

FINAL COURSE
(UNDER REVISED SCHEME OF
EDUCATION AND TRAINING)
GROUP – I

REVISION TEST PAPERS

MAY, 2018



BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
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New Delhi

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REVISION TEST PAPER, MAY 2018 – OBJECTIVE & APPROACH

(Students are advised to go through the following paragraphs carefully to derive maximum benefit out of this RTP)

I Objective of Revision Test Paper

Revision Test Papers are one among the many educational inputs provided by the Board of Studies (BOS) to its students. Popularly referred to as RTP by the students, it is one of the very old publications of the BOS whose significance and relevance from the examination perspective has stood the test of time.

RTPs provide glimpses of not only the desirable ways in which examination questions are to be answered but also of the professional quality and standard of the answers expected of students in the examination. Further, aspirants can assess their level of preparation for the examination by answering various questions given in the RTP and can also update themselves with the latest developments in the various subjects relevant from the examination point of view.

The primary objectives of the RTP are:

- To help students get an insight of their preparedness for the forthcoming examination;
- To provide an opportunity for a student to find all the latest developments relevant for the forthcoming examination at one place;
- To supplement earlier studies;
- To enhance the confidence level of the students adequately; and
- To leverage the preparation of the students by giving guidance on how to approach the examinations.

RTPs contain the following:

- (i) Planning and preparing for examination
- (ii) Subject-wise guidance – An overview
- (iii) Updates applicable for a particular exam in the relevant subjects
- (iv) Topic-wise questions and detailed answers thereof in respect of each paper
- (v) Relevant announcement applicable for the particular examination

Students must bear in mind that the RTP contains a variety of questions based on different sections of the syllabi and thus a comprehensive study of the entire syllabus is a pre-requisite before answering the questions of the RTP. In other words, in order to derive maximum benefit out of the RTPs, it is advised that before proceeding to solve the questions given in the RTP, students ought to have thoroughly read the Study Materials.

The topics on which the questions are set herein have been carefully selected and meticulous attention has been paid in framing different types of questions. Detailed answers are provided to enable the students to do a self-assessment and have a focused approach for effective preparation.

Students are welcome to send their suggestions for fine tuning the RTP to the Director, Board of Studies, The Institute of Chartered Accountants of India, A-29, Sector-62, Noida 201 309 (Uttar Pradesh). RTP is also available on the Institute's website www.icaai.org under the BOS knowledge portal in students section for downloading.

II. Planning and preparing for examination

Ideally, when the RTP reaches your hand, you must have finished reading the relevant Study Materials of all the subjects. Make sure that you have read the Study Materials thoroughly as they cover the syllabus comprehensively. Get a good grasp of the concepts/ provisions discussed therein. Solve each and every question/illustration given therein to understand the application of the concepts and provisions.

After reading the Study Materials thoroughly, you should go through the Updates provided in the RTP and then proceed to solve the questions given in the RTP on your own. RTP is an effective tool to revise and refresh the concepts and provisions discussed in the Study Material. RTPs are provided to you to help you assess your level of preparation. Hence you must solve the questions given therein on your own and thereafter compare your answers with the answers given therein.

Examination tips

How well a student fares in the examination depends upon the level and depth of his preparation. However, there are certain important points which can help a student better his performance in the examination. These useful tips are given below:

- Reach the examination hall well in time.
- As soon as you get the question paper, read it carefully and thoroughly. You are given separate 15 minutes for reading the question paper.
- Plan your time so that appropriate time is awarded for each question. Keep sometime for checking the answers as well.
- First impression is the last impression. The question which you can answer in the best manner should be attempted first.
- Always attempt to do all questions. Therefore, it is important that you must finish each question within allocated time.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required.

- Answer all parts of a question one after the other; do not answer different parts of the same question at different places.
- Write in a neat and legible hand-writing.
- Always be concise and write to the point and do not try to fill pages unnecessarily.
- There must be logical expression of the answer.
- In case a question is not clear, you may state your assumptions and then answer the question.
- Check your answers carefully and underline important points before leaving the examination hall.

III. Subject-wise Guidance – An Overview

PAPER 1: FINANCIAL REPORTING

For Paper 1 : Financial Reporting August, 2017 edition of the study material is applicable. The Study Material has been divided into seven modules for ease of handling by students. Module 1 deals with select Accounting Standards and Guidance Notes. Modules 2 to 6 is devoted to Ind AS and the last Module 7 is on Accounting and Reporting of contemporary topics.

For understanding the coverage of syllabus, it is important to read the Study Material along with the reference to Study Guidelines. It contains the detailed topic-wise inclusion / exclusions from the syllabus. It also covers the list of select EAC opinions relevant for the paper. The Study Guidelines is given as part of “Applicability of Standards/Guidance Notes/Legislative Amendments etc. for May, 2018 – Final Examination” appended at the end of this Revision Test Paper.

You have to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the questions at the end of each chapter to hone your problem solving skills. Compare your answers with the answers given to test your level of understanding.

Thereafter, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination. The Revisionary Test Paper (RTP) of Financial Reporting contains twenty questions and their answers.

Answers to the questions have been given in detail along with the working notes for easy understanding and comprehending the steps in solving the problems. The answers to the questions have been presented in the manner which is expected from the students in

the examination. The students are expected to solve the questions under examination conditions and then compare their solutions with the solutions given in the Revisionary Test Paper and further strategize their preparation for scoring more marks in the examination.

Students may also note that the relevant amendments including relevant Notifications / Circulars / Rules issued by the Companies Act, 2013 and other relevant legislations up to 31st October, 2017 will be applicable for May, 2018 Examination.

PAPER 2: STRATEGIC FINANCIAL MANAGEMENT

Basically, the subject of Strategic Financial Management is to acquire the ability to apply financial management theories and techniques in strategic decision making. The major topics from which numerical questions are normally asked are as follows:

- Risk Management
- Security Analysis & Valuation
- Portfolio Management
- Mutual Funds
- Derivatives
- Foreign Exchange Exposure and Risk Management
- International Financial Management
- Interest Rate Risk Management
- Corporate Valuation
- Mergers and Acquisitions

Accordingly, the detail of the topics, on which questions in this Revisionary Test Paper are based, is as follows:

Question No.	Topic
1	Security Valuation
2	Security Valuation
3	Portfolio Management
4	Portfolio Management

5	Mutual Fund
6	Derivatives
7	Derivatives
8	Foreign Exchange Exposure and Risk Management
9	Foreign Exchange Exposure and Risk Management
10	International Financial Management
11	Interest Rate Risk Management
12	Corporate Valuation
13	Mergers and Acquisitions and Valuation of Business.
14	A blend of questions listing out the features of some of the theoretical concepts that makes them different from each other.
15	A blend of questions requiring a straight forward answer 'what it is' in short paragraph or a sequence of sentences explaining each other.

PAPER 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

RTP is a tool to refresh your knowledge which you have acquired while doing conceptual study from Study Material, Practice Manual and other modes of knowledge like student journal, bare acts etc.

This RTP of Advanced Auditing and Professional Ethics is relevant for May, 2018 Examination. Total 20 questions have been taken from the entire syllabus divided into twenty chapters along with Engagement and Quality Control Standards, Statements, Guidance Notes, etc.

These 20 questions are taken from different topics like Engagement and Quality Control Standards, Statements and Guidance Notes, Audit Planning, Strategy and Execution, Risk Assessment and Internal Control, Special Aspects of Auditing in an Automated Environment, Company Audit, CARO, 2016, Liabilities of Auditors, Audit Reports including Audit Reports and Certificates for Special Purpose Engagements, SEBI (LODR), Consolidated Financial Statements, Audit under Fiscal Laws (including Audits under direct tax laws as well as indirect tax laws), Audit of Banks, NBFCs and Insurance Companies, Due Diligence, Investigation and Forensic Audit, Professional Ethics, Peer Review and Quality Review etc. of different level. Some of the questions given in the RTP are descriptive i.e. direct theory questions (knowledge and Comprehension) based whereas some of them are practical case studies based i.e., application oriented theory

question (Application and Analysis / Evaluation and Synthesis). The name of the chapter is clearly indicated before each question.

This RTP of Advanced Auditing and Professional Ethics has been divided into two parts viz Part I – Legislative Amendments / Notifications / Circulars / Rules / Guidelines issued by Regulating Authority relevant for May, 2018 examination and Part II – Questions and Answers.

The relevant notified sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 31st October, 2017 are applicable for May, 2018 Examination. The questions have been answered in this RTP keeping in view latest amendments as per above mentioned dates.

PAPER 4: CORPORATE AND ECONOMIC LAWS

In the paper of Corporate and Economic Laws, students should be able to emphasise on the legal point or issue involved in any problem and synchronize the same with the relevant legal provisions in a clear and logical manner. Students needs to focus on the presentation of answer to enhance the quality of the answer. This can be improved by writing the answers under examination conditions and also undertaking self-assessment by going through Revision Test Papers (RTP).

RTP is divided into two parts:

Part I : Relevant amendments applicable for May 2018 examinations.

Part II : Topic wise questions with detailed answers

Part I talks about the applicability of relevant amendments made vide Circulars, Notifications, Regulations issued by various authorities for May 2018 examinations.

The relevant legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 31st October, 2017 are applicable for May 2018 Examination.

Part II contains 20 Questions with their detailed answers. Many questions are divided into sub parts. The topics amongst which these questions are divided are as follows:

Question No.	Topic
1	Appointment and Qualifications of Directors and remuneration of Managerial Personnel
2	Appointment and Qualifications of Directors and remuneration of Managerial Personnel
3	Meetings of Board and its powers
4	Inspection, inquiry and Investigation

5	Compromises, Arrangements and Amalgamations
6	Prevention of Oppression and Mismanagement
7	Winding Up
8	Producer Companies
9	Companies incorporated outside India
10	Miscellaneous Provisions
11	Compounding of offences, Adjudication, Special Courts and National Company Law Tribunal and Appellate Tribunal
12	Corporate Secretarial Practice—Drafting of Notices, Resolutions, Minutes and Reports
13	The Securities Contract (Regulation) Act, 1956 and the Securities Contract (Regulation) Rules, 1957
14	The Securities Exchange Board of India Act, 1992, SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 and SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015
15	The Foreign Exchange Management Act, 1999
16	The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
17	The Prevention of Money Laundering Act, 2002
18	Foreign Contribution Regulation Act, 2010
19	The Arbitration and Conciliation Act, 1996
20	The Insolvency and Bankruptcy Code, 2016

Guidance on Sections and Case Laws: It is imperative for Final students to remember major section numbers and relevant case laws. Extra efforts are to be made in this direction. If by any chance, students do not remember the Section numbers and Case Law while answering any question in the examination paper on the subject, they may not lose heart on this score. They may otherwise strengthen their answer by appropriate reasoning and examples. However, they may desist from citing wrong Section numbers or irrelevant Case laws.

PAPER –1: FINANCIAL REPORTING

QUESTIONS

1. Himalaya Ltd. which is in a business of manufacturing and export of its product. Sometimes, back in 20X4, the Government put restriction on export of goods exported by Himalaya Ltd. and due to that restriction Himalaya Ltd. impaired its assets. Himalaya Ltd. acquired identifiable assets worth of ₹ 4,000 lakhs for ₹ 6,000 lakh at the end of the year 20X0. The difference is treated as goodwill. The useful life of identifiable assets is 15 years and depreciated on straight line basis. When Government put the restriction at the end of 20X4, the company recognised the impairment loss by determining the recoverable amount of assets for ₹ 2,720 lakh. In 20X6 Government lifted the restriction imposed on the export and due to this favourable change, Himalaya Ltd. re-estimate recoverable amount, which was estimated at ₹ 3,420 lakh.

Required:

- (i) Calculation and allocation of impairment loss in 20X4.
- (ii) Reversal of impairment loss and its allocation as per AS 28 in 20X6.
2. On 1st April, 20X4, Shelter Ltd. issued 5,000, 8% convertible debentures with a face value of ₹ 100 each maturing on 31st March, 20X9. The debentures are convertible into equity shares of Shelter Ltd. at a conversion price of ₹ 105 per share. Interest is payable annually in cash. At the date of issue, Shelter Ltd. could have issued non-convertible debt with a 5 year term bearing a coupon interest rate of 12%. On 1st April, 20X7, the convertible debentures have a fair value of ₹ 5,25,000. Shelter Ltd. makes a tender offer to debenture holders to repurchase the debentures for ₹ 5,25,000, which the holders accepted. At the date of repurchase, Shelter Ltd. could have issued non-convertible debt with a 2 year term bearing a coupon interest rate of 9%.

Show accounting entries in the books of Shelter Ltd. for recording of equity and liability component:

- (i) At the time of initial recognition and
- (ii) At the time of repurchase of the convertible debentures.

The following present values of ₹ 1 at 8%, 9% & 12% are supplied to you:

Interest Rate	Year 1	Year 2	Year 3	Year 4	Year 5
8%	0.926	0.857	0.794	0.735	0.681
9%	0.917	0.842	0.772	0.708	0.650
12%	0.893	0.797	0.712	0.636	0.567

3. Mac Ltd. purchased goods on credit from Toy Ltd. for ₹ 580 lakhs for export. The export order was cancelled. Mac Ltd. decided to sell the same goods in the local market with a price discount. Toy Ltd. was requested to offer a price discount of ₹ 10%. Toy Ltd.

wants to adjust the sales figure to the extent of the discount requested by Mac Ltd. Discuss whether such a treatment in the books of Toy Ltd. is justified as per the provisions of the relevant Ind AS.

Also, Toy Ltd. entered into a sale deed for its Land on 15th March, 20X1. But registration was done with the registrar on 20th April, 20X1. But before registration, is it possible to recognize the sale and the gain at the balance sheet date? Give reasons in support of your answer.

4. An entity constructs a new head office building commencing on 1st September 20X1, which continues till 31st December 20X1. Directly attributable expenditure at the beginning of the month on this asset are ₹ 100,000 in September 20X1 and ₹ 250,000 in each of the months of October to December 20X1.

The entity has not taken any specific borrowings to finance the construction of the asset, but has incurred finance costs on its general borrowings during the construction period. During the year, the entity had issued 10% debentures with a face value of ₹ 20 lacs and had an overdraft of ₹ 500,000, which increased to ₹ 750,000 in December 20X1. Interest was paid on the overdraft at 15% until 1 October 20X1, then the rate was increased to 16%.

Calculate the capitalization rate for computation of borrowing cost in accordance with Ind AS 23 'Borrowing Costs'.

5. ABC is a construction contract company involved in building commercial properties. Its current policy for determining the percentage of completion of its contracts is based on the proportion of cost incurred to date compared to the total expected cost of the contract.

One of ABC's contracts has an agreed price of ₹ 250 crores and estimated total costs of ₹ 200 crores. The cumulative progress of this contract is:

Year ended	31 st March 20X1	31 st March 20X2
Cost incurred	80	145
Work certified and billed	75	160
Amount received against bills	70	150

ABC prepared and published its financial statements for the year ended 31st March 20X1. Relevant extracts are:

	₹ in Crores
Revenue [(80/200) x 250]	100
Cost of sales	<u>(80)</u>
Profit	<u>20</u>

Balance Sheet (Extracts)

	₹ Crores
Current assets	
Amount due from customers	
Contract cost to date	80
Profit recognized	<u>20</u>
	100
Progress billing to date	<u>(75)</u>
Billing to be done	<u>25</u>
Contract asset (amount receivable) (75-70)	5

ABC has received some adverse publicity in the financial press for taking its profit too early in the contract process, leading to disappointing profits in the later stages of contracts. Most of ABC's competitors take profit based on the percentage of completion as determined by the work certified compared to the contract price.

Required

- (a) Assume that ABC changes its method of determining the percentage of completion of contracts to that used by its competitors, as this would represent a change in an accounting estimate. Prepare equivalent extracts to the above for the year ended 31st March 20X2.
 - (b) Identify, whether the above change represents a change in accounting estimate or a change in accounting policy and why?
6. On 31 March 20X1, the inventory of ABC includes spare parts which it had been supplying to a number of different customers for some years. The cost of the spare parts was ₹ 10 million and based on retail prices at 31 March 20X1, the expected selling price of the spare parts is ₹ 12 million. On 15 April 20X1, due to market fluctuations, expected selling price of the spare parts in stock reduced to ₹ 8 million. The estimated selling expense required to make the sales would ₹ 0.5 million. Financial statements were authorised by Board of Directors on 20th April 20X1.

As at 31st March 20X2, Directors noted that such inventory is still unsold and lying in the warehouse of the company. Directors believe that inventory is in a saleable condition and active marketing would result in an immediate sale. Since the market conditions have improved, estimated selling price of inventory is ₹ 11 million and estimated selling expenses are same ₹ 0.5 million.

What will be the value inventory at the following dates:

- (a) 31st March 20X1
- (b) 31st March 20X2

7. Following is the extract of the consolidated financial statements of A Ltd. for the year ended on:

Asset/ (liability)	Carry amount as on 31 st March, 20X1 (In ₹ '000)
Attributed goodwill	200
Intangible assets	950
Financial asset measured at fair value through other comprehensive income	300
Property, plant & equipment	1100
Deferred tax asset	250
Current assets – inventory, receivables and cash balances	600
Current liabilities	(850)
Non-current liabilities – provisions	<u>(300)</u>
Total	2,250

On 15th September 20X1, Entity A decided to sell the business. It noted that the business meets the condition of disposal group classified as held for sale on that date in accordance with Ind AS 105. However, it does not meet the conditions to be classified as discontinued operations in accordance with that standard.

The disposal group is stated at the following amounts immediately prior to reclassification as held for sale.

Asset/ (liability)	Carry amount as on 15 th September 20X1 (In ₹ '000)
Attributed goodwill	200
Intangible assets	930
Financial asset measured at fair value through other comprehensive income	360
Property, plant & equipment	1,020
Deferred tax asset	250
Current assets – inventory, receivables and cash balances	520
Current liabilities	(870)
Non-current liabilities – provisions	<u>(250)</u>
Total	2,160

Entity A proposed to sell the disposal group at ₹ 19,00,000. It estimates that the costs to sell will be ₹ 70,000. This cost consists of professional fee to be paid to external lawyers and accountants.

As at 31st March 20X2, there has been no change to the plan to sell the disposal group and entity A still expects to sell it within one year of initial classification. Mr. X, an accountant of Entity A remeasured the following assets/ liabilities in accordance with respective standards as on 31st March 20X2:

Available for sale:	(In ₹ '000)
Financial assets	410
Deferred tax assets	230
Current assets- Inventory, receivables and cash balances	400
Current liabilities	900
Non- current liabilities- provisions	250

The disposal group has not been trading well and its fair value less costs to sell has fallen to ₹ 16,50,000.

Required:

What would be the value of all assets/ liabilities within the disposal group as on the following dates in accordance with Ind AS 105?

- (a) 15 September, 20X1 and
- (b) 31st March, 20X2

8. Company A has taken a long term loan arrangement from Company B. In the month of December 20X1, there has been a breach of material provision of the arrangement. As a consequence of which the loan becomes payable on demand on March 31, 20X2. In the month of May 20X2, the Company started negotiation with the Company B for not to demand payment as a consequence of the breach. The financial statements were approved for the issue in the month of June 20X2. In the month of July 20X2, both company agreed that the payment will not be demanded immediately as a consequence of breach of material provision.

Advise on the classification of the liability as current / non –current.

9. Company A acquires 70% of the equity stake in Company B on July 20, 20X1. The consideration paid for this transaction is as below:
 - (a) Cash consideration of ₹ 15,00,000
 - (b) 200,000 equity shares having face of ₹ 10 and fair value of ₹ 15 per share.

On the date of acquisition, Company B has cash and cash equivalent balance of ₹ 2,50,000 in its books of account.

On October 10, 20X2, Company A further acquires 10% stake in Company B for cash consideration of ₹ 8,00,000.

Advise how the above transactions will be disclosed/presented in the statement of cash flows as per Ind AS 7.

10. On 1 April 20X1, Alpha Ltd. acquires 80 percent of the equity interest of Beta Pvt. Ltd. in exchange for cash of ₹ 300. Due to legal compulsion, Beta Pvt. Ltd. had to dispose of their investments by a specified date. Therefore, they did not have sufficient time to market Beta Pvt. Ltd. to multiple potential buyers. The management of Alpha Ltd. initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirement of Ind AS 103. The identifiable assets are measured at ₹ 500 and the liabilities assumed are measured at ₹ 100. Alpha Ltd. engages an independent consultant, who determined that the fair value of 20 per cent non-controlling interest in Beta Pvt. Ltd. is ₹ 84.

Alpha Ltd. reviewed the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in Beta Pvt. Ltd. and the consideration transferred. After the review, it decided that the procedures and resulting measures were appropriate.

Calculate the gain or loss on acquisition of Beta Pvt. Ltd. and also show the journal entries for accounting of its acquisition. Also calculate the value of the non-controlling interest in Beta Pvt. Ltd. on the basis of proportionate interest method, if alternatively applied?

11. On 30th January, 20X1, A Ltd. purchased a machinery for \$5,000 from USA supplier on credit basis. A's Ltd. functional currency is the Rupee. The exchange rate on the date of transaction is 1\$ = ₹ 60. The fair value of the machinery determined on 31st March, 20X1 is \$ 5,500. The exchange rate on 31st March, 20X1 is 1\$ = ₹ 65. The payment to overseas supplier done on 31st March 20X2 and the exchange rate on 31st March 20X2 is 1\$ = ₹ 67. The fair value of the machinery remain unchanged for the year ended on 31st March 20X2. Prepare the Journal entries for the year ended on 31st March 20X1 and year 20X2 according to Ind AS 21.
12. A's Ltd. profit before tax according to Ind AS for Year 20X1-20X2 is ₹ 100 thousand and taxable profit for year 20X1-20X2 is ₹ 104 thousand. The difference between these amounts arose as follows:

On 1st February, 20X2, it acquired a machine for ₹ 120 thousand. Depreciation is charged on the machine on a monthly basis for accounting purpose. Under the tax law, the machine will be depreciated for 6 months. The machine's useful life is 10 years according to Ind AS as well as for tax purposes. In the year 20X1-20X2, expenses of ₹ 8 thousand were incurred for charitable donations. These are not deductible for tax purposes.

You are required to prepare necessary entries as at 31st March 20X2, taking current and deferred tax into account. The tax rate is 25%.

Also prepare the tax reconciliation in absolute numbers as well as the tax rate reconciliation.

13. A Ltd. purchased some Property, Plant and Equipment on 1st April, 20X1, and estimated their useful lives for the purpose of financial statements prepared on the basis of Ind AS: Following were the original cost, and useful life of the various components of property, plant, and equipment assessed on 1st April, 20X1:

Property, Plant and Equipment	Original Cost	Estimated useful life
Buildings	₹ 15,000,000	15 years
Plant and machinery	₹ 10,000,000	10 years
Furniture and fixtures	₹ 3,500,000	7 years

A Ltd. uses the straight-line method of depreciation. On 1st April, 20X4, the entity reviewed the following useful lives of the property, plant, and equipment through an external valuation expert:

Buildings	10 years
Plant and machinery	7 years
Furniture and fixtures	5 years

There were no salvage values for the three components of the property, plant, and equipment either initially or at the time the useful lives were revised.

Compute the impact of revaluation of useful life on the Statement of Profit and Loss for the year ending 31st March, 20X4.

14. PQR Ltd. participated in a customer loyalty programme operated by a third party XYZ Ltd. Under the programme, members earn points for purchases made in PQR's stores.

The members can redeem the accumulated award points for goods supplied by the third party. PQR Ltd. has granted points to its members on making purchases from its stores. However, the obligation to supply the redeemed goods lies with XYZ Ltd. At the end of 31st March, 20X7, PQR Ltd. X has granted award points with an estimated fair value of INR 40,000 and owes XYZ Ltd. INR 34,000 i.e. goods redeemed were of INR 34,000.

What should be the classification of the expense (INR 34,000) for providing free third party goods assuming that PQR Ltd. is collecting the consideration on its own account; whether it should be

- classified as changes in inventories of finished goods, stock in trade and WIP or
- classified as marketing expense or
- reduced from revenue?

15. ABC Ltd is a government company and is a first-time adopter of Ind AS. As per the previous GAAP, the contributions received by ABC Ltd. from the government (which holds 100% shareholding in ABC Ltd.) which is in the nature of promoters' contribution have been recognised in capital reserve and treated as part of shareholders' funds in accordance with the provisions of AS 12, Accounting for Government Grants.

State whether the accounting treatment of the grants in the nature of promoters' contribution as per AS 12 is also permitted under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance. If not, then what will be the accounting treatment of such grants recognised in capital reserve as per previous GAAP on the date of transition to Ind AS.

16. ABC Ltd. has entered into an operating lease agreement for 5 year, for taking a building on lease for ₹ 5,00,000 p.a. As per the agreement the lessor will charge escalation in the lease @ 20% p.a. However, the general inflation in the country expected for the aforesaid period is around 7% p.a.

Examine whether the lease payment will be straight lined or not as per Ind AS 17 in the book of ABC Ltd.? If yes, should the entire 20% p.a. escalation in lease rent be straight-lined over a period of 5 years or only the difference which exceeds the expected inflation rate will be straight-lined?

17. P Ltd. is a subsidiary company of ABC Ltd. It preparing both Separate financial statement (SFS) and consolidated financial statements (CFS) for the year ending on 31st March, 20X1. It has net profit after tax of ₹ 20,00,000 as per SFS & ₹ 16,00,000 as per CFS. Share capital of P Ltd. is 2,00,000 shares of ₹ 10 each. ABC Ltd. has acquired 80% shares of P Ltd. Accountant of P Ltd. had calculated following Basic EPS for its SFS:

Calculation of Basic EPS in its SFS	
Net Profit after tax	₹ 16,00,000
Number of equity shares attributable to Parent company ABC Ltd. (2,00,000 x 80%)	1,60,000 shares
Basic EPS	₹ 10 per share

Examine the correctness of the above presentation of Basic EPS.

18. Mr. Atul is an independent director of a company X Ltd. He plays a vital role in the Management of X Ltd. and contributes in major decision making process of the organisation. X Ltd. pays sitting fee of ₹ 2,00,000 to him for every Board of Directors' (BOD) meeting he attends. Throughout the year, X Ltd. had 5 such meetings which was attended by Mr. Atul.

Similarly, a non-executive director, Mr. Naveen also attended 5 BOD meetings and charged ₹ 1,50,000 per meeting. The Accountant of X Ltd. believes that they being not the employees of the organisation, their fee should not be disclosed as per related party transaction in accordance with Ind AS 24.

Examine whether the sitting fee paid to independent director and non-executive director is required to be disclosed in the financial statements prepared as per Ind AS?

19. A Ltd. is an entity who prepares its financial statements based on Accounting Standards. Following is the draft financial statement for the year ended on 31st March, 20X1:

(Note all figures are ₹ in million)

Balance Sheet

Particulars	Note	As at March 31, 20X1
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital (shares of ₹ 10 each)		2,000
Reserves and surplus	1	4,000
Non-current liabilities		
Long-term borrowings	2	11,110
Deferred tax liabilities	3	400
Current liabilities		
Trade payables		600
Short-term provisions		500
Other current liabilities	4	<u>300</u>
TOTAL		<u>18,910</u>
ASSETS		
Non - current assets		
Fixed Assets		11,310
Deferred Tax Assets	3	1,000
Current assets		
Inventories		2,000
Trade receivables	5	2,200
Cash and bank balances		<u>2,400</u>
TOTAL		<u>18,910</u>

Note 1: The Company has achieved a major breakthrough in its consultancy services in South Asia following which it has entered into a contract of rendering services with Floral Inc. for ₹ 12 Billion during the year. The termination clause of the contract is equivalent to ₹ 14 Million and is payable in case transition time schedule is missed from 15th December 20X5. The management however is of the view that the liability cannot be treated as onerous.

Note 2: The Company is not able to assess the final liability for a particular tax assessment pertaining to the assessment year 20X1-20X2 wherein it has received a demand notice of ₹ 12 Million. However, the company is contesting the same with CIT (Appeals) as on the reporting date.

Statement of Profit & Loss

Particulars	Note	Year ended March 31, 20X1
Revenue from operations		<u>11,000</u>
Expenses		
Employee Benefit Expense		2,400
Operating Costs		4,400
Depreciation		<u>1,998</u>
Total Expenses		<u>8,798</u>
Profit before tax		2,202
Tax Expense		<u>(300)</u>
Profit after tax		<u>1,902</u>

Notes to Accounts:

Note 1: Reserves and Surplus

(INR in millions)

Capital Reserve		1,000
Surplus from P & L		
Opening Balance	98	
Additions	<u>1,902</u>	2,000
Reserve for foreseeable loss		<u>1,000</u>
Total		<u>4,000</u>

Note 2: Long Term Borrowings

Term Loan from Bank		<u>11,110</u>
Total		<u>11,110</u>

Note 3: Deferred Tax

Deferred Tax Asset	1,000
Deferred Tax Liability	<u>(400)</u>
Total	<u>600</u>

Note 4: Other Current Liabilities

Unclaimed dividends	6
Billing in Advance	<u>294</u>
Total	<u>300</u>

Note 5: Trade Receivables

Considered good (<u>outstanding within 6 months</u>)	2,130
Considered doubtful (due from past 1 year)	80
Provision for doubtful debts	<u>(10)</u>
Total	<u>2,200</u>

Additional Information:

- (a) Share capital comprises of 200 million shares of ₹ 10 each
- (b) Term Loan from bank for ₹ 11,110 million also includes interest accrued and due of ₹ 11,110 million as on the reporting date.
- (c) Reserve for foreseeable loss is created against a service contract due within 6 months.

Required:

- (i) Evaluate and report the errors and misstatements in the above extracts; and,
- (ii) Prepare the corrected Balance Sheet & Statement of Profit and Loss.
20. The following data is given in respect of Samriddhi Ltd. for the year ended 31-3-20X1:

Abstract of Statement of Profit & Loss for the year ended 31-3-20X1

	₹ in '000	₹ in '000
<u>Income</u>		
Sale	2,380	
Other Income	<u>370</u>	2,750
<u>Expenditure</u>		
Operating Cost	1,855	
Administrative Expenses	150	

Interest Cost	215	
Depreciation	<u>240</u>	<u>2,460</u>
Profit before tax		290
Provision for tax		<u>87</u>
Profit after tax		203
Credit balance as per last balance sheet		<u>60</u>
		<u>263</u>

Other Information:

		₹ in '000
1.	Operating cost consists of:	
	Material cost	1,220
	Wages, salaries & other benefits to employees	330
	Local taxes including cess	70
	Other manufacturing expenses	235
2.	Administrative expenses consist of:	
	Directors' Remuneration	55
	Audit Fee	25
	Provision for doubtful debts	8
	Others	62
3.	Interest cost consists of:	
	Interest on 10% debentures	180
	Interest on temporary bank overdraft	35
4.	The capital structure of the company consists of:	
	Equity share capital	1,500
	9% Preference share capital	600

You are required to prepare a Gross Value Added (GVA) statement and calculate the following ratios:

- GVA to Material Cost Ratio (Industry average 0.80)
- GVA to Employee Cost Ratio (Industry average 3.82)
- GVA to Sales Ratio (Industry average 0.70)
- GVA to Capital Employed Ratio (Industry average 0.30)

Also advise on the utility of the above ratios in comparison to the Industry average.

SUGGESTED ANSWERS

1. (i) Calculation and allocation of impairment loss in 20X4 (Amount in ₹ lakhs)

	Goodwill	Identifiable assets	Total
Historical cost	2,000	4,000	6,000
Accumulated depreciation/amortisation (4 yrs.)	(1,600)	(1,067)	(2,667)
Carrying amount before impairment	400	2,933	3,333
Impairment loss*	(400)	(213)	(613)
Carrying amount after impairment loss	0	2,720	2,720

*** Notes:**

1. As per para 87 of AS 28, an impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to goodwill allocated to the cash-generating unit (if any); and
- then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

Hence, first goodwill is impaired at full value and then identifiable assets are impaired to arrive at recoverable value.

2. Since the goodwill has arisen on acquisition of assets, AS 14 comes into the picture. As per para 19 of AS 14, goodwill shall amortise over a period not exceeding five years unless a somewhat longer period can be justified. Therefore, the amortization period of goodwill is considered as 5 years.

(ii) Carrying amount of the assets at the end of 20X6 (Amount in ₹ lakhs)

End of 20X6	Goodwill	Identifiable assets	Total
Carrying amount in 20X6	0	2,225	2,225
Add: Reversal of impairment loss (W.N.2)	-	175	175
Carrying amount after reversal of impairment loss	-	2,400	2,400

Working Note:

1. Calculation of depreciation after impairment till 20X6 and reversal of impairment loss in 20X6

(Amount in ₹ lakhs)			
	Goodwill	Identifiable assets	Total
Carrying amount after impairment loss in 20X4	0	2,720	2,720

Additional depreciation (i.e. $(2,720/11) \times 2$)	—	(495)	(495)
Carrying amount	—	2,225	2,225
Recoverable amount			3,420
Excess of recoverable amount over carrying amount			1,195

Note: It is assumed that the restriction by the Government has been lifted at the end of the year 20X6.

