT buying rate on 30.6.2009

Spot US\$ 1	Rs. 40.4800
Less: Margin 0.080%	<u>0.0324</u>
	<u>40.4476</u>

Hence TT buying rate Rs.40.45 (Rounded off)

US\$ 10,000 @ Rs.40.45	Rs.4,04,500/-
US\$ 10,000 @ Rs.41.87	Rs.4,18,700/-
Difference in favour of the bank	Rs. 14,200/-

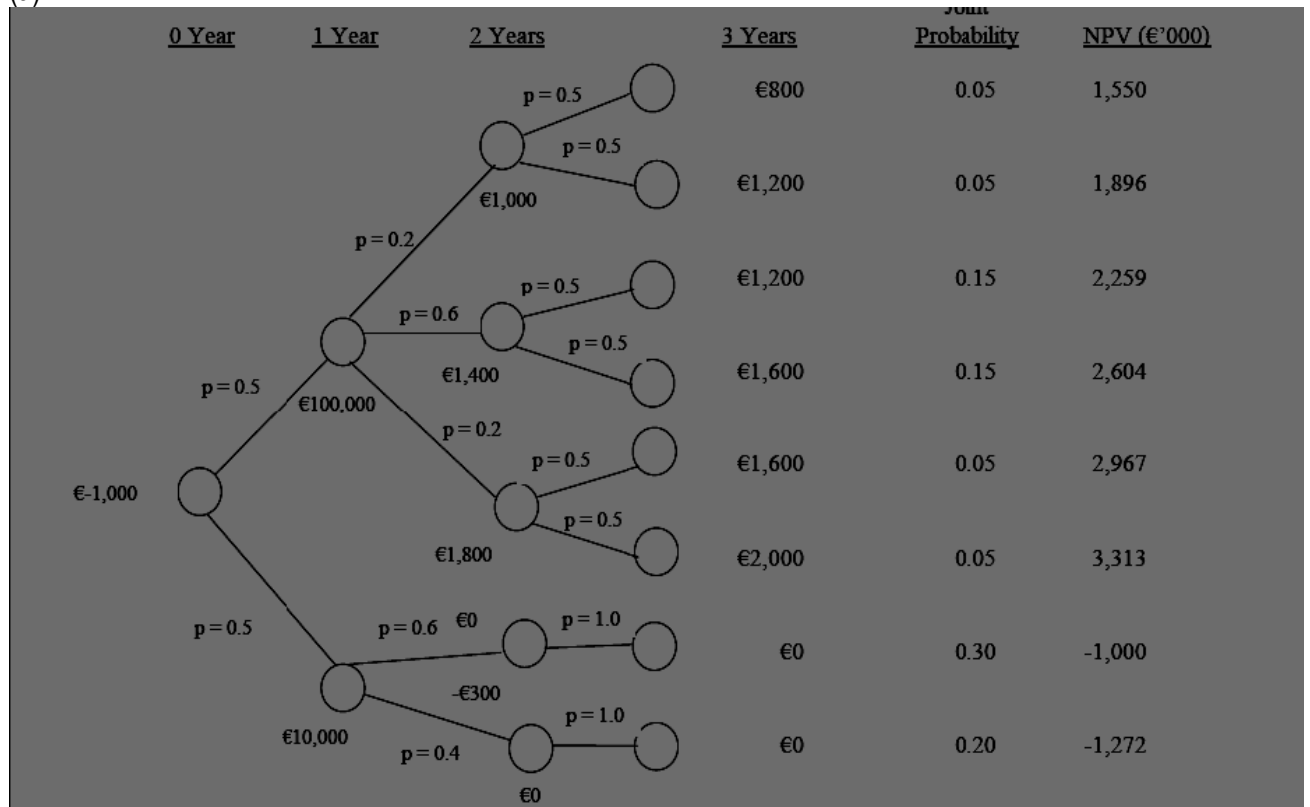
Step 2: New contract to be booked at the appropriate forward rate.

Three months forward rate is as under:

US\$ 1	Rs.40.4900 Spot Selling
Add: September Premium	<u>Rs. 0.3750</u>
	Rs. 40.8650
Add: Margin (0.25%)	<u>Rs. 0.1022</u>
	<u>Rs. 40.9672</u>

Forward rate to be quoted to the customer is US\$ 1 = Rs. 40.97
 Thus cost to customer Rs. 14,200/-

2. (a)



Tabular Presentation

Period 0 Cash Flow Thousands €	Period 1 Prob. Cash Flow Thousands €	Period 2 Cont. Prob. Cash Flow Thousands €	Period 3 Cont. Prob. Cash Flow Thousands €	Overall Joint Prob. Present Value Thousands €
-1,000	0.5 0	0.4 -€300	1.0 0	0.2 -€1,272
		0.6 0	1.0 0	0.3 -€1,000
		0.2 €1000	0.5 €800	0.05 € 1,550
	0.5 €1,000	0.6 €1,400	0.5 €1,200	0.05 €1,896
		0.2 €1,800	0.5 €1,200	0.15 €2,259
		0.5 €1,600	0.5 €1,600	0.15 €2,604
		0.5 €2,000	0.05 €2,967	0.05 €3,313

b) The expected value of net present value of the project is found by multiplying together the last two columns above and totaling them as follows.

