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PAPER – 1 : ADVANCED ACCOUNTING

QUESTIONS

1. Red and Co. of Mumbai started a branch at Bangalore on 1.4.2006 to which goods were sent at 20% above cost. The branch makes both cash sales and credit sales. Branch expenses are met from branch cash and balance money remitted to H.O. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O. Following further details are given for the year ending on 31.3.2007:

	Rs.
Cost of goods sent to branch	1,00,000
Goods received by branch till 31.3.2007 at Invoice price	1,08,000
Credit sales for the year	1,16,000
Closing debtors on 31.3.2007	41,600
Bad debts written off during the year	400
Cash remitted to H.O.	86,000
Closing cash on hand at branch on 31.3.2007	4,000
Cash remitted by H.O. to branch during the year	6,000
Closing stock in hand at branch at invoice price	12,000
Expenses incurred at branch	24,000

Draw up the necessary Ledger Accounts like Branch Debtors Account, Branch Stock Account, Goods sent to Branch Account, Branch Cash Account, Branch Expenses Account and Branch Adjustment a/c for ascertaining gross profit and Branch Profit and Loss A/c for ascertaining Branch profit.

2. On 30th June, 2006, accidental fire destroyed a major part of the stocks in the godown of Jay Associates. Stocks costing Rs. 30,000 could be salvaged but not their stores ledgers. A fire insurance policy was in force under which the sum insured was Rs. 3,50,000. From available records, the following information was retrieved:

   1. Total of sales invoices during the period April-June amounted to Rs. 30,20,000. An analysis showed that goods of the value of Rs. 3,00,000 had been returned by the customers before the date of fire.
   2. Opening stock on 1.4.06 was Rs. 2,20,000 including stocks of value of Rs. 20,000 being lower of cost and net value subsequently realised.
   3. Purchases between 1.4.06 and 30.6.06 were Rs. 21,00,000
   4. Normal gross profit rate was 33-1/3% on sales.
   5. A sum of Rs. 30,000 was incurred by way of fire fighting expenses on the day of the fire.

   Prepare a statement showing the insurance claim recoverable.

3. (a) From the following particulars prepare customers control account in general ledger:

	Rs.
Opening balance in customers ledger (Dr.)	2,35,000
Opening balance in customers ledger (Cr.)	3,500
Goods sold during the year	7,65,000
Returns inwards	15,000
Cash/cheques received	5,90,000
Bills received	1,10,000
Discount allowed	9,000

Cheque received dishonoured	5,000
Bills received dishonoured	7,000
Bad debts	9,000

A debit of Rs. 1,500 is to be transferred from customers ledger to suppliers ledger. Similarly a credit entry Rs. 1,600 is to be transferred from suppliers ledger to customers ledger. Closing credit balance in customers ledger is Rs. 3,000.

(b) Hari owes Ram Rs. 2,000 on 1st April, 2006. From 1st April, 2006 to 30th June, 2006 the following further transactions took place between Hari and Ram:

April 10 Hari buys goods from Ram for Rs. 5,000

May 16 Hari receives cash loan of Rs. 10,000 from Ram

June 9 Hari buys goods from Ram for Rs. 3,000

Hari pays the whole amount, together with interest @ 15% per annum, to Ram on 30th June, 2006. Calculate the interest payable on 30th June, 2006 by the average due-date method.

4. From the following Receipts and Payments Account of Excellent Recreation Club for the year ended 31.3.2006 and additional information given, prepare an Income and Expenditure Account for the year ended 31.3.2006 and Balance sheet as on 31.3.2006:

Receipts	Rs.	Payments	Rs.
Opening Balance:		Secretary's salary	12,000
Cash in Hand and at Bank	3,180	Salaries to staff	25,000
Subscription	18,000	Charities	1,000
Sale of old newspapers	2,500	Printing and stationary	600
Legacies	4,000	Postage expenses	120
Interest on investments	2,000	Rates and taxes	1,500
Endowment fund receipts	20,000	Upkeep of the land	2,000
Proceeds of sport and concerts	4,020	Purchase of sports materials	10,000
Advertisement in the year book	5,000	Telephone expenses	3,480
		Closing balance:	
		Cash in hand and at bank	3,000
	58,700		58,700

Assets and liabilities as on 31.3.2005 and 31.3.2006 were as follows:-

	31.3.2005 Rs.	31.3.2006 Rs.
Subscription in arrears	2,000	1,000
Subscription received in advance	500	400
Furniture	2,000	1,800
Land	10,000	10,000

Depreciation shall be charged at 10% p.a. under the diminishing value method. Legacies received shall be capitalized. Investments were made in securities, the rate of interest being 12% p.a., the date of investment was 1.6.2004 and the amount of investments was Rs. 20,000. Due date of interest is 31st March of every year. Stock of sports materials on 31.3.2006 was useless and valued at NIL price.

5. A, B, C and D were partners sharing profits and losses in the ratio of 3:3:2:2. Following was the balance sheet as on 31st March, 2006:

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Sundry creditors		15,500	Sundry debtors	16,000	
A's loan		10,000	Less: Provision for bad debts	500	15,500
Capital accounts:			Stock in trade		10,000
A	20,000		Cash at bank		2,000
B	15,000	35,000	Furniture and fixture		4,000
			Trade mark		7,000
			Capital accounts:		
			C	16,000	
			D	6,000	22,000
		60,500			60,500

On 31st March, 2006, the partnership firm was dissolved and B was appointed to realise the assets and pay off the liabilities. He was entitled to receive 5% commission on the amount finally paid to other partners as capital. He was to bear the expenses of realization.

The assets realised were as follows: sundry debtors Rs 11,000; stock Rs. 8,000; furniture and fixture Rs. 1,000; trade mark Rs 4,000; creditors were paid off in full; in addition a contingent liability for bills receivable discounted, materialized to the extent of Rs 2.500. Also there was a joint life insurance policy for Rs. 30,000 This was surrendered for Rs. 3,000. Expenses of realisation amounted to Rs 500. 'C' was insolvent, but Rs 3,700 were recovered from his estate.

You are required to show the following account in the book of partnership firm:

1. Realisation account
2. Cash account
3. Partners' capital accounts.

6. Department X sells goods to Department Y at a profit of 25% on cost and to Department Z at 10% profit on cost. Department Y sells goods to X and Z at a profit of 15% and 20% on sales, respectively. Department Z charges 20% and 25% profit on cost to Department X and Y, respectively.

Department Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under :

	Rs.
Department X	36,000
Department Y	27,000
Department Z	18,000

Stock lying at different departments at the end of the year are as under :

	Dept. X	Dept. Y	Dept. Z
	Rs.	Rs.	Rs.
Transfer from Department X	—	15,000	11,000
Transfer from Department Y	14,000	—	12,000
Transfer from Department Z	6,000	5,000	—

Find out the correct departmental Profits after charging Managers' commission

7. On 1st March, 2006, XY Corporation Ltd purchased Rs.30,000, 5% Government stock at Rs.95 cum-interest. On 1st May, 2006 the company sold Rs.10,000 of stock at Rs.97 cum-interest. On 15th December, 2006, another Rs.10,000 stock was sold at Rs.93 ex-interest. On 31st December, 2006, the closing date of the financial year, the market price of the stock was Rs.9200. Half-yearly interest is received every year as on 30th June and 31st December,.

   Prepare a ledger account in the investment ledger assuming that the stock transfer book is closed 20 days before the date of payment of interest. Ignore income tax and brokerage.

8. The following is the Balance Sheet of a concern on 31st March, 2005 :

	Rs.		Rs.
Capital	10,00,000	Fixed Assets	4,00,000
Creditors (Trade)	1,40,000	Stock	3,00,000
Profit & Loss A/c	60,000	Debtors	1,50,000
		Cash & Bank	3,50,000
	12,00,000		12,00,000

The management estimates the purchases and sales for the year ended 31st March, 2006 as under :

	upto 28.2.2006	March 2006
	Rs.	*Rs.*
Purchases	14,10,000	1,10,000
Sales	19,20,000	2,00,000

It was decided to invest Rs. 1,00,000 in purchases of fixed assets, which are depreciated @ 10% on cost.

The time lag for payment to Trade Creditors for purchase and receipt from Sales is one month. The business earns a gross profit of 30% on turnover. The expenses against gross profit amount to 10% of the turnover. The amount of depreciation is not included in these expenses.

Draft a Balance Sheet as at 31st March, 2006 assuming that creditors are all Trade Creditors for purchases and debtors for sales and there is no other item of current assets and liabilities apart from stock and cash and bank balances.

9. A Bombay merchant opens a new branch in Delhi, which trades independently of the Head Office. The transactions of the Branch for the year ended 31st March, 2006 are as under :

		Rs.
Goods supplied by Head Office		2,00,000
Purchases from outsiders :		
Credit	1,55,500	
Cash	30,000	1,85,500
Sales :		
Credit	2,50,500	
Cash	46,000	2,96,500
Cash received from Customers		3,04,500
Cash paid to Creditors		1,42,500
Expenses paid by Branch		89,500
Furniture purchased by Branch on credit		35,000
Cash received from Head Office initially		40,000
Remittances to Head Office		1,10,000

Prepare the Branch Final Accounts and the Branch Account in the Head Office Books on incorporation of the Branch trial balance in the Head Office Books, after taking the following into consideration:

(1) The accounts of the Branch fixed assets are maintained in the Head Office books.

(2) Write off Depreciation on Furniture at 5 per cent per annum for full year.

(3) A remittance of Rs. 20,000 from the Branch to the Head Office is in transit.

(4) The Branch values its closing stock at Rs. 1,20,000.

10. Progressive Ltd. issued Rs. 10,00,000, 6% Debenture Stock at par on 21.1.1994, Interest was payable on 30th June and 31st December, in each year.

Under the terms of the Debentures Trust the owned stock is redeemable at par. The trust deed obliges the Company to pay to the trustees on 31st December, 2005 and annually thereafter the sum of Rs. 1,00,000 to be utilized for the redemption and cancellation of an equivalent amount of stock, which is to be selected by drawing lots.

Alternatively, the Company is empowered as from 1st January, 2005 to purchase its own debentures on the open market. These Debentures must be surrendered to the Trustees for cancellation and any adjustments for accrued interest recorded in the books of account. If in any year the nominal amount of the stock surrendered under this alternative does not amount to Rs. 1,00,000 then the shortfall is to be paid by the Company to the Trustees in cash on 31st December.

The following purchases of stock were made by the Company:

	Nominal value of stock purchased Rs.	Purchase price per Rs. 100 of stock Rs.	
(1) 30th September, 2005	1,20,000	98	
(2) 31st May, 2006	75,000	95	(Ex-interest)
(3) 31st July, 2007	1,15,000	92	

The Company fulfilled all its obligations under the trust deed.

Prepare the Ledger Accounts : (a) Debenture Stock A/c (b) Debenture Redemption A/c

(c) Debenture Interest A/c.

Note : Ignore costs and taxation

11. The trial balance of Complex Ltd. as at 31st March, 2007 shows the following items:

	Dr. Rs.	Cr. Rs.
Advance payment of income tax	2,20,000	—
Provision for income tax for the year ended 31.3.2006	—	1,20,000

The following further informations are given :

(i) Advance payment of income tax includes Rs. 1,40,000 for 2005-2006.

(ii) Actual tax liability for 2005-2006 amounts to Rs. 1,52,000 and no effect for the same has so far been given in accounts.