2. Determination of the amount to be impaired by calculating depreciated historical cost of the identifiable assets without impairment at the end of 20X6

(Amount in ₹ lakhs)

End of 20X6	Identifiable assets
Historical cost	4,000
Accumulated depreciation	(266.67 x 6 years) = (1,600)
Depreciated historical cost	2,400
Carrying amount (in W.N. 1)	2,225
Amount of reversal of impairment loss	175

Notes:

1. As per para 107 of AS 28, in allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset should not be increased above the lower of:
 - (a) its recoverable amount (if determinable); and
 - (b) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior accounting periods.

Hence impairment loss reversal is restricted to ₹ 175 lakhs only.
2. The reversal of impairment loss took place in the 6th year. However, goodwill is amortised in 5 years. Therefore, there would be no balance in the goodwill account in the 6th year even without impairment loss. Hence in W.N. 2 above there is no column for recalculation of goodwill.

2. (i) **At the time of initial recognition**

	₹
Liability component	
Present value of 5 yearly interest payments of ₹ 40,000, discounted at 12% annuity $(40,000 \times 3.605)$	1,44,200
Present value of ₹ 5,00,000 due at the end of 5 years, discounted at 12%, compounded yearly $(5,00,000 \times 0.567)$	2,83,500
	4,27,700

Equity component (₹ 5,00,000 – ₹ 4,27,700)	72,300
Total proceeds	5,00,000

Note: Since ₹ 105 is the conversion price of debentures into equity shares and not the redemption price, the liability component is calculated @ ₹ 100 each only.

Journal Entry

		₹	₹
Bank	Dr.	5,00,000	
To 8% Debentures (Liability component)			4,27,700
To 8% Debentures (Equity component)			72,300
(Being Debentures are initially recorded a fair value)			

(ii) At the time of repurchase of convertible debentures

The repurchase price is allocated as follows:

	Carrying Value @ 12%	Fair Value @ 9%	Difference
	₹	₹	₹
Liability component			
Present value of 2 remaining yearly interest payments of ₹ 40,000, discounted at 12% and 9%, respectively	67,600	70,360	
Present value of ₹ 5,00,000 due in 2 years, discounted at 12% and 9%, compounded yearly, respectively	<u>3,98,500</u>	<u>4,21,000</u>	
Liability component	4,66,100	4,91,360	(25,260)
Equity component (5,25,000 - 4,91,360)	<u>72,300</u>	<u>33,640*</u>	<u>38,660</u>
Total	<u>5,38,400</u>	<u>5,25,000</u>	<u>13,400</u>

* $(5,25,000 - 4,91,360) = 33,640$

Journal Entries

		₹	₹
8% Debentures (Liability component)	Dr.	4,66,100	
Profit and loss A/c (Debt settlement expense)	Dr.	25,260	

To Bank A/c (Being the repurchase of the liability component recognised)			4,91,360
8% Debentures (Equity component)	Dr.	72,300	
To Bank A/c			33,640
To Reserves and Surplus A/c			38,660
(Being the cash paid for the equity component recognised)			

3. Toy Ltd. had sold goods to Mac Ltd on credit worth for ₹ 580 lakhs and the sale was completed in all respects. Mac Ltd.'s decision to sell the same in the domestic market at a discount does not affect the amount recorded as sales by Toy Ltd.

The price discount of 10% offered by Toy Ltd. after request of Mac Ltd. was not in the nature of a discount given during the ordinary course of trade because otherwise the same would have been given at the time of sale itself. However, there appears to be an uncertainty relating to the collectability of the debt, which has arisen subsequent to sale. Therefore, it would be appropriate to make a separate provision to reflect the uncertainty relating to collectability rather than to adjust the amount of revenue originally recorded. Hence such discount should be charged to the Statement of Profit and Loss and not shown as deduction from the sales figure.

With respect to sale of land, both sale and gain on sale of land earned by Toy Ltd. shall be recognized in the books at the balance sheet date. In substance, the land was transferred with significant risk & rewards of ownership to the buyer before the balance sheet date and what was pending was merely a formality to register the deed. The registration post the balance sheet date only confirms the condition of sale at the balance sheet date as per Ind AS 10 "Events after the Reporting Period."

4. Since the entity has only general borrowing hence first step will be to compute the capitalisation rate. The capitalisation rate of the general borrowings of the entity during the period of construction is calculated as follows:

Finance cost on ₹ 20 lacs 10% debentures during September – December 20X1	₹ 66,667
Interest @ 15% on overdraft of ₹ 5,00,000 in September 20X1	₹ 6,250
Interest @ 16% on overdraft of ₹ 5,00,000 in October and November 20X1	₹ 13,333
Interest @ 16% on overdraft of ₹ 750,000 in December 20X1	₹ 10,000
Total finance costs in September – December 20X1	₹ 96,250

Weighted average borrowings during period

$$= \frac{(20,00,000 \times 4) + (500,000 \times 3) + (750,000 \times 1)}{4} = ₹ 25,62,500$$

Capitalisation rate = Total finance costs during the construction period / Weighted average borrowings during the construction period

$$= 96,250 / 25,62,500 = 3.756\%$$

5. (i) **ABC's income statement (extracts) for the year ended:**

	31 March 20X2 ₹ Crores
Revenue (based on work certified) (160-100)	60
Cost of sales (balancing figure)	<u>(48)</u>
Profit [(160/250) x (250-200)] - 20	<u>12</u>

Statement of financial position (extracts) as on

	31 March 20X2 ₹ Crores
Current assets	
Amount due from customers	
Contract cost to date	145
Profit recognized (20+12)	<u>32</u>
	177
Progress billing	<u>(160)</u>
Billing to be done	<u>17</u>
Contract assets (amount receivable) (160-150)	10

- (ii) The relevant issue here is what constitutes the accounting policy for construction contracts. Where there is uncertainty in the outcome of a contract, the appropriate accounting policy would be the completed contract basis (i.e. no profit is taken until the contract is completed). Similarly, any expected losses should be recognised immediately.

Where the outcome of a contract is reasonably foreseeable, the appropriate accounting policy is to accrue profits by the percentage of completion method. If this is accepted, it becomes clear that the different methods of determining the percentage of completion of construction contracts are different accounting estimates. Thus the change made by ABC in the year to 31 March 20X2 represents a change of accounting estimate.

6. As per Ind AS 2 'Inventories', inventory is measured at lower of 'cost' or 'net realisable value'. Further, as per Ind AS 10: 'Events after Balance Sheet Date', decline in net realisable value below cost provides additional evidence of events occurring at the balance sheet date and hence shall be considered as 'adjusting events'.
- (a) In the given case, for valuation of inventory as on 31 March 20X1, cost of inventory would be ₹ 10 million and net realisable value would be ₹ 7.5 million (i.e. Expected selling price ₹ 8 million- estimated selling expenses ₹ 0.5 million). Accordingly, inventory shall be measured at ₹ 7.5 million i.e. lower of cost and net realisable value. Therefore, inventory write down of ₹ 2.5 million would be recorded in income statement of that year.
- (b) As per para 33 of Ind AS 2, a new assessment is made of net realizable value in each subsequent period. It Inter alia states that if there is increase in net realizable value because of changed economic circumstances, the amount of write down is reversed so that new carrying amount is the lower of the cost and the revised net realizable value. Accordingly, as at 31 March 20X2, again inventory would be valued at cost or net realisable value whichever is lower. In the present case, cost is ₹ 1 million and net realisable value would be ₹ 10.5 million (i.e. expected selling price ₹ 11 million – estimated selling expense ₹ 0.5 million). Accordingly, inventory would be recorded at ₹ 10 million and inventory write down carried out in previous year for ₹ 2.5 million shall be reversed.
7. (a) **As at 15 September, 20X1**

The disposal group should be measured at ₹ 18,30,000 (19,00,000-70,000). The impairment write down of ₹ 3,30,000 (₹ 21,60,000 – ₹ 18,30,000) should be recorded within profit from continuing operations.

The impairment of ₹ 3,30,000 should be allocated to the carrying values of the appropriate non-current assets.

Asset/ (liability)	Carrying value as at 15 June 2004	Impairment	Revised carrying value as per IND AS 105
Attributed goodwill	200	(200)	-
Intangible assets	930	(62)	868
Financial asset measured at fair value through other comprehensive income	360	-	360
Property, plant & equipment	1,020	(68)	952
Deferred tax asset	250	-	250
Current assets – inventory, receivables and cash balances	520	-	520

Current liabilities	(870)	-	(870)
Non-current liabilities – provisions	<u>(250)</u>	<u>-</u>	<u>(250)</u>
Total	<u>2,160</u>	<u>(330)</u>	<u>1,830</u>

The impairment loss is allocated first to goodwill and then pro rata to the other assets of the disposal group within Ind AS 105 measurement scope. Following assets are not in the measurement scope of the standard- financial asset measured at other comprehensive income, the deferred tax asset or the current assets. In addition, the impairment allocation can only be made against assets and is not allocated to liabilities.

(b) As on 31 March, 20X2:

All of the assets and liabilities, outside the scope of measurement under IFRS 5, are remeasured in accordance with the relevant standards. The assets that are remeasured in this case under the relevant standards are the Financial asset measured at fair value through other comprehensive income (Ind AS 109), the deferred tax asset (Ind AS 12), the current assets and liabilities (various standards) and the non-current liabilities (Ind AS 37).

Asset/ (liability)	Carrying amount as on 15 September, 20X1	Change in value to 31 st March 20X2	Impairment	Revised carrying value as per Ind AS 105
Attributed goodwill	-	-	-	-
Intangible assets	868	-	(29)	839
Financial asset measured at fair value through other comprehensive income	360	50	-	410
Property, plant & equipment	952	-	(31)	921
Deferred tax asset	250	(20)	-	230
Current assets – inventory, receivables and cash balances	520	(120)	-	400
Current liabilities	(870)	(30)	-	(900)
Non-current liabilities – provisions	<u>(250)</u>	<u>-</u>	<u>-</u>	<u>(250)</u>
Total	<u>1,830</u>	<u>(120)</u>	<u>(60)</u>	<u>1,650</u>

8. As per para 74 of Ind AS 1 “Presentation of Financial Statements” where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

In the given case, Company B (the lender) agreed for not to demand payment but only after the financial statements were approved for issuance. The financial statements were approved for issuance in the month of June 20X2 and both companies agreed for not to demand payment in the month of July 20X2 although negotiation started in the month of May 20x2 but could not agree before June 20X2 when financial statements were approved for issuance.

Hence, the liability should be classified as current in the financial statement for the year ended March 31, 20X2. The reason for current classification is as below:

9. As per para 39 of Ind AS 7, the aggregate cash flows arising from obtaining control of subsidiary shall be presented separately and classified as investing activities.

As per para 42 of Ind AS 7, the aggregate amount of the cash paid or received as consideration for obtaining subsidiaries is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.

Further, investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

As per para 42A of Ind AS 7, cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity, as defined in Ind AS 110, and is required to be measured at fair value through profit or loss. Such transactions are accounted for as equity transactions and accordingly, the resulting cash flows are classified in the same way as other transactions with owners.

Considering the above, for the financial year ended March 31, 20X2 total consideration of ₹ 15,00,000 less ₹ 250,000 will be shown under investing activities as “Acquisition of the subsidiary (net of cash acquired)”.

There will not be any impact of issuance of equity shares as consideration in the cash flow statement however a proper disclosure shall be given elsewhere in the financial statements in a way that provides all the relevant information about the issuance of equity shares for non-cash consideration.

Further, in the statement of cash flows for the year ended March 31, 20X3, cash consideration paid for the acquisition of additional 10% stake in Company B will be shown under financing activities.

10. The amount of Beta Pvt. Ltd. identifiable net assets [₹ 400, calculated as ₹ 500 - ₹ 100) exceeds the fair value of the consideration transferred plus the fair value of the non controlling interest in Beta Pvt. Ltd. [₹ 384 calculated as 300 + 84]. Alpha Ltd. measures the gain on its purchase of the 80 per cent interest as follows:

		₹ in lakh
Amount of the identifiable net assets acquired (₹ 500 - ₹ 100)		400
Less: Fair value of the consideration transferred for Alpha Ltd. 80 per cent interest in Beta Pvt. Ltd.	300	
Add: Fair value of non controlling interest in Beta Pvt. Ltd.	<u>84</u>	<u>(384)</u>
Gain on bargain purchase of 80 per cent interest		<u>16</u>

Journal Entry

		₹ in lakhs	₹ in lakhs
Identifiable assets acquired	Dr.	500	
To Cash			300
To Liabilities assumed			100
To OCI/Equity-Gain on the bargain purchase			16
To Equity-non controlling interest in Beta Pvt Ltd.			84

If the acquirer chose to measure the non controlling interest in Beta Pvt. Ltd. on the basis of its proportionate interest in the identifiable net assets of the acquire, the recognized amount of the non controlling interest would be ₹ 80 (₹ 400 x 0.20). The gain on the bargain purchase then would be ₹ 20 (₹ 400 - (₹ 300 + ₹ 80))

11. **Journal Entries**

Purchase of Machinery on credit basis on 30th January 20X1:

		₹	₹
Machinery A/c (5,000 x \$ 60)	Dr.	3,00,000	
To Creditors			3,00,000
(Initial transaction will be recorded at exchange rate on the date of transaction)			

Exchange difference arising on translating monetary item on 31st March 20X1:

		₹	₹
Machinery A/c [(5,500 x \$ 65) - (5,000 x \$ 60)]	Dr.	57,500	

To Profit & loss a/c (Exchange Profit & Loss)			57,500
Profit & Loss A/c [(5,000 x \$ 65) – (5,000 x \$ 60)]	Dr.	25,000	
To Creditors			20,000

Exchange difference arising on translating monetary item and settlement of creditors on 31st March 20X2:

		₹	₹
Creditors A/c (5,000 x \$65)	Dr.	3,25,000	
Profit & loss A/c [(5,000 x (\$ 67 - \$ 65))	Dr.	10,000	
To Bank A/c			3,35,000
Machinery A/c [(5,500*(\$ 67-\$ 65))	Dr.	11,000	
To Profit & loss A/c			11,000

12. Current tax= Taxable profit x Tax rate = ₹104 thousand x 25% = ₹26 thousand.

Computation of Taxable Profit:

	₹ in thousand
Accounting profit	100
Add: Donation not deductible	8
Less: Excess Depreciation	(4)
Total Taxable profit	<u>104</u>

	₹ in thousand	₹ in thousand
Profit & loss A/c	Dr.	26
To Current Tax		26

Deferred tax:

Machine's carrying amount according to Ind AS is ₹ 118 thousand (₹ 120 thousand – ₹ 2 thousand)

Machine's carrying amount for taxation purpose = ₹ 114 thousand (₹ 120 thousand – ₹ 6 thousand)

Deferred Tax Liability = ₹ 4 thousand x 25%

	₹ in thousand	₹ in thousand
Profit & loss A/c	Dr.	1
To Deferred Tax Liability		1

Tax reconciliation in absolute numbers:

	₹ in thousand
Profit before tax according to Ind AS	100
Applicable tax rate	25%
Tax	25
Expenses not deductible for tax purposes (₹ 8 thousand x 25%)	<u>2</u>
Tax expense (Current and deferred)	<u>27</u>

Tax rate reconciliation

Applicable tax rate	25%
Expenses not deductible for tax purposes	<u>2%</u>
Average effective tax rate	<u>27%</u>

13. The annual depreciation charges prior to the change in useful life were

Buildings	₹ 1,50,00,000/15 =	₹ 10,00,000
Plant and machinery	₹ 1,00,00,000/10 =	₹ 10,00,000
Furniture and fixtures	₹ 35,00,000/7 =	<u>₹ 5,00,000</u>
Total =		<u>₹ 25,00,000 (A)</u>

The revised annual depreciation for the year ending 31st March, 20X4, would be

Buildings	$[\text{₹}1,50,00,000 - (\text{₹}10,00,000 \times 3)] / 10$	₹ 12,00,000
Plant and machinery	$[\text{₹}1,00,00,000 - (\text{₹}10,00,000 \times 3)] / 7$	₹ 10,00,000
Furniture and fixtures	$[\text{₹}35,00,000 - (\text{₹}5,00,000 \times 3)] / 5$	<u>₹ 4,00,000</u>
Total		<u>₹ 26,00,000 (B)</u>

The impact on Statement of Profit and Loss for the year ending 31st March, 20X4

$$= \text{₹}26,00,000 - \text{₹}25,00,000 = \text{₹}1,00,000$$

This is a change in accounting estimate which is adjusted prospectively in the period in which the estimate is amended and, if relevant, to future periods if they are also affected. Accordingly, from 20X4-20X5 onward, excess of ₹ 1,00,000 will be charged in the Statement of Profit and Loss every year till the time there is any further revision.

14. Paragraph 8 of Appendix B, Customer Loyalty Programmes of Ind AS 18, Revenue states inter-alia that if the entity is collecting the consideration on its own account, it shall measure its revenue as the gross consideration allocated to the award credits and recognise the revenue when it fulfils its obligations in respect of the awards.”

Accordingly, since PQR Ltd. is acting as a principal, it shall recognise the revenue at gross amount and the expense of providing free third party goods will be included in the cost of goods sold.

Therefore, PQR Ltd. shall recognise the revenue of INR 40,000 and INR 34,000 shall be charged to the Statement of Profit and Loss as cost of goods sold.

15. (1) Paragraph 2 of Ind AS 20, "Accounting for Government Grants and Disclosure of Government Assistance" inter alia states that the Standard does not deal with government participation in the ownership of the entity.

Since ABC Ltd. is a Government company, it implies that government has 100% shareholding in the entity. Accordingly, the entity needs to determine whether the payment is provided as a shareholder contribution or as a government. Equity contributions will be recorded in equity while grants will be shown in the Statement of Profit and Loss.

Where it is concluded that the contributions are in the nature of government grant, the entity shall apply the principles of Ind AS 20 retrospectively as specified in Ind AS 101 'First Time Adoption of Ind AS'. Ind AS 20 requires all grants to be recognised as income on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Unlike AS 12, Ind AS 20 requires the grant to be classified as either a capital or an income grant and does not permit recognition of government grants in the nature of promoter's contribution directly to shareholders' funds.

Where it is concluded that the contributions are in the nature of shareholder contributions and are recognised in capital reserve under previous GAAP, the provisions of paragraph 10 of Ind AS 101 would be applied which states that, which states that except in certain cases, an entity shall in its opening Ind AS Balance Sheet:

- (a) recognise all assets and liabilities whose recognition is required by Ind AS;
- (b) not recognise items as assets or liabilities if Ind AS do not permit such recognition;
- (c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS; and
- (d) apply Ind AS in measuring all recognised assets and liabilities."

Accordingly, as per the above requirements of paragraph 10(c) in the given case, contributions recognised in the Capital Reserve should be transferred to appropriate category under 'Other Equity' at the date of transition to Ind AS.

16. As per paragraph 33 of Ind AS 17, lease payments shall be straight-lined over the period of lease unless

Either

another systematic basis is more representative of the time pattern of the user's benefit even if the payments to the lessors are not on that basis

or

the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then lease payments shall be straight-lined.

Judgement would be required to be made as per the facts and circumstances of each case to determine whether the payments to the lessor are structured to increase in line with expected general inflation. Therefore, it is required to evaluate the lease agreement to ascertain the real intention and attributes of escalation in lease payments, i.e., whether the intention of such escalation is to compensate for expected general inflation or any other factors.

It is not necessary that the rate of the escalation of lease payments should exactly be equal to the expected general inflation. If the actual increase or decrease in the rate of inflation is not materially different as compared to the expected rate of inflation under the lease agreement, it is not required to straight-line the lease payments. However, the purpose of such escalation should only be to compensate the expected general inflation rate.

In the given case, the increase of 20% p.a. in lease rentals does not appear to have any link with general inflation which is expected to be 7%. Accordingly, the entire lease payments should be straight-lined since the increase is not a compensation for inflation.

17. As per paragraph 4 of Ind AS 33 "Earnings per Share", when an entity presents both consolidated financial statements and separate financial statements prepared in accordance with Ind AS 110, Consolidated Financial Statements, and Ind AS 27, Separate Financial Statements, respectively, the disclosures required by this Standard shall be presented both in the consolidated financial statements and separate financial statements. In consolidated financial statements such disclosures shall be based on consolidated information and in separate financial statements such disclosures shall be based on information given in separate financial statements. An entity shall not present in consolidated financial statements, earnings per share based on the information given in separate financial statements and shall not present in separate financial statements, earnings per share based on the information given in consolidated financial statements.

Also paragraph 9 of the standard states that an entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity

and, if presented, profit or loss from continuing operations attributable to those equity holders.

Further, paragraph A1 of Appendix A of Ind AS 33 states that for the purpose of calculating earnings per share based on the consolidated financial statements, profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting for non- controlling interests.

Therefore, the requirements of paragraph 9 of Ind AS 33 have been provided in the context of calculating EPS in the consolidated financial statements of an entity.

The accountants of P Ltd. had followed this for calculation of Basic EPS in its SFS. As per ITFG Bulletin 11, for SFS analogy may be drawn from paragraph 9 of Ind AS 33 that in case of separate financial statements, the parent entity mentioned in paragraph 9 will imply the legal entity of which separate financial statements are being prepared and accordingly, when an entity presents EPS in its separate financial statements, then the same shall be calculated based on the profit or loss attributable to its equity shareholders.

Hence, the presentation of Basic EPS by the Accountant of P Ltd. on the basis of consolidated financial statements in its separate financial statements is not correct. The correct presentation of Basic EPS would be as follows:

Calculation of Basic EPS of P Ltd. in SFS	
Net Profit after tax	₹ 20,00,000
No. of share issued	2,00,000 shares
Basic EPS	₹ 10 per share

18. As per paragraph 9 of Ind AS 24, Related Party Disclosures, "Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity."

Accordingly, key management personnel (KMP) includes any director of the entity who are having authority and responsibility for planning, directing and controlling the activities of the entity. Hence, independent director Mr. Atul and non-executive director Mr. Naveen are covered under the definition of KMP in accordance with Ind AS.

Also as per paragraph 7 and 9 of Ind AS 19, 'Employee Benefits', an employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of the Standard, Employees include directors and other management personnel.

Therefore, contention of the Accountant is wrong that they are not employees of X Ltd.

Paragraph 17 of Ind AS requires disclosure about employee benefits for key management personnel. Therefore, an entity shall disclose key management personnel

compensation in total i.e. disclosure of directors' fee of (₹ 10,00,000 + ₹ 7,50,000) ₹ 17,50,000 is to be made as employees benefits (under various categories).

Since short-term employee benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services, the sitting fee paid to directors will fall under it (as per Ind AS 19) and is required to be disclosed in accordance with the paragraph 17 of Ind AS 24.

19. (a) On evaluation of the financial statements, following was observed:

1. For foreseeable loss provision is made and not reserves. Hence, reserve for foreseeable loss for INR 1000 million, (due within 6 months), should be a part of provision. Therefore, it needs to be regrouped. If it was also a part of previous year's comparatives, then a note should be added in the notes to account for regrouping done this year.
2. Interest accrued and due of INR 1,110 million on term loan will be a part of current liabilities since it is supposed to be paid within 12 months from the reporting date. Hence, it should be shown under the heading "Other Current Liabilities".
3. It can be inferred from Note 3, that the deferred tax liabilities and deferred tax assets relate to taxes on income levied by the same governing taxation laws. Hence, these shall be set off, in accordance with AS 22. The net DTA of INR 600 million shall be shown in the balance sheet.
4. The note to trade receivables was incorrectly presented. The rectified note would be as follows:

Trade receivables (Unsecured)	INR in million
(a) Over six months from the date they were due for payment	
i. Considered good	0
ii. Considered doubtful	80
Less: Provision for doubtful debts	<u>(10)</u>
(A)	<u>70</u>
(b) Others	
i. Considered good	2,130
ii. Considered doubtful	0
Less: Provision for doubtful debts	<u>0</u>
(B)	<u>2,130</u>
Total (A + B)	<u>2,200</u>

5. It is common to have a termination clause in service contracts. Just by having a termination clause, a company cannot create a liability. Para 14 of AS 29 inter alia states that a provision will be recognized when an enterprise has a present obligation as a result of a past event.

Since there is nothing to show that there is a present obligation, no provision will be made.

As per para 27 of AS 29, a contingent liability is recognized only where the possibility of an outflow of resources embodying economic benefits is not remote. Since there is no onerous liability as on the reporting date, the possibility of an outflow becomes remote. Therefore, no contingent liability will arise. In fact, the management has wrongly worded it as 'onerous liability' in its notes to accounts. Onerous liability arises only when the unavoidable costs of meeting the obligation under the contract exceeds the economic benefits expected to be received from it. This note should be eliminated.

6. The demand notice from the tax department (that is under litigation) is a clear instance of a 'contingent liability'. Accordingly, the note should be revised as –

'Contingent Liability:

There is a demand notice INR 12 Million, which is under CIT (Appeals) as on the reporting date.

7. The Statement to Profit and Loss needs to represent earnings per share, as per AS 20.

(b) Revised extracts of the financial statements

Balance Sheet		(INR in Million)
	Note No.	As at March 31, 20X1
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital		2,000
Reserves and surplus	1	3,000
Non-current liabilities		
Long-term borrowings	2	10,000
Current liabilities		
Trade payables		600
Short-term provisions		1,500
Other current liabilities	4	<u>1,410</u>
TOTAL		<u>18,510</u>

ASSETS		
Non - current assets		
Fixed Assets		11,310
Deferred Tax Assets	3	600
Current assets		
Inventories		2,000
Trade receivables	5	2,200
Cash and Cash Equivalents		<u>2,400</u>
TOTAL		<u>18,510</u>

Statement of Profit and Loss
(INR in Million)

	Note No.	Year ended March 31, 20X1
Revenue from operations		<u>11,000</u>
Expenses		
Operating Costs		4,400
Employee Benefit Expense		2,400
Depreciation		<u>1,998</u>
Total Expenses		<u>8,798</u>
Profit Before Tax		2,202
Tax Expense		<u>300</u>
Profit for the period		1,902
Earnings Per Equity Share		
Basic		9.51
Diluted		9.51
Number of equity shares (face value of ₹ 10 each)		200 million

Revised Notes (wherever applicable):

Note on Reserves and Surplus

(INR in Million)

Capital Reserve		1,000
Surplus from P & L		
Opening Bal	98	
Additions	<u>1,902</u>	<u>2,000</u>
Total		<u>3,000</u>

Note on Long Term Borrowings

Term Loan from Bank	<u>10,000</u>
Total	<u>10,000</u>

Note on Other Current Liabilities

Unclaimed dividends	6
Interest on Term Loan	1,110
Billing in Advance	<u>294</u>
Total	<u>1,410</u>

20.

Samriddhi Ltd.**Value Added Statement for the year ended 31st March, 20XI**

	(in ₹'000)	
Sales		2,380
Less: Cost of Bought in Materials and Services:		
Operational Cost ₹ (1,220 + 235)	1,455	
Administrative Expenses ₹ (25+8+62)	95	
Interest cost	<u>35</u>	<u>(1,585)</u>
Value addition by manufacturing and trading activities		795
Add: Other Income		<u>370</u>
Gross Value Added		<u>1,165</u>

Application of Gross Value Added

	(₹ in '000)	(₹ in '000)	%
To Pay Employees:			
Wages/ Salaries to Administrative Staff		330	0.28
To Pay Directors:			
Directors' Remuneration		55	0.05
To Pay Government:			
Local taxes including cess	70		
Provision for tax	<u>87</u>	157	0.14
To Pay Providers of Capital			
Interest on Debentures		180	0.15
To Provide for maintenance			

Depreciation	240		
Retained Profit	<u>203</u>	<u>443</u>	<u>0.38</u>
		<u>1,165</u>	<u>1.00</u>

Ratios

$$(a) \text{ Gross Value Added to Material Cost Ratio} = \frac{\text{Gross Value Added}}{\text{Material cost}} = \frac{1165}{1220} = 0.95$$

Higher GVA ratio of Samriddhi Ltd. in comparison to Industry shows that it has better material utilisation policy than industry's material utilisation policy.

$$(b) \text{ Gross Value Added to Employee Cost Ratio} = \frac{\text{Gross Value Added}}{\text{Employee cost}} = \frac{1165}{330} = 3.53$$

Higher GVA ratio of Industry in comparison to Samriddhi Ltd. shows that Industry's labour productivity or policy is better than Samriddhi Ltd.'s labour productivity or policy.

$$(c) \text{ Gross Value Added to Sales Ratio} = \frac{\text{Gross Value Added}}{\text{Sales}} = \frac{1165}{2380} = 0.49$$

Higher GVA ratio of Industry in comparison to Samriddhi Ltd. shows that Industry's sales policy is better than Samriddhi Ltd.'s sales policy.

$$(d) \text{ Gross Value Added to Capital Employed Ratio}$$

$$= \frac{\text{Gross Value Added}}{\text{Equity share capital} + \text{Preference share capital} + \text{Retained Earnings}}$$

$$= \frac{1165}{(1500 + 600 + 263)} = 0.49$$

Higher GVA ratio of Samriddhi Ltd. in comparison to Industry shows that managerial efficiency of Samriddhi Ltd. is better than Industry. Samriddhi Ltd. is able to efficiently utilise its capital in the generation of profit and in addition of value to its organisation.

Note: Capital Employed may also include Debentures ₹ 18,00,000 as per the concept of Value Added. In such a case, the ratio would be as follows:

$$\text{Gross Value Added to Capital Employed Ratio}$$

$$= \frac{\text{Gross Value Added}}{\text{Equity share capital} + \text{Preference share capital} + \text{Retained Earnings} + \text{Debentures}}$$

$$= \frac{1,165}{(1,500 + 600 + 263 + 1,800)} = 0.28$$

Lower GVA ratio of Samriddhi Ltd. in comparison to Industry shows that Samriddhi Ltd. is marginally below the industry average.

Note:

Ind AS had been made applicable to certain companies from 1st April, 2016 on mandatory basis. Following which, various issues related to the applicability of Ind AS / implementation under Companies (Indian Accounting Standards) Rules, 2015, are being raised by preparers, users and other stakeholders. Although many clarifications have been issued by way of ITFG Bulletins or EAC Opinion, still issues are arising on account of varying interpretations on several of its guidance. Therefore, alternate answers may be possible for the above questions based on standards, depending upon the view taken.

PAPER – 2: STRATEGIC FINANCIAL MANAGEMENT

QUESTIONS

Security Valuation

1. XL Ispat Ltd. has made an issue of 14 per cent non-convertible debentures on January 1, 2007. These debentures have a face value of ₹ 100 and is currently traded in the market at a price of ₹ 90.

Interest on these NCDs will be paid through post-dated cheques dated June 30 and December 31. Interest payments for the first 3 years will be paid in advance through post-dated cheques while for the last 2 years post-dated cheques will be issued at the third year. The bond is redeemable at par on December 31, 2011 at the end of 5 years.

Required:

- (i) CALCULATE the current yield and YTM of the bond.
 - (ii) CALCULATE the duration of the NCD.
 - (iii) CALCULATE the realized yield on the NCD assuming that intermediate coupon payments are, not available for reinvestment calculate.
2. SAM Ltd. has just paid a dividend of ₹ 2 per share and it is expected to grow @ 6% p.a. After paying dividend, the Board declared to take up a project by retaining the next three annual dividends. It is expected that this project is of same risk as the existing projects. The results of this project will start coming from the 4th year onward from now. The dividends will then be ₹ 2.50 per share and will grow @ 7% p.a.

An investor has 1,000 shares in SAM Ltd. and wants a receipt of at least ₹ 2,000 p.a. from this investment.

Required:

- (i) EVALUATE whether the market value of the share is affected by the decision of the Board.
- (ii) RECOMMEND how the investor can maintain his target receipt from the investment for first 3 years and improved income thereafter, given that the cost of capital of the firm is 8%.

Portfolio Management

3. Expected returns on two stocks for particular market returns are given in the following table:

Market Return	Aggressive	Defensive
7%	4%	9%
25%	40%	18%

CALCULATE:

- (i) The Betas of the two stocks.
 - (ii) Expected return of each stock, if the market return is equally likely to be 7% or 25%.
 - (iii) The Security Market Line (SML), if the risk free rate is 7.5% and market return is equally likely to be 7% or 25%.
 - (iv) The Alphas of the two stocks.
4. Following are the details of a portfolio consisting of three shares:

Share	Portfolio weight	Beta	Expected return in %	Total variance
A	0.20	0.40	14	0.015
B	0.50	0.50	15	0.025
C	0.30	1.10	21	0.100

Standard Deviation of Market Portfolio Returns = 10%

You are given the following additional data:

Covariance (A, B) = 0.030

Covariance (A, C) = 0.020

Covariance (B, C) = 0.040

CALCULATE:

- (i) The Portfolio Beta
- (ii) Residual variance of each of the three shares
- (iii) Portfolio variance using Sharpe Index Model
- (iv) Portfolio variance (on the basis of modern portfolio theory given by Markowitz)

Mutual Funds

5. Sun Moon Mutual Fund (Approved Mutual Fund) sponsored open-ended equity oriented scheme "Chanakya Opportunity Fund". There were three plans viz. 'A' – Dividend Re-investment Plan, 'B' – Bonus Plan & 'C' – Growth Plan.