c) The standard deviation is:

$$[0.2(-1,272-661)^2 + 0.3(-1,000-661)^2 + 0.05(1,550-661)^2 + 0.05(1,896 -661)^2$$

$$+ 0.15(2,259-661)^2 + 0.15(2,604-661)^2 + 0.05(2,967-661)^2 + 0.05(3,313-661)^2]^{1/2} = €1,805 \text{ thousands}$$

Thus, the dispersion of the probability distribution of possible net present values is very wide. In turn, this is due to 50 percent probability of a zero outcome or less.

3. EPS – Rs.6; $K_e = 10\%$; $r = 20\%$; Pay out ratio = 30%
 Calculation of DPS = Earnings per share X Pay out ratio
 (i.e) $6 \times 30\% = \text{Rs.}1.80$.

Calculation of P_0 :

$$P_0 = \frac{\text{DPS}}{K_e} + \frac{(\text{EPS} - \text{DPS}) \times (r / K_e)}{K_e} = \frac{1.80}{0.10} + \frac{(6 - 1.80) \times [0.2 / 0.1]}{0.10} = \text{Rs. } 103$$

Determination of optimum payout ratio

$$r = 20\% ; K_e = 10\%$$

$r > k_e$. This is a Growth Company and so the recommended payout is 0%.

Therefore the payout of 30% is not optional.

- 4.

Steps	Computation	Dividend Rs. 5	Dividend Rs. 0
1	Compute market price at year end using the formula $P_0(1+K) - D_1$	105	110
2	Money available as retained earnings a. PAT	2,50,000	2,50,000

	b. Dividend	1,25,000	0
	c. Money available (a-b)	1,25,000	2,50,000
3.	Money to be raised		
	a. Total required	5,00,000	5,00,000
	b. Money available	1,25,000	2,50,000
	c. Money to be raised (a-b)	3,75,000	2,50,000
4.	Number of shares to be issued		
	a. Money to be raised	3,75,000	2,50,000
	b. year end price	105	110
	c. Shares to issue (a/b)	3,571	2,273
5.	current market capitalization (N*Po)	25,00,000	25,00,000
6.	RHS of MM Equation [(n+m) x P1 – I1 + X1] / [1+Ke]	25,00,000	25,00,000

Conclusion:

Particulars	Dividends declared	Dividends Not declared
Market Price	105	110
M	3,571	2,273
nPo	25L	25L

5. Conversion to Direct quotes

For convenience we convert to Direct quote using the formula

$$\text{BID (A/B)} = 1 / \text{ASK (B/A)}$$

$$\text{ASK (A/B)} = 1 / \text{BID (B/A)}$$

Indirect quote			Direct quote		
Spot	Bid	Ask	Spot	Bid	Ask
Yen / Rs.	2.4170	2.4370	Yen / Rs.	0.4103	0.4137
\$ / Rs.	0.0214	0.0217	\$ / Rs.	46.0829	46.7290
Euro / Rs.	0.0177	0.0180	Euro / Rs.	55.5556	56.4972
3M forward	Bid	Ask	3M forward	Bid	Ask
Yen / Rs.	2.3970	2.4270	Yen / Rs.	0.4120	0.4172
\$ / Rs.	0.0213	0.0216	\$ / Rs.	46.2963	46.9484
Euro / Rs.	0.0176	0.0178	Euro / Rs.	56.1798	56.8182
3M spot	Bid	Ask	3M Spot	Bid	Ask
Yen / Rs.	2.4230	2.4590	Yen / Rs.	0.4067	0.4127
\$ / Rs.	0.0214	0.0216	\$ / Rs.	46.3822	46.6418
Euro / Rs.	0.0177	0.0179	Euro / Rs.	55.8659	56.4972

Evaluation of Alternative 1: No hedging

In this case the 3M Spot BID rate is applicable

	Japan	Us	Europe
Currency	Yen	Dollar	Euro
Sale price	650	10.23	11.99
Exchange Rate	0.4067	46.3822	55.8659
INR	264	474	670
Variable Cost	225	395	510
Contribution	39	79	160
Contribution / sales Ratio	14.77%	16.67%	23.88%

Conclusion:

By hedging forward the C/S ratio improves in the case of Yen and Euro and remains the same for USD. Hence it is better to hedge.