(iii) Provision for income tax has to be made for 2006-07 for Rs. 1,60,000.

You are required to prepare (a) provision for income tax account, (b) advance payment of income tax account, (c) liabilities for taxation account and also show, how the relevant items will appear in the profit and loss account and balance sheet of the Company.

12. The Balance Sheet of Munna Ltd. on 31st March, 2005 is as under:

Liabilities	Rs.	Assets	Rs.
Authorised, issued equity share capital		Goodwill	2,00,000
20,000 shares of Rs. 100 each	20,00,000	Plant and machinery	18,00,000
10,000 preference shares (7%) of		Stock	3,00,000

Rs. 100 each	10,00,000	Debtors	7,50,000
Sundry creditors	7,00,000	Preliminary expenses	1,00,000
Bank overdraft	3,00,000	Cash	1,50,000
		Profit and loss account	7,00,000
	40,00,000		40,00,000

Two years' preference dividends are in arrears. The company had bad time during the last two years and hopes for better business in future, earning profit and paying dividend provided the capital base is reduced.

An internal reconstruction scheme as follows was agreed to by all concerned:

(i) Creditors agreed to forego 50% of the claim.

(ii) Preference shareholders withdrew arrear dividend claim. They also agreed to lower their capital claim by 20% by reducing nominal value in consideration of 9% dividend effective after reorganization in case equity shareholders' loss exceed 50% on the application of the scheme.

(iii) Bank agreed to convert overdraft into term loan to the extent required for making current ratio equal to 2 : 1.

(iv) Revalued figure for plant and machinery was accepted as Rs. 15,00,000.

(v) Debtors to the extent of Rs. 4,00,000 were considered good.

(vi) Equity shares shall be exchanged for the same number of equity shares at a revised denomination as required after the reorganisation.

Show:

(a) Total loss to be borne by the equity and preference shareholders for the reorganization;

(b) Share of loss to the individual classes of shareholders;

(c) New structure of share capital after reorganization;

(d) Working capital of the reorganized Company; and

(e) A proforma balance sheet after reorganization

13. A company issues 1,000 14% Debentures of Rs.1,000 each at a premium of 20%. Sixty per cent of the issue was underwritten by M/s Bulls & Bears for a commission @ 1.5% of the issue price of debentures underwritten. Applications were received for 800 debentures which were accepted and payment of these was received in full. Give journal entries

14. X Fire Insurance Co. Ltd. commenced its business on 1.4.2005. It submits you the following information for the year ended 31.3.2006:

	Rs.
Premiums received	15,00,000
Re-insurance premiums paid	1,00,000
Claims paid	7,00,000
Expenses of Management	3,00,000
Commission paid	50,000
Claims outstanding on 31.3.2006	1,00,000

Create reserve for unexpired risk @ 40%

Prepare Revenue account for the year ended 31.3.2006.

15. Electric Supply Ltd. rebuilt and re-equipped one of their Mains at a Cash Cost of Rs. 40,00,000. The old Mains thus superseded cost Rs. 15,00,000. The capacity of the new Main is double that of the old Main. Rs. 70,000 was realised from sale of old materials. Four old motors valued at Rs.

2,00,000 salvaged from the old Main were used in the reconstruction. The cost of Labour and Materials is respectively 30% and 25% higher now than when the old Main was built. The proportion of Labour to Materials in the Main then and now is 2 : 3.

Show the Journal entries for recording the above transactions, if accounts are maintained under Double Account System.

16. From the following information, calculate cash flow from operating activities:

Summary of Cash Account for the year ended March 31, 2007

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,00,000	By Cash Purchases	1,20,000
To Cash sales	1,40,000	By Creditors	1,57,000
To Debtors	1,75,000	By Office & Selling Expenses	75,000
To Trade Commission	50,000	By Income Tax	30,000
To Sale of Investment	30,000	By Investment	25,000
To Loan from Bank	1,00,000	By Repayment of Loan	75,000
To Interest & Dividend	1,000	By Interest on loan	10,000
		By Balance c/d	1,04,000
	5,96,000		5,96,000

17. Answer the following (Give adequate working notes in support of your answer):

(a) Alpha Ltd. purchased marketable securities of the face value of Rs. 10,000 at Rs. 9,200. The fair value of the securities is Rs. 9,500. The company intends to dispose off the securities in less than 12 months period. Compute value of investments to be shown in the books.

(b) A machinery was purchased on 1.1.2005, which was delivered on 1.4.2005. The installation was completed on 30.09.2005 but was made available for use on 1.10.2005. The actual utilization started from 1.12.2005. The effective period for calculation of its depreciation for the year 2005 is

(c) Yash Ltd. wants to prepare its cash flow statement. It sold equipment of book value of Rs. 60,000 at a gain of Rs. 8,000. What amount is required to be reported in its cash flow statement under operating activities?

(d) Goods purchased on 24.02.2005 for US $ 10 (Exchange rate – 50)

(Rate of exchange on 31.3.2005 – 51)

Date of actual payment 5.6.2005 (Exchange rate – 52)

Calculate the amount of loss/gain to be recognized in the financial statements for the year ended 31st March, 2005.

(e) Sohan raised 10% loan of Rs. 1,00,000 on 1.7.2004 to meet the cost of construction of an asset. The total cost of construction of an asset (completed on 31.12.2004) came to Rs. 2,00,000. The amount borrowed for construction was temporarily invested by Sohan in short term fixed deposit which earned interest of Rs. 2,000. The cost of the asset as on 31.12.2004 should be

(f) Sparkli Company Ltd. had 1,00,000 shares of common stock outstanding on January 1. Additional 50,000 shares were issued on July 1, and 25,000 shares were bought back on September 1. The weighted average number of shares outstanding during the year is

(g) On March 31, 2005 Fortunate company exchanged an old machinery having a carrying amount of Rs. 20,000 and paid cash difference of Rs. 5,000 for a new machinery having a total cash price of Rs. 23,000. On March 31, 2005 the amount of loss to be recognized on this exchange will be

(h) On 1.4.2004 Bills for collection were Rs. 10,000. During 2004-2005 bills received for collection amounted to Rs. 1,00,000, bills collected were Rs. 80,000 and bills dishonoured and returned were Rs. 5,000. What will be the amount of bill for collection (assets) to be shown in the Balance Sheet as on 31.3.2005?

(i) An old electricity plant, which originally costed Rs. 10,00,000 in the year 1999, was replaced by spending Rs. 15,00,000. Present cost of its replacement was calculated as Rs. 13,00,000. Calculate the amount to be capitalized.

(j) If goods are transferred from department A to department B at a price so as to include a profit of 50% on cost. Compute the amount of stock reserve on closing stock of Rs. 9,000 in department B.

(k) Total capital employed in the firm Rs. 7,00,000

Reasonable rate of return 15%

Profit for the year Rs. 1,20,000.

Calculate the goodwill of the firm using capitalization method.

(l) Omega Ltd. issued 20,000, 8% debentures of Rs. 10 each at par, which are redeemable after 5 years at a premium of 20%. What will be the amount of loss on redemption of debentures to be written off each year.

(m) G Ltd. acquired assets worth Rs. 7,50,000 from H Ltd. by issue of shares of Rs. 100 at a premium of 25%. Compute the number of shares to be issued by G Ltd. to settle the purchase consideration.

(n) Ramesh & Suresh are partners sharing profits in the ratio of 2:1 (Ramesh Capital is Rs. 1,02,000 and Suresh Capital is Rs. 73,000) They admitted Mahesh & agreed to give him 1/5 in share. He brings Rs. 14,000 as his share of goodwill. He agreed to contribute capital in profit sharing ratio. How much capital will be brought by the incoming partner?

18. State with reasons, whether the following statements are true or false:

(a) Prudence is a concept to recognize unrealized profits and not losses.

(b) In accounting, all business transactions are recorded as having dual aspect.

(c) Accrual concept implies accounting on cash basis.

(d) In the calculation of average due date, only the due date of first transaction must be taken as the base date.

(e) Scholarship granted to students out of funds provided by Government will be debited to Income and Expenditure Account.

(f) Goodwill brought in by an incoming partner in cash for joining a partnership firm is taken away by the old partners in their new profit sharing ratio.

19. (a) How will you choose a pre-packaged accounting software? Explain in brief.

(b) Describe the method of calculation of profit or loss on disposal of investments.

(c) Explain the purpose and status of the conceptual framework for preparation and presentation of financial statements in brief.

(d) Write short note on red ink interest in the context of account current.

(e) What are the implications of Garner vs Murray rule in partnership accounting? Explain in brief.

(f) State the conditions to be fulfilled by a joint stock company to buy-back its equity.

20. Theory questions based on Accounting Standards

(a) What information are required to be disclosed in the financial statements as per AS 7?

(b) When can a company change its accounting policy?

(c) Explain the treatment of borrowing costs in brief.

(d) How will you calculate diluted earnings for a particular period?

(e) What are the conditions that are to be satisfied for 'Amalgamation in the nature of merger'?

(f) Explain the 'Accounting for Revaluation of fixed assets' with reference to AS 10.

(g) What do you mean by 'events occurring after the balance sheet date'? Describe disclosure requirements required for such events.

(h) Write short note on Sale and Lease Back Transactions as per Accounting Standard 19.

21. Practical problems based on Accounting Standards

(a) How would you treat the Government grant received relating to a depreciable asset under the following cases as per AS-12?

Case i: Gross value of asset Rs.2 crores and Grant received Rs.20 lakhs only.

Case ii: Gross value of assets Rs.2 crores and Grant received Rs.2 crores.

(b) ABC Ltd. gave 50,000 equity shares of Rs.10 each (fully paid up) in consideration for supply of certain machinery by X & Co.; The shares exchanged for machinery are quoted on Bombay Stock Exchange (BSE) at Rs.15 per share, at the time of transaction. In the absence of fair market value of the machinery acquired, how the value of machinery would be recorded in the books of the company?

(c) A company took a construction contract for Rs.100 lakhs in January, 2006. It was found that 80% of the contract was completed at a cost of Rs.92 lakhs on the closing date i.e. on 31.3.2007. The company estimates further expenditure of Rs.23 lakhs for completing the contract. The expected loss would be Rs.15 lakihs. Can the company recognise the loss in the financial statements pre3pared for the year ended 31.3.2007?

(d) During the course of the last three years, a company owning and operating Helicopters lost four Helicopters. The company Accountant felt that after the crash, the maintenance provision created in respect of the respective helicopters was no longer required, and proposed to write back to the Profit and Loss account as a prior period item. Is X correct in his proposal? Discuss.

(e) Mr. 'X' as a contractor has just entered into a contract with a local municipal body for building a flyover. As per the contract terms, 'X' will receive an additional Rs.2 crore if the construction of the flyover were to be finished within a period of two years of the commencement of the contract. Mr. X wants to recognize this revenue since in the past he has been able to meet similar targets very easily.

(f) A Company is in the process of setting up a production line for manufacturing a new product. Based on trial runs conducted by the company. It was noticed that the production lines output was not of the desired quality. However, company has taken a decision to manufacture and sell the sub-standard product over the next one year due to the huge investment involved.

In the background of the relevant accounting standard, advise the company on the cut-off date for capitalization of the project cost.

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

(h) A Ltd. Leased a machinery to B Ltd. on the following terms:

	(Rs. in Lakhs)
Fair value of the machinery	20.00
Lease term	5 years

Lease Rental per annum	5.00
Guaranteed Residual value	1.00
Expected Residual value	2.00
Internal Rate of Return	15%

Depreciation is provided on straight line method @ 10% per annum. Ascertain unearned financial income and necessary entries may be passed in the books of the Lessee in the First year.