At the time of Initial Public Offer on 1.4.2009, Mr. Anand, Mr. Bacchan & Mrs. Charu, three investors invested ₹ 1,00,000 each & chosen 'B', 'C' & 'A' Plan respectively.

The History of the Fund is as follows:

Date	Dividend %	Bonus Ratio	Net Asset Value per Unit (F.V. ₹ 10)		
			Plan A	Plan B	Plan C
28.07.2013	20		30.70	31.40	33.42

31.03.2014	70	5 : 4	58.42	31.05	70.05
31.10.2017	40		42.18	25.02	56.15
15.03.2018	25		46.45	29.10	64.28
31.03.2018		1 : 3	42.18	20.05	60.12
24.03.2019	40	1 : 4	48.10	19.95	72.40
31.07.2019			53.75	22.98	82.07

On 31st July 2019 all three investors redeemed all the balance units.

CALCULATE:

- (i) Annual rate of return of Mrs. Charu who has invested in 'A' – Dividend Re-investment Plan.
- (ii) Annual rate of return of Mr. Anand who has invested in 'B' – Bonus Plan.
- (iii) Annual rate of return of Mr. Bacchan who has invested 'C' – Growth Plan.

Assumptions:

1. Long-term Capital Gain is exempt from Income tax.
2. Short-term Capital Gain is subject to 10% Income tax.
3. Security Transaction Tax 0.2 per cent only on sale/redemption of units.
4. Ignore Education Cess

Derivative Analysis and Valuation

6. The following market data is available:

Spot USD/JPY 116.00

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

Forward Rate Agreement (FRA) for Yen is Nil.

Required:

- (i) CALCULATE 3 months FRA rate at 3 months forward?
 - (ii) RECOMMEND arbitrage strategy, when 6 & 12 months LIBORS are 5% & 6.5% respectively and X Ltd. bank is quoting 6/12 USD FRA at 6.50 – 6.75%.?
7. TMC Holding Ltd. has a portfolio of shares of diversified companies valued at ₹ 400 crore enters into a swap arrangement with None Bank on the terms that it will get 1.15% quarterly on notional principal of ₹ 80 crore in exchange of return on portfolio which is exactly tracking the Sensex which is presently 21600.

CALCULATE the net payment to be received/ paid at the end of each quarter if Sensex turns out to be 21,860, 21,780, 22,080 and 21,960.

Foreign Exchange Exposure and Risk Management

8. An importer booked a forward contract with his bank on 10th April for USD 2,00,000 due on 10th June @ ₹ 64.4000. The bank covered its position in the market at ₹ 64.2800.

The exchange rates for dollar in the interbank market on 10th June and 20th June were:

	10 th June	20 th June
Spot USD 1=	₹ 63.8000/8200	₹ 63.6800/7200
Spot/June	₹ 63.9200/9500	₹ 63.8000/8500
July	₹ 64.0500/0900	₹ 63.9300/9900
August	₹ 64.3000/3500	₹ 64.1800/2500
September	₹ 64.6000/6600	₹ 64.4800/5600

Exchange Margin 0.10% and interest on outlay of funds @ 12%. The importer requested on 20th June for extension of contract with due date on 10th August.

Rates rounded to 4 decimal in multiples of 0.0025.

On 10th June, Bank Swaps by selling spot and buying one month forward.

CALCULATE:

- (i) Cancellation rate
 - (ii) Amount payable on \$ 2,00,000
 - (iii) Swap loss
 - (iv) Interest on outlay of funds, if any
 - (v) New contract rate
 - (vi) Total Cost
9. Your bank's London office has surplus funds to the extent of USD 5,00,000/- for a period of 3 months. The cost of the funds to the bank is 4% p.a. It proposes to invest these funds in London, New York or Frankfurt and obtain the best yield, without any exchange risk to the bank. The following rates of interest are available at the three centres for investment of domestic funds there at for a period of 3 months.

London	5 % p.a.
New York	8% p.a.
Frankfurt	3% p.a.

The market rates in London for US dollars and Euro are as under:

London on New York

Spot	1.5350/90
1 month	15/18
2 month	30/35
3 months	80/85

London on Frankfurt

Spot	1.8260/90
1 month	60/55
2 month	95/90
3 month	145/140

RECOMMEND at which centre, the investment to be made & what will be the net gain (to the nearest pound) to the bank on the invested funds?

International Financial Management

10. A foreign based company is planning to set up a software development unit in India. Software developed at the Indian unit will be bought back by the foreign parent company at a transfer price of US \$10 millions. The unit will remain in existence in India for one year; the software is expected to get developed within this time frame.

The foreign based company will be subject to corporate tax of 30 per cent and a withholding tax of 10 per cent in India and will not be eligible for tax credit. The software developed will be sold in the international market for US \$ 12.0 millions. Other estimates are as follows:

Rent for fully furnished unit with necessary hardware in India	₹ 20,00,000
Man power cost (80 software professional will be working for 10 hours each day)	₹ 540 per man hour
Administrative and other costs	₹ 16,20,000

The rupee-dollar rate is ₹65/\$.

ADVISE the foreign company on the financial viability of the project.

Assumption: 365 days in a year.

Interest Rate Risk Management

11. Electraspace is consumer electronics wholesaler. The business of the firm is highly seasonal in nature. In 6 months of a year, firm has a huge cash deposits and especially near Christmas time and other 6 months firm cash crunch, leading to borrowing of money to cover up its exposures for running the business.

It is expected that firm shall borrow a sum of €50 million for the entire period of slack season in about 3 months.

A Bank has given the following quotations:

Spot	5.50% - 5.75%
3 × 6 FRA	5.59% - 5.82%
3 × 9 FRA	5.64% - 5.94%

3 month €50,000 future contract maturing in a period of 3 months is quoted at 94.15 (5.85%).

ADVISE:

- (i) How a FRA, shall be useful if the actual interest rate after 3 months turnout to be:
 (a) 4.5% (b) 6.5%
- (ii) How 3 months Future contract shall be useful for company if interest rate turns out as mentioned in part (a) above.

Corporate Valuation

12. BRS Inc deals in computer and IT hardwares and peripherals. The expected revenue for the next 8 years is as follows:

Years	Sales Revenue (\$ Million)
1	8
2	10
3	15
4	22
5	30
6	26
7	23
8	20

Summarized financial position as on 31 March 2012 was as follows:

\$ Million

Liabilities	Amount	Assets	Amount
Equity Stocks	12	Fixed Assets (Net)	17
12% Bonds	8	Current Assets	3
	20		20

Additional Information:

- (a) Its variable expenses is 40% of sales revenue and fixed operating expenses (cash) are estimated to be as follows:

Period	Amount (\$ Million)
1- 4 years	1.6
5-8 years	2

- (b) An additional advertisement and sales promotion campaign shall be launched requiring expenditure as per following details:

Period	Amount (\$ Million)
1 year	0.50
2-3 years	1.50
4-6 years	3.00
7-8 years	1.00

- (c) Fixed assets are subject to depreciation at 15% as per WDV method.
 (d) The company has planned additional capital expenditures (in the beginning of each year) for the coming 8 years as follows:

Period	Amount (\$ Million)
1	0.50
2	0.80
3	2.00
4	2.50
5	3.50
6	2.50
7	1.50
8	1.00

- (e) Investment in Working Capital is estimated to be 20% of Revenue.
 (f) Applicable tax rate for the company is 30%.
 (g) Cost of Equity is estimated to be 16%.
 (h) The Free Cash Flow of the firm is expected to grow at 5% per annum after 8 years.

CALCULATE:

- (i) Value of Firm
 (ii) Value of Equity

Mergers, Acquisitions and Corporate Restructuring

13. T Ltd. and E Ltd. are in the same industry. The former is in negotiation for acquisition of the latter. Important information about the two companies as per their latest financial statements is given below:

	T Ltd.	E Ltd.
₹ 10 Equity shares outstanding	12 Lakhs	6 Lakhs
Debt:		
10% Debentures (₹ Lakhs)	580	--
12.5% Institutional Loan (₹ Lakhs)	--	240
Earning before interest, depreciation and tax (EBIDAT) (₹ Lakhs)	400.86	115.71
Market Price/share (₹)	220.00	110.00

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

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

CALCULATE the following under both alternatives - T Ltd.'s offer and E Ltd.'s plan:

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

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

Theoretical Questions

14. DISTINGUISH between:
- (a) Banking and Non-Banking financial institutions
 - (b) Primary participants and secondary participants in securitization
 - (c) Islamic Finance and Conventional Finance
15. (a) DESCRIBE Value at Risk and its application.
- (b) EXPLAIN the concept of Bootstrapping and describe the various methods of bootstrapping used by start ups.
- (c) DESCRIBE the guidelines for SME listing and its benefits.

SUGGESTED ANSWERS/HINTS

1. (i) Current yield = $\frac{₹ 7}{₹ 90} \times \frac{12}{6} = 0.1555$ or 15.55%

YTM can be determined from the following equation

$7 \times PVIFA (YTM, 10) + 100 \times PVIF (YTM, 10) = 90$

Let us discount the cash flows using two discount rates 7.50% and 9% as follows:

Year	Cash Flows	PVF@7.50%	PV@7.50%	PVF@9%	PV@9%
0	-90	1	-90	1	-90
1	7	0.930	6.51	0.917	6.419
2	7	0.865	6.055	0.842	5.894
3	7	0.805	5.635	0.772	5.404
4	7	0.749	5.243	0.708	4.956
5	7	0.697	4.879	0.650	4.550
6	7	0.648	4.536	0.596	4.172
7	7	0.603	4.221	0.547	3.829
8	7	0.561	3.927	0.502	3.514
9	7	0.522	3.654	0.460	3.220
10	107	0.485	51.90	0.422	45.154
			6.560		-2.888

Now we use interpolation formula

$7.50\% + \frac{6.560}{6.560 - (-2.888)} \times 1.50\%$

$7.50\% + \frac{6.560}{9.448} \times 1.50\% = 7.50\% + 1.041\%$

YTM = 8.541% say 8.54%

Note: Students can also compute the YTM using rates other than 15% and 18%.

(ii) The duration can be calculated as follows:

Year	Cash Flow	PVF@ 8.54%	PV @ 8.54%	Proportion of NCD value	Proportion of NCD value × time
1	7	0.921	6.447	0.0717	0.0717
2	7	0.849	5.943	0.0661	0.1322

3	7	0.782	5.474	0.0608	0.1824
4	7	0.721	5.047	0.0561	0.2244
5	7	0.664	4.648	0.0517	0.2585
6	7	0.612	4.284	0.0476	0.2856
7	7	0.563	3.941	0.0438	0.3066
8	7	0.519	3.633	0.0404	0.3232
9	7	0.478	3.346	0.0372	0.3348
10	107	0.441	47.187	0.5246	5.2460
			89.95		7.3654

Duration = 7.3654 half years i.e. 3.683 years.

(iii) Realized Yield can be calculated as follows:

$$\frac{(7 \times 10) + 100}{(1 + R)^{10}} = 90$$

$$(1 + R)^{10} = \frac{170}{90}$$

$$R = \left(\frac{170}{90} \right)^{1/10} - 1 = 0.06380 \text{ or } 6.380\% \text{ for half yearly and } 12.76\% \text{ annually.}$$

2. (i) Value of share at present = $\frac{D_1}{k_e - g}$

$$= \frac{2(1.06)}{0.08 - 0.06} = ₹ 106$$

However, if the Board implement its decision, no dividend would be payable for 3 years and the dividend for year 4 would be ₹ 2.50 and growing at 7% p.a. The price of the share, in this case, now would be:

$$P_0 = \frac{2.50}{0.08 - 0.07} \times \frac{1}{(1 + 0.08)^3} = ₹ 198.46$$

So, the price of the share is expected to increase from ₹ 106 to ₹ 198.45 after the announcement of the project. The investor can take up this situation as follows:

Expected market price after 3 years	= $\frac{2.50}{0.08 - 0.07}$	₹ 250.00
-------------------------------------	------------------------------	----------

Expected market price after 2 years	$\frac{2.50}{0.08 - 0.07} \times \frac{1}{(1 + 0.08)}$	₹ 231.48
Expected market price after 1 years	$\frac{2.50}{0.08 - 0.07} \times \frac{1}{(1 + 0.08)^2}$	₹ 214.33

(ii) In order to maintain his receipt at ₹ 2,000 for first 3 year, he would sell

10 shares in first year @ ₹ 214.33 for	₹ 2,143.30
9 shares in second year @ ₹ 231.48 for	₹ 2,083.32
8 shares in third year @ ₹ 250 for	₹ 2,000.00

At the end of 3rd year, he would be having 973 shares valued @ ₹ 250 each i.e. ₹ 2,43,250. On these 973 shares, his dividend income for year 4 would be @ ₹ 2.50 i.e. ₹ 2,432.50.

Thus, if the project is taken up by the company, the investor would be able to maintain his receipt of at least ₹ 2,000 for first three years and would be getting increased income thereafter.

3. (i) The Betas of two stocks:

$$\text{Aggressive stock} \quad - \quad 40\% - 4\%/25\% - 7\% = 2$$

$$\text{Defensive stock} \quad - \quad 18\% - 9\%/25\% - 7\% = 0.50$$

Alternatively, it can also be solved by using the Characteristic Line Relationship as follows:

$$R_s = \alpha + \beta R_m$$

Where

α = Alpha

β = Beta

R_m = Market Return

For Aggressive Stock

$$4\% = \alpha + \beta(7\%)$$

$$40\% = \alpha + \beta(25\%)$$

$$36\% = \beta(18\%)$$

$$\beta = 2$$

For Defensive Stock

$$9\% = \alpha + \beta(7\%)$$

$$18\% = \alpha + \beta(25\%)$$

$$9\% = \beta(18\%)$$

$$\beta = 0.50$$

(ii) Expected returns of the two stocks:-

$$\text{Aggressive stock} \quad - \quad 0.5 \times 4\% + 0.5 \times 40\% = 22\%$$

$$\text{Defensive stock} \quad - \quad 0.5 \times 9\% + 0.5 \times 18\% = 13.5\%$$

(iii) Expected return of market portfolio = $0.5 \times 7\% + 0.5 \times 25\% = 16\%$

$$\therefore \text{Market risk prem.} = 16\% - 7.5\% = 8.5\%$$

$$\therefore \text{SML is, required return} = 7.5\% + \beta i \ 8.5\%$$

(iv) $R_s = \alpha + \beta R_m$

For Aggressive Stock

$$22\% = \alpha_A + 2(16\%)$$

$$\alpha_A = -10\%$$

For Defensive Stock

$$13.5\% = \alpha_D + 0.50(16\%)$$

$$\alpha_D = 5.5\%$$

4. (i) Portfolio Beta

$$0.20 \times 0.40 + 0.50 \times 0.50 + 0.30 \times 1.10 = 0.66$$

(ii) Residual Variance

To determine Residual Variance first of all we shall compute the Systematic Risk as follows:

$$\beta_A^2 \times \sigma_M^2 = (0.40)^2(0.01) = 0.0016$$

$$\beta_B^2 \times \sigma_M^2 = (0.50)^2(0.01) = 0.0025$$

$$\beta_C^2 \times \sigma_M^2 = (1.10)^2(0.01) = 0.0121$$

Residual Variance

$$\text{A} \quad 0.015 - 0.0016 = 0.0134$$

$$\text{B} \quad 0.025 - 0.0025 = 0.0225$$

$$\text{C} \quad 0.100 - 0.0121 = 0.0879$$

(iii) Portfolio variance using Sharpe Index Model

$$\text{Systematic Variance of Portfolio} = (0.10)^2 \times (0.66)^2 = 0.004356$$

$$\text{Unsystematic Variance of Portfolio} = 0.0134 \times (0.20)^2 + 0.0225 \times (0.50)^2 + 0.0879 \times (0.30)^2 = 0.014072$$

$$\text{Total Variance} = 0.004356 + 0.014072 = 0.018428$$

(iv) Portfolio variance on the basis of Markowitz Theory

$$\begin{aligned} &= (W_A \times W_A \times \sigma_A^2) + (W_A \times W_B \times \text{COV}_{AB}) + (W_A \times W_C \times \text{COV}_{AC}) + (W_B \times W_A \times \text{COV}_{AB}) + (W_B \times W_B \times \sigma_B^2) \\ &+ (W_B \times W_C \times \text{COV}_{BC}) + (W_C \times W_A \times \text{COV}_{CA}) + (W_C \times W_B \times \text{COV}_{CB}) + (W_C \times W_C \times \sigma_C^2) \\ &= (0.20 \times 0.20 \times 0.015) + (0.20 \times 0.50 \times 0.030) + (0.20 \times 0.30 \times 0.020) + (0.20 \times 0.50 \times 0.030) \\ &+ (0.50 \times 0.50 \times 0.025) + (0.50 \times 0.30 \times 0.040) + (0.30 \times 0.20 \times 0.020) + (0.30 \times 0.50 \times 0.040) \\ &+ (0.30 \times 0.30 \times 0.10) \\ &= 0.0006 + 0.0030 + 0.0012 + 0.0030 + 0.00625 + 0.0060 + 0.0012 + 0.0060 + 0.0090 \\ &= 0.0363 \end{aligned}$$

5. (i) Return of Mrs. Charu invested in Plan A (Dividend Reinvestment)

(Amount in ₹)

Date	Investment	Dividend payout (%)	Dividend Re-invested (Closing Units X Face value of '10 X Dividend Payout %)	NAV	Units	Closing Unit Balance Σ Units
01.04.2009	1,00,000.00			10.00	10,000.00	10,000.00
28.07.2013		20	20,000.00	30.70	651.47	10,651.47
31.03.2014		70	74,560.29	58.42	1,276.28	11,927.75
31.10.2017		40	47,711.00	42.18	1,131.13	13,058.88
15.03.2018		25	32,647.20	46.45	702.85	13,761.73
24.03.2019		40	55,046.92	48.10	1,144.43	14,906.16

Redemption value $14,906.16 \times 53.75$ 8,01,206.10

Less: Security Transaction Tax (STT) is 0.2% 1,602.41

Net amount received 7,99,603.69

Less: Short term capital gain tax @ 10% on 1,144.43 (53.64* – 48.10) = 6,340 634

Net of tax 7,98,969.69

Less: Investment 1,00,000.00

6,98,969.69

*(53.75 – STT @ 0.2%) ≈ This value can also be taken as zero

$$\text{Annual average return (\%)} = \frac{6,98,969.69}{1,00,000} \times \frac{12}{124} \times 100 = 67.64 \%$$

(ii) Return of Mr. Anand invested in Plan B – (Bonus)

				(Amount in ₹)
Date	Units	Bonus units	Total Balance	NAV per unit
01.04.2009	10,000		10,000	10
31.03.2014		12,500	22,500	31.05
31.03.2018		7,500	30,000	20.05
24.03.2019		7,500	37,500	19.95

Redemption value 37,500 × 22.98	8,61,750.00
Less: Security Transaction Tax (STT) is 0.2%	<u>1,723.50</u>
Net amount received	8,60,026.50
Less: Short term capital gain tax @ 10%	
7,500 × (22.93† – 19.95) = 22,350	<u>2,235.00</u>
Net of tax	8,57,791.50
Less: Investment	<u>1,00,000.00</u>
Net gain	<u>7,57,791.50</u>

†(22.98 – STT @ 0.2%)

$$\text{Annual average return (\%)} = \frac{7,57,791.50}{1,00,000} \times \frac{12}{124} \times 100 = 73.33 \%$$

(iii) Return of Mr. Bacchan invested in Plan C – (Growth)

Particulars	(Amount in ₹)
Redemption value 10,000 × 82.07	8,20,700.00
Less: Security Transaction Tax (S.T.T) is .2%	<u>1,641.40</u>
Net amount received	8,19,058.60
Less: Short term capital gain tax @ 10%	<u>0.00</u>
Net of tax	8,19,058.60
Less: Investment	<u>1,00,000.00</u>
Net gain	<u>7,19,058.60</u>

$$\text{Annual average return (\%)} = \frac{7,19,058}{1,00,000} \times \frac{12}{124} \times 100 = 69.59 \%$$

Note: Alternatively, figure of * and † can be taken as without net of Tax because, as per Proviso 5 of Section 48 of IT Act, no deduction of STT shall be allowed in computation of Capital Gain.

6. (i) **3 Months Interest rate is 4.50% & 6 Months Interest rate is 5% p.a.**

Future Value 6 Months from now is a product of Future Value 3 Months now & 3 Months

Future Value from after 3 Months.

$$(1+0.05*6/12) = (1+0.045*3/12) \times (1+i_{3,6} *3/12)$$

$$i_{3,6} = [(1+0.05* 6/12) / (1+0.045 *3/12) - 1] *12/3$$

i.e. 5.44% p.a.

(ii) To find arbitrage opportunity first we shall find out the 6 Months forward 6 month rate as follows:

$$(1+0.065) = (1+0.05*6/12) \times (1+i_{6,6} *6/12)$$

$$i_{6,6} = [(1+0.065/1.025) - 1] *12/6$$

6 Months forward 6 month rate is 7.80% p.a.

The Bank is quoting 6/12 USD FRA at 6.50 – 6.75%

Therefore, there is an arbitrage Opportunity of earning interest @ 7.80% p.a. & Paying @ 6.75%

Strategy: Borrow for 6 months, buy an FRA & invest for 12 months

To get \$ 1.065 at the end of 12 months for \$ 1 invested today

To pay\$ 1.060# at the end of 12 months for every \$ 1 Borrowed today

Net gain \$ 0.005 i.e. risk less profit for every \$ borrowed

$$\# (1+0.05/2) (1+.0675/2) = (1.05959) \text{ say } 1.060$$

7.

Qtrs.	Sensex	Sensex Return (%)	Amount Payable (₹ Crore)	Fixed Return (Receivable) (₹ Crore)	Net (₹ Crore)
(1)	(2)	(3)	(4)	(5)	(5) – (4)
0	21,600	-	-	-	-
1	21,860	1.2037	4.8148	4.6000	- 0.2148
2	21,780	-0.3660	-1.4640	4.6000	6.0640
3	22,080	1.3774	5.5096	4.6000	- 0.9096
4	21,960	-0.5435	-2.1740	4.6000	6.7740

8. (i) Cancellation Rate:

The forward sale contract shall be cancelled at Spot TT Purchase for \$ prevailing on the date of cancellation as follows:

\$/ ₹ Market Buying Rate	₹ 63.6800
Less: Exchange Margin @ 0.10%	₹ 0.0636
	₹ 63.6163

Rounded off to ₹ 63.6175

(ii) Amount payable on \$ 2,00,000

Bank sells \$2,00,000 @ ₹ 64.4000	₹ 1,28,80,000
Bank buys \$2,00,000 @ ₹ 63.6163	₹ 1,27,23,260
Amount payable by customer	₹ 1,56,740

(iii) Swap Loss

On 10th June the bank does a swap sale of \$ at market buying rate of ₹ 63.8300 and forward purchase for June at market selling rate of ₹ 63.9500.

Bank buys at	₹ 63.9500
Bank sells at	₹ 63.8000
Amount payable by customer	₹ 0.1500

Swap Loss for \$ 2,00,000 in ₹ = ₹ 30,000

(iv) Interest on Outlay of Funds

On 10th April, the bank receives delivery under cover contract at ₹ 64.2800 and sell spot at ₹ 63.8000.

Bank buys at	₹ 64.2800
Bank sells at	₹ 63.8000
Amount payable by customer	₹ 0.4800

Outlay for \$ 2,00,000 in ₹ 96,000

Interest on ₹ 96,000 @ 12% for 10 days ₹ 320

(v) New Contract Rate

The contract will be extended at current rate

\$/ ₹ Market forward selling Rate for August	₹ 64.2500
Add: Exchange Margin @ 0.10%	₹ 0.0643
	₹ 64.3143

Rounded off to ₹ 64.3150

(vi) **Total Cost**

Cancellation Charges	₹ 1,56,740.00
Swap Loss	₹ 30,000.00
Interest	₹ 320.00
	<u>₹ 1,87,060.00</u>

9. To determine the centre of investment by bank except New York (in whose currency the surplus is available) Arbitrage Profit for remaining two centres shall be computed as follows:

(a) **If investment is made at London**

Convert US\$ 5,00,000 at Spot Rate (5,00,000/1.5390) = £ 3,24,886
 Add: £ Interest for 3 months on £ 324,886 @ 5% = £ 4,061
 = £ 3,28,947

Less: Amount Invested \$ 5,00,000
 Interest accrued thereon \$ 5,000
 = \$ 5,05,000

Equivalent amount of £ required to pay the above sum (\$ 5,05,000/1.5430) = £ 3,27,285
 Arbitrage Profit = £ 1,662

(b) **If investment is made at New York**

Gain \$ 5,00,000 (8% - 4%) x 3/12 = \$ 5,000
 Equivalent amount in £ 3 months (\$ 5,000/ 1.5475) £ 3,231

(c) **If investment is made at Frankfurt**

Convert US\$ 500,000 at Spot Rate (Cross Rate) 1.8260/1.5390 = € 1.1865
 Euro equivalent US\$ 500,000 = € 5,93,250
 Add: Interest for 3 months @ 3% = € 4,449
 = € 5,97,699

3 month Forward Rate of selling € (1/1.8150) = £ 0.5510
 Sell € in Forward Market € 5,97,699 x £ 0.5510 = £ 3,29,332
 Less: Amount invested and interest thereon = £ 3,27,285
 Arbitrage Profit = £ 2,047

Recommendation: Since out of three options the maximum profit is in case investment is made in New York. Hence it shall be opted and arbitrage gain would be ₹3,231.

10. Proforma profit and loss account of the Indian software development unit

	₹	₹
Revenue		65,00,00,000
Less: Costs:		
Rent	20,00,000	
Manpower (₹540 x 80 x 10 x 365)	15,76,80,000	
Administrative and other costs	16,20,000	16,13,00,000
Earnings before tax		48,87,00,000
Less: Tax		14,66,10,000
Earnings after tax		34,20,90,000
Less: Withholding tax		3,42,09,000
Repatriation amount (in rupees)		30,78,81,000
Repatriation amount (in dollars)		\$4.7366 million

Advise: The cost of development software in India for the foreign based company is \$5.3 million. As the USA based Company is expected to sell the software in the international market at \$12.0 million, it is advised to develop the software in India.

11. (i) By entering into an FRA, firm shall effectively lock in interest rate for a specified future in the given it is 6 months. Since, the period of 6 months is starting in 3 months, the firm shall opt for 3 × 9 FRA locking borrowing rate at 5.94%.

In the given scenarios, the net outcome shall be as follows:

	If the rate turns out to be 4.50%	If the rate turns out to be 6.50%
FRA Rate	5.94%	5.94%
Actual Interest Rate	4.50%	6.50%
Loss/ (Gain)	1.44%	(0.56%)
FRA Payment / (Receipts)	€50 m × 1.44% × ½ = €360,000	€50m × 0.56% × ½ = (€140,000)
Interest after 6 months on €50 Million at actual rates	= €50m × 4.5% × ½ = €1,125,000	= €50m × 6.5% × ½ = €1,625,000
Net Out Flow	€ 1,485,000	€1,485,000

Thus, by entering into FRA, the firm has committed itself to a rate of 5.94% shown as follows:

$$\frac{€ 1,485,000}{€ 50,000,000} \times 100 \times \frac{12}{6} = 5.94\%$$

- (ii) Since firm is a borrower it will like to off-set interest cost by profit on Future Contract. Accordingly, if interest rate rises it will gain hence it should sell interest rate futures.

$$\begin{aligned} \text{No. of Contracts} &= \frac{\text{Amount of Borrowing}}{\text{Contract Size}} \times \frac{\text{Duration of Loan}}{3 \text{ months}} \\ &= \frac{€ 50,000,000}{€ 50,000} \times \frac{6}{3} = 2000 \text{ Contracts} \end{aligned}$$

The final outcome in the given two scenarios shall be as follows:

	If the interest rate turns out to be 4.5%	If the interest rate turns out to be 6.5%
<i>Future Course Action:</i>		
Sell to open	94.15	94.15
Buy to close	95.50 (100 - 4.5)	93.50 (100 - 6.5)
Loss/ (Gain)	1.35%	(0.65%)
Cash Payment (Receipt) for Future Settlement	€50,000×2000× 1.35%×3/12 = €337,500	€50,000×2000×0.65% × 3/12 = (€162,500)
Interest for 6 months on €50 million at actual rates	€50 million × 4.5% × ½ = €11,25,000	€50 million × 6.5% × ½ = €16,25,000
	€1,462,500	€1,462,500

Thus, the firm locked itself in interest rate of 5.85% shown as follows:

$$\frac{€ 1,462,500}{€ 50,000,000} \times 100 \times \frac{12}{6} = 5.85\%$$

12. Working Notes:

- (a) Determination of Weighted Average Cost of Capital

Sources of funds	Cost (%)	Proportions	Weights	Weighted Cost
Equity Stock	16	12/20	0.60	9.60
12% Bonds	12%(1-0.30) = 8.40	8/20	0.40	3.36
				12.96 say 13

(b) Schedule of Depreciation

\$ Million

Year	Opening Balance of Fixed Assets	Addition during the year	Total	Depreciation @ 15%
1	17.00	0.50	17.50	2.63
2	14.87	0.80	15.67	2.35
3	13.32	2.00	15.32	2.30
4	13.02	2.50	15.52	2.33
5	13.19	3.50	16.69	2.50
6	14.19	2.50	16.69	2.50
7	14.19	1.50	15.69	2.35
8	13.34	1.00	14.34	2.15

(c) Determination of Investment

\$ Million

Year	Investment Required			Existing Investment in CA	Additional Investment required
	For Capital Expenditure	CA (20% of Revenue)	Total		
1	0.50	1.60	2.10	3.00	0.00
2	0.80	2.00	2.80	2.50*	0.30
3	2.00	3.00	5.00	2.00**	3.00
4	2.50	4.40	6.90	3.00	3.90
5	3.50	6.00	9.50	4.40	5.10
6	2.50	5.20	7.70	6.00	1.70
7	1.50	4.60	6.10	5.20	0.90
8	1.00	4.00	5.00	4.60	0.40

* Balance of CA in Year 1 (\$3 Million) – Capital Expenditure in Year 1(\$ 0.50 Million)

** Similarly balance of CA in Year 2 (\$2.80) – Capital Expenditure in Year 2(\$ 0.80 Million)

(d) Determination of Present Value of Cash Inflows

\$ Million

Particulars	Years							
	1	2	3	4	5	6	7	8
Revenue (A)	8.00	10.00	15.00	22.00	30.00	26.00	23.00	20.00

Less: Expenses								
Variable Costs	3.20	4.00	6.00	8.80	12.00	10.40	9.20	8.00
Fixed cash operating cost	1.60	1.60	1.60	1.60	2.00	2.00	2.00	2.00
Advertisement Cost	0.50	1.50	1.50	3.00	3.00	3.00	1.00	1.00
Depreciation	2.63	2.35	2.30	2.33	2.50	2.50	2.35	2.15
Total Expenses (B)	7.93	9.45	11.40	15.73	19.50	17.90	14.55	13.15
EBIT (C) = (A) - (B)	0.07	0.55	3.60	6.27	10.50	8.10	8.45	6.85
Less: Taxes@30% (D)	0.02	0.16	1.08	1.88	3.15	2.43	2.53	2.06
NOPAT (E) = (C) - (D)	0.05	0.39	2.52	4.39	7.35	5.67	5.92	4.79
Gross Cash Flow (F) = (E) + Dep	2.68	2.74	4.82	6.72	9.85	8.17	8.27	6.94
Less: Investment in Capital Assets								
plus Current Assets (G)	0	0.30	3.00	3.90	5.10	1.70	0.90	0.40
Free Cash Flow (H) = (F) - (G)	2.68	2.44	1.82	2.82	4.75	6.47	7.37	6.54
PVF@13% (I)	0.885	0.783	0.693	0.613	0.543	0.480	0.425	0.376
PV (H)(I)	2.371	1.911	1.261	1.729	2.579	3.106	3.132	2.46

Total present value = \$ 18.549 million

(e) Determination of Present Value of Continuing Value (CV)

$$CV = \frac{FCF_9}{k-g} = \frac{\$6.54 \text{ million}(1.05)}{0.13-0.05} = \frac{\$6.867 \text{ million}}{0.08} = \$85.8375 \text{ million}$$

Present Value of Continuing Value (CV) = \$85.8376 million X PVF_{13%,8} = \$85.96875 million X 0.376 = \$32.2749 million

(i) Value of Firm

	\$ Million
Present Value of cash flow during explicit period	18.5490
Present Value of Continuing Value	32.2749
Total Value	50.8239

(ii) Value of Equity

	\$ Million
Total Value of Firm	50.8239
Less: Value of Debt	8.0000
Value of Equity	<u>42.8239</u>

13. As per T Ltd.'s Offer

	₹ in lakhs
(i) Net Consideration Payable	
7 times EBIDAT, i.e. 7 x ₹ 115.71 lakh	809.97
Less: Debt	<u>240.00</u>
	<u>569.97</u>
(ii) No. of shares to be issued by T Ltd	
₹ 569.97 lakh/₹ 220 (rounded off) (Nos.)	2,59,000
(iii) EPS of T Ltd after acquisition	
Total EBIDT (₹ 400.86 lakh + ₹ 115.71 lakh)	516.57
Less: Interest (₹ 58 lakh + ₹ 30 lakh)	<u>88.00</u>
	428.57
Less: 30% Tax	<u>128.57</u>
Total earnings (NPAT)	<u>300.00</u>
Total no. of shares outstanding (12 lakh + 2.59 lakh)	14.59 lakh
EPS (₹ 300 lakh/ 14.59 lakh)	₹ 20.56

(iv) Expected Market Price:

	₹ in lakhs
Pre-acquisition P/E multiple:	
EBIDAT	400.86
Less: Interest ($580 \times \frac{10}{100}$)	<u>58.00</u>
	342.86
Less: 30% Tax	<u>102.86</u>
	<u>240.00</u>

No. of shares (lakhs)	12.00
EPS	₹ 20.00
Hence, PE multiple $\frac{220}{20}$	11
Expected market price after acquisition (₹ 20.56 x 11)	₹ 226.16

As per E Ltd's Plan

	₹ in lakhs
(i) Net consideration payable 6 lakhs shares x ₹ 110	660
(ii) No. of shares to be issued by T Ltd ₹ 660 lakhs ÷ ₹ 220	3 lakh
(iii) EPS of T Ltd after Acquisition NPAT (as per earlier calculations)	300.00
Total no. of shares outstanding (12 lakhs + 3 lakhs)	15 lakh
Earning Per Share (EPS) ₹ 300 lakh/15 lakh	₹ 20.00
(iv) Expected Market Price (₹ 20 x 11)	220.00

14. (a) Distinction between Banking and Non-Banking financial institutions

Basis for comparison	Banking Institutions	Non-Banking Institutions
Meaning	Bank is a financial intermediary which provides banking services to general people. And it requires a bank license for that.	Non-banking institutions are basically company form of organization that provides banking services to people without holding a banking license.
Transaction Services	Banks provide transaction services like providing overdraft facility, issue of cheque books, travelers cheque, demand draft, transfer of funds, etc.	The non-banking institutions do not provide any transaction services.
Money supply	Bank deposits constitute a major part of the national money supply.	The money supply of the nonbanking institutions is small.
Credit creation	Banks create credit.	Non-banking institutions do not create credit.