PRIME ACADEMY
31ST SESSION PROGRESS TEST – ADVANCED AUDITING & PROFESSIONAL ETHICS

No. of Pages: 3

Total Marks: 75
Time Allowed: 2Hrs
25 x 1 = 25 Marks

PART - A

1. ----- provides additional guidance to Professional accountants in the performing audit and other related assignments
 - a) Technical Guides
 - b) Practice Manuals
 - c) Guidance notes
 - d) All of the above

2. Not disclosing information to a third party without specific authority or legal or professional necessity is called as
 - a) Confidentiality
 - b) Integrity
 - c) All of the above
 - d) None of the above

3. Tests designed to obtain reasonable assurance that the controls on which audit reliance is to be placed are in effect are known as
 - a) Auditing
 - b) Compliance Procedures
 - c) Substantive Procedures
 - d) Test of controls

4. Evidence of the planning process of the audit and audit program is part of
 - a) Permanent audit file
 - b) Current audit file
 - c) Audit plan
 - d) None of the above

5. Right of a person for a lawful possession of somebody else's property is called as
 - a) Lien
 - b) Auditor's Lien
 - c) Right to retain
 - d) None of the above

6. Independent appraisal function within an organization for the review of activities as a service to all levels of management is called
 - a) Internal audit'
 - b) External audit
 - c) Statutory audit
 - d) Management audit

7. 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

8. 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

9. 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

10. EDP Accounting Systems are classified as
 - a) Processing Systems
 - b) File Systems
 - c) Hardware Configurations
 - d) All of the above

11. Individual transactions entered added to transaction file after checks and validation is known as
 - a) On-line batch processing system
 - b) On-line real time processing system
 - c) Batch processing system
 - d) None of the above

12. The file system under only which users have access to and use of data is called
 - a) Flat file system
 - b) Integrated data base system
 - c) On-line system
 - d) All of the above

13. On-line System falls under
 - a) Hardware configuration System
 - b) On-line Computer System
 - c) Personal Computer system
 - d) All of the above

14. Controls over Input is a type of
 - a) General EDP controls
 - b) EDP Application Controls
 - c) Administrative Controls
 - d) Procedural Controls

15. Auditor's notes reserving his views on the accounts are called as
 - a) Explanatory notes
 - b) Qualificatory notes
 - c) Notes to Accounts
 - d) All of the above

16. CARO does not apply to
 - a) Banking Company
 - b) Insurance Company
 - c) Sec 25 Companies
 - d) All of the above

17. A written Confirmation of the accuracy of the facts stated therein without any estimates is called as an
 - a) Audit report
 - b) Audit Certificate
 - c) Statement of Fact
 - d) None of the above
18. Tenure of office of an auditor usually refers to
 - a) The period between AGM of appointment to the conclusion of next AGM
 - b) The period between AGM of appointment to the conclusion of the AGM of his removal
 - c) The Year for which he is appointed as Auditor
 - d) None of the above
19. Pick the odd one out: While computing the Ceiling limits the following are generally excluded
 - a) Branch Audit
 - b) Joint Audit
 - c) Private Companies
 - d) None of the above
20. For Removal of the First Auditor, ----- is/are necessary
 - a) Company General Meeting
 - b) Special of at least 14 days to all members and auditor
 - c) Member's nomination and a resolution
 - d) All of the above
21. Passing of Special resolution for reappointment is necessary unless in case of
 - a) First Auditor
 - b) Reappointment of retiring auditor
 - c) Appointment of filling of casual vacancy
 - d) All of the above.
22. Board resolution is enough in case of
 - a) Casual vacancy caused by Resignation of existing auditor
 - b) Refusal to accept appointment
 - c) In case of reappointment
 - d) All of the above
23. CIS Infrastructure refers to
 - a) Hardware
 - b) Operating system
 - c) Application software
 - d) All of the above
24. EDI stands for
 - a) Electronic Data Input
 - b) Electronic Data information
 - c) Electronic Data Interchange
 - d) Electronic Data Index
25. 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

PART - B

1)

- i. List the mandatory contents of Audit engagement Letter
- ii. Write short notes on coordination between Internal and external auditors
- iii. Distinguish between Auditing around the Computer and auditing through the Computer
- iv. When is the Auditor's report considered to be modified (4 X 5 = 20 Marks)

2)

- i. The business of ABC Ltd., a Chit Fund Company, also consisted of granting of Loans and Advances on the basis of security of shares and debentures. As an auditor, how do you satisfy yourself about the adequacy of documents and records (4 Marks)
- ii. (a) What is a casual vacancy and
(b) How can a Casual Vacancy of an Auditor be filled up (2+ 4 = 6 Marks)
- iii. Write down the procedure to remove the current auditor? (5 Marks)

3)

- i. Should the auditor give a qualified report if proper accounts were not maintained during a part of the accounting period?
- ii. Explain the Leadership Responsibilities for Quality on Audits (8 + 7 = 15 Marks)