(i) Himalaya Ltd. in the past three years spent Rs. 75,00,000 to develop a Drug to treat Cancer, which was charged to Profit and Loss Account since they did not meet AS 26 criteria for capitalization. In the current year approval of the concerned Government Authority has been received. The Company wishes to capitalize Rs. 75,00,000 and disclose it as a prior period item. Is it correct? Give reason for your views.

(j) Bottom Ltd. entered into a sale deed for its immovable property before the end of the year. But registration was done with registrar subsequent to Balance Sheet date. But before finalisation, is it possible to recognise the sale and the gain at the Balance Sheet date? Give your view with reasons.

SUGGESTED ANSWERS / HINTS

1. Branch Debtors A/c

Dr.					Cr.
		Rs.			Rs.
To	Branch Stock A/c	1,16,000	To	Branch Cash A/c	74,000
			To	Bad Debts written off	400
			To	Balance c/d	41,600
		1,16,000			1,16,000

Goods Sent to Branch A/c

To	Branch Adjustment A/c $1,00,000 \times \frac{20}{100}$	20,000	By	Branch Stock A/c	1,20,000
To	Purchases/ Trading A/c	1,00,000			
		1,20,000			1,20,000

Branch Cash A/c

To	Branch Debtors A/c	74,000	By	Branch Expenses A/c	24,000
To	Branch remittance from H.O.	6,000	By	Cash to H.O.	86,000
To	Branch Stock A/c - Cash Sales (balancing figure)	34,000	By	Balance c/d	4,000
		1,14,000			1,14,000

Branch Stock A/c

To	Goods sent to Branch A/c	1,20,000	By	Branch Debtors A/c (balancing figure)	1,16,000
To	Branch Adjustment A/c	54,000*	By	Cash Sales	34,000
	(Excess profit over normal loading)		By	Goods in Transit (1,20,000-1,08,000)	12,000
			By	Balance c/d	12,000
		1,74,000			1,74,000

Branch Expenses A/c

To	Branch Cash A/c	24,000	By	Branch P&L A/c	24,000

Branch Adjustment A/c

To	Stock Reserve	2,000	By	Goods sent to Branch A/c	20,000
To	Goods in Transit Reserve	2,000	By	Branch Stock A/c	54,000
To	Branch P&L A/c	70,000			
		74,000			74,000

Branch P & L A/c

To	Branch Expenses A/c	24,000	By	Branch Adjustment A/c	70,000
To	Bad Debts	400			
To	Profit	45,600			
		70,000			70,000

2. Statement of Claim

	Rs.
Stock on the date of fire	5,00,000
Less: Stock salvaged	30,000
	4,70,000
Add: Fire fighting expenses	30,000
Total loss	5,00,000

$$\text{Claim} = \frac{\text{Policy amount}}{\text{Stock on date of fire}} \times \text{Total loss}$$

$$= \frac{\text{Rs.}3{,}50{,}000}{\text{Rs.}5{,}00{,}000} \times \text{Rs.}5{,}00{,}000$$

= Rs. 3,50,000

* Rs. [1,16,000 + 34,000 – (1,20,000-12,000-12,000)]

Working Notes:

Jay Associates

Memorandum Trading Account (1.4.06 to 30.6.06)

Dr.

	Rs.	Rs.		Rs.	Rs.
To Opening stock	2,20,000		By Sales	30,20,000	
Less: Abnormal item	20,000	2,00,000	Less: Abnormal item	20,000	
				30,00,000	
To Purchases		21,00,000	Less: Returns	3,00,000	27,00,000
To Gross profit (33.33%)		9,00,000			
			By Closing stock (balancing figure)		5,00,000
		32,00,000			32,00,000

Note:

(i) Fire-fighting expenses have been incurred for the purpose of salvaging the goods from the fire and on that logic the same have been added to determine the total loss.

(ii) In case fire-fighting expenses are not added, the actual loss would be Rs. 4,70,000 (5,00,000-30,000) and the claim would be

$$= \frac{\text{Rs.}3,50,000}{\text{Rs.}5,00,000} \times \text{Rs.}4,70,000$$

= Rs. 3,29,000

3. (a) General Ledger

Customers Control Account

Dr.			Cr.
	Rs.		Rs.
To Balance b/d	2,35,000	By Balance b/d	3,500
To General ledger control A/c:		By General ledger control A/c:	
Sales	7,65,000	Bank/cash	5,90,000
Bank (cheque dishonoured)	5,000	Returns inwards	15,000
Bills receivable (dishonoured)	7,000	Bills receivable	1,10,000
To Balance c/d	3,000	Discount	9,000
		Bad Debts	9,000
		Transfer (1,500+ 1,600)	3,100
		By Balance c/d (balancing figure)	2,75,400
	10,15,000		10,15,000

(b) Calculation of Average Due Date

Due dates	Amount Rs.	No. of days from April 1, 2006	Products Rs.
2006			
April 1	2,000	0	0
April 10	5,000	9	45,000

May 16	10,000	45	4,50,000
June 9	3,000	69	2,07,000
	20,000		7,02,000

Average due date = Base date + Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

Average due date = 1st April + $\frac{7,02,000}{20,000}$

= 1st April + 35 days

= 6th May, 2006

Interest therefore has been calculated on Rs. 20,000 from 6th May, 2006 to 30th June 2006. i.e. for 56 days @ 15% per annum.

Interest=20,000 x 15/100 x 56/365 = Rs. 460.

4.

Income and Expenditure Account
for the year ended 31st March, 2006

Dr.				Cr.
Expenditure	Rs.	Income		Rs.
To Secretary's salary	12,000	By Subscription		17,100
To Salaries to staff	25,000	By Sale of old newspapers		2,500
To Charities	1,000	By Interest on securities	2,000	
To Printing and stationeries	600	Add: amount due	400	2,400
To Postage expenses	120	By Proceeds of sport and concerts		4,020
To Rates and taxes	1,500	By Advertisement in the year book		5,000
To Upkeep of land	2,000			
To Sports materials written off	10,000	By Deficit: Excess of expenditure over Income		24,880
To Telephone expenses	3,480			
To Depreciation on furniture	200			
	55,900			55,900

Balance Sheet of Excellent Recreation Club
as on 31st March, 2006

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital fund			Land		10,000
Opening balance	36,680		Furniture	2,000	
Less: Excess of expenditure over income	24,880		Less: Depreciation	200	1,800
			Sports materials	10,000	
	11,800		Less: written off	10,000	-
Add: Legacies	4,000	15,800	Investment in securities		20,000
Endowment fund		20,000	Subscriptions receivable		1,000
Subscription received in			Interest due		400
advance		400	Cash in hand and at bank		3,000
		36,200			36,200

Working Notes:

(1) Balance Sheet of Excellent Recreation Club as on 31st March, 2006

Liabilities	Rs.	Assets	Rs
Capital fund (balancing figure)	36,680	Land	10,000
Subscriptions received in advance	500	Furniture	2,000
		Arrears of subscription	2,000
		Investments in securities	20,000
		Cash in hand and at bank	3,180
	37,180		37,180

(2) Subscription pertaining to the period ended 31st March, 2006:

	Rs.
Subscriptions received during the year	18,000
Add: Outstanding subscription on 31.3.2006	1,000
	19,000
Add: Received in advance as on 31.3.2005	500
	19,500
Less: Outstanding subscription as on 31.3.2005	2,000
	17,500
Less: Received in advance as on 31.3.2006	400
	17,100

5. Realization Account as on 31.3.2006

Dr. Cr.

2006		Rs.	Rs.	2006		Rs.	Rs.
March 31	To Sundry assets:			March31	By Provision for bad and doubtful debts		500
	Furniture and fixture	4,000			By Sundry creditors		15,500
	Trade mark	7,000			By Cash:		
	Debtors	16,000			Furniture and fixtures	1,000	
	Stock in trade	10,000	37,000		Trade mark	4,000	
	To Cash (payment to creditors)		15,500		Debtors	11,000	
					Stock in trade	8,000	
	To Cash (liability for bills discounted)		2,500		Surrender value of joint life policy	3,000	27,000
					By Partners' capital accounts: (loss on realisation)		
					A	3,600	
					B	3,600	
					C	2,400	
					D	2,400	12,000
			55,000				55,000

Cash Account

Dr.					Cr.
2006		Rs.	2006		Rs.
March 31	To Balance b/d	2,000	March 31	By Realisation A/c	15,500
	To Realisation A/c	27,000		By Realisation A/c	2,500
	To C's capital A/c	3,700		By A's loan A/c	10,000
	To D's capital	8,400		By A's capital A/c	7,619
				By B's capital A/c	5,481
		41,100			41,100

Partners' Capital Accounts

Dr.											Cr.
		A	B	C	D			A	B	C	D
2006		Rs.	Rs.	Rs.	Rs.	2006		Rs.	Rs.	Rs.	Rs.
March 31	To Balance b/d	-	-	16,000	6,000	March 31	By Balance A/c	20,000	15,000		
	To Realisation A/c (loss)	3,600	3,600	2,400	2,400		By Cash	-	-	3,700	8,400
							By A's Capital A/c	-	-	8,400	-
	To C's Capital A/c (Loss of capital written off)	8,400	6,300	-	-		By B's Capital A/c	-	-	6,300	-
							By A's Capital A/c (commission)	-	381	-	-
	To B's capital A/c (commission)	381	-	-	-						
	To cash A/c	7,619	5,481								
		20,000	15,381	18,400	8,400			20,000	15,381	18,400	8,400

Working Notes:

(1) There was a debit balance of Rs. 8,400 in D's capital account and D is a solvent partner, therefore he must bring cash for balance capital.

(2) 'C' is insolvent therefore he is not able to bring cash. The deficiency in his account is borne by 'A' and 'B' in the ratio of 4:3 (capital ratio). Deficiency in 'C's account=Rs. 16,000+Rs. 2,400-Rs. 3,700 = Rs. 14,700

Borne by A=4/7 x Rs. 14,700=Rs. 8,400

Borne by B=3/7 x Rs. 14,700 = Rs. 6,300

(3) 'B' is entitled to get 5% commission on the amount finally paid to partner 'A' only. The calculation is as follows: Rs. 20,000-Rs. 3,600-Rs. 8,400=Rs. 8,000 x 5/105 =Rs. 381.

(4) Mr. A's loan is paid off in cash.

6. Calculation of correct Profit

	Depart–ment X	Depart–ment Y	Depart–ment Z
	Rs.	Rs.	Rs.
Profit after charging managers' commission	36,000	27,000	18,000
Add back : Managers' commission (1/9)	4,000	3,000	2,000
	40,000	30,000	20,000

Less :Unrealised profit on stock (Working Note)	4,000	4,500	2,000
Profit before Manager's commission	36,000	25,500	18,000
Less :Commission for Department			
Manager @10%	3,600	2,550	1,800
	32,400	22,950	16,200

Working Note :

Stock lying with

	Dept. X Rs.	Dept. Y Rs.	Dept. Z Rs.	Total Rs.
Unrealised Profit of :				
Department X		1/5×15,000 =3,000	1/11×11,000 =1,000	4,000
Department Y	0.15×14,000 =2,100		0.20×12,000 =2,400	4,500
Department Z	1/6×6,000 =1,000	1/5×5,000 =1,000		2,000

7. In the books of XY Corporation Ltd.

5% Government Stock Account

Dr. [Interest Payable: 30th June & 31st December] Cr.