Compliance	Banks are required to comply with some of the legal requirements like Cash Reserve Ratio (CRR), Statutory Liquidity Ratio and Capital Adequacy Ratio (CAR).	Non-banking institutions are not required to comply with these legal requirements.
Demand Deposit	They are not accepted.	They are accepted.
Payment and settlement system	Contains an integral part of the system.	Not a part of the system.

(b) Distinction between Primary Participants and Secondary Participants in securitization

Primary Participants: Primary Participants are main parties to this process. The primary participants in the process of securitization are as follows:

- (i) **Originator:** It is the initiator of deal or can be termed as securitizer. It is an entity which sells the assets lying in its books and receives the funds generated through the sale of such assets.
- (ii) **Special Purpose Vehicle:** Also, called SPV is created for the purpose of executing the deal. Since issuer originator transfers all rights in assets to SPV, it holds the legal title of these assets. It is created especially for the purpose of securitization only and normally could be in form of a company, a firm, a society or a trust.
- (iii) **The Investors:** Investors are the buyers of securitized papers which may be an individual, an institutional investor such as mutual funds, provident funds, insurance companies, mutual funds, Financial Institutions etc.

Secondary Participants

Besides, the primary participants, other parties involved into the securitization process are as follows:

- (i) **Obligors:** Actually they are the main source of the whole securitization process. They are the parties who owe money to the firm and are assets in the Balance Sheet of Originator.
- (ii) **Rating Agency:** Since the securitization is based on the pools of assets rather than the originators, the assets have to be assessed in terms of its credit quality and credit support available and that is where the credit rating agencies come.
- (iii) **Receiving and Paying Agent (RPA):** Also, called Servicer or Administrator, it collects the payment due from obligor(s) and passes it to SPV. It also follow up

with defaulting borrower and if required initiate appropriate legal action against them.

- (iv) **Agent or Trustee:** Trustees are appointed to oversee that all parties to the deal perform in the true spirit of terms of agreement. Normally, it takes care of interest of investors who acquires the securities.
- (v) **Credit Enhancer:** Since investors in securitized instruments are directly exposed to performance of the underlying and sometime may have limited or no recourse to the originator, they seek additional comfort in the form of credit enhancement. In other words, they require credit rating of issued securities which also empowers marketability of the securities.

Originator itself or a third party say a bank may provide an additional comfort called Credit Enhancer. While originator provides his comfort in the form of over collateralization or cash collateral, the third party provides it in form of letter of credit or surety bonds.

- (vi) **Structurer:** It brings together the originator, investors, credit enhancers and other parties to the deal of securitization. Normally, these are investment bankers also called arranger of the deal. It ensures that deal meets all legal, regulatory, accounting and tax laws requirements.

(c) Distinction between Islamic Finance and Conventional Finance

How Islamic Finance is different from Conventional Finance

Major differences between Islamic finance and other form of finance (Conventional Finance) are as follows:

Basis	Islamic Finance	Conventional Finance
Promotion	Islamic Finance promotes just, fair and balanced society. Hence, interest is prohibited.	Based on commercial objectives and interest must be paid irrespective of outcome of business.
Ethical framework	Structured on ethical and moral framework of Sharia. Verses from the holy Quran and tradition from As-Sunnah are two divine guidance.	No such framework.
Speculation	The financial transactions should be free from the element of uncertainty (Gharar) and gambling (Maisir)	No such restrictions.
Unlawful Goods and Services	Islamic Finance must not be involved in any transactions	There are no such restrictions.

	not involve trade not allowed as per Islamic principles such as alcohol, armaments, pork and other socially detrimental products.	
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15. (a) VAR is a measure of risk of investment. Given the normal market condition in a set of period, say, one day it estimates how much an investment might lose. This investment can be a portfolio, capital investment or foreign exchange etc., VAR answers two basic questions -

- (i) What is worst case scenario?
- (ii) What will be loss?

It was first applied in 1922 in New York Stock Exchange, entered the financial world in 1990s and become world's most widely used measure of financial risk.

Features of VAR

Following are main features of VAR

- (i) *Components of Calculations:* VAR calculation is based on following three components :
 - (a) Time Period
 - (b) Confidence Level – Generally 95% and 99%
 - (c) Loss in percentage or in amount
- (ii) *Statistical Method:* It is a type of statistical tool based on Standard Deviation.
- (iii) *Time Horizon:* VAR can be applied for different time horizons say one day, one week, one month and so on.
- (iv) *Probability:* Assuming the values are normally attributed, probability of maximum loss can be predicted.
- (v) *Control Risk:* Risk can be controlled by setting limits for maximum loss.
- (vi) *Z Score:* Z Score indicates how many standard Deviations is away from Mean value of a population. When it is multiplied with Standard Deviation it provides VAR.

Application of VAR

VAR can be applied

- (i) to measure the maximum possible loss on any portfolio or a trading position.
- (ii) as a benchmark for performance measurement of any operation or trading.
- (iii) to fix limits for individuals dealing in front office of a treasury department.

- (iv) to enable the management to decide the trading strategies.
 - (v) as a tool for Asset and Liability Management especially in banks.
- (b) An individual is said to be boot strapping when he or she attempts to found and build a company from personal finances or from the operating revenues of the new company.

A common mistake made by most founders is that they make unnecessary expenses towards marketing, offices and equipment they cannot really afford. So, it is true that more money at the inception of a business leads to complacency and wasteful expenditure. On the other hand, investment by startups from their own savings leads to cautious approach. It curbs wasteful expenditures and enable the promoter to be on their toes all the time.

Methods: Here are some of the methods in which a startup firm can bootstrap:

- (i) **Trade Credit:** When a person is starting his business, suppliers are reluctant to give trade credit. They will insist on payment of their goods supplied either by cash or by credit card. However, a way out in this situation is to prepare a well-crafted financial plan. The next step is to pay a visit to the supplier's office. If the business organization is small, the owner can be directly contacted. On the other hand, if it is a big firm, the Chief Financial Officer can be contacted and convinced about the financial plan.
 - (ii) **Factoring:** This is a financing method where accounts receivable of a business organization is sold to a commercial finance company to raise capital. The factor then got hold of the accounts receivable of a business organization and assumes the task of collecting the receivables as well as doing what would've been the paperwork. Factoring can be performed on a non-notification basis. It means customers may not be told that their accounts have been sold.
 - (iii) **Leasing:** Another popular method of bootstrapping is to take the equipment on lease rather than purchasing it. It will reduce the capital cost and also help lessee (person who take the asset on lease) to claim tax exemption. So, it is better to a take a photocopy machine, an automobile or a van on lease to avoid paying out lump sum money which is not at all feasible for a startup organization.
- (c) **Guidelines for SME Listing**
- (i) *Capital:* The post issue face value capital should not exceed ₹ Twenty-five crores.
 - (ii) *Trading lot size*
 - ❖ The minimum application and trading lot size shall not be less than ₹ 1,00,000/-.

- ❖ The minimum depth shall be ₹ 1,00,000/- and at any point of time it shall not be less than ₹ 1,00,000/-.
 - ❖ The investors holding with less than ₹ 1,00,000/- shall be allowed to offer their holding to the Market Maker in one lot.
 - ❖ However in functionality the market lot will be subject to revival after a stipulated time.
- (iii) *Participants:* The existing Members of the Exchange shall be eligible to participate in SME Platform.
- (iv) *Underwriting:* The issues shall be 100% underwritten and Merchant Bankers shall underwrite 15% in their own account.

Benefits of Listing in SME

- (i) *Easy access to Capital:* BSE SME provides an avenue to raise capital through equity infusion for growth oriented SME's.
- (ii) *Enhanced Visibility and Prestige:* The SME's benefit by greater credibility and enhanced financial status leading to demand in the company's shares and higher valuation of the company.
- (iii) *Encourages Growth of SMEs:* Equity financing provides growth opportunities like expansion, mergers and acquisitions thus being a cost effective and tax efficient mode.
- (iv) *Ensures Tax Benefits:* In case of listed securities Short Term Gains Tax is 15% and there is absolutely no Long Term Capital Gains Tax.
- (v) *Enables Liquidity for Shareholders:* Equity financing enables liquidity for shareholders provides growth opportunities like expansion, mergers and acquisitions, thus being a cost effective and tax efficient mode.
- (vi) *Equity financing through Venture Capital:* Provides an incentive for Venture Capital Funds by creating an Exit Route and thus reducing their lock in period.
- (vii) *Efficient Risk Distribution:* Capital Markets ensure that the capital flows to its best uses and those riskier activities with higher payoffs are funded.
- (viii) *Employee Incentives:* Employee Stock Options ensures stronger employee commitment, participation and recruitment incentive.

PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

PART – I : ACADEMIC UPDATE

(Legislative Amendments / Notifications / Circulars / Rules / Guidelines issued by Regulating Authority)

Chapter 6 - The Company Audit

1. MCA vide Notification S.O. 2218(E) dated 13th July 2017 with respect to the Notification G.S.R. 583(E) Dated 13th June, 2017 (Corrigendum), stated that for the words "statement or" to read as "statement and" under section 143(3)(i).
4. Notification No. G.S.R. 583(E) stated that requirements of reporting under section 143(3)(i) read Rule 10 A of the Companies (Audit and Auditors) Rules, 2014 of the Companies Act 2013 shall not apply to certain private companies. Clarification regarding applicability of exemption given to certain private companies under section 143(3)(i) (vide circular no. 08/2017) clarified that the exemption shall be applicable for those audit reports in respect of financial statements pertaining to financial year, commencing on or after 1st April, 2016, which are made on or after the date of the said notification.
5. The Central Government amends the Notification G.S.R. 464(E), dated 5th June 2015 Vide Notification G.S.R. 583(E) Dated 13th June, 2017. Amendments are given below:
 - (1) Section 143(3)(i), shall not apply to a private company:-
 - (i) which is a one person company or a small company; or
which has turnover less than rupees fifty crore as per latest audited financial **statement or** which has aggregate borrowings from banks or financial institutions or anybody corporate at any point of time during the financial year less than rupees twenty five crore."

Chapter 15 - Audit under Fiscal Laws:

Audit provisions under Indirect Tax Laws

Audit of Accounts [Section 35(5) read alongwith section 44(2) and rule 80]: As per sub-section 5 of section 35 read alongwith section 44(2) and rule 80 of the CGST Rules, 2017, every registered person must get his accounts audited by a Chartered Accountant or a Cost Accountant if his aggregate turnover* during a FY exceeds ₹ 2 crores.

*Meaning of **Aggregate Turnover** as defined under section 2(6) of the CGST Act:

<u>Includes Value of all outward supplies</u>	<u>Excludes the following:</u>
- Taxable supplies	-CGST
- Exempt supplies	-SGST
- Exports	-UTGST
	-IGST

- Inter-State supplies of persons having the same PAN be computed on all India basis.	-Compensation cess -Value of inward supplies on which tax is payable under reverse charge
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Chapter 22 - Code of Ethics

Recent Decisions of Ethical Standards Board

1. A Chartered Accountant in practice may be an equity research adviser, but he cannot publish retail report, as it would amount to other business or occupation.
2. A Chartered Accountant, who is a member of a Trust, cannot be the auditor of the said trust.
3. A Chartered Accountant in practice may engage himself as Registration Authority (RA) for obtaining digital signatures for clients.
4. A Chartered accountant can hold the credit card of a bank when he is also the auditor of the bank, provided the outstanding balance on the said card does not exceed rupees 10000 beyond the prescribed credit period limit on credit card given to him.
5. A Chartered Accountant in practice can act as mediator in Court, since acting as a "mediator" would be deemed to be covered within the meaning of "arbitrator"; which is inter-alia permitted to members in practice as per Regulation 191 of the Chartered Accountants Regulations, 1988.
6. A Chartered Accountant in practice is not permitted to accept audit assignment of a bank in case he has taken loan against a Fixed Deposit held by him in that bank.
7. The Ethical Standards Board in 2013 generally apply the stipulations contained in the then amended Rule 11U of Income Tax generally, wherein statutory auditor /tax auditor cannot be the valuer of unquoted equity shares of the same entity.

The Board has at its recent Meeting (January, 2017) has reviewed the above, and decided that where law prohibits for instance in the Income Tax Act and the rules framed thereunder, such prohibition on statutory auditor/tax auditor to be the valuer will continue, but where there is no specific restriction under any law, the said eventuality will be permissible, subject to compliance with the provisions, as contained in the Code of Ethics relating to independence.

8. The Ethical Standards Board had in 2011 decided that it is not permissible for a member who has been Director of a Company, upon resignation from the Company to be appointed as an auditor of the said Company, and the cooling period for the same may be 2 years.

The Board has at its recent Meeting (January, 2017) has reviewed the above, and noted that the Section 141 of Companies Act, 2013 on disqualification of auditors does not

mention such prohibition; though threats pertaining to the said eventuality have been mentioned in Code of Ethics.

Further, the Board was of the view that a member may take decision in such situation based on the provisions of Companies Act, 2013 and provisions of Code of Ethics.

9. A chartered accountant in practice cannot become Financial Advisors and receive fees/commission from Financial Institutions such as Mutual Funds, Insurance Companies, NBFCs etc.
10. A chartered accountant cannot exercise lien over the client documents/records for non-payment of his fees.
11. It is not permissible for CA Firm to print its vision and values behind the visiting cards, as it would result in solicitation and therefore would be violative of the provisions of Clause (6) of Part-I of First Schedule to the Chartered Accountants Act, 1949.
12. It is not permissible for chartered accountants in practice to take agencies of UTI, GIC or NSDL.
13. It is permissible for a member in practice to be a settlor of a trust.
14. A member in practice cannot hold Customs Brokers Licence under section 146 of the Customs Act, 1962 read with Customs Brokers Licensing Regulations, 2013 in terms of the provisions of Code of Ethics.
15. A Chartered accountant in service may appear as tax representative before tax authorities on behalf of his employer, but not on behalf of other employees of the employer.
16. A chartered accountant who is the statutory auditor of a bank cannot for the same financial year accept stock audit of the same branch of the bank or any of the branches of the same bank or sister concern of the bank, for the same financial year.
17. A CA Firm which has been appointed as the internal auditor of a PF Trust by a Government Company cannot be appointed as its Statutory Auditor.
18. A concurrent auditor of a bank 'X' cannot be appointed as statutory auditor of bank 'Y', which is sponsored by 'X'.
19. A CA/CA Firm can act as the internal auditor of a company & statutory auditor of its employees PF Fund under the new Companies Act (2013).
20. The Ethical Standards Board while noting that there is requirement for a Director u/s 149(3) of the Companies Act, 2013 to reside in India for a minimum period of 182 days in the previous calendar year, decided that such a Director would be within the scope of Director Simplicitor (which is generally permitted as per ICAI norms), if he is non – executive

director, required in the Board Meetings only, and not paid any remuneration except for attending such Board Meetings.

Note: Students are also advised to refer RTP of Paper 1 Financial Reporting (for AS, Ind AS and other updates) and Paper 4 Part A -Corporate Laws (for academic updates relating to Company Law).

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Standards on Auditing, Statements and Guidance Notes

1. (a) B & Co. is in process to issue a prospectus, to provide potential investors with information about future expectations of the Company. You are hired by B & Co. to examine the projected financial statements and give report thereon. Briefly explain the things you will consider before accepting the audit engagement and what audit evidence will be obtained for reporting on projected financial statements?
 - (b) In the course of audit of RKP Ltd., its auditor Mr. 'Noor' observed that there was a special audit conducted at the instance of the management on a possible suspicion of a fraud and requested for a copy of the report to enable him to report on the fraud aspects. Despite many reminders it was not provided. In absence of the special audit report, Mr. 'Noor' insisted that he be provided with at least a written representation in respect of fraud on/by the company. For this request also, the management remained silent. Please guide Mr. 'Noor'.
 - (c) During the course of audit of Moon Limited the auditor received some of the confirmation of the balances of trade payables outstanding in the balance sheet through external confirmation by negative confirmation request. In the list of trade payables, there are number of trade payables of small balances except one old outstanding of ₹ 25 Lacs, of whom, no confirmation on the credit balance received. Comment with respect to Standard of Auditing.
 - (d) While verifying the employee records in a company, it was found that a major portion of the labour employed was child labour. On questioning the management, the auditor was told that it was outside his scope of the financial audit to look into the compliance with other laws.
2. XYZ Ltd. supplies navy uniforms across the country. The company has 4 warehouses at different locations throughout the India and 5 warehouses at the borders. The major stocks are generally supplied from the borders. XYZ Ltd. appointed M/s MNO & Co. to conduct its audit for the financial year 2016-17. Mr. O, partner of M/s MNO & Co., attended all the physical inventory counting conducted throughout the India but could not attend the same at borders due to some unavoidable reason.

You are required to advise M/s MNO & Co.,

- (a) How sufficient appropriate audit evidence regarding the existence and condition of inventory may be obtained?
- (b) How an auditor is supposed to deal when attendance at physical inventory counting is impracticable?

Audit Planning Strategy and Execution

3. xLoud, a movie theatre complex, is the foremost theatre located in Delhi. Along with the sale of tickets over the counter and online booking, the major proportion of income is from the cafe shops, pubs etc. located in the complex. Its 'other income' includes advertisements exhibited within/outside the premises such as hoarding, banners, slides, short films etc. The facility for parking of vehicles is also provided in the basement of the premises.

xLoud appointed your firm as the auditor of the entity. Being the head of the audit team, you are therefore required to draw an audit programme initially in respect of its revenue and expenditure considering the above mentioned facts along with other relevant points related to a complex.

Risk Assessment and Internal Control

4. (a) While commencing the statutory audit of Alex Co. Ltd., what would you consider as an auditor to assess risk of material misstatement and responses to such risks?
(b) Prabhu Ltd., a manufacturing concern wants to develop internal control system. You are an expert in developing the internal control system, hereby called to brief about the same. In view of above, you are required to brief about internal control system and inherent limitations of the internal control?

Special Aspects of Auditing in an Automated Environment

5. In a controls-based audit, the audit approach can be classified into three broad phases comprising of planning, execution, and completion. You are required to briefly explain the relevant considerations of every phase in above audit approach in case of automated environment.

The Company Audit

6. (a) Excellent Limited, a Company incorporated in India and listed with SEBI, has a scheme for payment of settlement allowance to retiring employees. Under the scheme, retiring employees are entitled to reimbursement of certain travel expenses for the class they are entitled to as per company rules and regulations. Employees are also entitled to claim a lump-sum payment to cover expenses on food and stay during the travel. The Company also gives option to employees that they can claim a lump-sum amount equal to three months pay last drawn.

Excellent Limited have following accounting policies to record these travel expenses:

- (i) Settlement allowance does not depend upon the length of service of employee. It is restricted to employee's eligibility under the travel rule of the company therefore all travel expenses fall under the category of defined contribution plans.
- (ii) Since it is not related to the length of service of the employees, it is difficult to estimate reliably and there is no present obligation to pay employees as per AS 29 "Provisions, Contingent Liabilities and Contingent Assets", hence it is accounted for on claim basis.

You are statutory auditor of Excellent Limited. What would be your guidance to audit team?

- (b) C Ltd. appointed CA Innocent as a statutory auditor for the company for the current financial year. Further the company offered him the services of actuarial, investment advisory and investment banking which was also approved by the Board of Directors.
- (c) Ram Ltd. is a private company. Its balance sheet shows paid up share capital of ₹ 5 crore and public borrowings of ₹ 100 crore. The company appointed M/s Shyam & Co., a chartered accountant firm, as the statutory auditor in its annual general meeting held at the end of September, 2017 for 11 years. You are required to state the provisions related to - rotation of auditors and cooling off period as per the section 139(2) of the Companies Act, 2013 in case of an individual auditor or an audit firm, both, and comment upon the facts of the case provided above with respect to aforesaid provisions.

Audit Report

7. (a) Compare and explain the following:
 - (i) Reporting to Shareholders vs. Reporting to those Charged with Governance
 - (ii) Audit Qualification vs. Emphasis of Matter.
- (b) C Limited has defaulted in repayment of dues to a financial institution during the financial year 2016-17 and the same remained outstanding as at March 31, 2017. However, the Company settled the total outstanding dues including interest in April, 2017 subsequent to the year end and before completion of the audit. Discuss how you would deal with this matter and draft a suitable Auditor's Report.
- (c) Relevant Notes given by the management in the financial statements of India Branch Office of ABC Limited are:
 - Income tax authorities have raised demands (including interest upto the date of demand) aggregating to ₹ 100 crores and ₹ 40 crores respectively for assessment year 2013-14 based on report by auditors consequent to conduct of special audit as directed under section 142(2A) of the Income tax Act, 1961 and

in addition, have also initiated penalty proceedings against the Company. The Company has contested these demands before the Commissioner of Income tax (Appeals) and has also filed applications for stay of penalty proceedings and the same are currently pending disposal.

Based on review of underlying documents and legal inputs, the management has assessed that there is probability of likely outflow to the extent of ₹ 50 crores (including interest liability till date of stay of payment of ₹ 15 crores) in relation to the above demands and has accounted for the same in these financial statements. With respect to further liability of ₹ 50 crores, the management believes that it has the necessary documents to furnish to the tax authorities and basis the expert's inputs believes that Company has good chances of success of receiving the judgments in its favour. Further, the management believes that the likelihood of penalties being imposed against the Company is not probable and accordingly, no adjustments are considered necessary in these financial statements.

- As at March 31, 2017, the Company has accumulated losses of ₹ 150 crores against equity of ₹ 100 crores and also net current liabilities of ₹ 35 crores. The management is of the view that the current year losses are primarily attributable to income tax liabilities devolving on the Company, as discussed under paragraph XX. As per the management assessment, it is likely to generate ₹ ___ and ₹ ___ from the operations during the financial years ending March 31, 2018 and March 31, 2019 respectively. Further, the Company's key shareholders have confirmed that they shall provide continuing financial support to the Company's day to day operations so as to enable the Company to pay off its debts, as and when they fall due. Accordingly, these financial statements have been prepared on a going concern basis.

As an auditor of ABC Limited, you are required to draft emphasis of matter para in the given situation on the basis of analysis of above notes (when there is material tax litigation that casts significant doubt on the entity being regarded as going concern)

Audit Reports and Certificates for Special Purpose Engagement

8. The financial statements of PC & Co. have been prepared by management of an entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework) to comply with provisions of the contract. Based on the contract, management does not have a choice of financial reporting frameworks. As an auditor what considerations would be undertaken while planning and performing audit?

Liabilities of Auditor

9. In assessment procedure of M/s Cloud Ltd., Income Tax Officer observed some irregularities. Therefore, he started investigation of Books of Accounts audited and signed by Mr. Old, a practicing Chartered Accountant. While going through books he found that M/s Cloud Ltd. used to maintain two sets of Books of Accounts, one is the official set and other is covering all the transactions. Income Tax Department filed a complaint with the

Institute of Chartered Accountants of India saying Mr. Old had negligently performed his duties. Comment.

Audit of Consolidated Financial Statements

10. You are appointed as an auditor of Nawab Limited, a listed company which is a main supplier to the UK building and construction market. With a turnover of ₹ 2.9 billion, the company operates through 11 business units and has nearly 1,80 branches across the countries .

As an auditor, how will you draft the report in case:

- (a) When the Parent's Auditor is also the Auditor of all its Components?
- (b) When the Parent's Auditor is not the Auditor of all its Components?
- (c) When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework Different than that of the Parent?
- (d) When the Component(s) Auditor Reports under an Auditing Framework Different than that of the Parent?
- (e) Where the financial statements of one or more components is not audited?

Audit of Banks

11. Advances generally constitute the major part of the assets of the bank. There are substantial number of borrowers to whom variety of advances are granted. The audit of advances requires the major attention from the auditors.

As an expert in bank audit, you are required to briefly discuss the area of focus and suggested audit procedures regarding evaluation of internal controls over advances, substantive audit procedures and recoverability of advances.

Audit of Insurance Companies

12. (a) Mr. Bhavya is appointed as an auditor of General Insurance Company limited. State the verification procedure to be followed by Mr. Bhavya in case of outstanding premium and agent's balances.
- (b) Briefly discuss the importance and role of auditor with respect to actuarial process for Life Insurance business

Audit of Non-Banking Financial Companies

13. In the case of companies carrying on the business of a non-banking financial institution, the auditor needs to report under CARO, 2016 whether the registration has been obtained under section 45-IA of the Reserve Bank of India Act, 1934, if required.

You are required to state in brief the audit procedure to be followed while reporting under above mentioned circumstances.

Audit under Fiscal Laws

14. (a) Concession Ltd. is engaged in the business of manufacturing of threads. The company recorded the turnover of ₹ 1.13 crore during the financial year 2017-18 before adjusting the following:

Discount allowed in the Sales Invoice	₹ 8,20,000
Cash discount (other than allowed in Cash memo/ sales invoice)	₹ 9,20,000
Trade discount	₹ 2,90,000
Commission on Sales	₹ 6,00,000
Sales Return (F.Y. 2016-17)	₹ 1,60,000
Sale of Investment	₹ 6,60,000

You are required to ascertain the effective turnover to be considered for the prescribed limit of tax audit under the relevant Act and guide the company whether the provisions relating to tax audit applies.

- (b) Vijay Maniyar & Associates, a firm of Chartered Accountants, is of the view that under GST law, audit can only be undertaken by the Departmental officers and there is no scope of audit under said law for the Chartered Accountants. You are required to advise Vijay Maniyar & Associates on the same.

Special Audit Assignments

15. (a) Energy shortage and the cost of environmental quality control have made the use of energy very costly to many industrial establishments which encouraged Green Ltd. to opt for energy audit being first step of any energy management programme.

The management of the company consults you to guide regarding key functions of the energy auditor so that the management may appoint the same for the company.

- (b) In order to check and prevent the diversion of funds in case of non-corporate borrowers, the lending bank sometimes obtains special report from the auditor on quarterly basis.

Describe the details to be given in special report in respect of –

- (i) Operating data
- (ii) Inventory
- (iii) Information in respect of other items

Audit of Public Sector Undertaking

16. Being an expert in the field of government audit, you are required to briefly explain the powers of Comptroller and Auditor General of India with respect to supplementary audit and test audit as stated under section 143(6) and 143(7) of the Companies Act, 2013.

Internal Audit, Management and Operational Audit

17. (a) Mr. Anand is appointed as statutory auditor of Xerox Ltd. Xerox Ltd is required to appoint internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed Mr. Bhanu as its internal auditor. The external auditor Mr. Anand asked internal auditor to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements.

Discuss whether Mr. Anand, statutory auditor, can ask direct assistance from Mr. Bhanu, internal auditor as stated above in view of auditing standards.

- (b) DLF Ltd., a manufacturing unit does not accept the recommendations for improvements made by the Operational Auditor. Suggest an alternative way to tackle the hostile management.

Due Diligence, Investigation and Forensic Audit

18. ABC Ltd. is a listed company having turnover of ₹ 50 crores & plans expansion by installation of new machines at new building-having total additional project cost of ₹ 20 crore.

Rupees (In crore)	Purpose
10.0	- for Building
8.5	- for Machinery
<u>1.5</u>	- for Working Capital
<u>20 Crore</u>	

Project gets implemented in 2017-18 and one of the accountants points out to Managing Director that something wrong has happened in the purchase of building material.

On hearing this, the management is planning to appoint Forensic Auditor. Advise management that how is a forensic accounting analysis is different from an audit.

Professional Ethics

19. Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:

- (a) Mr. Brilliant, a chartered accountant in practice, created his own website in attractive format and highlighted the contents in blue colour. He also circulated the information contained in the website through E-mail to acknowledge public at large about his expertise. However, due to shortage of time, he could not intimate his website address to the Institute.
- (b) CA. Raj is a leading income tax practitioner and consultant for derivative products. He resides in Bangalore near to the XYZ commodity stock exchange and does trading in commodity derivatives. Every day, he invests nearly 50% of his time to settle the commodity transactions, though he has not taken any permission for this. Is CA. Raj liable for professional misconduct?
- (c) CA. Elegant is in practice for two years and runs his proprietorship firm in the name of "Elegant & Co.". He maintains notes in his mobile in which he writes the fees received from various clients. Based on his record, he prepares and files his income tax return.
- (d) The manager of ZedEx (P) Ltd. approached CA. Vineet in the need of a certificate in respect of a consumption statement of raw material. Without having certificate of practice (CoP), CA. Vineet issued the certificate to the manager of the company, acting as a CA in practice and applied for the CoP to the Institute on very next day to avoid any dispute.
20. Write a short note on the following:
- (a) Technical, ethical and professional standards as per statement on peer review.
- (b) Various Stages involved in the Conduct of the Quality Review Assignments
- (c) Key features of the Qualified and Independent Audit Committee set up under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
- (d) Key Audit Matters and Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report.

SUGGESTED ANSWERS/HINTS

1. (a) **Projected Financial Statements:** As per SAE 3400, "The Examination of Prospective Financial Information", the answer is divided into two parts i.e. (i) the things to be considered before accepting the engagement and (ii) audit evidence to be obtained for reporting on projected financial statements.
- (i) **Acceptance of Engagement:** As per SAE 3400, "The Examination of Prospective Financial Information", before accepting an engagement to examine prospective financial information, the auditor would consider, amongst other things:

- (1) the intended use of the information;
- (2) whether the information will be for general or limited distribution;
- (3) the nature of the assumptions, that is, whether they are best-estimates or hypothetical assumptions;
- (4) the elements to be included in the information; and
- (5) the period covered by the information.

Further, the auditor should not accept, or should withdraw from, an engagement when the assumptions are clearly unrealistic or when the auditor believes that the prospective financial information will be inappropriate for its intended use.

In accordance with SA 210, "Terms of Audit Engagement", it is necessary that the auditor and the client should agree on the terms of the engagement.

- (ii) **Audit evidence to be obtained for Reporting on Projected Financial Statements:** The auditor should document matters, which are important in providing evidence to support his report on examination of prospective financial information, and evidence that such examination was carried out.

The audit evidence in form of working papers will include:

- (1) the sources of information,
- (2) basis of forecasts,
- (3) the assumptions made in arriving the forecasts,
- (4) hypothetical assumptions, evidence supporting the assumptions,
- (5) management representations regarding the intended use and distribution of the information, completeness of material assumptions,
- (6) management's acceptance of its responsibility for the information,
- (7) audit plan,
- (8) the nature, timing and extent of examination procedures performed, and,
- (9) in case the auditor expresses a modified opinion or withdraws from the engagement, the reasons forming the basis of such decision.

- (b) **Auditor's Responsibilities Relating to Fraud:** As per SA 240 on "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", the auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

As per SA 580 "Written Representations", if management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues may exist.

In the instant case, the auditor observed that there was a special audit conducted at the instance of the management on a possible suspicion of fraud. Therefore, the auditor requested for special audit report which was not provided by the management despite of many reminders. The auditor also insisted for written representation in respect of fraud on/by the company. For this request also management remained silent.