PRIME ACADEMY
31ST SESSION PROGRESS TEST – ADVANCED AUDITING & PROFESSIONAL ETHICS
SUGGESTED ANSWERS
PART A

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

PART – B

1. (i) The form and content of audit engagement letters vary for each client but it should state the following:
- 1) **Objective of the audit** of the Financial statements
 - 2) **Management’s responsibility** for
 - a) Preparation of the financial statements
 - b) Selection and consistent application of appropriate accounting policies including implementation of the applicable AS along with proper explanation relating to material departures from those AS
 - c) Preparation of financial statements on a going concern basis
 - d) Making judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the entity at the end of the financial year and of the profit or loss of the entity for that period
 - e) Maintenance of adequate accounting records and internal controls for safeguarding the assets of the company and for preventing and detecting fraud or other irregularities
 - 3) **Scope of audit**, including reference to applicable legislation, regulations and pronouncements of the ICAI
 - 4) **Disclaimer** The fact that having regard to the test nature of an audit , persuasive rather than conclusive nature of audit evidence together with inherent limitations of any accounting and internal control system , there is an unavoidable risk that even some material mis-statements resulting from fraud and to a lesser extent error, if either exists, any remain undetected
 - 5) **Unrestricted access** to all information of which management is aware that is relevant to the preparation of the financial statements such as records and documentation and other matters; Additional information that the auditor may request from management for the purpose of the audit; and Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.
 - 6) **Peer review**: The fact that the audit process may be subjected to a peer review under the CA Act, 1949.

(ii) Coordination between Internal and external auditors: SA610 para11-12

- 1) Plan of internal audit: When the statutory auditor intends to rely on the work of the internal auditor, he should-
 - a) Ascertain the internal auditor’s tentative plan,
 - b) Discuss the areas of reliance
- 2) Plan of external audit: Where the internal audit work is to a be factor in determining the nature ,timing and extent of the external auditor’s procedures, it is desirable to plan in advance the following:
 - a) Timing of such work
 - b) Extent of audit coverage. test levels and proposed methods of sample selection
 - c) Documentation of the work performed and
 - d) Review and reporting procedure
- 3) Mutual communication: The external auditor should inform the internal auditor of any significant matters which may affect his work. It is desirable that the external auditor is advised of and has access to relevant internal audit reports and also informed of any significant matter that comes to the internal auditor’s attention and which may affect the work of the external auditor.
- 4) Regular meetings: coordination with the internal auditor is usually more effective when meetings are held at appropriate intervals during the year.

(iii)

	Particulars	Auditing around the Computer	Auditing through the Computer
1	Recognition of Computers	Computers are treated as Mechanical book-keeping aids under this approach	Computers are used as live and dynamic devices which add value to the process of auditing. They are the target of auditing
2	Audit assurance	The focus of audit is to take voluminous reports and outputs and compare Input vouchers with system outputs to obtain audit assurance	The focus of audit us to peruse the accounting system and software used to ensure that they provide audit assurance on the various aspects of control
3	Use of	Computers are only considered as systems,	Computers are used to check

	Computers	which provide legible printouts of the accounting transactions. Auditors trace transactions to the black –box and pick up the trail on the other side by examining printouts	calculations. compare contents of two files , examine files for missing amounts and analyze accounting data by finding ratios., etc
4	Use of CAAT 's	No regard is paid to the transformations of data that takes place inside the computer	CAAT 's and audit software tools are used to analyze transformation of data

(iv) When the auditor issues any report other than unqualified, his report is said to be modified when it includes

- 1) Matters that do not affect the auditor's opinion- with emphasis of Matter paragraph
- 2) Matters that do affect the Auditor's opinion viz.,
 - a) Qualified opinion
 - b) Disclaimer of opinion and
 - c) Adverse opinion

2. (i)

- 1) **Clause (xiii) of CARO** requires the Auditor to state whether or not provisions of any special statute applicable to Chit Fund have been duly complied with.
- 2) **Verification:** As part of his regular audit the Auditor is required to examine and report whether adequate documents and records are maintained in case of Chit Fund Company which has granted loans and advances on the basis of security by way of pledge of shares and debentures. The adequacy of records depends upon the nature of the security and the party to whom the loan or advance has been granted. But the records should generally include the following particulars.
 - a. Full name and address of the Borrower
 - b. Amount of the loan or advance
 - c. Record of disbursements, repayments towards loan or advance and recovery of the interest
 - d. Stipulations regarding period of repayment, the rate of interest, the security to be pledged and all other terms of the loan or advance
 - e. Full particulars of the security pledged. For example ,if the security consists of shares, the particulars would include the names of the companies, number of shares, class of shares, distinctive numbers of the shares, particulars of the parties in whose names the shares stand, etc.
 - f. Documents needed to transfer the ownership of the security in case of need
 - g. Periodical acknowledgement from the parties confirming the balances due
 - h. Proof that the party has power to borrow, e.g., in case the borrower is a company, its Memorandum of Association, Board resolution or shareholders' resolution
 - i. Information about market value of securities such as stock exchange quotations.
- 3) **Physical Inspection:** The auditor should conduct Physical verification to ensure that the securities are in the custody of the company and that the market value of the securities is Adequate to cover the outstanding amount of loan and interest due.