1.3.2006	Particulars	Nominal Valuer	Interest (Rs.)	Cost (Rs.)	Date	Particulars	Nominal Value	Interest (Rs.)	Cost (Rs.)
1.3.2006	To Bank A/c (Note 1)	30,000	250	28,250	1.5.2006	By Bank A/c (Note 2)	10,000	167	9,533
31.12.2006	To Profit & Loss A/c	-	896	-	30.6.2006	By Bank A/c (Interest)	-	500	-
					15.12.2006	By Bank A/c (Note 3)	10,000	229	9,300
					31.12.2006	By Bank A/c (Interest)	-	250	-
					31.12.2006	By Profit & Loss A/c	-	-	217
					31.12.2006	By Balance c/d (Note 4)	10,000	-	9,200
		30,000	1,146	28,250			30,000	1,146	28,250

Working Notes:

		Rs.
(1)	Purchase of Stock (cum-Interest) on 1.3.2006	
	Nominal Value	30,000
	Total amount paid (300 x Rs.95)	28,500
	Less: Accrued Interest for 2 months (30,000x5/100x2/12)	250
	Cost	28,250
(2)	Sale of Stock (cum-Interest) on 1.5.2006	Rs.
	Nominal Value	10,000
	Sales Proceeds (100 x Rs.97)	9,700
	Less: Accrued Interest for 4 months (10,000x5/100x4/12)	167
		9,533
(3)	Sale of Stock (ex-Interest) on 15.12.2006	
	Nominal Value	10,000
	Sale Proceeds (100 x Rs.93)	9,300
	Accrued Interest for 5½ months (10,000 x 5/100 x 11/24)	229

(4) Cost of Stock on 31.12.2006

		Rs.
(i)	Cost Price (28,250/30,000x10,000)	9,416
(ii)	Market Price (100x Rs. 92)	9,200

Value of Stock will be Rs.9,200 (being market price lower than cost price)

8. Projected Balance Sheet of ......
as on 31st March, 2006

Liabilities		Rs.	Assets	Rs.	
Capital		10,00,000	Fixed Assets	4,00,000	
Profit & Loss Account as on			Additions	1,00,000	
1st April, 2005	60,000			5,00,000	
Add : Profit for the year	3,74,000	4,34,000	Less : Depreciation	50,000	4,50,000
Creditors (Trade)		1,10,000	Stock in trade		3,36,000
			Sundry Debtors		2,00,000
			Cash & Bank Balances		5,58,000
		15,44,000			15,44,000

Working Notes:

1. Projected Trading and Profit and Loss Account
for the year ended 31st March, 2006

	Rs.		*Rs.*
To Opening Stock	3,00,000	By Sales	21,20,000
To Purchases	15,20,000	By Closing Stock (balancing figure)	3,36,000
To Gross Profit c/d (30% on sales)	6,36,000		
	24,56,000		24,56,000
To Sundry Expenses (10% on sales)	2,12,000	By Gross Profit b/d	6,36,000
To Depreciation	50,000		
To Net Profit	3,74,000		
	6,36,000		6,36,000

2. Cash and Bank Account for the period
1st April, 2005 to 31st March, 2006

		Rs.			Rs.
To	Balance b/d	3,50,000	By	Sundry Creditors	15,50,000
To	Sundry Debtors (Rs. 1,50,000 + Rs. 19,20,000)	20,70,000		(Rs. 1,40,000 + Rs. 14,10,000)	
			By	Expenses	2,12,000
			By	Fixed Assets	1,00,000
			By	Balance c/d	5,58,000
		24,20,000			24,20,000

Note : It has been assumed the entire sales and purchases are taken on credit basis.

9. In Branch Books

Trading and Profit and Loss Account for year ending March 31st 2006

Dr.					Cr.
		Rs.		Rs.	Rs.
To Goods Supplied			By Sales :		
		2,00,000	Credit	2,50,500	
To Purchases :	Rs.		Cash	46,000	2,96,500
	1,55,500		By Closing Stock		1,20,000
	30,000	1,85,500			
To Gross Profit c/d		31,000			
		4,16,500			4,16,500
To Expenses		89,500	By Gross Profit b/d		31,000
To Depreciation on			By Head Office—		
		1,750	transfer of net loss		60,250
		91,250			91,250

Balance Sheet
as on 31st March, 2006

Liabilities	Rs.	Assets	Rs.
Sundry Trade Creditors		Closing Stock	1,20,000
(Rs. 1,55,500 – Rs. 1,42,500)	13,000	Cash in Transit	20,000
Creditors for Furniture	35,000	Cash in hand	
Advances from Trade Debtors		(as per Cash Book)	18,500
(Rs. 3,04,500 – Rs. 2,50,500)	54,000		
Head Office A/c	56,500		
	1,58,500		1,58,500

Working Notes:

Cash Book

	Rs.		Rs.
To Head Office		By Cash Purchases	30,000
(initial receipt)	40,000	By Trade Creditors	1,42,500
To Cash Sales	46,000	By Expenses	89,500
To Trade Debtors	3,04,500	By Head Office	
		(remittances)	1,10,000
		By Balance c/d	18,500
	3,90,500		3,90,500
To Balance b/d	18,500		

Head Office Account

	Rs.		Rs.
To Creditor for Furniture	35,000	By Cash (initial receipt)	40,000
To Cash (remittance)	1,10,000	By Goods Received	
To Profit and Loss A/c		from Head Office A/c	2,00,000
(net loss for the year)	60,250	By Depreciation on	
To Balance c/d	56,500	Furniture	1,750
		By Cash in Transit	20,000
	2,61,750		2,61,750
		By Balance b/d	56,500

In the books of Head Office
Delhi Branch Account

2005		Rs.	2005		Rs.
April, 1	To Cash (initial investment)	40,000	April 1	By Branch Furniture	35,000
April 1 2005 to Mar. 31 2006	To Goods Sent to Branch A/c	2,00,000	April 1 2005 to Mar. 31 2006	By Cash (remittances Rs. 1,10,000 – Rs. 20,000 still in transit)	90,000
Mar. 31	To Depreciation on Branch Furniture	1,750	2006 Mar. 31	By Delhi Branch Trading A/c (for purchases and goods supplied by H.O.)	3,85,500
	To Delhi Branch Trading A/c (for sales and closing stock)	4,16,500		By Delhi Branch Profit & Loss A/c (for expenses and depreciation on branch furniture)	91,250
	To Branch Trade Creditors	13,000		By Branch Stock	1,20,000
	To Branch Creditor for Furniture	35,000		By Branch Cash	18,500
	To Branch Trade Debtors (advances)	54,000		By Cash in Transit	20,000
		7,60,250			7,60,250

10. In the Books of Progressive Ltd.
Debenture Stock Account

2005		Rs.	2005		Rs.
Sept. 30	To Debenture Redemption A/c	1,20,000	Jan. 1	By Balance b/d	10,00,000
Dec. 31	To Balance c/d	8,80,000			
		10,00,000			10,00,000
2006		Rs.	2006		Rs.
May 31	To Debenture Redemption A/c	75,000	Jan. 1	By Balance b/d	8,80,000
Dec.31	To Debenture Redemption A/c	25,000			
	To Balance c/d	7,80,000			
		8,80,000			8,80,000
2007		Rs.	2007		Rs.
July 31	To Debenture Redemption A/c	1,15,000	Jan. 1	By Balance b/d	7,80,000
Dec.31	To Balance c/d	6,65,000			
		7,80,000			7,80,000

Debenture Redemption Account

2005			Rs.	2005		Rs
Sept. 30	To	Bank A/c (Rs. 1,20,000×0.98 – Rs. 1,800)	1,15,800	Sept.30	By Debenture Stock A/c	1,20,000
	To	Capital Reserve A/c	4,200			
			1,20,000			1,20,000
2006			Rs.	2006		Rs.
May 30	To	Bank A/c (Rs. 75,000 × 0.95)	71,250	May 31	By Debenture Stock A/c	75,000
				Dec. 31	By Debenture Stock A/c	25,000
	To	Capital Reserve A/c (Profit on cancellation)	3,750			
Dec.31	To	Bank A/c (Shortfall=Rs.1,00,000 – Rs. 75,000)	25,000			
			1,00,000			1,00,000
2007			Rs.	2007		Rs.
July 31	To	Bank A/c (Rs. 1,15,000 ×.92 – Rs. 575)	1,05,225	July 31	By Debenture Stock A/c	1,15,000
	To	Capital Reserve A/c (Profit on cancellation)	9,775			
			1,15,000			1,15,000

Debenture Interest Account

2005			Rs.	2005		Rs.
June 30	To	Bank A/c	30,000	Dec. 31	By Profit and Loss A/c	58,200
Sept. 30	To	Bank A/c	1,800			
Dec. 31	To	Bank A/c	26,400			
			58,200			58,200
2006			Rs.	2006		Rs.
May 31	To	Bank A/c	1,875	Dec. 31	By Profit and Loss A/c	50,175
June 31	To	Bank A/c	24,150			
Dec. 31	To	Bank A/c	24,150			
			50,175			50,175
2007			Rs.	2007		Rs.
June 30	To	Bank A/c	23,400	Dec. 31	By Profit and Loss A/c	43,925
July 31	To	Bank A/c	575			
Dec. 31	To	Bank A/c	19,950			
			43,925			43,925

Working Notes :

Interest paid on Debentures @ 6% per annum:

Date	Amount of Debentures Rs.	Period	Interest Rs.
2005			
June 30	10,00,000	6 months	30,000
Sept. 30	1,20,000	3 months	1,800
Dec. 31	8,80,000	6 months	26,400
2006			
May 31	75,000	5 months	1,875
June 30	8,05,000	6 months	24,150
Dec. 31	8,05,000	6 months	24,150
2007			
June 30	7,80,000	6 months	23,400
July 31	1,15,000	1 month	575
Dec. 31	6,65,000	6 months	19,950

Notes : (1) It has been assumed that debentures are purchased for immediate cancellation.

(2) The purchases of 30th September, 2005 and 31st July, 2007 have been taken on cum-interest basis

11. Complex Ltd.

Provision for Income Tax (2005-2006) Account

Dr. Cr.