It may be noted that, if management does not provide one or more of the requested written representations, the auditor shall discuss the matter with management; re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and take appropriate actions, including determining the possible effect on the opinion in the auditor's report.

Further, as per section 143(12) of the Companies Act, 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government (in case amount of fraud is ₹ 1 crore or above) or Audit Committee or Board in other cases (in case the amount of fraud involved is less than ₹ 1 crore) within such time and in such manner as may be prescribed.

The auditor is also required to report as per Clause (x) of Paragraph 3 of CARO, 2016, Whether any fraud by the company or any fraud on the company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.

If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:

- (i) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
- (ii) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted; and
- (iii) If the auditor withdraws:
 - (1) Discuss with the appropriate level of management and those charged with governance, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
 - (2) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

- (c) **External Confirmation:** As per SA 505, "External Confirmation", Negative Confirmation is a request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request. Negative confirmations provide less persuasive audit evidence than positive confirmations.

The failure to receive a response to a negative confirmation request does not explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request. Accordingly, a failure of a confirming party to respond to a negative confirmation request provides significantly less persuasive audit evidence than does a response to a positive confirmation request. Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is not in their favor, and less likely to respond otherwise.

In the instant case, the auditor sent the negative confirmation requesting the trade payables having outstanding balances in the balance sheet while doing audit of Star Limited. One of the old outstanding of ₹ 25 lacs has not sent the confirmation on the credit balance. In case of non response, the auditor may examine subsequent cash disbursements or correspondence from third parties, and other records, such as goods received notes. Further non response for negative confirmation request does not mean that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.

But, if the auditor identifies factors that give rise to doubts about the reliability of the response to the confirmation request, he shall obtain further audit evidence to resolve those doubts.

- (d) **Compliance with Other Laws:** As per SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements", the auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements including tax and labour laws.

Further, non-compliance with other laws and regulations may result in fines, litigation or other consequences for the entity, the costs of which may need to be provided for in the financial statements, but are not considered to have a direct effect on the financial statements.

In the instant case, major portion of the labour employed in the company was child labour. While questioning by auditor, reply of the management that it was outside his scope of financial audit to look into the compliance with other laws is not acceptable as it may have a material effect on financial statements.

Thus, auditor should ensure the disclosure of above fact and provision for the cost of fines, litigation or other consequences for the entity. In case if the auditor concludes that non-compliance has a material effect on the financial statements and has not been adequately reflected in the financial statements, the auditor shall express a qualified or adverse opinion on the financial statement.

2. (a) **Special Consideration with Regard to Inventory:** As per SA 501 “Audit Evidence-Specific Considerations for Selected Items”, when inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:

- (a) Attendance at physical inventory counting, unless impracticable, to:
- (1) Evaluate management’s instructions and procedures for recording and controlling the results of the entity’s physical inventory counting;
 - (2) Observe the performance of management’s count procedures;
 - (3) Inspect the inventory; and
 - (4) Perform test counts; and
- (b) Performing audit procedures over the entity’s final inventory records to determine whether they accurately reflect actual inventory count results.

- (b) **Attendance at Physical Inventory Counting Not Practicable:** In some cases, attendance at physical inventory counting may be impracticable. This may be due to factors such as the nature and location of the inventory, for example, where inventory is held in a location that may pose threats to the safety of the auditor. The matter of general inconvenience to the auditor, however, is not sufficient to support a decision by the auditor that attendance is impracticable. Further, as explained in SA 200 “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing”, the matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.

Further, where attendance is impracticable, alternative audit procedures, for example, inspection of documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory counting, may provide sufficient appropriate audit evidence about the existence and condition of inventory.

In some cases, though, it may not be possible to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by performing alternative audit procedures. In such cases, SA 705 on Modifications to the Opinion in the Independent Auditor’s Report, requires the auditor to modify the opinion in the auditor’s report as a result of the scope limitation.

3. Audit Programme of a Complex:

- (i) Peruse the Memorandum of Association and Articles of Association of the entity.
- (ii) Ensure the object clause permits the entity to engage in this type of business.
- (iii) In the case of income from sale of tickets:
 - (1) Verify the control system as to how it is ensured that the collections on sale of tickets of various shows are properly accounted.
 - (2) Verify the system of relating to online booking of various shows and the system of realization of money.
 - (3) Check that there is overall system of reconciliation of collections with the number of seats available for different shows on a day.
- (iv) Verify the internal control system and its effectiveness relating to the income from cafe shops, pubs etc., located within the multiplex.
- (v) Verify the system of control exercised relating to the income receivable from advertisements exhibited within the premises and inside the hall such as hoarding, banners, slides, short films etc.
- (vi) Verify the system of collection from the parking areas in respect of the vehicles parked by the customers.
- (vii) In the case of payment to the distributors verify the system of payment which may be either through out right payment or percentage of collection or a combination of both. Ensure at the time of settlement any payment of advance made to the distributor is also adjusted against the amount due.
- (viii) Verify the system of payment of salaries and other benefits to the employees and ensure that statutory requirements are complied with.
- (ix) Verify the payments effected in respect of the maintenance of the building and ensure the same is in order.

4. (a) Considerations of Auditor for Assessing the Risk of Material Misstatement: As per SA 315 "Identifying and Assessing the Risk of Material Misstatement through understanding the Entity and its Environment", the auditor shall identify and assess the risks of material misstatement at the financial statement level; and the assertion level for classes of transactions, account balances, and disclosures to provide a basis for designing and performing further audit procedures. For this purpose, the auditor shall:

- (i) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements;

- (ii) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;
- (iii) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and
- (iv) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.

Auditor's Responses to the Assessed Risk of Material Misstatement: According to SA 330 "The Auditor's Responses to Assessed Risks", the auditor shall design and implement overall responses to address the assessed risks of material misstatement. In designing the audit procedures to be performed, the auditor shall:

- (i) Consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure, including:
 - (1) The likelihood of material misstatement due to the particular characteristics of the relevant class of transactions, account balance, or disclosure; and
 - (2) Whether the risk assessment takes into account the relevant controls, thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively; and
 - (ii) Obtain more persuasive audit evidence the higher the auditor's assessment of risk.
- (b) Internal Control System and its Inherent Limitations:** As per Guidance Note on Audit of Internal Financial Control over Financial Reporting, internal controls are a system consisting of specific policies and procedures designed to provide management with reasonable assurance that the goals and objectives it believes important to the entity will be met.

"Internal Control System" means all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

To state whether a set of financial statements presents a true and fair view, it is essential to benchmark and check the financial statements for compliance with the framework. The Accounting Standards specified under the Companies Act, 1956 (which are deemed to be applicable as per Section 133 of the 2013 Act, read with Rule 7 of Companies (Accounts) Rules, 2014) is one of the criteria constituting the financial reporting framework on which companies prepare and present their financial

statements under the Act and against which the auditors evaluate if the financial statements present a true and fair view of the state of affairs and the results of operations of the company in an audit of the financial statements carried out under the Act.

The fundamental therefore is that effective internal control is a process effected by people that supports the organization in several ways, enabling it to provide reasonable assurance regarding risk and to assist in the achievement of objectives.

Fundamental to a system of internal control is that it is integral to the activities of the company, and not something practiced in isolation.

An internal control system:

- ◆ Facilitates the effectiveness and efficiency of operations.
- ◆ Helps ensure the reliability of internal and external financial reporting.
- ◆ Assists compliance with laws and regulations.
- ◆ Helps safeguarding the assets of the entity.

Limitations of Internal Control - Internal control, no matter how effective, can provide an entity with only reasonable assurance and not absolute assurance about achieving the entity's operational, financial reporting and compliance objectives. Internal control systems are subject to certain inherent limitations, such as:

- ◆ Management's consideration that the cost of an internal control does not exceed the expected benefits to be derived.
- ◆ The fact that most internal controls do not tend to be directed at transactions of unusual nature. The potential for human error, such as, due to carelessness, distraction, mistakes of judgement and misunderstanding of instructions.
- ◆ The possibility of circumvention of internal controls through collusion with employees or with parties outside the entity.
- ◆ The possibility that a person responsible for exercising an internal control could abuse that responsibility, for example, a member of management overriding an internal control.
- ◆ Manipulations by management with respect to transactions or estimates and judgements required in the preparation of financial statements.

5. In a controls-based audit, the audit approach can be classified into three broad phases comprising of planning, execution, and completion. In this approach, the considerations of automated environment will be relevant at every phase as given below:

I. Risk Assessment Process

- Identify significant accounts and disclosures.

- Qualitative and Quantitative considerations.
- Relevant Financial Statement Assertions (FSA).
- Identify likely sources of misstatement.
- Consider risk arising from use of IT systems.

II. Understand and Evaluate

- Document understanding of business processes using Flowcharts / Narratives.
- Prepare Risk and Control Matrices (RCM).
- Understand design of controls by performing walkthrough of end-to-end process.
- Process wide considerations for Entity Level Controls, Segregation of Duties.
- IT General Controls, Application Controls.

III. Test for Operating Effectiveness

- Assess Nature, Timing and Extent (NTE) of controls testing.
- Assess reliability of source data; completeness of population.
- Testing of key reports and spreadsheets.
- Sample testing.
- Consider competence and independence of staff /team performing controls testing.

IV. Reporting

- Evaluate Control Deficiencies.
- Significant deficiencies, Material weaknesses.
- Remediation of control weaknesses.
- Internal Controls Memo (ICM) or Management Letter.
- Auditor's report.

6. (a) **Treatment of Employee Benefits Expenses:** The present case falls under the category of defined benefit scheme under AS 15 "Employee Benefits". The said scheme encompasses cases where payment promised to be made to an employee at or near retirement presents significant difficulties in the determination of periodic charge to the statement of profit and loss. The contention of the Company that the settlement allowance will be accounted for on claim basis is not correct even if company's obligation under the scheme is uncertain and requires estimation. In estimating the obligation, assumptions may need to be made regarding future conditions and events, which are largely outside the company's control. Thus,
- (i) Settlement allowance payable by the company is a defined retirement benefit,

covered by AS 15.

- (ii) A provision should be made every year in the accounts for the accruing liability on account of settlement allowance. The amount of provision should be calculated according to actuarial valuation.
 - (iii) Where, however, the amount of provision so determined is not material, the company can follow some other method of accounting for settlement allowances.
- (b) **Services not to be Rendered by the Auditor:** Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor. An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely:
- (i) accounting and book keeping services;
 - (ii) internal audit;
 - (iii) design and implementation of any financial information system;
 - (iv) actuarial services;
 - (v) investment advisory services;
 - (vi) investment banking services;
 - (vii) rendering of outsourced financial services;
 - (viii) management services; and
 - (ix) any other kind of services as may be prescribed.

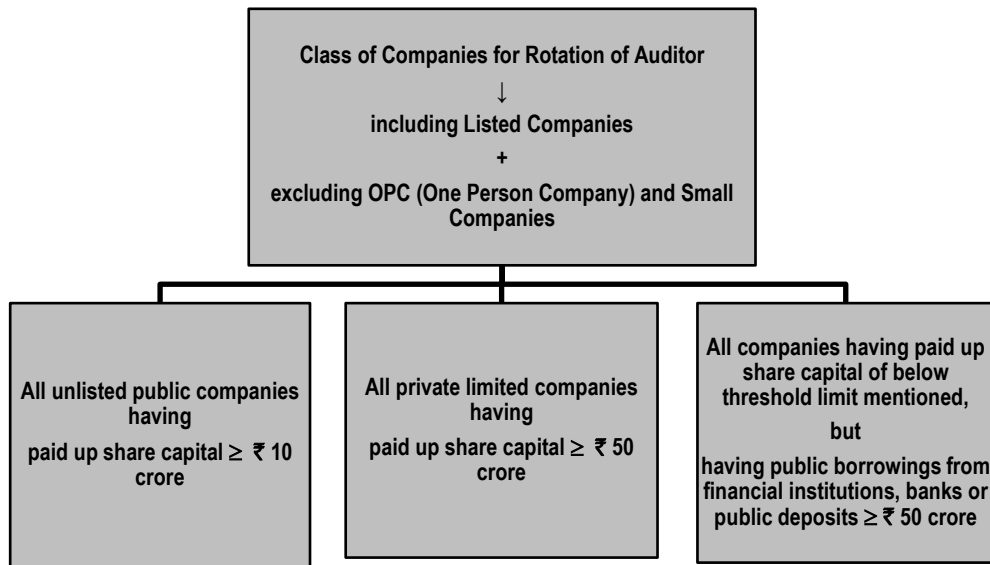
Further section 141(3)(i) of the Companies Act, 2013 also disqualify a person for appointment as an auditor of a company who is engaged as on the date of appointment in consulting and specialized services as provided in section 144.

In the given case, CA Innocent was appointed as an auditor of C Ltd. He was offered additional services of actuarial, investment advisory and investment banking which was also approved by the Board of Directors. The auditor is advised not to accept the services as these services are specifically notified in the services not to be rendered by him as an auditor as per section 144 of the Act.

- (c) **Rotation of Auditor & Cooling Off Period Provisions:** The provision related to Rotation of Auditor & Cooling Off Period is newly inserted by section 139(2) of the

Companies Act, 2013 read with Rule 5 of the Companies (Audit & Auditors) Rules, 2014, which is discussed as under:

The provisions related to rotation of auditor are applicable to those companies which are prescribed in Companies (Audit and Auditors) Rules, 2014, which prescribes the following classes of companies excluding one person companies and small companies, namely:-



- (i) all unlisted public companies having paid up share capital of ₹ 10 crore or more;
- (ii) all private limited companies having paid up share capital of ₹ 50 crore or more;
- (iii) all companies having paid up share capital of below threshold limit mentioned above, but having public borrowings from financial institutions, banks or public deposits of ₹ 50 crores or more.

As per Section 139(2) of the Companies Act, 2013, no listed company or a company belonging to such class or classes of companies as mentioned above, shall appoint or re-appoint-

- (a) an individual as auditor for more than one term of 5 consecutive years; and
- (b) an audit firm as auditor for more than two terms of 5 consecutive years.

In the given case, Ram Ltd. is a private company having paid up share capital of ₹ 5 crore and public borrowings of ₹ 100 crore. The company has appointed M/s Shyam

& Co., a chartered accountant firm, as the statutory auditor in its AGM held at the end of September, 2017 for 11 years.

The provisions relating to rotation of auditor will be applicable as the public borrowings exceeds ₹ 50 crore. Therefore, Ram (P) Ltd. can appoint M/s Shyam & Co. as an auditor of the company for not more than one term of five consecutive years twice i.e. M/s Shyam & Co. shall hold office from the conclusion of this meeting upto conclusion of sixth AGM to be held in the year 2022 and thereafter can be re-appointed as auditor for one more term of five years i.e. upto year 2027. The appointment shall be subject to ratification by members at every annual general meeting of the company. As a result, the appointment of M/s Shyam & Co. made by Ram Ltd. for 11 years is void.

7. (a) (i) **Reporting to Shareholders vs. Reporting to those Charged with Governance:**

REPORT	
Reporting to Shareholders	Reporting to those Charged with Governance
<ul style="list-style-type: none"> Section 143 of the Companies Act, 2013 deals with the provisions relating to reporting to Shareholders. Thus, it is a Statutory Audit Report which is addressed to the members. 	<ul style="list-style-type: none"> Standard on Auditing 260 deals with the provisions relating to reporting to those Charged with Governance.
<ul style="list-style-type: none"> Statutory Audit Report is on true and fair view and as per prescribed Format. 	<ul style="list-style-type: none"> It is a reporting on matters those charged with governance like scope of audit, audit procedures, audit modifications, etc.
<ul style="list-style-type: none"> Statutory Audit Reports are in public domain. 	<ul style="list-style-type: none"> Reporting to those Charged with Governance is an internal document i.e. private report.

(ii) **Audit Qualification vs. Emphasis of Matter:**

REPORT	
Audit Qualification	Emphasis of Matter
<ul style="list-style-type: none"> Standard on Auditing 705 "Modifications to the Opinion in the Independent Auditor's Report", deals with the provisions relating to Audit Qualification. 	<ul style="list-style-type: none"> Standard on Auditing 706 "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report" deals with the

	provisions relating to Emphasis of Matter.
<ul style="list-style-type: none"> • Audit Qualifications are also known as “subject to report” or “except that report”. 	<ul style="list-style-type: none"> • Emphasis of Matter is a paragraph which is included in auditor’s report to draw users’ attention to important matter(s) which are already disclosed in Financial Statements and are fundamental to users’ for understanding of Financial Statements.
<ul style="list-style-type: none"> • Audit Qualifications are given when auditor is having reservations on some of the items out of the financial statements as a whole i.e. Auditor’s Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements relating to if the impact of material misstatements is not pervasive on the financial statements but is present at some levels of the financial statements, qualified report is issued. 	<ul style="list-style-type: none"> • Emphasis of Matter is a paragraph which is issued when there is a uncertainty relating to future outcome of exceptional litigation, regulatory action, etc.; or there is early application (where permitted) of a new accounting standard that has a pervasive effect on the financial statements in advance of its effective date.

- (b) **Reporting for Default in Repayment of Dues:** As per the general instructions for preparation of Balance Sheet, provided under Schedule III to the Companies Act, 2013, terms of repayment of term loans and other loans is required to be disclosed in the notes to accounts. It also requires specifying the period and amount of continuing default as on the balance sheet date in repayment of loans and interest, separately in each case.

Further, as per clause (viii) of Para 3 of CARO, 2016, the auditor of a company has to state in his report whether the Company has defaulted in repayment of dues to a financial institution or bank or debentures holders and if yes, the period and amount of default to be reported.

In the given case, C Ltd. has defaulted in repayments of dues to a financial institution during the financial year 2016-17 which remain outstanding as at March 31, 2017. However, the company has settled the total outstanding dues including interest in April, 2017 but, the dues were outstanding as at March 31, 2017. Therefore, it needs to be reported in the notes to accounts.

The draft report for above matter is as under:

“The company has taken a loan during the year, from a financial institution amounting to ₹ XXXX @ X% p.a. which is repayable by monthly installment of ₹ XXXX for XX months.

The company has defaulted in repayment of dues including interest to a financial institution during the financial year 2015-16 amounting to ₹ XXXX which remained outstanding as at March 31, 2017. The period of default is XXX days. However, the outstanding sum was settled by the company in April, 2017.”

(c) Emphasis of Matters Para:

- We draw attention to Note XX, regarding certain income-tax demands of ₹ 100 crores pending in various stages of assessments/ appeals. The management based upon expert's advice believes that no demand or liability including interest and penalty on account of settlement of assessment/ appeals of the pending matters by the Income tax authorities is likely to devolve on the Company, in addition to those already provided for in these financial statements. Pending the final outcome of the aforesaid matters, no further adjustments have been made in these financial statements in this regard.
- Note XX of the financial statements that as at March 31, 2017, the Company has accumulated losses of ₹ 150 crores against equity of ₹ 100 crores and also net current liabilities of ₹ 35 crores. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern, which is dependent on establishing profitable operations and obtaining continuing financial support from its key shareholders. These mitigating factors have been more fully discussed in Note XX of the accompanying financial statements, in view of which the accompanying financial statements have been prepared under the going concern assumption, and consequently, no further adjustments have been made in these financial statements.

Our opinion is not modified in respect of the above matters.

- 8. Considerations for Planning and Performing Audit in case of Special Purpose Framework:** As per SA 800 “Special Considerations-Audits of Financial Statements Prepared in accordance with Special Purpose Frameworks”, financial statements prepared in accordance with a special purpose framework may be the only financial statements an entity prepares. In such circumstances, those financial statements may be used by users other than those for whom the financial reporting framework is designed.

While planning and performing audit of such special purpose framework based company, the auditor should consider below mentioned factors:

- (i) To obtain an understanding of the entity's selection and application of accounting policies. In the case of financial statements prepared in accordance with the

provisions of a contract, the auditor shall obtain an understanding of any significant interpretations of the contract that management made in the preparation of those financial statements.

- (ii) Compliance of all SAs relevant to audit, the auditor may judge it necessary to depart from a relevant requirement in an SA by performing alternative audit procedures to achieve the aim of that requirement.
 - (iii) Application of some of the requirements of the SAs in an audit of special purpose financial statements may require special consideration by the auditor. For example, in SA 320, judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. In the case of an audit of special purpose financial statements, however, those judgments are based on a consideration of the financial information needs of the intended users.
 - (iv) In the case of special purpose financial statements, such as those prepared in accordance with the requirements of a contract, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with SA 320 for purposes of planning and performing the audit of the special purpose financial statements.
 - (v) Communication with those charged with governance in accordance with SAs is based on the relationship between those charged with governance and the financial statements subject to audit, in particular, whether those charged with governance are responsible for overseeing the preparation of those financial statements. In the case of special purpose financial statements, those charged with governance may not have such a responsibility.
- 9. Liability of Auditor:** "It is the auditor's responsibility to audit the statement of accounts and prepare tax returns on the basis of books of accounts produced before him. Also if he is satisfied with the books and documents produced to him, he can give his opinion on the basis of those documents only by exercising requisite skill and care and observing the laid down audit procedure.

In the instant case, Income tax Officer observed some irregularities during the assessment proceeding of M/s Cloud Ltd. Therefore, he started investigation of books of accounts audited and signed by Mr. Old, a practicing Chartered Accountant. While going through the books, he found that M/s Cloud Ltd. Used to maintain two sets of Books of Accounts, one is the official set and other is covering all the transactions. Income Tax Department filed a complaint with the ICAI saying Mr. Old had negligently performed his duties.

Mr. Old, the auditor was not under a duty to prepare books of accounts of assessee and he should, of course, neither suggest nor assist in the preparations of false accounts. He

is responsible for the books produced before him for audit. He completed his audit work with official set of books only.

In this situation, as Mr. Old, performed the auditing with due skill and diligence; and, therefore, no question of negligence arises. It is the duty of the Department to himself investigate the truth and correctness of the accounts of the assessee.

10. (a) **When the Parent's Auditor is also the Auditor of all its Components:** While drafting the audit report, the auditor should report whether principles and procedures for preparation and presentation of consolidated financial statements as laid down in the relevant accounting standards have been followed. In case of any departure or deviation, the auditor should make adequate disclosure in the audit report so that users of the consolidated financial statements are aware of such deviation. Auditor should issue an audit report expressing opinion whether the consolidated financial statements give a true and fair view of the state of affairs of the Group as on balance sheet date and as to whether consolidated profit and loss statement gives true and fair view of the results of consolidated profit or losses of the Group for the period under audit. Where the consolidated financial statements also include a cash flow statement, the auditor should also give his opinion on the true and fair view of the cash flows presented by the consolidated cash flow statements.
- (b) **When the Parent's Auditor is not the Auditor of all its Components:** In a case where the parent's auditor is not the auditor of all the components included in the consolidated financial statements, the auditor of the consolidated financial statements should also consider the requirement of SA 600 "Using the Work of Another Auditor".
- As prescribed in SA 706 "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report", if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor's report on the consolidated financial statements should disclose clearly the magnitude of the portion of the financial statements audited by the other auditor(s). This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent's auditor. Total assets, revenues and cash flows not audited by the parent's auditor should be presented before giving effect to permanent and current period consolidation adjustments. Reference in the report of the auditor on the consolidated financial statements to the fact that part of the audit of the group was made by other auditor(s) is not to be construed as a qualification of the opinion but rather as an indication of the divided responsibility between the auditors of the parent and its subsidiaries.
- (c) **When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework Different than that of the Parent:** The parent may have components located in multiple geographies outside India applying an accounting framework (GAAP) that is different than that of the parent in preparing its financial

statements. Foreign components prepare financial statements under different financial reporting frameworks, which may be a well-known framework (such as US GAAP or IFRS) or the local GAAP of the jurisdiction of the component. Local component auditors may be unable to report on financial statements prepared using the parent's GAAP because of their unfamiliarity with such GAAP.

When a component's financial statements are prepared under an accounting framework that is different than that of the framework used by the parent in preparing group's consolidated financial statements, the parent's management perform a conversion of the components' audited financial statements from the framework used by the component to the framework under which the consolidated financial statements are prepared. The conversion adjustments are audited by the principal auditor to ensure that the financial information of the component(s) is suitable and appropriate for the purposes of consolidation.

A component may alternatively prepare financial statements on the basis of the parent's accounting policies, as outlined in the group accounting manual, to facilitate the preparation of the group's consolidated financial statements. The group accounting manual would normally contain all accounting policies, including relevant disclosure requirements, which are consistent with the requirements of the financial reporting framework under which the group's consolidated financial statements are prepared. The local component auditor can then audit and issue an audit report on the components financial statements prepared in accordance with "group accounting policies".

When applying the approach of using group accounting policies as the financial accounting framework for components to report under, the principal/parent auditors should perform procedures necessary to determine compliance of the group accounting policies with the GAAP applicable to the parent's financial statements. This ensures that the information prepared under the requirements of the group accounting policies will be directly usable and relevant for the preparation of consolidated financial statements by the parent entity, eliminating the need for auditing by the auditor, the differences between the basis used for the component's financial statements and that of the consolidated financial statements. The Principal auditor can then decide whether or not to rely on the components' audit report and make reference to it in the auditor's report on the consolidated financial statements.

- (d) **When the Component(s) Auditor Reports under an Auditing Framework Different than that of the Parent:** Normally, audits of financial statements, including consolidated financial statements, are performed under auditing standards generally accepted in India ("Indian GAAS"). In order to maintain consistency of the auditing framework and to enable the parent auditor to rely and refer to the other auditor's audit report in their audit report on the consolidated financial statements, the components' financial statements should also be audited under a framework that corresponds to Indian GAAS.

- (e) **Components Not Audited:** Generally, the financial statements of all components included in consolidated financial statements should be audited or subjected to audit procedures in the context of a multi-location group audit. Such audits and audit procedures can be performed by the auditor reporting on the consolidated financial statements or by the components' auditor.

Where the financial statements of one or more components continue to remain unaudited, the auditor reporting on the consolidated financial statements should consider unaudited components in evaluating a possible modification to his report on the consolidated financial statements. The evaluation is necessary because the auditor (or other auditors, as the case may be) has not been able to obtain sufficient appropriate audit evidence in relation to such consolidated amounts/balances. In such cases, the auditor should evaluate both qualitative and quantitative factors on the possible effect of such amounts remaining unaudited when reporting on the consolidated financial statements using the guidance provided in SA 705, "Modifications to the Opinion in the Independent Auditor's Report".

11. **Audit Procedures** -In carrying out audit of advances, the auditor is primarily concerned with obtaining evidence about the following:

Area of Focus	Suggested Audit Procedures
Evaluation of Internal Controls over Advances	<ul style="list-style-type: none"> • Examine loan documentation; • Examine the validity of the recorded amounts; • Examine the existence, enforceability and valuation of the security; • Ensure compliance with the terms of sanction and end use of funds. • Ensure compliance with Loan Policy of Bank as well as RBI norms including appropriate classification and provisioning • Review the operation of the accounts;
Substantive Audit Procedures	<ul style="list-style-type: none"> • Check that amounts included in balance sheet in respect of advances are outstanding at the date of the balance sheet. • Check that advances represent amount due to the bank. • Verify that amounts due to the bank are appropriately supported by Loan documents and other documents as applicable to the nature of advances.

	<ul style="list-style-type: none"> • Ensure there are no unrecorded advances. • Check that the stated basis of valuation of advances is appropriate and properly applied, and that the recoverability of advances is recognised in their valuation. • Verify that the advances are disclosed, classified and described in accordance with recognised accounting policies and practices and relevant statutory and regulatory requirements. • Check that appropriate provisions towards advances have been made as per the RBI norms, Accounting Standards and generally accepted accounting practices. • Examine all large advances while other advances may be examined on a sample basis • Verify completeness and accuracy of interest being charged
Recoverability of Advances	<ul style="list-style-type: none"> • Review periodic statements submitted by the borrowers indicating the extent of compliance with terms and conditions. • Review latest financial statements of borrowers. • Review reports on inspection of security. • Review Auditors' reports in the case of borrowers enjoying aggregate credit limits of Rupees 10 lakh or above for working capital from the banking system.

12. (a) **General Insurance Company – Verification of Outstanding Premium and Agents' Balances:** The following are the audit procedures to be followed for verification of outstanding premium and agents' balances:
- (i) Scrutinise and review control account debit balances and their nature should be enquired into.
 - (ii) Examine inoperative balances and treatment given for old balances with reference to company rules.
 - (iii) Enquire into the reasons for retaining the old balances.
 - (iv) Verify old debit balances which may require provision or adjustment. Notes of explanation may be obtained from the management in this regard.
 - (v) Check age-wise, sector-wise analysis of outstanding premium.

- (vi) Verify whether outstanding premiums have since been collected.
- (vii) Check the availability of adequate bank guarantee or premium deposit for outstanding premium.

(b) Importance of Actuarial Process and Role of Auditor in case of Life Insurance Business :

Importance of Actuarial Process: Actuaries in Life Insurance business have gained tremendous importance. The role of Actuary in life insurance has shifted from supervising compliance to certify whether products and financial reports are in accordance with the general regulatory guidelines.

The job of actuary or actuarial department in any Life Insurance Company involves, detailed analysis of data to quantify risk. The actuarial department is calculating and modelling hub of the Company. Within the department fundamentals of Insurance business is determined from pricing to policy valuations techniques.

Role of Auditor: Auditors in the Audit report are required to certify, whether the actuarial valuation of liabilities is duly certified by the appointed actuary, including to the effect that the assumptions for such valuation are in accordance with the guidelines and norms, if any, issued by the authority and/or the Actuarial Society of India in concurrence with the IRDA.

Hence, Auditors generally rely on the Certificate issued by the Appointed Actuary, certifying the Policy liabilities. However, Auditor may discuss with the Actuaries with respect to process followed and assumptions made by him before certifying the Policy liabilities.

Actuarial department broadly concentrates following key areas of Insurance business:

- Product Development/ Pricing and Experience analysis.
- Model Development.
- Statutory Valuations and reserving.
- Business Planning.
- Solvency management.
- Management reporting on various business valuations and profitability models of the Life Insurance business.

- 13. Reporting under CARO, 2016 for Registration under RBI Act, 1934:** As per Clause (xvi) of paragraph 3 of the CARO, 2016, the auditor is required to report whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934. If so, whether the registration has been obtained.

Audit Procedures and Reporting-

- (i) The auditor should examine the transactions of the company with relation to the activities covered under the RBI Act and directions related to the Non-Banking Financial Companies.
 - (ii) The financial statements should be examined to ascertain whether company's financial assets constitute more than 50 per cent of the total assets and income from financial assets constitute more than 50 per cent of the gross income.
 - (iii) Whether the company has net owned funds as required for the registration as NBFC.
 - (iv) Whether the company has obtained the registration as NBFC, if not, the reasons should be sought from the management and documented.
14. (a) The provisions relating to tax audit under section 44AB of the Income Tax Act, 1961 applies to every person carrying on business, if his total sales, turnover or gross receipts in business exceed the prescribed limit of ₹ 1 crore and to a person carrying on a profession, if his gross receipts from profession exceed the prescribed limit of ₹ 50 lakhs (w.e.f. A.Y. 2017-18) in any previous year. However, the term "sales", "turnover" or "gross receipts" are not defined in the Act, and therefore the meaning of the aforesaid terms has to be considered for the applicability of the section.

Some of the points for merit consideration in this regard as discussed in the Guidance Note issued by the Institute are given below-

- (i) Discount allowed in the sales invoice will reduce the sale price and, therefore, the same can be deducted from the turnover.
- (ii) Cash discount otherwise than that allowed in a cash memo/sales invoice is in the nature of a financing charge and is not related to turnover. Therefore, should not be deducted from the turnover.
- (iii) Turnover discount is normally allowed to a customer if the sales made to him exceed a particular quantity. As per trade practice, it is in the nature of trade discount and should be deducted from the figure.
- (iv) Special rebate allowed to a customer can be deducted from the sales if it is in the nature of trade discount. If it is in the nature of commission on sales, the same cannot be deducted from the figure of turnover.
- (v) Price of goods returned should be deducted from the turnover even if the returns are from the sales made in the earlier year/s.
- (vi) Sale proceeds of any shares, securities, debentures, etc., held as investment will not form part of turnover. However, if the shares, securities, debentures etc., are held as stock-in-trade, the sale proceeds thereof will form part of turnover.