(ii)(a) Casual Vacancy has not been defined in the Companies Act. It stands for a vacancy created by the auditor ceasing to act he was validly appointed and the appointment was accepted. This may arise due to a variety of reasons like resignation, disqualification, dissolution of the CA Firm etc.,

(ii)(b) Filling up a casual vacancy

Causal vacancy caused by	Appointing authority/ resolution
Reasons other than resignation of existing auditor	Board of Directors (Board resolution)
Resignation of Existing Auditor	Company in a general meeting (Special resolution if Sec 224A is applicable, otherwise Ordinary resolution will be sufficient)

Period of holding office: He will hold office from the date of appointment till the conclusion of the next AGM If the appointed auditor refuses to accept, the appointment is not fully complete. It shall be deemed that the vacancy still continues.

(iii) Removal of an Auditor

1. **First Auditor** : By implication first auditor appointed by the Board of Directors can be removed by passing ordinary resolution in the first annual general meeting of the company **sec.244(1)**
2. **Subsequent Auditors**: The subsequent auditors can be removed either before the expiry of his office or after expiry of his office.
 - (a) **Removal Before Expiry of office**: If the company wants to remove the auditor before the expiry of his office, the company must obtain the prior permission of the Central Govt. and then give 14 days notice to shareholders of the company and copy of such notice shall be forwarded to the concerned auditor and the auditor may send his representation to the company.

The company on receipt of such representation either circulate it amongst the shareholders of the company or read it in front of general meeting. If the general meeting after considering his representation passes a resolution, to remove the auditor, then the auditor stands removed from his office. **Sec. 224(7) and Sec.225**

- (b) **Removal After the Expiry of the office**: At every Annual General Meeting the office of the auditor expires and hence either the reappointment of retiring auditor or appointment of new auditor is necessary, usually the retiring auditor is reappointed, but if the company wants to remove the retiring auditor the company has to give 14 days notice to its members and forward its copy to the retiring auditor. The retiring auditor, if he so desires, send his representation to the company and the company on receipt of such representation may circulate it among its members or get it read in the meeting and if the meeting after considering the representations passes a resolution to remove the auditor, the auditor stands removed. **Sec 224(7) and 225**

3. (i)

1. Under Sec 227, the Auditor has to report whether in his opinion the Company has kept proper books of account as required by law so far as it appears from his examination of those books
2. Maintenance of proper accounts and records is not an end by itself but it is a necessary condition for the Auditor to satisfy himself regarding the authenticity of the transactions on which he is reporting
3. The auditor has to report on the state of affairs as they existed during the accounting year and compliance with law/CARO should be judged with reference to the whole accounting year and not merely with reference to the position existing at the balance sheet date
4. In deciding whether or not to qualify the report, the Auditor should judge from the viewpoint of materiality and also consider the consequences of non-compliance with law/CARO for any part of the year.
5. It may also be viewed that no adverse Report is necessary if the deficiencies existing during the year have been rectified before the Auditor makes his report.

(ii) Leadership Responsibilities for Quality on Audits (Ref: Para. 8)

The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned. (Ref: Para. A3)

A3. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasize:

- 1) The importance to audit quality of:
 - a) Performing work that complies with professional standards and regulatory and legal requirements;
 - b) Complying with the firm's quality control policies and procedures as applicable;
 - c) Issuing auditor's reports that are appropriate in the circumstances; and
 - d) The engagement team's ability to raise concerns without fear of reprisals; and
- 2) The fact that quality is essential in performing audit engagements.

PRIME ACADEMY
31ST SESSION PROGRESS TEST – CORPORATE & ALLIED LAWS

No. of Pages: 4

Total Marks: 75
Time Allowed: 2Hrs
25 x 1 = 25 Marks

PART - A

1. The main factor that determines whether a person in a director is _____
 - a) His Designation
 - b) His Functioning
 - c) Remuneration
 - d) All the above

2. Any director who is in full time employment of a company including Managing Director or Technical director can be called as -----
 - a) Whole time director
 - b) Special director
 - c) Inside director
 - d) Non-executive director

3. Directors derive their power from _____
 - a) Memorandum of Association
 - b) Articles of Association
 - c) Resolution of their Appointment
 - d) All the above

4. Acts that are essentially ultra vires to a director's powers but which are otherwise intra vires the powers of the company
 - a) Can be Ratified by shareholder
 - b) Cannot be ratified
 - c) Void-ab-initio
 - d) None of these

5. According to the Companies Act ,1956, minimum qualification shares that should be held by a director is _____
 - a) Two
 - b) One
 - c) Three
 - d) None

6. Articles of Association of a company contains a provision that "Every director should acquire at least 3 equity shares as their qualification share within 15 days of his appointment." The said provision is
 - a) Correct
 - b) Void
 - c) Correct if the days are 30 instead of 15
 - d) Correct if the days are 90 instead of 15