		Rs.			Rs.
31.3.2007	To Advance payment of Income tax A/c	1,40,000	1.4.2006	By Balance b/d	1,20,000
	To Liability for Taxation A/c	12,000	31.3.2007	By Profit and Loss A/c	32,000
		1,52,000			1,52,000

(a) Provision for Income tax (2006-2007) Account

		Rs.			Rs.
31.3.2007	To Balance c/d	1,60,000	31.3.2007	By Profit and Loss A/c	1,60,000
		1,60,000			1,60,000

(b) Advance Payment of Income Tax Account

		Rs.			Rs.
31.3.2007	To Balance b/d	2,20,000	31.3.2007	By Provision for Income tax (2005-2006) A/c	1,40,000
				By Balance c/d	80,000
		2,20,000			2,20,000

(c) Liability for Taxation Account

		Rs.			Rs.
31.3.2007	To Balance c/d	12,000	31.3.2007	By Provision for Income tax A/c	12,000
		12,000			12,000

Profit and Loss Account
for the year ended 31st March, 2007 (Extracts)

	Rs.	Rs.
Profit before Taxation		—
Less: Taxation for the year	1,60,000	
Taxation adjustment of previous year	32,000	1,92,000
Net Profit		—

Balance Sheet of Complex Ltd.
As at 31st March, 2007 (Extracts)

Liabilities	Rs.	Assets	Rs.
Current Liabilities and Provisions		Current Assets, Loans and Advances	
A. Current Liabilities		B. Loans and Advances	
Liability for Taxation (2005-2006)	12,000	Advance Payment of Income tax	80,000
B. Provisions			
Provision for Income tax	1,60,000		

12. (a) Loss to be borne by Equity and Preference Shareholders

	Rs.
Profit and loss account (debit balance)	7,00,000
Preliminary expenses	1,00,000
Goodwill	2,00,000
Plant and machinery (Rs. 18,00,000 – Rs. 15,00,000)	3,00,000
Debtors (Rs. 7,50,000 – Rs. 4,00,000)	3,50,000
Amount to be written off	16,50,000
Less: 50% of sundry creditors	3,50,000
Total loss to be borne by the equity and preference shareholders*	13,00,000

(b) Share of loss to preference shareholders and equity shareholders

Total loss of Rs. 13,00,000 being more than 50% of equity share capital i.e.	Rs.10,00,000
Preference shareholders' share of loss = 20% of Rs. 10,00,000	= Rs. 2,00,000
Equity shareholders' share of loss (Rs. 13,00,000 – Rs. 2,00,000)	= Rs.11,00,000
Total loss	Rs. 13,00,000

(c) New structure of share capital after reorganisation

	Rs.
Equity shares:	
20,000 equity shares of Rs. 45 each, fully paid up (Rs. 20,00,000 – Rs. 11,00,000)	9,00,000
Preference shares:	
10,000, 9% preference shares of Rs. 80 each, fully paid up (Rs. 10,00,000 – Rs. 2,00,000)	8,00,000
	17,00,000

* Two years' preference dividend (arrears) have been ignored in the computation of loss to be borne by equity and preference shareholders.

(d) Working capital of the reorganized company

Current Assets:	Rs.	Rs.
Stock		3,00,000
Debtors		4,00,000
Cash		1,50,000
		8,50,000
Less: Current liabilities:		
Creditors	3,50,000	
Bank overdraft **	75,000	4,25,000
Working capital		4,25,000

(e) Balance Sheet of Munna Ltd. (and reduced)
as on 31st March, 2005

Liabilities	Rs.	Assets	Rs.
Share Capital Authorised (issued and paid up)		Fixed Assets	
20,000 equity shares of Rs. 45 each	9,00,000	Plant and Machinery	15,00,000
10,000, 9% preference shares of Rs. 80 each	8,00,000	Current Assets	
Unsecured loan		Stock	3,00,000
Term loan with Bank	2,25,000	Debtors	4,00,000
Current liabilities		Cash	1,50,000
Bank overdraft	75,000		
Creditors	3,50,000		
	23,50,000		23,50,000

13. Since M/s. Bulls & Bears underwrite 60% of the issue, the company must itself be treated as an underwriter of the remaining 40%. In the absence of any information, the applications for 800 debentures must be deemed to have been marked 60% in favour of the underwriters, viz., 480 debentures. The underwriters are, therefore, liable to take up 120 debentures (600-480). The journal entries are as follows:-

Journal

		Dr. Rs.	Cr. Rs.
Bank	Dr.	9,60,000	
To 14% Debentures Account			8,00,000
To Premium on Issue of Debentures/Securities Premium			1,60,000
(Allotment of 800 debentures applied for, payment being @ Rs.1,200 per debenture, as per Directors' resolution of…..)			
M/s Bulls & Bears	Dr.	1,44.000	
To 14% Debentures Account			1,20,000
To Premium on Issue of Debentures/Securities Premium			24,000
(Allotment of 120 debentures to the underwriters in pursuance of their agreement, dated….)			

** Current ratio shall be 2 : 1, i.e. total current liabilities shall be 50% of Rs. 8,50,000 (i.e. Rs. 3,00,000 + 4,00,000 + 1,50,000) = Rs. 4,25,000. Therefore, Bank overdraft = Rs. 75,000 (Rs. 4,25,000 less creditors Rs. 3,50,000).

Underwriting Commission on Issue of Debentures Account	Dr.	10,800	
To M/s Bulls & Bears			10,800
(The commission @ 1 ½% on 600 debentures calculated at the issue price of Rs.1,200 per debenture)			
Bank	Dr.	1,33,200	
To M/s. Bulls & Bears			1,33,200
(The amount received from the underwriters in settlement)			

14. Form B – RA (Prescribed by IRDA)

Name of the Insurer: X Fire Insurance Co. Ltd.

Registration No. and Date of registration with the IRDA: …………………..

Revenue Account for the year ended 31st March, 2006

	Particulars	Schedule	Current year ended on 31st March, 2006
			Rs.
1.	Premiums earned (Net)	1	14,00,000
2.	Change in provision for unexpired risk (NIL–5,60,000)	2	(5,60,000)
	Total (A)		8,40,000
1.	Claims incurred (Net)	3	8,00,000
2.	Commission		50,000
3.	Operating Expenses	4	3,00,000
	Total (B)		11,50,000
	Operating Profit/(Loss) from Fire Insurance Business [C =(A - B)]		(3,10,000)

Schedule 1

Premiums earned (Net)	Rs.
Premium received	15,00,000
Less: Premium on re-insurance paid	1,00,000
	14,00,000

Schedule 2

Reserve for unexpired risk @ 40% on net premium

$$\text{Rs.}14{,}00{,}000 \times \frac{40}{100} = \text{Rs.}\,5{,}60{,}000$$

Schedule 3

Claims	Rs.
Claims paid	7,00,000
Add: Claims outstanding on 31.3.2006	1,00,000
	8,00,000

Schedule 4

Operating Expenses	Rs.
Expenses of Management	3,00,000

15. Electric Supply Ltd.

Journal Entries

		Dr. Rs.	Cr. Rs.
New Main Account	Dr.	20,95,000	
Replacement Account	Dr.	19,05,000	
To Bank Account			40,00,000
(Being current cost of replacement charged to replacement account and the balance amount capitalised)			
New Main Account	Dr.	2,00,000	
To Replacement Account			2,00,000
(Being the value of motors salvaged from old main used in the reconstruction of main)			
Bank Account	Dr.	70,000	
To Replacement Account			70,000
(Being the amount realised from sale of old materials credited to replacement account)			
Revenue Account	Dr.	16,35,000	
To Replacement Account			16,35,000
(Being the net current cost of replacement transferred to revenue account)			

Working Notes:

1. Current cost of replacement:

	Cost of existing main Rs.	Increase in cost Rate	Increase in cost Amount Rs.	Current cost Rs.
Materials (3/5 × Rs. 15 lacs)	9,00,000	25%	2,25,000	11,25,000
Labour (2/5 × Rs. 15 lacs)	6,00,000	30%	1,80,000	7,80,000
Estimated current cost for replacement of present main (amount to be charged to replacement account)				19,05,000

2. Additional cost of reconstruction of main (to be capitalised)

Cash cost of re-building new main	40,00,000
Less: Estimated current cost for replacement of existing old main	19,05,000
Additional cost in new main to be capitalised (excluding old motors used	20,95,000

3. Replacement Account

Dr.			Cr.
To Bank A/c	19,05,000	By New Main A/c	2,00,000
		By Bank A/c	70,000
		By Replacement A/c (Balancing figure)	16,35,000
	19,05,000		19,05,000

16. Cash Flow Statement of

…… for the year ended March 31, 2007 (Direct Method)

Particulars		Rs.	Rs.
Operating Activities:			
Cash received from sale of goods		1,40,000	
Cash received from Debtors		1,75,000	
Trade Commission received		50,000	3,65,000
Less:	Payment for Cash Purchases	1,20,000	
	Payment to Creditors	1,57,000	
	Office and Selling Expenses	75,000	
	Payment for Income Tax	30,000	3,82,000
Net Cash Flow from Operating Activities			(17,000)

17. (a) Rs. 9,200 (Current investments are valued at lower of cost and market value).

(b) 3 months (1.10.2005 to 31.12.2005)

(c) Nil (cash receipt from disposal of fixed assets is investing activity)

(d) The loss of Rs. 10 (US Dollars 10 x 1)

(e) Interest paid on term loan Rs. 5,000

Interest received from fixed deposit Rs. 2,000

Net borrowing cost Rs. 3,000.

Cost of asset = Rs. 2,03,000(2,00,000+ 3,000)

(f) 1,00,000x 12/12 + 50,000 x 6/12 - 25,000X 4/12 = 1,16,667 shares.

(g) Rs. 2,000(25,000 – 23,000)

(h) Rs. 25,000(10,000+ 1,00,000 – 80,000 – 5,000)

(i) Rs. 2,00,000(15,00,000 less 13,00,000)

(j) Rs. 3,000(one third of Rs. 9,000)

(k) Normal value of business = 1,20,000/15 X 100 = Rs. 8,00,000

Value of goodwill = Rs. 8,00,000 – Rs. 7,00,000 = Rs. 1,00,000

(l) Loss on redemption of debentures 20,000x 2. (to be written off over 5 years)

40,000/ 5 = Rs. 8,000

(m) Number of shares issued 7,50,000/125 = 6,000 shares.

(n) Present capital of the firm (before admission of Mahesh) Rs. 1,75,000 ($4/5^{th}$ share of profits)

Required capital to be brought by Mahesh(for $1/5^{th}$ share of profits) =1,75,000x 5/4x1/5=Rs. 43,750

18. (a) False- Prudence means judgment which an accountant has to apply to recognize possible future losses and uncertain future gains. Prudence requires that all possible future losses should be provided for before arriving at the profit. But such gains should not be taken into account, which are uncertain to accrue.

(b) True- Being associated with the double entry system of book keeping every transaction has a two-fold effect in accounting whereby one account is debited and another is credited by the same amount.

(c) False- Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

(d) False- While calculating the average due date, any transaction date may be taken as the base date.

(e) False- The scholarship granted to students should be shown as deduction from the funds provided by the Government for the same purpose in the Balance sheet.

(f) False- When a new partner brings in cash for goodwill, it is taken away by the old partners not in the new profit sharing ratio but in the profit sacrificing ratio.

19. (a) Consideration for selection of pre-packaged accounting software:

There are many accounting softwares available in the market. To choose the accounting software appropriate to the need of the organisation is a difficult task. Some of the criteria for selection could be the following:

1. Fulfilment of business requirements: Some packages have few functionalities more than the others. The purchaser may try to match his requirement with the available solutions.
2. Completeness of reports: Some packages might provide extra reports or the reports matches the requirement more than the others.
3. Ease of use: Some packages could be very detailed and cumbersome compare to the others.
4. Cost : The budgetary constrainsts could be an important deciding factor. A package having more features cannot be opted because of the prohibitive costs.
5. Reputation of the vendor: Vendor support is essential for any software. A stable vendor with reputation and good track records will always be preferred.
6. Regular updates: Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.

(b) On disposal of an investment, the difference between the carrying amount and the disposal proceeds, net of expenses is recognised in the profit and loss statement. When a part of the holding of an individual investment is disposed, the carrying amount is required to be allocated to that part on the basis of the average carrying amount of the total holding of the investment.

(c) Purpose of the Conceptual Framework:

The framework sets out the concepts underlying the preparation and presentation of general-purpose financial statements prepared by enterprises for external users. The main purpose of the framework is:

(a) To assist enterprises in preparation of their financial statements in compliance with the accounting standards and in dealing with the topics not yet covered by any accounting standard.