In the given case, Concession Ltd. is engaged in manufacturing business. Therefore, the tax audit would be applicable if the turnover exceeds ₹ 1 crore during the financial

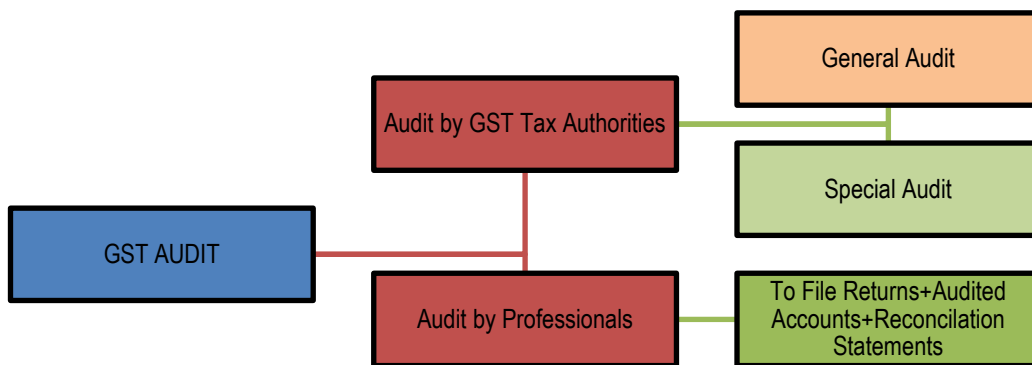
year 2017-18. The calculation of effective turnover for the prescribed limit purpose, in accordance with abovementioned conditions, is given below:

Recorded turnover during the year	₹ 1,13,00,000
Less: (i) Discount allowed in the Sales Invoice	(₹ 8,20,000)
(ii) Trade discount	(₹ 2,90,000)
(iii) Sales Return	(₹ 1,60,000)
Effective turnover	₹ 1,00,30,000

Conclusion: The effective turnover of Concession Ltd. is rupees one crore and thirty thousand only which is over and above the prescribed limit for tax audit under section 44AB of the Income Tax Act, 1961. Thus, the provisions related to tax audit are applicable to the company and is therefore liable for tax audit

(b) **Types of Audit under GST Law by Chartered Accountants:** Contention of Vijay Maniyar & Associates, a firm of Chartered Accountants is not correct. GST envisages two types of Audit by Chartered Accountants i.e.

- (1) Audit of accounts [Section 35(5) read alongwith section 44(2) and rule 80]
- (2) Special Audit wherein the registered person can be directed to get his records including books of account examined and audited by a chartered accountant or a cost accountant during any stage of scrutiny, inquiry, investigation or any other proceedings; depending upon the complexity of the case. [Section 66 and rule 102]



1. Audit of Accounts [Section 35(5) read alongwith section 44(2) and rule 80]

As per sub-section 5 of section 35 read alongwith section 44(2) and rule 80 of the CGST Rules, 2017 stipulates as follows:

Every registered person must get his accounts audited by a Chartered Accountant or a Cost Accountant if his aggregate turnover during a FY exceeds ₹ 2 crores.	Such registered person is required to furnish electronically through the common portal alongwith Annual Return a copy of: <input type="checkbox"/> Audited annual accounts <input type="checkbox"/> A Reconciliation Statement, duly certified, in prescribed FORM GSTR-9C.
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Reconciliation Statement will reconcile the value of supplies declared in the return furnished for the financial year with the audited annual financial statement and such other particulars, as may be prescribed.

2. **Special Audit under section 66:** Availing the services of experts is an age old practice of due process of law. These experts have done yeoman service to the process of delivering justice. One such facility extended by the Act is in Section 66 where an officer not below the rank of Assistant Commissioner, duly approved, may avail the services of a Chartered Accountant or Cost Accountant to conduct a detailed examination of specific areas of operations of a registered person. Availing the services of the expert be it a Chartered Accountant or Cost Accountant is permitted by this section only when the officer considering the nature & complexity of the business and in the interest of revenue is of the opinion that:

- ☛ Value has not been correctly declared; or
- ☛ Credit availed is not within the normal limits.

It would be interesting to know how these 'subjective' conclusions will be drawn and how the proper officers determines what is the normal limit of input credit availed.

15. (a) **Key Functions of Energy Auditor:** Energy auditing is defined as an activity that serves the purposes of assessing energy use pattern of a factory or energy consuming equipment and identifying energy saving opportunities. In that context, energy management involves the basis approaches reducing avoidable losses, improving the effectiveness of energy use, and increasing energy use efficiency. The function of an energy auditor could be compared with that of a financial auditor. The energy auditor is normally expected to give recommendations on efficiency improvements leading to monetary benefits and also advise on energy management issues. Generally, energy auditor for the industry is an external party. The following are some of the key functions of the energy auditor:

The following are some of the key functions of the energy auditor:

- (i) Quantify energy costs and quantities.
 - (ii) Correlate trends of production or activity to energy costs.
 - (iii) Devise energy database formats to ensure they depict the correct picture – by product, department, consumer, etc.
 - (iv) Advise and check the compliance of the organisation for policy and regulation aspects.
 - (v) Highlight areas that need attention for detailed investigations.
 - (vi) Conduct preliminary and detailed energy audits which should include the following:
 - (a) Data collection and analysis.
 - (b) Measurements, mass and energy balances.
 - (c) Reviewing energy procurement practices.
 - (d) Identification of energy efficiency projects and techno-economic evaluation.
 - (e) Establishing action plan including energy saving targets, staffing requirements, implementation time requirements, procurement issues, details and cost estimates.
 - (f) Recommendations on goal setting for energy saving, record keeping, reporting and energy accounting, organisation requirements, communications and public relations.
- (b) Special Audit Report:** A lending bank may, in special cases, require the non-corporate entity to obtain a special report from the auditor. Such a report can be called by a lending bank if it finds that it is necessary to have more information about the working of the entity. In such a case the report will have to be given by the auditor on a quarterly basis. The special audit report which is to be given on a quarterly basis in the specified form is in addition to the normal audit report which is to be given by the auditor on a yearly basis.

Special Report in respect of Operating Data: In the quarterly special audit report, the auditor will have to give information relating to the operating data for each quarter. This information will have to be classified in the following manner:

- (i) Actual production;
- (ii) Actual production as a percentage of rated capacity;
- (iii) Sales;
- (iv) Cost of goods sold/cost of production;

- (v) Gross margin;
- (vi) Interest on bank borrowing; and
- (vii) Interest on others

Special Report in respect of Inventory: The age-wise classification of raw materials and finished goods is to be given. For this purpose age-wise classification is to be made in the following manner in respect of raw materials and finished goods separately;

- (i) Inventory for more than one year;
- (ii) Between 6 months and one year;
- (iii) Between three months and 6 months; and
- (iv) Below 3 months.

Similar information about the work-in-progress i.e. the number of days of production which remains in progress should also be given.

The basis of valuation of raw material and finished goods should be given. For this purpose the following information is to be given:

- (i) The manner of determination of cost (i.e. components of cost)
- (ii) The method of valuing stock i.e. FIFO, weighted average cost, etc.

It is also necessary to state if there is any discrepancy between the quantity and value of the stock as furnished to the bank and as appearing in the books. The reasons for such discrepancy should be given in the audit report.

Special Report in respect of Other Items: Age-wise classification of bills receivable and other receivables with reference to the, bills due from domestic parties and bills in respect of exports should be given. The age-wise classification is to be done on the same basis as the classification for raw materials and finished goods as stated above.

Information in respect of the following items is also to be given:

- (i) Balances at the end of each month of the quarter for major categories of stock, receivables and bills receivables;
- (ii) Tax assessments and payments made during the quarter;
- (iii) Actual disbursement of capital expenditure during the quarter;
- (iv) Outstanding contracts on capital account at the end of the quarter giving the details about the names of parties and amounts outstanding;
- (v) The contingent liability which may or may not materialize during the financial year succeeding the relevant quarter;

- (vi) Investment made during the quarter and the income from such investments including profit on sale of investments;
- (vii) Loans given during the quarter;
- (viii) Loans raised during the quarter from banks and from others. Separate figures to be given;
- (ix) Overdue statutory liability at the end of the quarter;
- (x) Amounts due but not paid at the end of the quarter in respect of (a) loans from banks, (b) public deposits, and (c) other loans; and
- (xi) Figures of cash losses during the last 2 years to be stated on the basis of the annual accounts. If such accounts were not audited this fact should be stated.

The funds obtained from the lending banks have to be utilised for the purpose for which they are given by the bank. If the auditor finds that these funds have been diverted for the purposes other than those for which they were given by the bank the auditor will have to give the details of the diversion for such other purposes.

In order that the lending bank may be able to ascertain the correct financial position and financial health of the entity it is necessary for the auditor to give the details of the diversion for such other purposes.

In order that the lending bank may be able to ascertain the correct financial position and financial health of the entity it is necessary for the auditor to give information about the following ratios:

- (a) Current ratio
- (b) Acid test ratio
- (c) Raw materials-turnover ratio
- (d) Finished goods-turnover ratio
- (e) Receivables-turnover ratio
- (f) Return on investment
- (g) Interest cover ratio
- (h) Net margin ratio
- (i) Capital turnover ratio
- (j) Debt equity ratio
- (k) Operating cash flow.

16. Powers of Comptroller and Auditor-General of India

- (i) **Supplementary audit under section 143(6)(a) of the Companies Act, 2013:**
The Comptroller and Auditor-General of India shall within 60 days from the date of

receipt of the audit report have a right to conduct a supplementary audit of the financial statement of the company by such person or persons as he may authorize in this behalf; and for the purposes of such audit, require information or additional information to be furnished to any person or persons, so authorised, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General of India may direct.

Comment upon or supplement such Audit Report under section 143(6)(b) of the Companies Act, 2013: Any comments given by the Comptroller and Auditor-General of India upon, or supplement to, the audit report shall be sent by the company to every person entitled to copies of audited financial statements under sub-section (1) of section 136 of the said Act i.e. every member of the company, to every trustee for the debenture-holder of any debentures issued by the company, and to all persons other than such member or trustee, being the person so entitled and also be placed before the annual general meeting of the company at the same time and in the same manner as the audit report.

- (ii) **Test audit under section 143(7) of the Companies Act, 2013:** Without prejudice to the provisions relating to audit and auditor, the Comptroller and Auditor-General of India may, in case of any company covered under sub-section (5) or sub-section (7) of section 139 of the said Act, if he considers necessary, by an order, cause test audit to be conducted of the accounts of such company and the provisions of section 19A of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such test audit.

17. (a) **Direct Assistance from Internal Auditor:** As per SA 610 "Using the Work of Internal Auditor", the external auditor shall not use internal auditors to provide direct assistance to perform procedures that involve making significant judgments in the audit.

Since the external auditor has sole responsibility for the audit opinion expressed, the external auditor needs to make the significant judgments in the audit engagement.

Significant judgments include the following:

- ◆ Assessing the risks of material misstatement;
- ◆ Evaluating the sufficiency of tests performed;
- ◆ Evaluating the appropriateness of management's use of the going concern assumption;
- ◆ Evaluating significant accounting estimates; and
- ◆ Evaluating the adequacy of disclosures in the financial statements, and other matters affecting the auditor's report.

In view of above, Mr. Anand cannot ask direct assistance from internal auditors regarding evaluating significant accounting estimates and assessing the risk of material misstatements.

- (b) While conducting the operational audit the auditor has to come across many irregularities and areas where improvement can be made and therefore he gives his suggestions and recommendations.

These suggestions and recommendations for improvements may not be accepted by the hostile managers and in effect there may be cold war between the operational auditor and the managers. This would defeat the very purpose of the operational audit.

The Participative Approach comes to the help of the auditor. In this approach the auditor discusses the ideas for improvements with those managers that have to implement them and make them feel that they have participated in the recommendations made for improvements. By soliciting the views of the operating personnel, the operational audit becomes co-operative enterprise.

This participative approach encourages the auditee to develop a friendly attitude towards the auditors and look forward to their guidance in a more receptive fashion. When participative method is adopted then the resistance to change becomes minimal, feelings of hostility disappear and gives room for feelings of mutual trust. Team spirit is developed. The auditors and the auditee together try to achieve the common goal. The proposed recommendations are discussed with the auditee and modifications as may be agreed upon are incorporated in the operational audit report. With this attitude of the auditor it becomes absolutely easy to implement the proposed suggestions as the auditee themselves take initiative for implementing and the auditor do not have to force any change on the auditee.

Hence, Operational Auditor of DLF manufacturing unit should adopt above mentioned participative approach to tackle the hostile management of DLF.

- 18. Difference between a forensic accounting analysis and an audit:** The general public believes that a financial auditor would detect a fraud if one were being perpetrated during the financial auditor's audit. The truth, however, is that the procedures for financial audits are designed to detect material misstatements, not immaterial frauds. While it is true that many of the financial statements and frauds could have, perhaps should have, been detected by financial auditors, the vast majority of frauds could not be detected with the use of financial audits. Reasons include the dependence of financial auditors on a sample and the auditors' reliance on examining the audit trail versus examining the events' and activities behind the documents. The latter is simply resource prohibitive in terms of costs and time.

There are some basic differences today between the procedures of forensic auditors and those of financial auditors. In comparison, forensic accounting and audit differ in specific ways, as shown below:

Forensic Accounting	Audit
<ul style="list-style-type: none"> * In response to an event * Financial investigation * Finding used as evidence in court or to resolve disputes 	<ul style="list-style-type: none"> *Mandatory *Measures compliance with reporting standards •Obtain reasonable assurance that financial statements are free of material misstatement In practice, there are difference in mind set between forensic accounting and audit: •"Investigative mentality" vs. "professional scepticism". A forensic accountant will often require more extensive corroboration. •A forensic accountant may focus more on seemingly immaterial transactions.

A forensic accountant will often look for indications of fraud that are not subject to the scope of a financial statement audit.

Sr. No.	Particulars	Other Audits	Forensic Audit
1.	Objectives	Express an opinion as to 'True & Fair' presentation	Whether fraud has taken place in books
2.	Techniques	Substantive & Compliance. Sample based	Investigative, substantive or in depth checking
3.	Period	Normally for a particulars accounting period.	No such limitations
4.	Verification of stock, Estimation realisable value of assets, provisions, liability etc.	Relies on the management certificate/Management Representation	Independent/verification of suspected/selected items where misappropriation in suspected
5.	Off balance sheet items (like contracts etc.)	Used to vouch the arithmetic accuracy & compliance with procedures.	Regulatory & propriety of these transactions/contracts are examined.

6.	Adverse findings if any	Negative opinion or qualified opinion expressed with/without quantification	Legal determination of fraud impact and identification of perpetrators depending on scope.
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19. (a) **Circulating Information Contained in Own Website:** As per clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

However, the guidelines approved by the Council of the Institute of Chartered Accountants of India permit creation of own website by a chartered accountant in his or his firm name and no standard format or restriction on colours is there. The chartered accountant or firm, as per the guidelines, should ensure that none of the information contained in the website be circulated on their own or through E-mail or by any other mode except on a specific "Pull" request.

Further, members are not required to intimate the Website address to the Institute. Members are only required to comply with the Website Guidelines issued by the Institute in this regard.

In the given case, Mr. Brilliant has circulated the information contained in the website through E-mail to public at large. Therefore, he is guilty of professional misconduct under clause (6) of Part I of the First Schedule to the said Act. However, there is no such misconduct for not intimating website address to the Institute.

- (b) **Engaging into a Business:** As per clause (11) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage.

However, the Council has granted general permission to the members to engage in certain specific occupation. In respect of all other occupations specific permission of the Institute is necessary.

In this case, CA. Raj is engaged in the occupation of trading in commodity derivatives which is not covered under the general permission.

Hence, specific permission of the Institute has to be obtained otherwise he will be deemed to be guilty of professional misconduct under clause (11) of Part I of First Schedule of Chartered Accountants Act, 1949.

- (c) **Maintenance of Books of Account by a CA in Practice:** Chapter V of the Council General Guidelines, 2008 specifies that a member of the Institute in practice or the

firm of Chartered Accountants of which he is a partner, shall maintain and keep in respect of his/its professional practice, proper books of accounts including the following-

- (i) a Cash Book
- (ii) a Ledger

Thus, a Chartered Accountant in practice is required to maintain proper books of accounts.

In the instant case, CA. Elegant does not maintain proper books of accounts and writes the fees received from various clients in notes in his mobile. Notes maintained by him in mobile cannot be treated as books of accounts.

Hence, CA. Elegant, being a practicing Chartered Accountant will be held guilty of misconduct for violation of Council General Guidelines, 2008.

- (d) Issuing Certificate without having Certificate of Practice:** As per Clause (1) of Part II of Second Schedule to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council.

This clause requires every member of the Institute to act within the framework of the Chartered Accountants Act and the Regulations made thereunder. Any violation either of the Act or the Regulations by a member would amount to misconduct.

In the given case, CA. Vineet has issued a certificate in respect of a consumption statement of raw material to the manager of ZedEx (P) Ltd., as a Chartered Accountant in practice when he had not even applied for the CoP to the Institute, thereby contravening the provisions of section 6 of the Chartered Accountants Act, 1949.

Therefore, CA. Vineet will be held guilty of professional misconduct in terms of clause (1) of Part II of Second Schedule to the Chartered Accountants Act, 1949 for contravention of provisions of this Act.

- 20. (a) Technical, Ethical and Professional Standards as per Statement on Peer Review:** As per the Statement, Technical, Professional and Ethical Standards means-
1. Accounting Standards issued by ICAI and /or prescribed and notified by the Central Government of India;
 2. Standards issued by the Institute of Chartered Accountants of India including-
 - (i) Engagement standards
 - (ii) Statements
 - (iii) Guidance notes

- (iv) Standards on Internal Audit
 - (v) Statements on Quality Control
 - (vi) Notifications / Directions / Announcements / Guidelines / Pronouncements/ Professional standards issued from time to time by the Council or any of its committees.
3. Framework for the Preparation and presentation of financial statements, framework of statements and Standard on Auditing, Standard on Assurance Engagements, Standards on Quality Control and Guidance Notes on related services issued, from time to time, by the Institute of Chartered Accountants of India and framework for assurance engagements;
 4. Provisions of the various relevant statutes and / or regulations which are applicable in the context of the specific engagements being reviewed including instructions, guidelines, notifications, directions issued by regulatory bodies as covered in the scope of assurance engagements.

(b) Various Stages involved in the Conduct of the Quality Review Assignments are:

- ✍ Selection of Audit Firm and Technical Reviewer to conduct Quality Review and sending Offer Letter of Engagement to the Technical Reviewer.
- ✍ Technical Reviewer to convey his acceptance of Letter of Engagement by sending necessary declarations for meeting eligibility conditions and furnishing statement of confidentiality by the Technical Reviewer and his assistant/s, if any.
- ✍ Intimation to the Audit Firm about the proposed Quality Review and acceptance of the assignment by the Technical Reviewer. Also marking a copy of the intimation to the Technical Reviewer.
- ✍ Technical Reviewer to send the specified Quality Review Program General Questionnaire to the Audit firm for filling-up and call for additional information from the Audit Firm, if required.
- ✍ Technical Reviewer to carry out the Quality Review by visiting the office of the Audit Firm by fixing the date as per mutual consent.
- ✍ Technical Reviewer to send the preliminary report to Audit firm.
- ✍ Audit firm to submit representation on the preliminary report to the Technical Reviewer.
- ✍ Technical Reviewer to submit final report alongwith a copy of Annual report of the company/entity for the year, to the Board in the specified format, on their (individual) letterhead, duly signed and dated within 45 days from the date of acceptance of the assignment.
- ✍ Technical Reviewer should also send a copy of their final report to the Statutory Auditor/Audit firm, requesting the firm to send their submissions thereon to the

Board within 7 days of receipt of the final report with a copy to Technical Reviewer. Upon receipt of their final submission, Technical Reviewer shall submit within next 7 days a summary of their findings, reply of the audit firm thereon alongwith their final comments in the specified format.

- ✍ Quality Review Group to consider the report of the Technical Reviewer and responses of the Audit firm and make recommendations to Quality Review Board.
- ✍ Quality Review Board to consider the report of the Quality Review Group and decide the final course of action.

(c) The main features of a qualified and independent audit committee to be set up under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 are as follows:

1. The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors;
2. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise;

Explanation (i): The term “financially literate” means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation (ii): A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

3. The Chairperson of the Audit Committee shall be an independent director;
4. The Chairperson of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries;
5. The Audit Committee at its discretion shall invite the finance director or the head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee; provided that occasionally, the Audit Committee may meet without the presence of any executives of the listed entity.;
6. The Company Secretary shall act as the secretary to the committee.

(d) Key Audit Matters— As per SA 701, “Communicating Key Audit Matters in the Independent Auditor’s Report (New)”, those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the

current period. Key audit matters are selected from matters communicated with those charged with governance.

Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report: The auditor shall describe each key audit matter in the auditor's report unless:

- (i) Law or regulation precludes public disclosure about the matter; or
- (ii) In extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter.

PAPER – 4: CORPORATE AND ECONOMIC LAWS

PART – I: RELEVANT AMENDMENTS APPLICABLE FOR MAY 2018 EXAMINATION

Applicability of Relevant Amendments/ Circulars/ Notifications/ Regulations etc.

For May 2018 examinations for Paper 4: Corporate and Economic Laws, the significant amendments made in the respective subject for the period 1st May 2017 to 31st October, 2017 are relevant and applicable for said examinations.

This RTP of May 2018 examination is very important to the students to update themselves with the relevant amendments pertaining to the Corporate and Economic Laws. This publication will help the students to know of the significant changes, so that students may bring into line the changes in the principal provisions.

Relevant amendments: The given list of relevant amendments contains the gist of amendments, reference of page nos. of the study material alongwith the earlier law to enable the students an addition/deletion/modification in the principal law.

Relevant Legislative amendments from 1st of May 2017 to 31st of October 2017				
Corporate Laws				
Sl. No.	Heading of Amendments	Details of Amendments	Page no. of the Study material with reference to relevant provisions (Corporate and Economic Laws)	Earlier Law
1.	Exemptions to Government Companies Vide Notification G.S.R. 582(E) Dated 13 th June, 2017	The Central Government amends the Notification G.S.R. 463(E), dated 5 th June 2015. Following are the amendments: (i) According to the amendment, section 152(6) & (7), shall not apply to – (a) a Government company, which is not a listed company, in which	1.17	The Ministry of Corporate Affairs has clarified via Notification No. 463(E) dated 5 th June, 2015, that section 152(6) and (7) of the Companies Act, 2013, shall not apply to: (i) A Government company in which the entire paid up share capital is held by the Central Government, or

		not less than fifty-one per cent. of paid up share capital is held by the Central Government, or by any State Government or Governments or by the Central Government and one or more State Governments; (b) a subsidiary of a Government company, referred to in (a) above."		by any State Government or Governments or by the Central Government and one or more State Governments: (ii) A subsidiary of a Government company, referred above, in which the entire paid up share capital is held by the Government company.
		(ii) The word "Tribunal" wherever it occurs in sections 230 to 232, the words "Central Government" shall be substituted.	5.5-5.10	Usage of word "Tribunal" in the said sections.
	Insertion of Paragraph 2A in the principal notification G.S.R. 463(E), dated 5 th June 2015	The aforesaid exceptions, modifications and adaptations shall be applicable to a Government company which has not committed a default in filing of its financial statements under section 137 of the Companies Act or annual return under section 92 of the said Act with the Registrar.		
2.	Exemptions to Private Companies Vide Notification G.S.R. 583(E) Dated 13 th June, 2017	(1) With respect to Section 173(5), the following sub-section shall be substituted: (5) A One Person Company, small company, dormant company and a private company (if such private company is a start-up) shall be deemed to have complied with the provisions of this section if at least one meeting of the Board of	3.2	173(5)- A One Person Company, small company and dormant company shall be deemed to have complied with the provisions of this section if at least one meeting of the Board of Directors has been conducted in each half of a calendar year and the gap between the two meetings is not less than ninety days: Provided that nothing contained in this sub-section and in section 174 shall apply to One

		<p>Directors has been conducted in each half of a calendar year and the gap between the two meetings is not less than ninety days: Provided that nothing contained in this subsection and in section 174 shall apply to One person Company in which there is only one director on its Board of Directors.</p> <p>(2) With respect to section 174(3)- It shall apply with the exception that the interested director may also be counted towards quorum in such meeting after disclosure of his interest pursuant to section 184.</p>	<p>3.10-3.11</p>	<p>Person Company in which there is only one director on its Board of Directors</p> <p>174(3)- Where at any time the number of interested directors exceeds or is equal to two thirds of the total strength of the Board of Directors, the number of directors who are not interested directors and present at the meeting, being not less than two, shall be the quorum during such time.</p> <p>Explanation.—For the purposes of this subsection, “interested director” means a director within the meaning of sub-section (2) of section 184.</p>
	<p>Insertion of Paragraph 2A in the principal notification G.S.R. 464(E), dated 5th June 2015</p>	<p>The aforesaid exceptions, modifications and adaptations shall be applicable to a Private company which has not committed a default in filing of its financial statements under section 137 or annual return under section 92 of the said Act with the Registrar.</p>		

3.	Exemptions to Companies covered section 8 of the Companies Act, 2013 Vide Notification G.S.R. 584(E) Dated 13 th June, 2017	The Central Government amends the Notification G.S.R. 466(E), dated 5 th June 2015. Following are the relevant amendments: (1) Section 149(1)(b) & first proviso shall not apply on section 8 companies. (2) In section 186(7)-following proviso shall be inserted-Provided that nothing contained in this sub-section shall apply to a company in which twenty-six per cent. or more of the paid-up share capital is held by the Central Government or one or more State Governments or both, in respect of loans provided by such company for funding Industrial Research and Development projects in furtherance objects as stated in its memorandum of association."	1.3 & 3.35	Earlier vide notification dated 5 th June 2015 it was said that Section 149 (1) and the first Proviso to Sub-section (1) shall not apply.
	Insertion of Paragraph 2A in the principal notification G.S.R. 466 (E), dated 5 th June 2015	The aforesaid exceptions, modifications and adaptations shall be applicable to a company covered under section 8 of the said Act which has not committed a default in filing of its financial statements under section 137 or annual return under section 92 of the said Act with the Registrar.		
4.	Enforcement of the Companies (Removal of Difficulties) Orders, 2017 Vide Order S.O. 2042(E) dated 29 th June, 2017	In the Companies Act, 2013, in section 434, in sub-section (1), in clause (c),- (a) in the third proviso, for "Provided further that-", the following shall be substituted, namely:- "Provided also that-";	12.17	Second proviso to section 434 (c) had start with the usage of the words "Provided further that". After this proviso, the third proviso is introduced

		(b) after the third proviso, the following proviso shall be inserted, namely:- “Provided also that proceedings relating to cases of voluntary winding up of a company where notice of the resolution by advertisement has been given under subsection (1) of section 485 of the Companies Act, 1956 but the company has not been dissolved before the 1st April, 2017 shall continue to be dealt with in accordance with provisions of the Companies Act, 1956 and the Companies (Court) Rules, 1959.”		
5.	Enforcement of the Companies (Appointment and Qualification of Directors) Amendment Rules, 2017 Vide Notification G.S.R. 839(E) dated 5 th July 2017	The Central Government hereby makes the following rules further to amend the Companies (Appointment and Qualification of Directors) Rules, 2014. In the Companies (Appointment and Qualification of Directors) Rules, 2014, rule 4 shall be numbered as sub-rule(1) and after sub-rule(1) as so renumbered, the following sub-rule shall be inserted namely :- “(2) The following classes of unlisted public company shall not be covered under sub-rule (1), namely:- (a) a joint venture; (b) a wholly owned subsidiary; and	1.4	According to the Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014, the following class or classes of companies shall have at least 2 directors as independent directors: (1) the Public Companies having paid up share capital of 10 crore rupees or more; or (2) the Public Companies having turnover of 100 crore rupees or more; or (3) the Public

		(c) a dormant company as defined under section 455 of the Act.”	<p>Companies which have, in aggregate, outstanding loans, debentures and deposits, exceeding 50crore rupees.</p> <p>However, in case a company covered as under the above rule is required to appoint a higher number of independent directors due to composition of its audit committee, such higher number of independent directors shall be applicable to it.</p> <p>Further, any intermittent vacancy of an independent director shall be filled-up by the Board at the earliest but not later than immediate next Board meeting or three months from the date of such vacancy, whichever is later.</p> <p>However, where a company ceases to fulfill any of three conditions laid down above for three consecutive years, it shall not be required to comply</p>
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				<p>with these provisions until such time as it meets any of such conditions.</p> <p>For the purpose of the above assessment, the paid up share capital or turnover or outstanding loans, debentures and deposits, as the case may be, as existing on the last date of latest audited financial statements shall be taken into account.</p> <p>A company belonging to any class of companies for which a higher number of independent directors has been specified in the law for the time being in force shall comply with the requirements specified in such law.</p>
6.	Enforcement of the Companies (Meetings of Board and its Powers) Second Amendment Rules, 2017 vide	The Central Government hereby makes the following rules further to amend the Companies (Meetings of Board and its Powers) Rules, 2014. Following are the amendments:	3.4	Earlier Rule 3(e) stated - The director, who desires, to participate may intimate his intention of participation through the electronic mode at

	<p>Notification G.S.R. 880(E) Dated 13th July 2017</p>	<p>(1) In rule 3 for clause (e), the following shall be substituted, - “(e) Any director who intends to participate in the meeting through electronic mode may intimate about such participation at the beginning of the calendar year and such declaration shall be valid for one year: Provided that such declaration shall not debar him from participation in the meeting in person in which case he shall intimate the company sufficiently in advance of his intention to participate in person.”</p> <p>(2) In the principal rules, for rule 6, the following rule shall be substituted, namely:- "6. Committees of the Board. - The Board of directors of every listed company and a company covered under rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014 shall constitute an 'Audit Committee' and a 'Nomination and Remuneration Committee of the Board'.</p>	<p>3.12</p>	<p>the beginning of the calendar year and such declaration shall be valid for one calendar year.</p> <p>Earlier Rule 6 prescribed that the Board of Directors of every listed companies and following class of companies shall constitute an Audit Committee and a Nomination and Remuneration Committee of the Board-</p> <p>(a) all public companies with a paid up capital of 10 crore rupees or more;</p> <p>(b) all public companies having turnover of 100 crore rupees or more;</p>
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				(c) all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding 50 crore rupees or more.
7.	Enforcement of Section 212(8), (9), & (10) vide Notification S.O. 2751(E) dated 24 th of August, 2017	The Central Government notified the provisions of sub-sections (8), (9) and sub-section (10) of section 212 of the Companies Act, 2013 with effect from 24 th day of August, 2017.	4.14	Not notified
8.	Enforcement of the Companies (Arrests in connection with Investigation by Serious Fraud Investigation Office) Rules, 2017 Vide Notification G.S.R. 1062(E) dated 24 th Of August 2017	In exercise of the powers conferred under sub-section (1) of section 469 read with section 212 of the Companies Act, 2013, Central Government enforced the Companies (Arrests in connection with Investigation by Serious Fraud Investigation Office) Rules, 2017. According to the Rule where any person has been guilty of any offence punishable under section 212 of the Act, he may be arrested as per the respective rules. For details see http://www.mca.gov.in/Ministry/pdf/SFIORule_25082017.pdf	Reference of Relevant provision 212 on page no. 4.14 of the Study material	Earlier not notified
9.	Exemptions given to certain unlisted public	Vide Notification number G.S.R. 839(E) dated 5th July, 2017 an amendment was issued through the	Related to the amendment given in point no. 7 (Above)	Before amendment there was a single rule. It does not prescribe the

	companies under the Companies (Appointment and Qualification of Directors) Rules, 2014 from appointment of Independent Directors Vide notification of circular 09/2017 dated 5 th September 2017	<p>Companies (Appointment and Qualification of Directors) Amendment Rules, 2017 inter-alia amending rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014.</p> <p>The said amended Rule 4 provides that an unlisted public company which is a joint venture, a wholly owned subsidiary or a dormant company will not be required to appoint Independent Directors.</p> <p>Through the issue of this circular, it is hereby clarified that a "joint venture,, would mean a joint arrangement, entered into in writing, whereby the parties that have joint control of the arrangement, have rights to the net assets of the arrangement. The usage of the term is similar to that under the Accounting Standards.</p>		nature of unlisted public company and the meaning of joint venture.
10.	Enforcement of the Companies (Restriction on number of layers) Rules, 2017 in exercise of the powers conferred under proviso to clause (87) of section 2 Vide notification	<p>Restriction on number of layers for certain classes of holding companies-</p> <p>(1) On and from the date of commencement of these rules, no company, other than a company belonging to a class specified in sub-rule(2) , shall have more than two layers of subsidiaries: Provided that the provisions of this sub-rule shall not affect a company from acquiring a company incorporated</p>	Reference of relevant section 186 on page no. 3.32	Earlier not notified