7. The nominal value of the qualification shares shall not exceed Rs:
- 10000
 - 2000
 - 5000
 - 15000
8. XYZ Ltd increased the number of qualification shares to be held by a director from 2 to 8 on 1.6.2009 by a resolution at its board meeting. "Raghu", an executive director holds 15 shares on the date. What should be the course of action required on his part now?
- Should buy 6 shares at once
 - Should buy 8 shares at once
 - Need not buy any additional Shares
 - None of the these
9. A was appointed as a director of a XYZ Ltd on 1.6.2009. As per Articles of Association, directors should acquire 500 shares on their appointment. A had applied for 600 shares on 15.6.09. 400 shares were allotted to him on 30.07.09 and 200 share were allotted to him on 14.08.09: What is the legal status?
- He should vacate office on 2.7.09
 - He can continue as a director
 - He should vacate office on 14.08.09
 - None of these
10. B, a director of ABC Ltd was convicted under Sec 209(A) on 1.9.09. From which date can he be re-appointed as a director again?
- 1.09.10
 - 1.09.12
 - 1.09.14
 - 1.09.11
11. Mr. Bharath, whose date of birth is 1.2.1993, was appointed as a director of XYZ (Pvt) Ltd. What is the legal status of his appointment?
- Valid
 - Invalid
 - Can be ratified by shareholder
 - None of these
12. Which of following regarding a Small Shareholders' Director is true?
- He may be elected by company
 - He may be elected Suo Moto or upon notice from small shareholders who hold not less than one-tenth of total numbers of shares of small shareholders.
- Only 1 is true
 - Only 2 is true
 - Both 1 & 2 are true
 - Both 1 and 2 or false.
13. The tenure of a Small Shareholder's Director is.....
- One year
 - Three years
 - Two years
 - Five years

14. According to the Companies Act, 1956, the maximum number of directors in a Public Limited company is
- 1
 - 2
 - 3
 - None
15. To which of the following type of Companies, Section 259 applies?
- Public Company
 - Private Company
 - Govt. Company
 - Sec. 25 Company
16. The Articles of Association of RST Ltd. prescribes that minimum number of directors who should be available in India at any point of time as 3. On 1.7.2009, X a director demised and with his demise the number of directors had fallen to 2. On 5.7.2009, the company had entered into a contract with XYZ Ltd., for supply of raw materials on credit. What is the legal status of the contract?
- Tenable
 - Not tenable
 - Invalid
 - None of these
17. Mr. B is already holding the office of director in 14 companies. He has been appointed as a director in two more companies. Which of the following are true?
- Can accept the new offers.
 - Within 15 days of his appointment, he can choose directorship in any 15 companies.
 - He should resign directorship of one company within 15 days of his appointment.
- Only A
 - Only B
 - Only C
 - All of the above.
18. In Calculating the number of companies for Sec.277, which of the following companies are to be excluded?
- An unlimited company
 - Public Company
 - Sec.25 company
- Only A
 - Only B
 - Only C
 - Only A and C
19. Which of the following is true about an additional director?
- He can only be appointed by a Board resolution at a Board meeting.
 - He holds office upto next AGM
 - This applies only to Public Companies.
- Only 1 is true
 - Only 2 is true
 - Only 3 is true
 - All of the above are true.

20. Which of the following is not true about an alternate director?
- Appointment of alternate director is possible only if such power is conferred on Board by Articles.
 - He can hold office only upto the date of return of original director.
 - He shall continue as a director till the next AGM.
 - None of these.
21. A and B are directors, who have joined XYZ Ltd. on the same day and time. One of them should retire by rotation on 1.7.2009. Which of the following are true?
- Date of birth should be the criteria for determining the director who should retire.
 - No. of directorship in other companies should be criteria.
 - Shareholders shall vote and decide the director to retire.
 - Draw of lot
22. XYZ Ltd. passed a single resolution thereby appointing R and S as directors of the company. What is the legal status of the appointment?
- Appointment is valid.
 - Invalid
 - Can be ratified by other directors.
 - None of these
23. Which of the following about Sec. 264 is not correct?
- Default of provisions of Sec.264 does not result in termination of office of director.
 - Attracts penalty u/s 269A
 - Shall not be condoned u/s 637B
 - On payment of additional fees, period may be extended by future 30 days.
24. Mr. K was interested in a contract that was to be awarded to PQR Ltd. by his company in a meeting held on 1.9.2009 as his son was the MD of PQR Ltd. But he did not disclose his interest in the contract u/s299. What is the legal status?
- He vacates office
 - He can continue as a director
 - Shareholders can ratify the above non-disclosure of interest.
 - None
25. What compensation is due to a director who vacates his office u/s 283?
- Bonus upto the date of vacation.
 - Salary and Bonus upto the date of vacation.
 - Salary, Bonus and compensation for loss of office.
 - None

PART - B

5x10= 50 Marks

1. In which circumstances can debenture holders appoint their nominees on the Board of Companies
2. What is the procedure for appointment of Alternate Directors
3. In which cases do the requirements of Section 266 as regards appointment of a director, by naming in articles or prospectus, apply
4. In which circumstances does a director retiring by rotation at an AGM get automatically reappointed
5. Which directorships are to be excluded from the maximum number mentioned above

PRIME ACADEMY
31ST SESSION PROGRESS TEST – CORPORATE & ALLIED LAWS
SUGGESTED ANSWERS

PART A

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

PART – B

1. By virtue of the trust deed entered into between the company and the trustees for the debenture holders the trustees are invariably entitled to appoint a director on the Board of the company to represent the debenture holders. A suitable enabling provision that is incorporated in the company's articles in this behalf reads as set out in Annexure I.