(b) To assist ASB in its task of development and review of accounting standards.

(c) To assist ASB in promoting harmonisation of regulations, accounting standards and procedures relating to the preparation and presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by accounting standards.

(d) To assist auditors in forming an opinion as to whether financial statements conform to the accounting standards.

(e) To assist the users in interpretation of financial statements.

Status of the Conceptual Framework:

The framework applies to general-purpose financial statements usually prepared annually for external users, by all commercial, industrial and business enterprises, whether in public or private sector. The special purpose financial reports, for example prospectuses and computations prepared for tax purposes are outside the scope of the framework. Nevertheless, the framework may be applied in preparation of such reports, to the extent not inconsistent with their requirements.

Nothing in the framework overrides any specific Accounting Standard. In case of conflict between an accounting standard and the framework, the requirements of the Accounting Standard will prevail over those of the framework.

(d) In an Account Current, interest is calculated on the amount of a bill from the date of transaction to the closing date of the period concerned. In case the due date of the bill falls after the closing date of the account, then no interest is allowed for that period. However, it is customarily followed that interest from the date of closing to the due date is written in Red-Ink in the appropriate side of the Account Current. This interest is called Red-Ink Interest. This Red-Ink interest is treated as negative interest. In actual practice, however, the product of such bill [value of the bill x (due date – closing date)], is written in ordinary ink on the opposite side of the account on which the bill is entered.

(e) When a partner is unable to pay his debts due to the firm, he is said to be insolvent and the share of loss is to be borne by other solvent partners in accordance with the decision in the English case of Garner vs Murray. According to this decision, the normal loss on realization of assets has to be borne by all partners (including insolvent partner) in the profit sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in the capital ratio.

The implications of this decision are that:

(1) the solvent partners in the first instance would bring in cash equal to the loss on realization debited to their respective capital accounts. Such a procedure would restore their capital accounts to the figures that stood prior to dissolution;

(2) the deficiency on the capital account of the insolvent partner (i.e. irrecoverable debit balance) should be divided between solvent partners in proportion to their capitals.

The fact of capital being fixed or fluctuating assumes great significance in such a situation. If they are maintaining capital at fixed amounts, insolvency loss is distributed in the ratio of fixed capitals. But if the capitals are not fixed and all transactions relating to drawings, profits, interest, etc., are passed through capital accounts, then capital ratio will be determined after adjusting all the reserves and accumulated profits to the date of dissolution, all drawings to the date of dissolution, interest on capital and on drawings to the date of dissolution but before adjusting profit or loss on realization account. If some partner is having a debit balance in his capital account and is not insolvent then he cannot be called upon to bear the loss on account of the insolvency of other partner.

(f) As per section 77A of the Companies Act, 1956 a joint stock company has to fulfill the following conditions to buy-back its own equity shares:

(a) The buy-back is authorised by its articles.

(b) A special resolution* has been passed in general meeting of the company authorising the buy-back.

(c) The buy-back does not exceed 25% of the total paid up capital and free reserves of the company. Provided the buy–back must not exceed 25% of its total paid up equity capital in that financial year.

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* If the buy-back by the company is or less than 10% of the total paid-up equity capital and free reserves of the company then it can be authorised by the Board by means of resolution passed at its meeting and no special resolution will be required.

(d) The ratio of the debt owed by the company is not more than twice the capital and its free reserves after such buy-back.

(e) All the shares for buy-back are fully paid up.

(f) The buy-back is made out of the free reserves (which include securities premium) or out of the proceeds of a fresh issue of any shares or other specified securities.

(g) The buy-back is completed within 12 months of the passing of the special resolution or a resolution passed by the Board.

(h) The buy-back of the shares listed on any recognised stock exchange is in accordance with the regulations made by the SEBI in this behalf.

(i) Before making such buy-back, a listed company has to file with the Registrar and the SEBI a declaration of solvency in the prescribed form.

20. (a) According to paragraph 38, 39 and 41 of AS 7, an enterprise should disclose in its financial statements:

(a) the amount of contract revenue recognised as revenue in the period;

(b) the methods used to determine the contract revenue recognised in the period; and

(c) the methods used to determine the stage of completion of contracts in progress.

An enterprise should also disclose the following for contracts in progress at the reporting date:

(a) the aggregate amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;

(b) the amount of advances received; and

(c) the amount of retentions.

An enterprise should present:

(a) the gross amount due from customers for contract work as an asset; and

(b) the gross amount due to customers for contract work as a liability.

(b) A change in accounting policy is made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. A more appropriate presentation of events or transactions in the financial statements occurs when the new accounting policy results in more relevant or reliable information about the financial position, performance or cash flows of the enterprise.

(c) Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds in the course of business. These costs normally include (i) interest and commitment changes on bank borrowing and other short-term and long-term borrowings. (ii) Amortisation of discounts or premium relating to borrowing costs; (iii) Amortisation of ancillary cost incurred in connection with the arrangement of borrowings; (iv) Finance charges in respect of assets acquired under a finance lease or under other similar arrangements and; (v) Exchange differences arising from foreign currency borrowing to the extent they are regarded as an adjustment to interest costs.

Borrowing costs that are directly attributable to the acquisition, construction or particular of a qualifying asset have to be capitalized as part of cost of asset as per AS 16.

(d) For the purpose of calculating diluted earnings per share, the amount of net profit or loss for the period attributable to equity shareholders, as calculated in accordance with paragraph 11, should be adjusted by the following, after taking into account any attributable change in tax expense for the period:

(a) any dividends on dilutive potential equity shares which have been deducted in arriving at the net profit attributable to equity shareholders as calculated in accordance with paragraph 11;

(b) interest recognized in the period for the dilutive potential equity shares; and

(c) any other changes in expenses or income that would result from the conversion of the dilutive potential equity shares.

(e) For ‘amalgamation in the nature of merger’, all the following conditions should be satisfied:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

(f) An increase in net book value arising on revaluation of fixed assets is normally credited directly to owner’s interests under the heading of revaluation reserves and is regarded as not available for distribution. A decrease in net book value arising on revaluation of fixed assets is charged to profit and loss statement except that, to the extent that such a decrease is considered to be related to a previous increase on revaluation that is included in revaluation reserve, it is sometimes charged against that earlier increase. It sometimes happens that an increase to be recorded is a reversal of a previous decrease arising on revaluation which has been charged to profit and loss statement in which case the increase is credited to profit and loss statement to the extent that it offsets the previously recorded decrease.

(g) Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company and in the case of any other entity by the corresponding approving authority.

(i) Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern (i.e., the continuance of existence or substratum of the enterprise) is not appropriate. However, assets and liabilities should not be adjusted for but disclosure should be made in the report of the approving authority of events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.

(ii) Disclosure regarding events occurring after the balance sheet date :

(a) The nature of the event;

(b) An estimate of the financial effect, or a statement that such an estimate cannot be made.

(h) As per AS 19 on 'Leases', a sale and leaseback transaction involves the sale of an asset by the vendor and the leasing of the asset back to the vendor. The lease payments and the sale price are usually interdependent, as they are negotiated as a package. The accounting treatment of a sale and lease back transaction depends upon the type of lease involved.

If a sale and leaseback transaction results in a finance lease, any excess or deficiency of sale proceeds over the carrying amount should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset.

If sale and leaseback transaction results in a operating lease, and it is clear that the transaction is established at fair value, any profit or loss should be recognised immediately. If the sale price is below fair value any profit or loss should be recognised immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value should be deferred and amortised over the period for which the asset is expected to be used.

21. (a) Case I

As per AS 12 Grant received of Rs.20 lakh to be deducted from Rs.2 crores. The balance of Rs.1.80 crores to be shown as and in the Balance Sheet and depreciation should also be charged on Rs.1.80 crores

Case II

As the entire grant amount is received it shall be recorded at a normal value of Rs.100 in the Balance sheet and so that the existence of the amount is reflected. No depreciation is to be charged in this case.

Note: Alternatively, government grants may be treated as deferred income which should be recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

(b) As per AS-10 (Para 22) fixed asset acquired in exchange for shares or other securities should be recorded at its fair market value or the fair market value of the securities issued, whichever is more clearly evident.

Since, the market value of the shares exchanged for the asset is more clearly evident, the company should record the value of machinery at Rs.7,50,000. (i.e., 50000 shares x 15 per share being the market price)

(c) As per AS-7, Para 31, an expected loss on the construction contract must be recognized irrespective of (i) whether or not the work has commenced on the contract or (ii) the stage of completion. Hence, the company must recognise the loss immediately.

(d) The write-back of the balance of Maintenance provision, no longer required due to crash of the helicopters, is not a prior period item because there was no error in the preparation of previous periods financial statements. The amount so written-back (If material) should be disclosed as an extraordinary item as per AS-5.

(e) As per Revised AS-7 incentive payments are additional amounts payable to the contractor if specified performance standards are met. A contract may allow for an incentive payment to the contractor for early completion of the contracts. Incentive payments are included in contracts revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met and the amount of the incentive payment can be measured reliably. In the given problem, the contracts is not even begun and hence the contractor should not recognise any revenue of this account

(f) As per AS-10, the purpose of trial production is to ascertain whether the Plants and Machinery and other relevant facilities, as installed, give the intended output in terms of quality and quantity. If during the trial run, the production standards are not met, normally, the production is stopped and necessary alternations/modifications in the P & M are made.

It may be necessary to carry out trial runs further until the output of desired quality and quantity is obtained.

In the present case, the company did not do so, but continued the sub-standard production, in view of the fact that it had invested huge sums in the project. Due to commercial reasons, this decision was taken. Accordingly, capitalization should cease in the given case at the end of the trial run, since the cut-off date would be the date when the trial run was completed.

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

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

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

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

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

(h) Computation of Unearned Finance Income

As per AS 19 on Leases, unearned finance income is the difference between (a) the gross investment in the lease and (b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

where :

(a) Gross investment in the lease is the aggregate of (i) minimum lease payments from the stand point of the lessor and (ii) any unguaranteed residual value accruing to the lessor.

Gross investment = Minimum lease payments + Unguaranteed residual value

= (Total lease rent + Guaranteed residual value) + Un guaranteed residual value

= [(Rs. 5,00,000 × 5 years) + Rs. 1,00,000] + Rs. 1,00,000

= Rs. 27,00,000

(b) Table showing present value of (i) Minimum lease payments (MLP) and (ii) Unguaranteed residual value (URV).

Year	MLP inclusive of URV	Internal rate of return (Discount factor 15%)	Present Value	
	Rs.		Rs.	
1	5,00,000	.8696	4,34,800	
2	5,00,000	.7561	3,78,050	
3	5,00,000	.6575	3,28,750	
4	5,00,000	.5718	2,85,900	
5	5,00,000	.4972	2,48,600	
	1,00,000 (guaranteed residual value)	.4972	49,720	
			17,25,820	(i)
	1,00,000 (unguaranteed residual value)	.4972	49,720	(ii)
		(i) + (ii)	17,75,540	(b)

Unearned Finance Income = (a) – (b)

= Rs. 27,00,000 – Rs. 17,75,540

= Rs. 9,24,460

Journal Entries in the books of B Ltd.