	<p>G.S.R. 1176(E), dated 20th September 2017.</p>	<p>outside India with subsidiaries beyond two layers as per the laws of such country: Provided further that for computing the number of layers under this rule, one layer which consists of one or more wholly owned subsidiary or subsidiaries shall not be taken into account.</p> <p>(2) The provisions of this rule shall not apply to the following classes of companies, namely:—</p> <p>(a) a banking company as defined in the Banking Regulation Act, 1949</p> <p>(b) a non-banking financial company as defined in the Reserve Bank of India Act, 1934 which is registered with the Reserve Bank of India and considered as systematically important non-banking financial company by the Reserve Bank of India;</p> <p>(c) an insurance company being a company which carries on the business of insurance in accordance with provisions of the Insurance Act, 1938 and the Insurance Regulatory Development Authority Act, 1999</p> <p>(d) a Government company referred to in clause (45)</p>		
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		<p>of section 2 of the Companies Act.</p> <p>(3) The provisions of this rule shall not be in derogation of the proviso to sub-section (1) of section 186 of the Act.</p> <p>(4) Every company, other than a company referred to in sub-rule (2), existing on or before the commencement of these rules, which has number of layers of subsidiaries in excess of the layers specified in sub-rule (1) –</p> <p>(i) shall file, with the Registrar a return disclosing the details specified therein, within a period of one hundred and fifty days from the date of publication of these rules in the Official Gazette;</p> <p>(ii) shall not, after the date of commencement of these rules, have any additional layer of subsidiaries over and above the layers existing on such date; and (iii) shall not, in case one or more layers are reduced by it subsequent to the commencement of these rules, have the number of layers beyond the number of layers it has after such reduction or maximum layers allowed in sub rule (1), whichever is more.</p> <p>(5) If any company contravenes any provision of these rules the company and every officer of the company who is in default shall be punishable with fine which</p>		
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		may extend to ten thousand rupees and where the contravention is a continuing one, with a further fine which may extend to one thousand rupees for every day after the first during which such contravention continues.		
11.	Notification of Section 247 vide Notification S.O. 3393(E) dated 18 th October 2017	The Central Government hereby appoints the 18 th October, 2017 as the date on which the provisions of section 247 of the said Act shall come into force.	-	Earlier Not notified
12.	Notification of the Companies (Registered Valuers and Valuation) Rules, 2017 vide notification G.S.R 1316(E) dated 18 th October, 2017	In exercise of the powers conferred by section 247, the Central Government hereby enforced the Companies (Registered Valuers and Valuation) Rules, 2017. Respective rule contains 6 chapters. For detailed rule click the following link http://www.mca.gov.in/Ministry/pdf/RegisteredValues_191_02017.pdf	-	Earlier Not notified
13.	Notification of the Companies (Removal of Difficulties) Second Order, 2017 Vide Order S.O. 3400(E) dated 23 rd October 2017	In section 247(1), for the word “a person having such qualifications and experience and registered as a valuer in such manner, on such terms and conditions as may be prescribed”, the words “a person having such qualifications and experience, registered as a valuer and being a member of an organisation recognised, in such manner, on such terms and conditions as may	-	Earlier section 247(1) stated as follows: Where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth

		be prescribed" shall be substituted.		of a company or its liabilities under the provision of this Act, it shall be valued by a person having such qualifications and experience and registered as a valuer in such manner, on such terms and conditions as may be prescribed and appointed by the audit committee or in its absence by the Board of Directors of that company.
Economic Laws				
14.	Enforcement of clause (a) to clause(d) of section 2 of the Code Vide notification S.O. 1570(E) , dated 15 th May , 2017	The Central Government hereby appoints the 1st April, 2017 as the date on which the provisions of clause (a) to clause (d) of section 2 of the Code relating to voluntary liquidation or bankruptcy shall come into force.	6.8	Earlier it was not notified
15.	Commencement of sections related to Fast Track Corporate Insolvency Resolution Process Vide Notification S.O. 1910(E) dated 14 th June 2017	The Central Government hereby appoints the 14th day of June, 2017 as the date on which the provisions of section 55 to section 58 (both inclusive) of the said Code shall come into force.	6.32	Not Notified

16.	Commencement of sections related to Fast Track Corporate Insolvency Resolution Process u/s 55(2) of the Code Vide Notification S.O.1911(E) dated 14 th June 2017	In exercise of the powers conferred by section 55(2) of the Insolvency and Bankruptcy Code, 2016 , the Central Government hereby notifies that an application for fast track corporate insolvency resolution process may be made in respect of the following corporate debtors, namely :- (a) a small company as defined under clause (85) of section 2 of Companies Act, 2013, or (b) a Startup (other than the partnership firm) as defined in the notification of the Government of India in the Ministry of Commerce and Industry number G.S.R. 501(E), dated the 23rd May, 2017, or (c) an unlisted company with total assets, as reported in the financial statement of the immediately preceding financial year, not exceeding rupees one crore.	6.32	Earlier Central Government has not notified any such notification as to the making of an application for fast track corporate insolvency resolution process
17.	Issue of clarification regarding approval of resolution plans under section 30 and 31 of Insolvency	Ministry of Corporate Affairs issued a clarification in view of the requirement under section 30(2)(e) of the Code for the resolution professional to confirm that each resolution plan received by him does not contravene any	6.28- 6.29	-

	<p>and Bankruptcy Code, 2016 vide general circular IBC/01/ 2017 dated 25th October 2017</p>	<p>of the provisions of the law for the time being in force.</p> <p>Accordingly clarification was sought whether approval of shareholders/ members of the corporate debtor/ company is required for a resolution plan at any stage during the process for its consideration and approval as laid down under section 30 & 31 of the Insolvency and Bankruptcy Code and after approval during its implementation, for any actions contained in the resolution plan which would normally require specific approval of shareholders/ members under provisions of Companies Act, 2013 or any other law.</p> <p>Through the issue of this circular, it has been clarified that the approval of shareholders / members of the corporate debtor/company for a particular action required in the resolution plan for its implementation, which would have been required under the Companies Act, 2013 or any other law if the resolution plan of the company was not being considered under the Code, is deemed to have been given on its approval by the Adjudicating Authority.</p>		
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PART – II: QUESTIONS AND ANSWERS

QUESTIONS

CORPORATE LAWS

SECTION – A: COMPANY LAW

Appointment and Qualifications of Directors & Remuneration of Managerial Personnel

1. (i) The composition of the Board of Directors of a listed company as on 31-03-2017 comprised of (i) Mr. A, Director, (ii) Mr. B, Director (iii) Mr. C, Director (iv) Mr. D, Director, (v) Mrs. E, Independent Director, (vi) Mr. F, Independent Director and (vii) Mr. G, Independent Director.

Mr. D & Mrs. E vacated their office of Director on 15-04-2017.

You are required to **examine** with reference to the provisions of the Companies Act, 2013 the vacations of the offices of Mr. D & Mrs. E and **discuss** the course of action that can be taken up by the Company in this regard?

- (ii) **Discuss** the legal position in the given situations with reference to the provisions of the Companies Act, 2013:
- (a) Mr. Arthav, a director resigns after giving due notice to the company and he forwards a copy of resignation in e-form DIR-11 to the Registrar of Companies (RoC) within the prescribed time. Besides, the company fails to intimate about the resignation of Mr. Arthav to RoC.
- (b) The Board of Directors of Superwood Limited decides to appoint on its Board, Mr. Ramakant as a nominee director upon the request of a bank which has extended a long term financial assistance to the company. The Articles of Association of the company do not confer upon the Board any such power. Also, there is no formal agreement between the company and the bank for any such nomination.
2. (i) There are four directors in Shine Paper Limited. Mr. Madhav, being the director in station, has been authorized to draw and endorse cheque or other negotiable instruments on account of the company and also to direct registration of transfer of shares and signing the share certificates etc. **Evaluate** whether he will be treated as managing director of the company? Also **recommend** the procedure of appointment of a managing director in a company in the light of the Companies Act, 2013.
- (ii) Excel limited is a listed company with a turnover of ₹ 60 crores in the FY 2016-2017. The company appoints Ms. R as the women director on 1st March 2017. Ms. R is

already a director in twelve companies including ten public companies. Also, Ms. R is chartered accountant in practice.

Further, also, Ms. R, is a director in Supreme Ltd. where he is acting in a professional capacity. Since lots of proposal for the holding of directorship in various companies are lined up before the Ms. R, so in order to retain him, Remuneration and nomination committee proposed to enhance the remuneration of Ms. R from 4 Lac per month to 6 Lac per month. However, Supreme Limited was running in losses for last 2 years.

Evaluate in the light of the given facts, the following situations with reference to the provisions of the Companies Act, 2013-

- (1) The validity of an appointment of Ms. R in Excel Limited.
- (2) Analysis the proposition of enhancement of the remuneration of Ms. R in Supreme Ltd.

Meetings of Board and its powers

3. **Examine** the following aspect related to convening of board meeting with reference to the provisions of the Companies Act, 2013:
 - (i) The Chairman of Greenhouse Limited convened a board meeting and two weeks' notice was served on all directors of the company. Two of the independent directors on the board objected on the grounds that no proper agenda for the meeting was circulated.
 - (ii) Purple Florence Limited proposes to hold its board meeting at a shorter notice through video conferencing.

Inspection, inquiry and Investigation

4. Origin paper Ltd. has been incurring business losses for past couple of years. The company therefore, passes a special resolution for voluntary winding up. Meanwhile, complaints were made to the tribunal and to the Central Government about foul play of the directors of the company, which adversely affected the interests of shareholders of the company as well as public. In this situation **advise** whether investigation may be initiated against the company under the provision of the Companies Act, 2013. Further **decide** whether application can be made to Tribunal for Relief in the above affairs of the company once the investigation is initiated against the company.

Compromises, Arrangements and Amalgamations

5. A meeting of members of Evergreen Limited was convened under the orders of the Court for the purpose of considering a scheme of compromise and arrangement. The meeting was attended by 300 members holding 9,00,000 shares. 120 members holding 7,00,000 shares in the aggregate voted for the scheme. 140 members holding 2,00,000 shares in aggregate voted against the scheme. 40 members holding 1,00,000 shares abstained from

voting. **Determine** with reference to the relevant provisions of the Companies Act, 2013 whether the scheme was approved by the requisite majority?

Prevention of Oppression and Mismanagement

6. The issued and paid up capital of Crown Jewels Limited is ₹ 5 crores consisting of 5,00,000 equity shares of ₹ 100 each. The said company has 500 members. A petition was submitted before the Tribunal signed by 80 members holding 10,000 equity shares of the company for the purpose of relief against oppression and mismanagement by the majority shareholders. Examining the provisions of the Companies Act, 2013, **decide** whether the said petition is maintainable. Also **explain** the impact on the maintainability of the above petition, if subsequently 40 members, who had signed the petition, withdrew their consent.

Winding Up

7. Winding up proceedings has been commended by the Tribunal against Paramount Limited, a government company (Central Government is a member). Even after completion of one year from the date of commencement of winding up proceedings, it has not possible to conclude the same. The liquidator is of the opinion that the statement shall be filed with tribunal and registrar only.
- (i) **Decide** validity to the opinion made by the liquidator and penalty that can be imposed on the liquidator for contravention of the provision as per the Companies Act, 2013.
- (ii) **Discuss**, if the Paramount Limited is a non-government company?

Producer Companies

8. **Discuss** the following aspects of the working of a PQR Producer Company Ltd. under the Companies Act, 1956:-
- (i) Criteria for appointment of Secretary as also the legal position, if its financial position is unsatisfactory.
- (ii) Can the Board of Directors of the company direct its member to surrender his shares to the company, if so, under what circumstances?
- (iii) Provisions relating to donation to any institution, as also to a political party.
- (iv) Provisions relating to investment of general reserves, as also investment in the shares of a company, other than a Producer company.

Companies incorporated outside India

9. (i) As per provisions of the Companies Act, 2013, **define** the status of Hillways Ltd., a Company incorporated in London, which has a share transfer office at Mumbai?
- (ii) LMP Paper Ltd. is a company registered in Thailand. Although, it has no place of business established in India, yet it is doing online business through telemarketing in India. **Explain** whether it will be treated as a Foreign Company under the Companies Act, 2013?

- (iii) In case, a foreign company does not deliver its documents to the Registrar of Companies as required under section 380 of the Companies Act, 2013, **state** the penalties prescribed under the said Act, which can be levied.

Miscellaneous Provisions

10. (i) An officer of a company was allotted one room for two years in a guest house owned by the Company at some other city where he used to stay while on tour. It came to notice of the company that he had not vacated the said room after the expiry of two years and is holding the unauthorized possession of that room and has been permitting to stay outsiders in the said room, at a rent of ₹ 500 per day. The record shows that he had permitted the outsider for 45 days and collected ₹ 22,500 and retained the said amount with him. As per the letter of allotment, there was no such clause which can be invoked against him for making any recovery on account of such wrongful occupation. **Analyse** in the given situation whether manager of the company can seek recovery from the officer of the company under any of the provisions of his employment or the Companies Act.
- (ii) Mr. Z, a director of Southern Highway Tolls Private Limited, is duly authorized by the Board of directors to prepare and file returns, report or other documents to the Registrar of Companies on behalf of the company. Though he filed all the required documents to Registrar in time, however, subsequently it was found that the filed documents were false and inaccurate in respect to material particulars (knowing it to be false) submitted to the Registrar. **Discuss** the penal provision under the Companies Act, 2013 in the light of the given situation.

Compounding of offences, Adjudication, Special Courts and National Company Law Tribunal and Appellate Tribunal

11. (i) Mr. D was appointed as a Technical Member of the National Company Law Tribunal (NCLT) on 1st July, 2012 for a period of 5 years. He will be completing 62 years on 30th June, 2017. **Explain** whether he can be re-appointed on the NCLT on completion of his tenure in 2017?
- (ii) **Identify** the powers of the Central Government under the Companies Act, 2013 regarding:
- (a) To appoint company prosecutors
 - (b) To Appeal against acquittal

Corporate Secretarial Practice–Drafting of Notices, Resolutions, Minutes and Reports

12. (i) Mr. Shukla is working as General Manager (Finance and Accounts) in Target Limited. The Board of directors of the said company propose to entrust him with the duty of ensuring compliance with the provisions of the Companies Act, 2013 so that the books

of accounts, balance sheet, statement of profit and loss and the cash flow statements can be prepared and maintained in accordance with law. **Prepare** a Board Resolution for the said purpose considering the above facts.

- (ii) Mr. N is appointed as an additional Director by the Board of Directors of MNR Company Limited at its meeting held on 1st October, 2017 for a period as permitted by law. The Articles of Association has conferred the power to appoint the additional director on the Board of Directors of MNR Company Limited. **Prepare** a Board resolution for the said purpose in the light of the given facts.

SECTION – B: SECURITIES LAWS

The Securities Contract (Regulation) Act, 1956 and the Securities Contract (Regulation) Rules, 1957

13. (i) A company Cookies Private Limited has two shareholders, Mr. Rock and Mr. Salt. Mr. Rock decides to sell his part of shares in Cookies Private Limited to another company, Crispy Private Limited for a specified monetary consideration. **State** how should Mr. Rock proceed to document the transaction so as to make it legally binding on both the parties under the Securities Contract (Regulation) Act, 1956?
- (ii) Mr. Vivaan is having 400 shares of Travel Everywhere Limited and the current price of these shares in the market is ₹ 100. Vivaan's goal is to sell these shares in 6 months' time. However, he is worried that the price of these shares could fall considerably, by then. At the same time, Vivaan doesn't want to sell off these shares today, as he conjectured that the share price might appreciate in the near future. **Determine** how should Mr. Vivaan protect his security and reduce the risk of loss on the share price under the Securities Contract (Regulation) Act, 1956?

The Securities Exchange Board of India Act, 1992, SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 and SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015

14. (i) On completion of 60 years of age as on 31st March 2014, Mr. Jain retired as Professor from a university. From 1st April 2014, he was appointed as Chairman of the Securities and Exchange Board of India for a period of three years. Under the, provisions of the Securities and Exchange Board of India Act, 1992, **decide** whether he can be re-appointed on the same post after expiry of the original tenure? Also **discuss** whether it could be possible for him to relinquish the office before expiry of his tenure?
- (ii) **List** the quarterly compliances for a listed entity under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015?

ECONOMIC LAWS**The Foreign Exchange Management Act, 1999**

15. Ms. Ashima daughter of Mr. Mittal (an exporter), is residing in Australia since long. She wants to buy a flat in Australia. Since she is unmarried, she wants to make her father Mr. Mittal a joint holder in that flat, for which entire proceeds are to be paid by her.
- (i) **State** the provisions of FEMA governing such type of transaction?
 - (ii) On **Applying** the relevant provisions, can Mr. Mittal join her daughter in acquiring such a flat in Australia?
 - (iii) Mr. Mittal, wants to receive advance payments against his exports from a buyer outside India. **Explain** the relevant provisions?

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

16. Popular Limited defaulted in the repayment of term loan taken from a Bank against security created as a first charge on some of its assets. The bank issued notice pursuant to Section 13 of the SARFAESI Act, 2002 to the Company to discharge its liabilities within a period of 60 days from the date of the notice. The company failed to discharge its liabilities within the time limit specified.

Identify and explain the measures to be taken by the Bank to enforce its security interest under the said Act.

The Prevention of Money Laundering Act, 2002

17. (i) The Adjudicating Authority appointed under the Prevention of Money Laundering Act, 2002 issued an order attaching certain properties of XYZ Limited alleged to be involved in money laundering for a specified period. The company aggrieved by the order of the Adjudicating Authority seeks your advice about the remedy that is available under the Act. **Analyse and apply** the relevant provisions of the Prevention of Money Laundering Act, 2002 in relation to the above given situation.
- (ii) Sohan Lal, a farmer, was found involved in embezzlement of opium cultivated by him. **State** the punishment that can be awarded to him under the Prevention of Money Laundering Act, 2002.

Foreign Contribution Regulation Act, 2010

18. (i) **Discuss** whether foreign remittances received from a relative are to be treated as foreign contribution as per the FCRA, 2010?
- (ii) In the light of the Foreign contribution Regulation Act, 2010, **discuss** whether foreign contribution be received in and utilised from multiple Bank Accounts?

The Arbitration and Conciliation Act, 1996

19. In 2016, Company Amar, food processor manufacturing unit entered into a joint venture agreement with Company USHA, the largest manufacturer of Food processors for supply of parts of mixer & grinder for manufacturing its latest model. Both the companies are registered under the Companies Act 2013. Agreement carries the term that all disputes shall be arbitrated in Mumbai. **Discuss** the type of arbitration agreement made between them.

Examine what will happen if the agreement does not have any clause relating to arbitration and disputes arose between them concerning quality of material supplied in 2017?

The Insolvency and Bankruptcy Code, 2016

20. (i) Wisdom Ltd. commits a default against the debts taken from the financial creditors. Mr. F, a financial creditor initiated the corporate insolvency resolution process against the Wisdom Ltd. Mr. X, another financial creditor, thereof files an application for initiating corporate insolvency resolution process with the Adjudicating Authority. **Examine** with reference to the validity as to the filing of an application by Mr. X for initiation of corporate insolvency resolution process?
- (ii) Standard International Ltd. who is a foreign trade creditor having its office in Hong Kong wanted to file a petition under insolvency and bankruptcy code 2016 on default of the debtor in India. It moved a petition under section 9 of the code seeking commencement of insolvency process. The foreign company was not having any office or bank account in India. Because of this, it couldn't submit a "certificate from financial institution" as required under the code. **Examine** whether the petition is permissible under the Insolvency & Bankruptcy Code, 2016?

SUGGESTED ANSWER/HINTS

1. (i) The provision of the Companies Act, 2013 governing the appointment of Women Director and Independent Directors are as under:
- (a) The second proviso to section 149(1) of the Companies Act, 2013 provides that such class or classes of companies as may be prescribed, shall have at least one women director. Rule 3 of *Companies (Appointment and Qualification of Directors) Rules, 2014* provides that the following class of companies shall appoint at least one women director –
- (1) every listed company;
 - (2) every other public company having-
 - paid-up share capital of one hundred crore rupees or more; or
 - turnover of three hundred crore rupees or more:

It further provides that any intermittent vacancy of a women director shall be filled-up by the Board at the earliest but not later than immediate next Board meeting or three months from the date of such vacancy whichever is later.

In this case the Company is a listed and under the provisions of the Companies Act, 2013, it is required to have at least 1 Women Director in its Board.

- (b) The provision of section 149(4) provides that every listed company shall have at least 1/3rd of the total number of Directors as Independent Directors.

As per the facts stated in the question, composition of board of directors of listed company as on 31-3-2017 comprised of total 7 directors. Out of which 4 were directors and 3 were independent directors. Later Mr. D (Director) and Mrs. E (Independent Director) vacated their offices of director on 15-4-2017.

So accordingly, listed company as stated above, shall have at least one women director and one-third of the total number of directors as independent directors in the Board. However, on 15-4-2017, total number of directors left were 5 due to vacation of Mr. D and Mrs. E. Further, Rule 3 of the *Companies (Appointment and Qualification of Directors) Rules, 2014*, provides that if there is an intermittent vacancy of a women director, it shall be filled up by the Board at the earliest but not later than immediate next board meeting or three months from the date of such vacancy whichever is later.

As per the requirement of the above sections, there is compliance of section 149(4) as 1/3rd of the total number of directors comprises of $(1/3 \times 5) 1.6$ rounded off as 2, which complies with the minimum requirement of 2 independent directors in the board, however, pertaining to women director, Board have to fill up the intermittent vacancy at the earliest but not later than immediate next board meeting or three months from the date of such vacancy whichever is later.

- (ii) (a) Resignation of Director (Section 168 of the Companies Act, 2013)

A director may resign from his office by giving a notice in writing to the company. The Board shall on receipt of such notice take note of the same. The company shall within 30 days from the date of receipt of notice of resignation from a director, intimate the Registrar in *Form DIR -12* and post the information on its website, if any.

Such director shall also forward a copy of his resignation along with detailed reasons for the resignation to the Registrar within 30 days from the date of resignation in *Form DIR-11* along with the prescribed fee. The resignation of a director shall take effect from the date on which the notice is received by the company or the date, if any, specified by the director in the notice, whichever is later.

In the present case, Mr. Arthav, a director resigns after giving due notice to the company and he forwards a copy of resignation in e-form DIR-11 to the RoC

within the prescribed time.

If the company fails to intimate about the resignation of Mr. Arthav to RoC, even then the resignation of Mr. Arthav shall take effect from the date on which the notice is received by the company or the date, if any, specified by Mr. Arthav in the notice, whichever is later.

- (b) According to section 161 (3) of the Companies Act, 2013, subject to the articles of a company, the Board may appoint any person as a director nominated by any institution in pursuance of the provisions of any law for the time being in force or of any agreement or by the Central Government or the State Government by virtue of its shareholding in a Government company.

The Articles of Association of Superwood Limited do not confer upon the Board of Directors any such power. Hence, the Board cannot appoint Mr. Ramakant as a nominee director even on the request of a bank which has extended a long term financial assistance to the company.

2. (i) **Managing Director [Section 2(54)]:** Section 2(54) of the Companies Act, 2013 defines a “Managing Director” as a director who is entrusted with substantial powers of management of the affairs of the company by:
- (a) virtue of articles of a company, or
 - (b) an agreement with the company, or
 - (c) a resolution passed in its general meeting, or by its Board of Directors, and includes a director occupying the position of the managing director, by whatever name called.

Explanation to Section 2 (54) clarifies that substantial powers of the management shall not be deemed to include the power to do such administrative acts of a routine nature when so authorised by the Board such as:

- (i) the power to affix the common seal of the company to any document or
- (ii) to draw and endorse any cheque on the account of the company in any bank or
- (iii) to draw and endorse any negotiable instrument or
- (iv) to sign any certificate of share or
- (v) to direct registration of transfer of any share.

In the instant case, Mr. Madhav, a director in Shine Paper Limited has been authorized to draw and endorse cheque or other negotiable instruments on account of the company and also to direct registration of transfer of shares and signing the share certificates etc.

Hence, according to explanation to section 2(54), Mr. Madhav will not be treated as managing director of the company as he is authorized to do administrative acts of a routine nature.

Procedure of appointment of a managing director [Section 196(4)]

- (1) Subject to the provisions of section 197 and Schedule V, a managing director shall be appointed, and the terms and conditions of such appointment and remuneration payable be approved by the Board of Directors at a meeting.
 - (2) The terms and conditions and remuneration approved by Board of Directors as above shall be subject to the approval of shareholders by a resolution at the next general meeting of the company.
 - (3) In case such appointment is at variance to the conditions specified in the Schedule V of the Companies Act, 2013, the appointment shall be approved by the Central Government.
 - (4) The notice convening Board or general meeting for considering such appointment shall include the terms and conditions of such appointment, remuneration payable and such other matters including interest, of a director or directors in such appointments, if any.
 - (5) A return in the prescribed form (Form No. MR.1) along with the prescribed fee shall be filed with the Registrar within sixty days of such appointment.
- (ii) (1) **Number of directorships:** As per section 165(1) of the Companies Act, 2013, no person shall hold office as director, including any alternate directorship, in more than 20 companies at the same time.

Out of the limit of 20, the maximum number of public companies in which a person can be appointed as a director shall not exceed 10. [Proviso to section 165(1)]

Private companies that is either holding or subsidiary company of a public company shall be included in reckoning the limit of public companies in which a person can be appointed as a director.

In the instant case, Ms. R was appointed as a women director on 1st March, 2017 in Excel Limited. She was already holding directorship in twelve companies including ten public companies.

As Ms. R was already a director in ten public companies, her appointment in Excel Limited is not valid as it will lead to her directorship in 11 public companies.

In this case, either she can choose between the companies in which she wishes to continue to hold the office of director or resign her office as director in the other remaining companies to maintain the limit of holding of directorship.

- (2) **Remuneration :** In the given case, since, the company has suffered losses in

the last two years, the company will pay remuneration to its directors in accordance with the provisions of Schedule V to the Companies Act, 2013.

In case of a managerial person who is functioning in a professional capacity, no approval of Central Government is required, if such managerial person is not having any interest in the capital of the company or its holding company or any of its subsidiaries directly or indirectly or through any other statutory structures and not having any, direct or indirect interest or related to the directors or promoters of the company or its holding company or any of its subsidiaries at any time during the last two years before or on or after the date of appointment and possesses graduate level qualification with expertise and specialised knowledge in the field in which the company operates. [Item B of Section II of Schedule V]

The total remuneration that supreme Limited is intending to pay to Ms. R is 72 lakhs per annum, from the current remuneration of 48 lakhs per annum. Since Ms. R is working in professional capacity and the remuneration has been proposed by the remuneration Committee, no approval of Central Government is required. Also, the case shall be in compliant of Schedule V, Central Government approval will not be required even when there is increase in remuneration payable.

3. (i) According to section 173 (3) of the Companies Act, 2013, a meeting of the Board shall be called by giving not less than 7 days' notice in writing to every director at his address registered with the company and such notice shall be sent by hand delivery or by post or by electronic means.

According to the question, two of the independent directors on the Board has objected on the grounds that no proper agenda for the meeting was circulated.

The Companies Act, 2013 does not specifically provide for sending agenda along with the notice of the meeting. However, generally as a good secretarial practice, the notice is accompanied with the agenda of the meeting. Thus, the contention of the independent directors objecting on the grounds that no agenda for the meeting was circulated, does not hold good.

Further, the Chairman of Greenhouse Limited has convened the Board meeting by serving a two weeks' notice (i.e. more than 7 days). Hence, the meeting shall be valid.

- (ii) According to section 173 of the Companies Act, 2013,
- (a) The directors can participate in a meeting of the Board either in person or through video conferencing or other audio visual means, as may be prescribed, which are capable of recording and recognising the participation of the directors and of recording and storing the proceedings of such meetings along with date and time. Further, Central Government may provide for matters which cannot be dealt in a meeting through video conferencing or other audio visual means.

- (b) A meeting of the Board shall be called by giving not less than 7 days' notice in writing to every director at his address registered with the company.

Provided that a meeting of the Board may be called at shorter notice to transact urgent business subject to the condition that at least one independent director, if any, shall be present at the meeting. Further, in case the independent directors are not present at such a meeting of the Board, decisions taken at such a meeting shall be circulated to all the directors and shall be final only on ratification thereof by at least one independent director, if any.

Hence, Purple Florence Limited can hold a board meeting at a shorter notice through video conferencing, for transacting urgent business subject to the condition that at least one independent director, if any, shall be present at the meeting. Further, if the independent directors are absent from the meeting of the Board, decision taken at such a meeting shall be circulated to all the directors and shall be final only on ratification thereof by at least one independent director, if any.

4. According to section 226 of the Companies Act, 2013, an investigation may be initiated notwithstanding, and no such investigation shall be stopped or suspended by reason only of, the fact that—
- (i) an application has been made under section 241;
 - (ii) the company has passed a special resolution for voluntary winding up; or
 - (iii) any other proceeding for the winding up of the company is pending before the Tribunal.

In the instant case Origin Paper Ltd. has been incurring business losses for past couple of years. The company passed a special resolution for voluntary winding up. Meanwhile complaints were made to the Tribunal and to the Central Government about foul play of the directors of the company, which adversely affected the interests of shareholders of the company as well as the public.

As the company has passed a special resolution for voluntary winding up of the company, then also the investigation may be initiated against the company under section 226 of the Companies Act, 2013.

Yes as per the above provision, though investigation was initiated against the company, it shall not bar members to file an application to Tribunal for Relief under section 241 of the companies Act, 2013.

According to the said section, any member of a company may apply to the Tribunal for an order on the complains that—

- (i) the affairs of the company have been or are being conducted in a manner prejudicial to public interest or in a manner prejudicial or oppressive to him or any other member or members or in a manner prejudicial to the interests of the company; or

- (ii) the material change taken place in the management or control of the company, whether by an alteration in the Board of Directors, or manager, or in the ownership of the company's shares, or if it has no share capital, in its membership, or in any other manner whatsoever, and that by reason of such change, it is likely that the affairs of the company will be conducted in a manner prejudicial to its interests or its members or any class of members,

The Central Government, if it is of the opinion that the affairs of the company are being conducted in a manner prejudicial to public interest, it may itself apply to the Tribunal for an order.

Where any members of a company are entitled to make an application, any one or more of them having obtained the consent in writing of the rest, may make the application on behalf and for the benefit of all of them.

5. As per section 230 (6) of the Companies Act, 2013 where majority of persons at a meeting held **representing 3/4th in value**, voting in person or by proxy or by postal ballot, agree to any compromise or arrangement and if such compromise or arrangement is sanctioned by the Tribunal by an order. The majority of person representing 3/4th Value shall be counted of the following:

- ◆ the creditors, or
- ◆ class of creditors or
- ◆ members or
- ◆ class of members, as the case may be,

The majority is dual, in number and in value. A simple majority of those voting is sufficient. Whereas the 'three-fourths' requirement relates to value. The three-fourths value is to be computed with reference to paid-up capital held by members present and voting at the meeting.

In this case 300 members attended the meeting, but only 260 members voted at the meeting. As 120 members voted in favor of the scheme the requirement relating to majority in number (i.e. 131) is not satisfied.

260 members who participated in the meeting held 9,00,000 shares, three-fourth of which works out to 6,75,000 while 120 members who voted for the scheme held 7,00,000 shares. The majority representing three-fourths in value is satisfied.

Thus, in the instant case, the scheme of compromise and arrangement of Evergreen Limited is not approved as though the value of shares voting in favor is significantly more, the number of members voting in favor do not exceed the number of members voting against.

6. **Right to apply for oppression and mismanagement:** As per the provisions of Section 244 of the Companies Act, 2013, in the case of a company having share capital, members eligible to apply for oppression and mismanagement shall be lowest of the following:

100 members; or

1/10th of the total number of members; or

Members holding not less than 1/10th of the issued share capital of the company.

The share holding pattern of Crown Jewels Limited is given as follows:

₹ 5,00,00,000 equity share capital held by 500 members

The petition alleging oppression and mismanagement has been made by some members as follows:

(i) No. of members making the petition – 80

(ii) Amount of share capital held by members making the petition – ₹ 10,00,000

The petition shall be valid if it has been made by the lowest of the following:

100 members; or

50 members (being 1/10th of 500); or

Members holding ₹ 50,00,000 share capital (being 1/10th of ₹ 5,00,00,000)

As it is evident, the petition made by 80 members meets the eligibility criteria specified under section 244 of the Companies Act, 2013 as it exceeds the minimum requirement of 50 members in this case. Therefore, the petition is maintainable.

The consent to be given by a shareholder is reckoned at the beginning of the proceedings. The withdrawal of consent by any shareholder during the course of proceedings shall not affect the maintainability of the petition [*Rajamundhry Electric Corporation Vs. V. Nageswar Rao A.I.R. (1956) Sc. 2013.*].

7. Section 348 of the Companies Act, 2013 states that, if the winding up of a company is not concluded within one year after its commencement then the Company Liquidator shall file a statement in such form containing such particulars as may be prescribed. Such statement shall be filled within two months of the expiry of such year and it shall be filled continuously thereafter until the winding up is concluded, at intervals of not more than one year or at such shorter intervals as may be prescribed. The statement shall be duly audited, by a person qualified to act as auditor of the company and position of with respect to the proceedings in the liquidation.

The statement shall be filled with the tribunal in the case of a winding up by the Tribunal. A copy shall simultaneously be filed with the Registrar and shall be kept by him along with the other records of the company.

Where a statement relates to a Government company in liquidation, the Company Liquidator shall forward a copy thereof,

- to the Central Government, if that Government is a member of the Government company;
- to any State Government, if that Government is a member of the Government company; or
- to the Central Government and any State Government, if both the Governments are members of the Government company.

Paramount Limited is a Government Company

In the current scenario, we can understand that the Paramount Limited is a government company in which Central Government is a member and hence statement is also required to file to the Central Government along with the Tribunal and Registrar. So, the opinion by the Company Liquidator is not tenable in the eyes of the law and he is liable for penal action under the Act.