The SEBI (Debenture Trustees) Regulations 1993 provide that the debentures should appoint a nominee director on the Board of the body corporate (which includes a company registered under the Companies Act) in the event of:

- (a) Two consecutive defaults in payment of interest to the debenture holders or
- (b) Default in creation of security for debentures
- (c) Default in redemption of debentures

The debenture trust deed often provides that the trustees shall have a right to appoint a nominee director on the Board of Directors of the company. The nominee director shall not be liable to retire by rotation nor required to hold any qualification shares.

Annexure – Regulation for Appointment of Debenture Directors:

If it is provided by the trust deed, securing or otherwise, in connection with any issue of debentures of the company, that a trustee appointed under the trust deed shall have power to appoint a director of the company, then in the case of any and every such issue of debentures, the person or persons having such power may exercise such power from time to time and appoint a director accordingly. Any director so appointed is herein referred to as a debenture director. A debenture director may be removed from office at any time by the trustee in whom for the time being is vested the power under which he was appointed and another director may be appointed in his place. A debenture director shall not be liable to retire by rotation. A debenture director shall not be bound to hold any qualification shares.

2. The procedure to appoint an alternate director is as given below:
 - (a) Consent to act as director: In the case of a public company, consent of the person proposed to be appointed as an alternate director, to act as director, shall be obtained in the form of a letter
 - (b) Board Resolution: The Board of Directors may appoint an alternate director, and if the board decides to do so it must be by its resolution as under:

The Board approves the appointment of Mr. /Msas an alternate director for Mr. /Ms..... Director to hold office during his absence for a period of not less than three months from the state ofin which meetings of the Board are ordinarily held (to hold office of the alternate director for period of Provided, however, that he shall, during the stated period, vacate the office as and when the original director returns to the state and shall assume the office as and when the original director goes out of the state). Unlike section 262, section 313 does not provide that the appointment of an alternate director shall be made at a Board meeting. Unless, therefore, the articles of a company provide otherwise, the Board may appoint an alternate director by a circular resolution. However, the CLB has held that the appointment of an alternate director by a circular resolution was in violation of the provisions of section 313.

- (c) Intimation to appointee: After the Board meeting whereat the appointment is made, the appointee shall be informed of the appointment if he was not invited to attend the meeting.

- (d) Intimation to stock exchange: In the case of a listed company, intimation of the appointment of the alternate director will be given to the stock exchanges where the company's securities are listed immediately after the AGM.
- (e) Consent to be filed with Registrar: In the case of a public company, consent of the director in e-Form 32 signed by him will be filed with the ROC within 30 days from the date of the Board meeting / passing of the circular resolution.
- (f) Entry in registers: The particulars of the alternate director will be entered in the Register of Directors kept under section 303 immediately after AGM. Similarly, the particulars of the directors' shareholding will be entered in the Register of Directors' Shareholding
- (g) Qualifying shares: If the alternate director appointed does not already hold any share of the company as the share qualification of directors, requisite number of shares will have to be acquired by him within two months from the date of the Board meeting.
- (h) Disclosure of interest: Information relating to the alternate director's interests in other companies, firms and also names of his relatives for the purposes of section 297 and 299 of the Companies Act will be obtained.
- (i) Filing of e-Form 32 on cessation: When the alternate director ceases to hold the office because of the return of the original director, e Form 32 will be filed with the ROC and the entry of the date of cessation will be made in the register of directors

3. Section 266 applies in the following cases of appointment or proposal to appoint a person as a director:

- (a) A person appointed as a director of a company by the articles or
- (b) A person named as a director or proposed director of a company in a prospectus issued by or on behalf of the company or
- (c) A person named as a proposed director of an intended company in a prospectus issued in relation to that intended company or
- (d) A person named as a proposed director of an intended company in a statement in lieu of prospectus filed with the ROC by or on behalf of a company.