		Rs.	*Rs.*
At the inception of lease			
Machinery account	Dr.	17,25,820*	
To A Ltd.'s account			17,25,820*
(Being lease of machinery recorded at present value of MLP)			
At the end of the first year of lease			
Finance charges account (Refer Working Note)	Dr.	2,58,873	
To A Ltd.'s account			2,58,873
(Being the finance charges for first year due)			

* As per para 11 of AS 19, the lessee should recognise the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payments from the standpoint of lessee, the amount recorded should be the present value of these minimum lease payments. Therefore, in this case, as the fair value of Rs. 20,00,000 is more than the present value amounting Rs. 17,25,820, the machinery has been recorded at Rs. 17,25,820 in the books of B Ltd. (the lessee) at the inception of the lease. According to para 13 of the standard, at the inception of the lease, the asset and liability for the future lease payments are recognised in the balance sheet at the same amounts.

A Ltd.'s account	Dr. 5,00,000	
To Bank account		5,00,000
(Being the lease rent paid to the lessor which includes outstanding liability of Rs. 2,41,127 and finance charge of Rs. 2,58,873)		
Depreciation account	Dr. 1,72,582	
To Machinery account		1,72,582
(Being the depreciation provided @ 10% p.a. on straight line method)		
Profit and loss account	Dr. 4,31,455	
To Depreciation account		1,72,582
To Finance charges account		2,58,873
(Being the depreciation and finance charges transferred to profit and loss account)		

Working Note:

Table showing apportionment of lease payments by B Ltd. between the finance charges and the reduction of outstanding liability.

Year	Outstanding liability (opening balance)	Lease rent	Finance charge	Reduction in outstanding liability	Outstanding liability (closing balance)
	Rs.	Rs.	Rs.	Rs.	Rs.
1	17,25,820	5,00,000	2,58,873	2,41,127	14,84,693
2	14,84,693	5,00,000	2,22,704	2,77,296	12,07,397
3	12,07,397	5,00,000	1,81,110	3,18,890	8,88,507
4	8,88,507	5,00,000	1,33,276	3,66,724	5,21,783
5	5,21,783	5,00,000	78,267	4,21,783	1,00,050*

* The difference between this figure and guaranteed residual value (Rs. 1,00,000) is due to approximation in computing the interest rate implicit in the lease.

(i) As per AS 26 'Intangible Assets', the condition for recognition of a research and development asset has to be fulfilled when the expenditure was incurred. If the recognition conditions are not fulfilled the amount has to be charged to the profit and loss account. Once the amount is charged to the Profit and Loss account, such amount cannot be restated later as a Research and Development Asset when the condition for recognition get fulfilled. The Company therefore cannot capitalize Rs. 75,00,000 even as a prior period item.

(j) Yes, both sales and gain of Bottom Ltd. should be recognized. In accordance with AS 9 at the Balance Sheet date and what was pending was merely a formality to register the deed. It is clear that significant risk and rewards of ownership had passed before the balance sheet date. Further the registration post the balance sheet date confirms the condition of sale at the balance sheet date as per AS 4.

Students are hereby informed that Accounting Standards 1, 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 16, 19, 20 26, 29 are applicable for November 2007 examination at PCC level.

PAPER – 2 : AUDITING AND ASSURANCE

QUESTIONS

1. Define Auditing. What are the basic principles governing an audit as per AAS 1?
2. What do you mean by independence of auditors? In order to ensure independence, the law has made certain provisions which put either prohibitions or regulations in the matter of appointment of auditors, What are those provisions?
3. What do you mean by long term investments and short term investments? What is the audit procedure regarding valuation and disclosure of long-term investments as per AAS 34?
4. (a) What do you mean by external confirmation? What are the different steps in external confirmation process?

   (b) What are the different forms of confirmation request?
5. What is auditor's report? What are the different types of auditor's report?
6. What do you mean by final audit and continuous audit? Discuss their advantages and disadvantages.
7. Write short notes on the following:

   (a) Examination in depth

   (b) Scope paragraph of Auditor's report

   (c) Purpose of providing depreciation

   (d) Related parties

   (e) Permanent audit file
8. Define internal control system. What are the various steps involved in the verification of the system of internal control?
9. How will you vouch and/or verify the following?

   (a) Research and Development expenses

   (b) Foreign travel expenses

   (c) Sale proceeds of Scrap Material.

   (d) Borrowing from Banks
10. State how would you verify the following:

    (a) Buildings

    (b) Patent Rights

    (c) Intangible Assets

    (d) Development of property
11. In which cases an auditor be appointed by special resolution? If a company fails to pass a special resolution in such cases, who will appoint the auditor?
12. Discuss the duty of the auditor in respect of :

    (a) Reduction of capital

    (b) Forfeiture of shares
13. State the requirements of Schedule VI to the Companies Act,1956, in respect of the disclosure of the following items in the accounts of a limited company:

    (a) Share capital

    (b) Fixed assets

(c) Contingent liabilities

(d) Miscellaneous expenditure

14. What is the ideal approach while carrying out audit of Incomplete Records?

15. An Audit of expenditure is one of the major components of Government Audit. In the context of “Government Expenditure Audit” write in brief, what do you understand by:

    (i) Audit against Rules and Orders

    (ii) Audit of Sanctions

    (iii) Audit against Provision of Funds

    (iv) Propriety Audit

    (v) Performance Audit.

16. (a) Discuss the applicability of CARO, 2003.

    (b) State matters those to be included in the report under CARO.

SUGGESTED ANSWERS / HINTS

1. According to General Guidelines on Internal Auditing issued by the ICAI, “Auditing is defined as a systematic and independent examination of data, statements, records, operations and performances (financial or otherwise) of an enterprise for a stated purpose. In any auditing situation, the auditor perceives and recognises the propositions before him for examination, collects evidence, evaluates the same and on this basis formulates his judgement which is communicated through his audit report.”

   According to AAS-1 on “Basic Principles Governing an Audit”, “An audit is independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.”

   Basic principles governing an Audit : AAS-1 describes the basic principles which govern the auditor’s professional responsibilities and which should be complied with whenever an audit is carried out. Compliance with the basic principles requires the application of auditing procedures and reporting practices appropriate to the particular circumstances. The basic principles as stated in this guideline are:

   1. Integrity, objectivity and independence : The auditor should be straightforward, honest and sincere in his approach to his professional work. He must be fair and must not allow prejudice or bias to override his objectivity. He should maintain an impartial attitude and both be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity.

   2. Confidentiality : The auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose.

   3. Skills and competence : The audit should be performed and the report prepared with due professional care by persons who have adequate training, experience and competence in auditing. The auditor requires specialised skills and competence which are acquired through a combination of general education, knowledge obtained through study and formal courses concluded by qualifying examination recognised for this purpose and practical experience under proper supervision. In addition, the auditor requires a continuing awareness of developments including pronouncements of the ICAI on accounting and auditing matters, and relevant regulations and statutory requirements.

   4. Work performed by others : When the auditor delegates work to assistants or uses work performed by other auditors and experts he continues to be responsible for forming and

expressing his opinion on the financial information. However, he will be entitled to rely on work performed by others, provided he exercises adequate skill and care and is not aware of any reason to believe that he should not have so relied. In the case of any independent statutory appointment to perform the work on which the auditor has to rely in forming his opinion, as in the case of the work of branch auditors appointed under the Companies Act, 1956 the auditor's report should expressly state the fact of such reliance. The auditor should carefully direct, supervise and review work delegated to assistants. The auditor should obtain reasonable assurance that work performed by other auditor or experts is adequate for his purpose.

5. Documentation : The auditor should document matter which are important in providing evidence that the audit was carried out in accordance with the basic principles.

6. Planning : The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on a knowledge of the client's business. Plans should be made to cover, among other things :

   (a) acquiring knowledge of the client's accounting system, policies and internal control procedures;

   (b) establishing the expected degree of reliance to be placed on internal control;

   (c) determining and programming the nature, timing, and extent of the audit procedures to be performed; and

   (d) co-ordinating the work to be performed.

   Plans should be further developed and revised as necessary during the course of the audit.

7. Audit Evidence : The auditor should obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures to enable him to draw reasonable conclusions therefrom on which to base his opinion on the financial information. Compliance procedures are tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect. Substantive procedures are designed to obtain evidence as to the completeness, accuracy and validity of the data produced by the accounting system.

   They are of two types :

   (i) test of details of transactions and balances; and

   (ii) analysis of significant ratios and trends including the resulting enquiry of unusual fluctuations and items.

8. Accounting System and Internal Control : Management is responsible for maintaining an adequate accounting system incorporating various internal controls to the extent appropriate to the size and nature of the business. The auditor should reasonably assure himself that the accounting system is adequate and that all the accounting information which should be recorded has in fact been recorded. Internal controls normally contribute to such assurance.

   The auditor should gain an understanding of the accounting system and related controls and should study and evaluate the operation of those internal controls upon which he wishes to rely in determining the nature, timing and extent of other audit procedures. Where the auditor concludes that he can rely on certain internal controls, his substantive procedures would normally be less extensive than would otherwise be required and may also differ as to their nature and timing.

9. Audit conclusions and reporting : The auditor should review and assess the conclusions drawn from the audit evidence obtained and from his knowledge of business of the entity as the basis for the expression of his opinion on the financial information. This review and assessment involves forming an overall conclusion as to whether :

   (a) the financial information has been prepared using acceptable accounting policies, which have been consistently applied;

(b) the financial information complies with relevant regulations and statutory requirements;

(c) there is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.

The audit report should contain a clear written opinion on the financial information and if the form or content of the report is laid down in or prescribed under any agreement or statute or regulation, the audit report should comply with such requirements. An unqualified opinion indicates the auditor's satisfaction in all material respects with the matters stated above or as may be laid down or prescribed under the agreement or statute or regulation as the case may be.

When a qualified opinion, adverse opinion or a disclaimer of opinion is to be given or reservation of opinion on any matter is to be made, the audit report should state the reasons therefor.

2. The Guidance Note issued by the ICAI on "Independence of Auditors" contemplates that it is not possible to define "Independence" precisely. According to it, "independence implies that the judgment of a person is not subordinate to the wishes or directions of another person who might have engaged him or to his own self-interest. It stipulates that the independence is a condition of mind and personal character and should not be confused with the superficial and visible standards of independence which are sometimes imposed by law. These legal standards may be relaxed or strengthened but the quality of independence remains unaltered. Independence of the auditor has not only to exist in fact, but should also appear to so exist to all reasonable persons. The relationship between the auditor and his client should be such that firstly he himself is satisfied about his client and secondly, no unbiased person would be forced to the conclusion that on an objective assessment of the circumstances, there is likely to be an abridgment of the auditors' independence. There is also a collective aspect of independence that is important to the accounting profession as a whole.

The chartered accountant is not personally known to the third parties who rely on professional opinion and accept his opinion principally on a larger faith on the entire accounting profession.

The Companies Act, 1956 has enacted specific provisions to give concrete shape to this vital concept. The provisions disqualifying certain types of persons from undertaking audit of limited companies, provisions relating to ceiling on the number of audits that can be undertaken by chartered accountant, provisions requiring special resolution for appointing auditors in certain cases and other provisions on appointment, reappointment and removal of auditors are designed to invest this institution of audit with sufficient independence to carry out the audit in the larger interest of shareholders and other users. The vast powers of access given to the auditor to the books of account and other documents of the company are specifically designed to give independence to the auditors. The power to qualify his report is yet another weapon in the armoury of the auditor to protect his independence. The enactment of specific instances of misconduct in the Schedules to the Chartered Accountants Act, 1949 is yet another attempt to keep the independence and professional competence of the accounting profession.