The company liquidator shall be punishable with fine which may extend to five thousand rupees for every day during which the failure continues.

Paramount Limited is a Non-Government Company

In the current scenario, the Paramount Limited is a non-government company hence statement is only required to file with the Tribunal and Registrar only. So, the opinion by the Company Liquidator is tenable in the eyes of the law and he is not liable for any penal action under the Act.

8. (i) **Secretary of a producer company (Section 581X of the Companies Act, 1956):** Every producer company having an average annual turnover exceeding five crore rupees in each of three consecutive financial years shall have a whole-time secretary, who possesses membership of the Institute of Company Secretaries of India constituted under the Company Secretaries Act, 1980. If a producer company fails to comply with this, the company and every officer of the company who is in default shall be punishable with fine which may extend to five hundred rupees for every day during which the default continues.
- In any proceedings against a person in respect of an offence, under this section, it shall be a defence to prove that all reasonable efforts to comply with the provisions of section were taken or that the financial position of the company was such that it was beyond its capacity to engage a whole-time secretary.
- (ii) **Surrender of shares [Section 581ZD (5) of the Companies Act, 1956]:** Where the Board of a producer company is satisfied that—
- (a) any member has ceased to be a primary producer; or
 - (b) any member has failed to retain his qualifications to be a member as specified in articles, the Board shall direct the surrender of shares together with special rights, if any, to the producer company at par value or such other value as may be determined by the Board.

Provided that the Board shall not direct such surrender of shares unless the member has been served with a written notice and given an opportunity of being heard.

(iii) **Donations or subscription by producer company (Section 581ZH of the Companies Act, 1956):** A producer company may, by special resolution, make donation or subscription to any institution or individual for the purposes of—

- (a) promoting the social and economic welfare of producer member or producers or general public; or
- (b) promoting the mutual assistance principles.

Provided that the aggregate amount of all such donation and subscription in any financial year shall not exceed three per cent of the net profit of the producer company in the financial year immediately preceding the financial year in which the donation or subscription was made.

Further, no producer company shall make directly or indirectly to any political party or for any political purpose to any person any contribution or subscription or make available any facilities including personnel or material.

(iv) **Investment in other companies, formation of subsidiaries, etc. (Section 581ZL):** The producer company has to follow the following provisions under this section.

- (1) The general reserves of any producer company shall be invested to secure the highest returns available from approved securities, fixed deposits, units, bonds issued by the Government or co-operative or scheduled bank or in such other mode as may be prescribed.
- (2) Any producer company may, for promotion of its objectives acquire the shares of another producer company.
- (3) Any producer company may subscribe to the share capital of, or enter into any agreement or other arrangement, whether by way of formation of its subsidiary company, joint venture or in any other manner with any body corporate, for the purpose of promoting the objects of the producer company by special resolution in this behalf.

9. (i) In terms of the definition of a foreign company under section 2 (42) of the Companies Act, 2013 a “foreign company” means any company or body corporate incorporated outside India which:

- (a) Has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
- (b) Conducts any business activity in India in any other manner.

According to section 386 of the Companies Act, 2013, for the purposes of Chapter XXII of the Companies Act, 2013 (Companies incorporated outside India), "Place of business" includes a share transfer or registration office.

From the above definition, the status of Hillways Ltd. will be that of a foreign company as it is incorporated outside India, has a place of business in India and it may be presumed that it carries on a business activity in India.

- (ii) As per Section 2(42) read with the *Companies (Registration of Foreign Companies) Rules, 2014* of the Companies Act, 2013, any company or body corporate incorporated outside India which has a place of business in India whether by itself or through an agent, physically or through electronic mode; and conducts any business activity in India in any other manner is a foreign company.

Further the above said rules states the meaning of "electronic mode". It means carrying out electronically based, whether main server is installed in India or not, including, but not limited to –

- (a) business to business and business to consumer transactions, data interchange and other digital supply transactions;
- (b) offering to accept deposits or inviting deposits or accepting deposits or subscriptions in securities in India or from citizens of India;
- (c) financial settlements, web based marketing, advisory and transactional services, data base services and products, supply chain management;
- (d) online services such as telemarketing, telecommuting, telemedicine, education and information research; and
- (e) all related data communication services whether conducted by e-mail, mobile devices, social media, cloud computing, document management, voice or data transmission or otherwise.

Looking to the above description, it can be said that being involved in business activity through telemarketing, LMP Paper Ltd., will be treated as foreign company.

- (iii) The Companies Act, 2013 lays down the governing provisions for foreign companies in Chapter XXII which is comprised of sections 379 to 393. The penalties for non-filing or for contravention of any provision for this chapter including for non-filing of documents with the Registrar as required by section 380 and other sections in this chapter are laid down in section 392 of the Act which provides that if a foreign company contravenes the provisions of this Chapter, the foreign company shall be punishable with a fine which shall not be less than ₹ 1,00,000 but which may extend to ₹ 3,00,000 and in the case of a continuing offence, with an additional fine which may extend to ₹ 50,000 for every day after the first during which the contravention continues and every officer of the foreign company who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine

which shall not be less than ₹ 25,000 but which may extend to ₹ 5,00,000, or with both.

10. (i) **Penalty for wrongful withholding of property:** Section 452 of the Companies Act, 2013 provides for Penalty for wrongful withholding of property. According to the section:

- (1) If any officer or employee of a company -
 - (a) Wrongfully obtains possession of any property, including cash of the company; or
 - (b) having any such property including cash in his possession, wrongfully withholds it or knowingly applies it for the purposes other than those expressed or directed in the articles and authorized by this Act, he shall, on the complaint of the company or of any member or creditor or contributory thereof, be punishable with fine which shall not be less than 1 lakh rupees but which may extend to 5 lakh rupees.
- (2) The Court trying an offence may also order such officer or employee to deliver up or refund, within a time to be fixed by it, any such property or cash wrongfully obtained or wrongfully withheld or knowingly misapplied, the benefits that have been derived from such property or cash or in default, to undergo imprisonment for a term which may extend to 2 years.

Hence, as per the provisions of the Companies Act, 2013 and not giving any emphasis on the terms of employment, the manager of the company can recover possession of the room and the cash wrongfully obtained and the benefits that have been derived from such property or cash.

(ii) **Penalty for false statements (Section 448 of the Companies Act, 2013)**

According to section 448 of the Companies Act, 2013, save as otherwise provided in this Act, if in any return, report, certificate, financial statement, prospectus, statement or other document required by, or for, the purposes of any of the provisions of this Act or the rules made there under, any person makes a statement, -

- (a) which is false in any material particulars, knowing it to be false; or
- (b) which omits any material fact, knowing it to be material,

he shall be liable under section 447.

In the present case, Mr. Z, a director of Southern Highway Tools Private Limited filed returns, report or other documents to Registrar in time, however, subsequently it was found that the filed documents were false and inaccurate in respect to material particulars (knowing it to be false) submitted to the Registrar.

Hence, Mr. Z shall be liable under section 447 for false statements.

Penal Provisions: As per Section 447, any person who is found to be guilty under this section shall be punishable with imprisonment for a term which shall not be less than 6 months but which may extend to 10 years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to 3 times the amount involved in the fraud, provided that, where the fraud involves public interest, the term of imprisonment shall not be less than 3 years.

Hence, Mr. Z a director of Southern Highway Tools Private Limited shall be punishable with imprisonment and fine prescribed as aforesaid.

11. (i) According to Section 413(1) of the Companies Act, 2013, the President and every other Member of the Tribunal shall hold office for a term of five years from the date on which he enters upon his office and shall be eligible for re appointment for another term of five years.

Under section 413 (2), a Member of the Tribunal shall hold office as such until he attains, -

- (1) in the case of the President, the age of sixty-seven years;
- (2) in the case of any other Member, the age of Sixty-five years.

In the instant case, Mr. D was appointed as a technical Member of the NCLT on 1st July, 2012 for a period of 5 years. He will be completing 62 years on 30th June, 2017. He can also be re-appointed after his initial term of five years is over. But since he shall be attaining the age of 65 years as on 30th June, 2020, he will have to step down from the post on his attaining the age of 65 years i.e. on 30th June, 2020.

- (ii) (a) **Power of Central Government to appoint company prosecutors:** This section lays down the provisions seeking to provide that the Central Government may appoint company prosecutors with the same powers as given under the Cr. PC on Public Prosecutors.
- (1) **Appointment of company prosecutors:** The Central Government may appoint (generally, or for any case, or in any case, or for any specified class of cases in any local area) one or more persons, as company prosecutors for the conduct of prosecutions arising out of this Act; and
 - (2) **Powers and Privileges:** The persons so appointed as company prosecutors shall have all the powers and privileges conferred on Public Prosecutors appointed under section 24 of the Cr. PC.
- (b) **Appeal against acquittal:** According to section 444 of the Companies Act, 2013, the Central Government may, in any case arising under this Act, direct –
- (1) any company prosecutor, or
 - (2) authorise any other person either by name or by virtue of his office, to present an appeal from an order of acquittal passed by any court, other

than a High Court.

Appeal presented by such prosecutor or other person shall be deemed to have been validly presented to the Appellate Court.

12. (i) Board Resolution

Resolution passed at the meeting of Board of Directors of Target Limited held at its registered office situated at on(date) at (Time).

“Resolved that pursuant to section 128(6) and 129 of the Companies Act, 2013, Mr. Shukla, who is already the General Manager (Finance and Accounts) of the company, be and is hereby entrusted with additional duties of ensuring compliance with the provisions of the Companies Act, 2013 so that the books of accounts, balance sheet, statement of profit and loss and the cash flow statements are maintained in accordance with the provisions of law.”

“Further Resolved that the said Mr. Shukla be and is hereby entrusted with the authority to do such acts things or deeds as may be necessary or expedient for the purpose of discharging his above referred duties.”

Sd/

Board of Directors

Target Limited

(ii) Board Resolution for appointment of Additional Director:

"Resolved that pursuant to the Articles of Association of the company and section 161(1) of the Companies Act, 2013, Mr. N is appointed as an Additional Director of the MNR Company Limited with effect from 1st October, 2017 to hold office up to the date of the next annual general meeting or the last date on which the annual general meeting should have been held, whichever is earlier.

Resolved further that Mr. N will enjoy the same powers and rights as other directors.

Resolved further that Mr. _____ Secretary of MNR Company Limited be and is hereby authorised to electronically file necessary returns with the Registrar of Companies and to do all other necessary things required under the Act."

13. (i) As per the stated facts, Mr. Rock decides to sell his part of the share in other company. So, such an understanding of transfer of the shares of Cookies Private Limited held by Mr. Rock to Crispy Private Limited shall be recorded in Share Purchase Agreement (SPA), which is a legally binding contract, and lists down all the terms and conditions which are relevant to the sale of shares, such as –

- ◆ the exact description of shares, i.e. the number of shares, price per share, premium amount, if any;

- ◆ the conditions that must be satisfied before the sale takes place;
- ◆ the date on which the sale will be completed;
- ◆ the manner in which the transfer will be made;
- ◆ any indemnities or protections available to the parties;
- ◆ the representations and warranties made by either party; and
- ◆ the conditions upon which the agreement will terminate.

(ii) In this case, Mr. Vivaan may opt for 'Option' derivative contract, which is an agreement to buy or sell a set of assets at a specified time in the future for a specified amount. However, it is not obligatory for him to hold the terms of the agreement, since he has an 'option' to exercise the contract. For example, if the current market price of the share is ₹ 100 and he buy an option to sell the shares to Mr. X at ₹ 200 after three-month, so Vivaan bought a put option.

Now, if after three months, the current price of the shares is ₹ 210, Mr. Vivaan may opt not to sell the shares to Mr. X and instead sell them in the market, thus making a profit of ₹ 110. Had the market price of the shares after three months would have been ₹ 90, Mr. Vivaan would have obliged the option contract and sold those shares to Mr. X, thus making a profit, even though the current market price was below the contracted price. Thus, here, the shares of Travel Everywhere Limited is the underlying asset and the option contract is a form of derivative.

14. (i) **Appointment of Chairman:** As per Section 5 of the SEBI Act, 1992 and the rules prescribed under the SEBI Act, 1992, the Chairman may hold office for a period of three years subject to the maximum age limit of 65 years and can be re-appointed by the Central Government.

Also, as **per Section 4(5)** of the Act, the Chairman shall be persons of ability, integrity and standing who have shown capacity in dealing with problems relating to securities market or have special knowledge or experience of law; finance; economics, accountancy, administration or in any other discipline which, in the opinion of the Central Government, shall be useful to the Board.

In the instant case, Mr. Jain retired as professor from a university on completion of 60 years of age as on 31st March, 2014 appointed as Chairman of SEBI from 1st April, 2014 for a period of 3 years.

This appointment is valid as on the date of appointment, he is of 60 years of age and he, as a retired professor, is a person of ability, integrity and standing and have special knowledge or experience of law; finance; economics, accountancy, administration or in any other discipline.

If Mr. Jain is reappointed as a chairman after expiry of the original tenure of 3 years, he can be re-appointed but only upto 65 years of age i.e. upto 31st March, 2019 (i.e. only for two years).

Right to Relinquish the office: The Chairman shall equally have the right to relinquish office at any time before the expiry of their tenure by giving a notice of three months in writing or salary and allowances in lieu thereof to the Central Government.

(ii) Quarterly compliances– Listed Entity

A Listed company has to comply with the following quarterly compliances under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015:

1. Regulation 13(3):- Grievance Redressal Mechanism
The listed entity shall file with the recognized stock exchange(s) on a quarterly basis, within 21 days from the end of each quarter, a statement giving the number of investor complaints pending at the beginning of the quarter, those received during the quarter, disposed of during the quarter and those remaining unresolved at the end of the quarter.
2. Regulation 27(2):- Other Corporate Governance Requirements
A listed entity shall submit quarterly compliance report on corporate governance in the format as specified by the Board from time to time to the recognized stock exchange(s), within 15 days from close of quarter.
3. Regulation 31(1): Holding of Specified Securities and Shareholding Pattern.
A listed entity shall submit a statement showing holding of securities and shareholding pattern separately for each class of securities:-
 - (a) One day prior to listing of its securities on the stock exchange(s);
 - (b) On a quarterly basis, within 21 days from the end of each quarter; and,
 - (c) Within 10 days of any capital restructuring of the listed entity resulting in a change exceeding 2 % per cent of the total paid-up share capital.
4. Regulation 33(3): Financial Results
The listed entity shall submit quarterly and year-to-date standalone financial results to the stock exchange within 45 days of end of each quarter, other than the last quarter.
5. Regulation 32(1): Statement of Deviation(S) Or Variation(S)
A listed entity shall submit to the stock exchange the following statement(s) on a quarterly basis for public issue, rights issue, preferential issue etc. -
 - (a) indicating deviations, if any, in the use of proceeds from the objects stated in the offer document or explanatory statement to the notice for the general meeting, as applicable;

- (b) indicating category wise variation (capital expenditure, sales and marketing, working capital etc.) between projected utilization of funds made by it in its offer document or explanatory statement to the notice for the general meeting, as applicable and the actual utilization of funds.

15. (i) The provisions governing the acquisition and transfer of immovable property outside India.

(1) A person resident in India may acquire immovable property outside India:

- (a) By way of gift or inheritance from a person referred to in sub-section (4) of Section 6 of the FEMA or referred to in clause (b) of regulation 4 acquired by a person resident in India on or before 8th July, 1947 and continued to be held by him with the permission of Reserve Bank.
- (b) by way of purchase out of foreign exchange held in Resident Foreign Currency (RFC) account maintained in accordance with the foreign exchange management (Foreign Currency accounts by a person resident in India) Regulations 2015.
- (c) Jointly with a relative who is a person resident outside India, provided there is no outflow of funds from India.

(2) A person resident in India may acquire immovable property outside India, by way of Inheritance or gift from a person resident in India who has acquired such property in accordance with the foreign exchange provision in force at the time of such acquisition.

(3) A Company incorporated in India having overseas offices, may acquire immovable property outside India for its business and for residential purposes of its staff, in accordance with the direction issued by the Reserve Bank of India from time to time.

(ii) In the light of above discussions in 1(c), it is quite clear that Mr. Mittal, a resident in India, can join his daughter who is a resident outside India, in acquiring a Flat at Australia.

(iii) Advance payment against export:

The following are the provisions governing the advance payments against exports :

- (1) Where an exporter receives advance payments (with or without interest) from a buyer/ third party named in the export declaration made by the Exporter, outside India, the exporter shall be under the obligation to ensure that:
 - (i) The shipment of goods is made within one year from the date of receipt of advance payment.
 - (ii) The rate of interest, if any, payable on the advance payment does not exceed the rate of interest London Inter-Bank Offered Rate (LIBOR) + 100

basis points and

- (iii) The documents covering the shipment are routed through the authorised dealer through whom advance payment is received.

Provided that in the event of the exporter's inability to make the shipment, partly or fully, within one year from the date of receipt of advance payment or towards, no remittance towards refund of un-utilised portions of advance payment or towards payment of interest, shall be made after the expiry of the period of one year, without the prior approval of the Reserve bank of India.

- (2) Notwithstanding anything contained in clause (i) of sub-regulation (1), an exporter may receive advance payment where the export agreement itself duly provides for shipment of goods extending beyond the period of one year from the date of receipt of advance payment.

16. Sub-section (4) of section 13 of SARFAESI Act, 2002, provides that if the borrower fails to discharge his liability in full within the 60 days, the secured creditor may take recourse to one or more of the following measures to recover his secured debt:

- (i) take possession of the secured assets of the borrower including the right to transfer by way of lease, assignment or sale for realising the secured asset;
- (ii) take over the management of the business of the borrower including the right to transfer by way of lease, assignment or sale for realising the secured asset:

Provided that the right to transfer by way of lease, assignment or sale shall be exercised only where the substantial part of the business of the borrower is held as security for the debt:

Provided further that where the management of whole of the business or part of the business is severable, the secured creditor shall take over the management of such business of the borrower which is relatable to the security for the debt;

- (iii) appoint any person (hereafter referred to as the manager), to manage the secured assets the possession of which has been taken over by the secured creditor;
- (iv) require at any time by notice in writing, any person who has acquired any of the secured assets from the borrower and from whom any money is due or may become due to the borrower, to pay the secured creditor, so much of the money as is sufficient to pay the secured debt.

In the instant case, the Bank may take the above mentioned procedure to enforce its security interest in case Popular Limited has failed to discharge its liabilities within the time limit specified.

17. (i) Section 25 of the Prevention of Money Laundering Act, 2002 empowers the Central Government to establish an Appellate Tribunal to hear appeal against order of the Adjudicating Authority and other authorities under the Act.

Section 26 deals with the right and time frame to make an appeal to the Appellate Tribunal. Any person aggrieved by an order made by the Adjudicating Authority may prefer an appeal to the Appellate Tribunal within a period of 45 days from the date on which a copy of the order is received by him. The appeal shall be in such form and be accompanied by such fee as may be prescribed. The Appellate Tribunal may extend the period if it is satisfied that there was sufficient cause for not filing it within the period of 45 days.

The Appellate Tribunal may after giving the parties to the appeal an opportunity of being heard, pass such order as it thinks fit, confirming, modifying or setting aside the order appealed against.

The Act also provides further appeal. According to Section 42 any person aggrieved by any decision or order of the Appellate Tribunal may file an appeal to the High Court within 60 days from the date of communication of the order of the Appellate Tribunal.

In the light of the provisions of the Act explained above the company is advised to prefer an appeal to Appellate Tribunal in the first instance.

- (ii) Section 4 of the Prevention of Money Laundering Act, 2002 provides for the punishment for Money-Laundering. Whoever commits the offence of money-laundering shall be punishable with rigorous imprisonment for a term which shall not be less than 3 years but which may extend to 7 years and shall also be liable to fine. But where the proceeds of crime involved in money-laundering relate to any offence specified under paragraph 2 of Part A of the Schedule, the maximum punishment may extend to 10 years instead of 7 years.

Paragraph 2 of Part A of Schedule to the Prevention of Money Laundering Act, 2002, covers Offences under the Narcotic Drugs and Psychotropic Substances Act, 1985 Whereby, embezzlement of opium by cultivator (section 19) is covered under paragraph 2 of Part A.

In the present case, Sohan Lal, a farmer, who was involved in embezzlement of opium cultivated by him shall be liable for the rigorous imprisonment for a term which may extend to 10 years and shall also be liable to fine.

18. (i) No. As per Section 4(e) of the Foreign Contribution Regulation Act, 2010 and Rule 6 of Foreign Contribution Regulation Rules, 2011, even the persons prohibited under section 3, i.e., persons not permitted to accept foreign contribution, are allowed to accept foreign contribution from their relatives. However, in terms of Rule 6 of Foreign Contribution Regulation Rules, 2011, any person receiving foreign contribution in excess of one lakh rupees or equivalent thereto in a financial year from any of his relatives shall inform the Central Government in prescribed Form within thirty days from the date of receipt of such contribution.
- (ii) The foreign contribution should be received only in the exclusive single foreign contribution account of a Bank (also called designated FC account), as mentioned in

the order for registration or prior permission granted and should be separately maintained by the associations. However, one or more accounts (called Utilization Account) in one or more banks may be opened by the association for 'utilising' the foreign contribution after it has been received in the designated FCRA bank account, provided that no funds other than that foreign contribution shall be received or deposited in such account or accounts and in all such cases, intimation is to be given online within 15 days of opening of such account.

19. There are two basic types of arbitration agreement are:
- (a) **Arbitration clause** - a clause contained within a principal contract. The parties undertake to submit disputes in relation to or in connection with the principal contract that may arise in future to arbitration.
 - (b) **Submission agreement** - an agreement to refer disputes that already exist to arbitration. Such an agreement is entered into after the disputes have arisen.

In first case, the agreement already carries the term that all disputes shall be arbitrated in Mumbai at the time of entering into joint venture agreement. This would be an arbitration clause as it is contained in the principal contract (JVA) and no disputes have arisen till yet. It concerns future disputes that may arise.

In the second case, the Principal contract (JVA) does not have any term relating to arbitration. Disputes arose between the parties concerning quality of supplied goods in 2017. To resolve this dispute, parties later entered into an agreement "That all disputes including quality of goods supplied by Company USHA to Company Amar shall be submitted to arbitration. The parties hereby agree to abide by the decision of the arbitrator." Such an agreement that is made after the disputes have arisen would be called a submission agreement.

20. (i) In the given problem, on commission of default by the Wisdom Ltd., Mr. F filed an application for initiating corporate insolvency resolution process before adjudicating authority. Further, Mr. X another financial creditor moved an application for initiation of insolvency resolution process against the Wisdom Ltd.

According to the section 6 of the Code, where any corporate debtor commits a default, a financial creditor, Operational creditor or the Corporate debtor itself may initiate insolvency resolution process against such corporate debtor.

But as per Section 13 of the Code, once an application is admitted by the Adjudicating authority, it shall by an order declare a moratorium for the purposes referred to in section 14. Then causes a public announcement of the initiation of CIRP by IRP and call for the submission of claims under section 15 and appoint an IRP in the manner as laid down in section 16 of the Code. Public announcement lays down all the relevant information related to the CIRP. So that the all creditors entitled under the law can raise their claim in this case.

So, no further application for initiation of CIRP can be initiated by Mr. X., however he is entitled under the law to raise his claim in this case against the Wisdom Ltd.

- (ii) Section 1 of the Insolvency and Bankruptcy Code, 2016 specifies of the extent, commencement and applicability of the Code. According to this, it extends to the whole of India and shall apply for insolvency, liquidation, voluntary liquidation or bankruptcy of any company incorporated under the Companies Act, 2013 or under any previous law.

In view of this, the IBC Code, 2016 applies to the corporate debtor incorporated under the Companies Act, 2013 or under any previous laws.

As per the definition of the Creditor given in section 3(10) of the Insolvency and Bankruptcy Code, 2016, it means any person to whom a debt is owed and includes a financial creditor, an operational creditor, a secured creditor, an unsecured creditor, and a decree holder. So, Standard International Ltd. is a creditor under the purview of the Code.

As per the facts given in question, Standard International Ltd., is a foreign trade creditor. He wanted to file a petition under the under Section 9 of the Insolvency and Bankruptcy Code, 2016 for commencement of Insolvency process against the defaulter in India. Standard International Ltd. was not having any office or bank account in India.

As per the requirement of section 9 of the Code, along with application certain documents were needed to be furnished by the creditor to the Adjudicating authority. Being a foreign trade creditor, Standard International Ltd was also required to provide a copy of certificate from the financial institutions maintaining accounts of the creditor confirming that there is no payment of an unpaid operational debt by the corporate debtor. Since, Standard International Ltd. was not having any office or bank account in India, it cannot furnish certificate from financial institution as defined under the section 3(14) of the code. So, Petition under section 9 of the Code is not permissible.

**Applicability of Standards/Guidance Notes/Legislative Amendments etc. for
May 2018 Examination**

Study Guidelines: Final (New) Course

Paper 1: Financial Reporting

A. List of topic-wise inclusion in the syllabus

(1)	(2)	(3)
S. No. in the syllabus	Topics of the syllabus	Inclusions
1.	Application of Existing Accounting Standards	<ol style="list-style-type: none"> 1. AS 15: Employee Benefits 2. AS 21: Consolidated Financial Statements 3. AS 23: Accounting for Investments Associates in Consolidated Financial Statements 4. AS 25: Interim Financial Reporting 5. AS 27: Financial Reporting of Interests in Joint Ventures 6. AS 28: Impairment of Assets
2.	Application of Guidance Notes issued by ICAI on specified accounting aspects.	<ol style="list-style-type: none"> 1. Guidance Note on Measurement of Income Tax Expense for Interim Financial Reporting in the context of AS 25 2. Guidance Note on Applicability of AS 25 to Interim Financial Results 3. Guidance Note on Accounting for Real Estate Transactions (for entities to whom Ind AS is applicable) 4. Guidance Note on Combined and Carve-Out Financial Statements. 5. Guidance Note on Accounting for Derivative Contracts 6. Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities 7. Guidance Note on Accounting for Self-Generated Certified Emission Reductions (CERs) 8. Guidance Note on Accounting by Dot-Com Companies
1 and 4-9	Application of Existing Accounting Standards	<p>On Ind AS</p> <ol style="list-style-type: none"> 1. Discounting of deferred debts (retention money) (Opinion finalised by the Committee on 2.9.2016). https://resource.cdn.icaai.org/47574eac37373-11.pdf

	and Indian Accounting Standards (Expert Advisory Opinions)	<p>On AS</p> <p>2. Adjustment of the effect of first recognition of group gratuity liability against opening balance of reserves and surplus as an appropriation in the current financial year. (Opinion finalised by the Committee on 21.7.2016). https://resource.cdn.icai.org/33925eac23624-5.pdf</p> <p>3. Accounting treatment of pension liability post-separation. (Opinion finalised by the Committee on 23.4.2015) http://115.248.235.50/eaicai/HTML/35/1.html</p> <p>4. Requirement for preparation of Complete/ Condensed set of financial statements (Opinion finalised by the Committee on 3.6.2015.) http://115.248.235.50/eaicai/HTML/35/7.html</p> <p>5. Amortisation of SAP license and accounting for annual renewal fee. (Opinion finalised by the Committee on 23.4.2015.) http://115.248.235.50/eaicai/HTML/35/3.html</p>
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B. List of topic-wise exclusions from the syllabus

(1)	(2)	(3)
S. No. in the syllabus	Topics of the syllabus	Exclusions
4.	Application of Indian Accounting Standards (Ind AS) with reference to General Purpose Financial Statements	<p>Differences in Ind AS from IFRS</p> <ul style="list-style-type: none"> • Resulting into carve out • Not resulting into carve <p>Indian Accounting Standard (Ind AS) 37 'Provisions, Contingent Liabilities and Contingent Assets'</p> <ul style="list-style-type: none"> • Appendix A: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds • Appendix B: Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
6.	Application of Industry specific and Transaction Specific Indian Accounting Standards (other than Business Combination, Financial Instruments and Share Based Payment)	Indian Accounting Standard (Ind AS) 29 Financial Reporting in Hyperinflationary Economies

Notes:

- (1) In the above tables 'A' and 'B', in respect of the topics of the syllabus specified in column (2) the related inclusion / exclusion is given in column (3).
- (2) August 2017 edition of the Study Material is relevant for May, 2018 and November, 2018 examinations.
- (3) Except the exclusions mentioned (above in Table B) from the syllabus, the entire content included in the August 2017 edition of the Study Material is relevant for the said examinations.
- (4) The relevant amendments including relevant Notifications / Circulars / Rules issued by the Companies Act, 2013 and other relevant legislations up to 31st October, 2017 will be applicable for May, 2018 Examination.

Paper 3: Advanced Auditing and Professional Ethics**A- List of topic-wise inclusion in the syllabus****I. List of applicable Statements and Standards for May, 2018 Examination:**

1. Statement on Reporting under Section 227(1A) of the Companies Act, 1956 (Section 143(1) of the Companies Act, 2013).
2. Framework for Assurance Engagements.

II. List of applicable Engagements and Quality Control Standards on Auditing for May, 2018 Examination

S.No	SA	<i>Title of Standard on Auditing</i>
1	SQC 1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements
2	SA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
3	SA 210	Agreeing the Terms of Audit Engagements
4	SA 220	Quality Control for Audit of Financial Statements
5	SA 230	Audit Documentation
6	SA 240	The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements
7	SA 250	Consideration of Laws and Regulations in An Audit of Financial Statements
8	SA 260	Communication with Those Charged with Governance (Revised)

9	SA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
10	SA 299	Responsibility of Joint Auditors
11	SA 300	Planning an Audit of Financial Statements
12	SA 315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment
13	SA 320	Materiality in Planning and Performing an Audit
14	SA 330	The Auditor's Responses to Assessed Risks
15	SA 402	Audit Considerations Relating to an Entity Using a Service Organization
16	SA 450	Evaluation of Misstatements Identified during the Audits
17	SA 500	Audit Evidence
18	SA 501	Audit Evidence - Specific Considerations for Selected Items
19	SA 505	External Confirmations
20	SA 510	Initial Audit Engagements-Opening Balances
21	SA 520	Analytical Procedures
22	SA 530	Audit Sampling
23	SA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
24	SA 550	Related Parties
25	SA 560	Subsequent Events
26	SA 570	Going Concern (Revised)
27	SA 580	Written Representations
28	SA 600	Using the Work of Another Auditor
29	SA 610	Using the Work of Internal Auditors (Revised)
30	SA 620	Using the Work of an Auditor's Expert
31	SA 700	Forming an Opinion and Reporting on Financial Statements (Revised)
32	SA 701	Communicating Key Audit Matters in the Independent Auditor's Report (New)
33	SA 705	Modifications to the Opinion in the Independent Auditor's Report (Revised)
34	SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report (Revised)

35	SA 710	Comparative Information – Corresponding Figures and Comparative Financial Statements
36	SA 720	The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements
37	SA 800	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Framework
38	SA 805	Special Considerations-Audits of Single Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
39	SA 810	Engagements to Report on Summary Financial Statements
40	SRE 2400	Engagements to Review Historical Financial Statements (Revised)
41	SRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity
42	SAE 3400	The Examination of Prospective Financial Information
43	SAE 3402	Assurance Reports on Controls At a Service Organisation
44	SAE 3420	Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus (New)
45	SRS 4400	Engagements to Perform Agreed Upon Procedures Regarding Financial Information
46	SRS 4410	Compilations Engagements (Revised)

III. List of applicable Guidance Notes and other publications for May, 2018 Examination:

1. Code of Ethics
2. Guidance Note on Independence of Auditors.
3. Guidance Note on Audit under Section 44AB of the Income-tax Act.
4. Guidance Note on Audit of Inventories.
5. Guidance Note on Audit of Debtors, Loans and Advances.
6. Guidance Note on Audit of Investments.
7. Guidance Note on Audit of Cash and Bank Balances.
8. Guidance Note on Audit of Liabilities.
9. Guidance Note on Audit of Revenue.

10. Guidance Note on Audit of Expenses.
11. Guidance Note on Computer Assisted Audit Techniques (CAATs).
12. Guidance Note on Audit of Payment of Dividend.
13. Guidance Note on Audit of Capital and Reserves.
14. Guidance Note on Audit of Banks.
15. Guidance Note on Audit of Internal Financial Controls over Financial Reporting.
16. Guidance Note on Reporting under section 143(3)(f) and (h) of the Companies Act, 2013.
17. Guidance Note on Reporting on Fraud under section 143(12) of the Companies Act, 2013.
18. Guidance Note on the Companies (Auditor's Report) Order, 2016.

IV Applicability of the Companies Act, 2013 and other Legislative Amendments for May 2018 Examination

Students are expected to be updated with the notifications, circulars and other legislative amendments made upto 6 months prior to the examination. Accordingly, the relevant notified Sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 31st October, 2017 will be applicable for May, 2018 Examination.

Paper 4: Corporate and Economic Laws

The provisions of Companies Act, 2013 along with significant Rules/ Notifications/ Circulars/ Clarification/ Orders issued by the Ministry of Corporate Affairs and the laws covered under the Economic Laws, as amended by concerned authority, including significant notifications and circulars issued up to 31st October, 2017, are applicable for May, 2018 examination.