The provisions of this section are not applicable in the following cases:

- (a) A company not having a share capital
- (b) A private company (whether a subsidiary of a public company or not)
- (c) A company which was a private company before becoming a public company or
- (d) A prospectus issued by or on behalf of a company after the expiry of one year from the date on which the company was entitled to commence business

Section 266 does not apply also in the case of appointment of directors of government companies in which the entire paid up share capital is held by

- (a) The Central government or
- (b) One or more state governments or
- (c) The Central Government and one or more state governments

If section 266 is applicable as mentioned above, the following requirements must be complied with

- (1) Consent to be filed with Registrar: The director or the person named as a proposed director must sign and file with the ROC his/her consent in writing to act as such director in e Form 32. The consent must be filed with the ROC before the registration of the articles, the publication of the prospectus, or the filing of the statement in lieu of prospectus, as the case may be
- (2) Qualification shares: Every director or proposed director mentioned at (1) above, must take or agree to take from the company requisite number of qualification shares as prescribed under the articles of the company (or to be prescribed under in the articles of the proposed company). However, this is not mandatory

With regard to qualification shares, the director or proposed director must do any of the following things

- (i) He may agree to take the qualification shares by stating the number in the memorandum of association of the company.
- (ii) He may agree to take and pay for the qualification shares by stating the number in the memorandum of association of the company
- (iii) He may file with the ROC an undertaking in writing in e Form 32 to take from the company his qualification shares, if any, and pay for them. The person shall, as regards those shares, be in the same position as if he had signed the memorandum for shares of that number of value.
- (iv) He may file with the ROC an affidavit to the effect that shares, not being less in number of value than that of his qualification shares, if any, are registered in his name.

4. At an AGM a director retiring by rotation is eligible for reappointment and may be reappointed. But the company may appoint some other person in place of the retiring director.

If the AGM ends without filling the vacancy of a retiring director, either by reappointing the retiring director or appointing some other person, that gives rise to the automatic reappointment of the retiring director. (Section 256(4)(a))

Accordingly, if the retiring director is not reappointed at the AGM and his vacancy is not filled by appointing some other person, the AGM must expressly resolve not to fill that vacancy. If no such resolution is passed, the AGM will automatically stand adjourned till, and it will be held again on the same day in the next week, at the same time and the same place; but if that day is a public holiday, the meeting will be held on the next succeeding day, which is not a public holiday, at the same time and same place. The next succeeding day does not mean the next or the following day; it means any of the succeeding days, which is not a public holiday. No fresh notice of the adjourned meeting is necessary, because the adjournment is automatic, by operation of law.

If the adjourned meeting also ends without filling the vacancy of the retiring director or without resolving that the vacancy be not filled, the retiring director will get automatically reappointed even in absence of any resolution for the reappointment of the retiring director, unless any of the following five things happens:

- (a) At that meeting or at the previous meeting a resolution for the reappointment of such director has been put to the meeting and lost
- (b) The retiring director has by a notice in writing addressed to the company or its Board of Directors, expressed his unwillingness to be so reappointed
- (c) He is not qualified or is disqualified for appointment
- (d) A resolution, whether special or ordinary, is required for his appointment or reappointment in virtue of any provisions of this Act

(e) The proviso to sub section (2) of section 263 is applicable to the case.

Thus if any of the following three positive acts does not occur and none of the five circumstances mentioned above becomes applicable, the retiring director will get automatically reappointed.

- (a) To fill the vacancy by reappointing the retiring director or
- (b) To fill the vacancy by appointing somebody else instead of the retiring director or
- (c) To pass a resolution to the effect that the vacancy of the retiring director be not filled

In order that the retiring directors automatically reappointed under section 256(4), the AGM as well as adjourned meeting must be held. Unless there is a valid meeting under section 256(4)(a), the consequences mentioned in 256(4)(b) would not apply.

5. Section 278 excludes certain directorships for the purposes of the limit of 15 under section 275 and 277. The limit on the number of directorships stated above is to be calculated without including therein the directorships of a person in the following companies.

- (a) A Private company which is neither a subsidiary nor a holding company of a public company
- (b) An unlimited company
- (c) An association not carrying on business for profit or which prohibits the payment of a dividend eg. Section 25 company
- (d) A company in which such person is only an alternate director, that is to say, a director who is qualified to act as such during the absence or incapacity of some other director.

However, when any of the companies mentioned at (a) and (c) above ceases to be a company of that kind, eg when a private company becomes a public one, a person who is a director of such company can continue to hold the office in that company for a period of three months from the date on which the company ceases to fall within the purview of any of those clauses.

The three month period is a grace period given to the director, for which the person can hold the directorship, despite the number of directorships of the person, including the one in such a company exceeds 15. But at the expiration of the three months period, he should decide to relinquish any of his un-exempted directorships, if, as a result of the exemption, the number of directorships would exceed the statutory limit.

The holding of the directorship in contravention of any provision of section 275 or 277, is an offence punishable with fine up to Rs.5,000/- in respect of each of the companies after the first fifteen companies in which the directorships are held.

A person who is a director of 15 public companies and also of a private company, will cease to be director of that company when it becomes a public company, if he does not resign his directorship in any other public company. Conversely, where a public company is converted into a private company or ceases to be a deemed public company, that directorship cease to be one within the purview of the restrictive provisions of section 275 and such directorship becomes an exempted one under section 278.