In order to ensure independence, the law has also made certain provisions which put either prohibitions or regulations in the matter of appointment of auditors -

Accordingly a person is disqualified to act as an auditor from being appointed as such if he is :

(i) an officer or employee of the company;

(ii) a partner or an employee of an officer or employee of the company; or

(iii) indebted to the company for a sum exceeding of Rs. 1,000.

(iv) a person holding any security (any financial instrument which carried voting rights) of that company after a period of one year from the date of the commencement of the Companies (Amendment) Act, 2000.

3. Definition regarding "Long Term Investments" is given in Accounting Standard (AS) 13, Accounting for Investments, issued by the Institute of Chartered Accountants of India. A Current

Investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made.

A long term investment is an investment other than a current investment.

The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence for valuation and disclosure of long term investments.

When long-term investments are material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding their valuation and disclosure.

Audit procedures regarding long-term investments ordinarily include obtaining audit evidence with respect to their ownership and existence as to whether the entity has the ability to continue to hold the investments on a long term basis and discussing with management whether the entity will continue to hold the investments as long-term investments and obtaining written representations to that effect.

Other procedures would ordinarily include:

(a) In the case of quoted securities, considering related financial statements and other information, such as market quotations, which provide an indication of value and comparing such values to the carrying amount of the securities up to the date of the auditor's report.

(b) In case of unquoted securities, ascertaining the method adopted by the entity for determining the value of such securities as at the year end. The auditor should examine whether the method adopted by the entity is one of the recognised methods of valuation of securities such as Profit Earning capacity Value method, break-up value method, capitalisation of yield method, yield to maturity method, etc.

(c) In the case of investments other than in the form of securities, ensuring that the market value has been ascertained on the basis of authentic market reports, and /or based on expert's opinion, if warranted.

If such values do not exceed the carrying amounts, the auditor would consider whether a write-down is required. If there is an uncertainty as to whether the carrying amount will be recovered, the auditor would consider whether appropriate adjustments and/or disclosures have been made.

Management Representations : The auditor should obtain a written representation from management regarding :

(a) the completeness of information provided regarding valuation and disclosure of long term investments;

(b) the valuation of long term investments in the financial statements including adequacy of provision for diminution in such values, wherever required; and

(c) the intention of the management to continue to hold long-term investments as long-term investments.

Audit Conclusions and Reporting :If the auditor is unable to obtain sufficient appropriate audit evidence concerning the existence, valuation of long term investments or concludes that their disclosure in the financial statements is not adequate, the auditor should express a qualified opinion or a disclaimer of opinion in the audit report, as may be appropriate.

4. (a) As per AAS 30 'External Confirmation', External confirmation is the process of obtaining and evaluating audit evidence through a direct communication from a third party in response to a request for information about a particular item affecting assertions made by management in the financial statements.

The process of external confirmations, ordinarily, consists of the following:

- Selecting the items for which confirmations are needed.
- Designing the form of the confirmation request.
- Communicating the confirmation request to the appropriate third party.

- Obtaining response from the third party.
- Evaluating the information or absence thereof.

(b) Form of Confirmation Request

The auditor may use positive or negative external confirmation requests or a combination of both.

A positive external confirmation request asks the respondent to reply to the auditor in all cases either by indicating the respondent's agreement with the given information, or by asking the respondent to fill in information. The use of a positive confirmation is preferable when individual account balances are large, or where the internal controls are weak, or where the auditor has reasons to believe that there may be a substantial number of accounts in dispute or inaccurate or irregular. A response to a positive confirmation request is ordinarily expected to provide reliable audit evidence. There is a risk, however, that a respondent may reply to the confirmation request without verifying that the information is correct.

A negative external confirmation request asks the respondent to reply only in the event of disagreement with the information provided in the request. However, when no response has been received to a negative confirmation request, the auditor remains aware that there will be no explicit evidence that intended third parties have received the confirmation requests and verified that the information contained therein is correct or that the confirmation was sent by the respondent but not received by him. Accordingly, the use of negative confirmation requests ordinarily provides less reliable evidence than the use of positive confirmation requests, and the auditor considers performing other substantive procedures to supplement the use of negative confirmations.

A combination of positive and negative external confirmations may be used. For example, where the total accounts receivable balance comprises a small number of large balances and a large number of small balances, the auditor may decide that it is appropriate to confirm all or a sample of the large balances with positive confirmation requests and a sample of the small balances using negative confirmation requests.

5. As per AAS 28 ‘The Auditor’s Report on Financial statements’ The auditor’s report is a clear written expression of opinion on the financial statements taken as a whole.Auditor’s report may be of the following types:

(i) Unqualified or clean report: An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view in accordance with the financial reporting framework used for the preparation and presentation of the financial statements. An unqualified opinion indicates, implicitly, that any changes in the accounting principles or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements. An unqualified opinion also indicates that:

(a) the financial statements have been prepared using the generally accepted accounting principles, which have been consistently applied;

(b) the financial statements comply with relevant statutory requirements and regulations; and

(c) there is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.

(ii) Qualified report : A qualified opinion should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management is not so material and pervasive as to require an adverse opinion, or limitation on scope is not so material and pervasive as to require a disclaimer of opinion. A qualified opinion should be expressed as being ‘subject to’ or ‘except for’ the effects of the matter to which the qualification relates.

(iii) Disclaimer of opinion : A disclaimer of opinion should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and is, accordingly, unable to express an opinion on the financial statements.

(iv) Adverse opinion : An adverse opinion should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

6. Final or Completed or Periodical Audit : A final or completed audit is commonly understood to be an audit which does not begin until the books have closed at the end of the accounting period and thereafter is carried on continuously until completed. Whether an audit ought to be conducted continuously after the close of the financial year should be decided on a consideration of the size of the business and the extent of detailed checking required.

Continuous audit : A continuous audit is one in which the auditor's staff is engaged continuously in checking the accounts of the client the whole year round or when for this purpose the staff attends at intervals, fixed or otherwise, during the currency of the financial period. Strictly speaking, when auditor's staff attends the audit work at fixed intervals it may be strictly called interim audit. This is when an audit is conducted up to a particular date within the accounting period. The auditor may attend to audit the figures for a month or for a quarter, as the work may require. It would differ distinctly from the final audit in the extent of the work carried out; verification of assets, for example would be left until the final audit. In case of continuous audit, the work is conducted throughout the course of the financial year but is not taken to a specific accounting period, as is an interim audit. It might be that during the course of the continuous work interim figures are being audited, but the significant factor here is that the auditor will be engaged continuously on the audit throughout the financial period. Staff may be in residence throughout the period or may come and go at irregular intervals, but most of the time, the audit staff is present at the location. Thus, in case of continuous audit, the audit staff is present as the client's premises almost during the entire accounting period.

Advantages of final audit are :

(i) Work can be carried on till the audit is over, thus, avoiding the necessity of having to return on separate occasions to complete the work.

(ii) The possibility of figures being altered after work has been done is also avoided.

(iii) Allocation of work for staff also becomes easier.

Disadvantages of final or completed audit include may be mainly on account of delay which may occur after the end of the financial period particularly if size of the business is large; accounting periods of several clients may end on the same date, and thus difficulties may be experienced in allocating audit staff.

Advantages of continuous audit :

(1) Errors are discovered earlier with the result that there is adequate time for making the necessary rectification.

(2) Because of the frequent attendance of the auditor, the opportunities of committing frauds are reduced.

(3) Fraud, if perpetrated, is detected sooner with the result that size of the fraud is limited and also the chances of recovering the amount lost are improved.

(4) The attendance of the audit staff acts a moral check on the client's staff.

(5) The client's accounts are always kept up-to-date.

(6) Since audit can be carried on throughout the year, there is more time for detailed checking of the accounts when the audit is taken up at the close of the year.

(7) If the audit of routine transactions is completed before the close of the year, the final accounts can be prepared and reported upon much earlier.

(8) If the auditor carries on a continuous audit, he remains constantly in touch with the client's affairs thereby able to carry out his duties efficiently.

(9) In the case of continuous audit, the work of the auditor is greatly facilitated since he is in a better position to plan out his engagements and take up the job at his convenience, avoiding the pressure at the close of the financial year when most of the business firms usually close their accounts.

Disadvantages of continuous audit:

(1) There is a danger that the records of transactions after they have been audited may be altered either innocently or fraudulently.

(2) The examination of an item left incomplete on a visit for being undertaking on the next visit may be overlooked.

(3) A continuous audit may involve good deal of waste of time and effort if the size of the concern is small.

7. (a) Examination in depth: It implies examination of a few selected transactions from the beginning to the end through the entire flow of the transaction, i.e., from initiation to the completion of the transaction by receipt of payment of cash and delivery or receipt of the goods. This examination consists of studying the recording of transactions at the various stages through which they have passed. At each stage, relevant records and authorities are examined; it is also judged whether the person who has exercised the authority in relation to the transactions is fit to do so in terms of the prescribed procedure. For example, if payment to a creditor is to be verified "in depth", it would be necessary to examine the following documents:

(a) The invoice and statement of account received from the supplier.

(b) The entry in the stock record showing that the goods were received.

(c) The Goods Received Note and Inspection Certificate showing that the goods on receipt were verified and inspected.

(d) The copy of the original order and authority showing that the goods in fact were ordered by an authority which was competent to do so.

It is to be emphasised that, so far as the management is concerned, the internal control should have willing acceptance at the hands of the employees and there should exist proper mechanism for such motivation.

(b) Scope paragraph of Auditor's Report: AAS-2 defines the scope paragraph of Auditor's Report as:

The auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with auditing standards generally accepted in India. Scope refers to the auditor's ability to perform audit procedures deemed necessary in the circumstances.

As per AAS-2, the scope of an audit of financial statements will be determined by the auditor having regard to the terms of the engagement, the requirements of relevant legislation and the pronouncements of the Institute. The term of the engagement cannot, however, restrict the scope of an audit in relation to matters which are prescribed by legislation or by the pronouncements of the Institute.

(c) Purpose of Providing Depreciation: According to AS-6 on Depreciation Accounting, depreciation may be defined as, "a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Depreciation includes amortisation of assets whose useful life is predetermined".

This is a measure of the exhaustion of the useful life of an asset during the accounting period. Depreciation is charged in each accounting period by reference to the extent of the depreciable amount irrespective of an increase in the market value of fixed assets. The principal objective of depreciation on fixed assets is to allocate as an expense, the related depreciation amount on a year to year basis. Depreciation has a significant effect in determining and presenting the financial position and results of operations of an enterprise. The main purpose of providing depreciation is as under:

(i) To keep intact the capital invested in fixed assets - This is accomplished by retaining the amount of depreciation charged in the profit and loss account in the business.

(ii) To ascertain the true cost of production - As the value of fixed assets depletes gradually by consumption during the process of production, it is necessary that such consumption of value be charged in the accounts for determination of the true cost of production.

(iii) To determine the profit or loss for the year - Depreciation being an expense represented by the loss in value of fixed assets arising on use, it is charged to the profit and loss account for determining the profit or loss during a year;

(iv) To present a true and fair value of entity's assets in the balance sheet, since the original costs of fixed assets gradually decreases due to use and other factors, it is improper to continue to carry such assets at original costs. Therefore, the amount of depreciation charged in the profit and loss account representing the loss in value of the assets is deducted from the original cost on a cumulative basis so as to reflect in the balance sheet a true and fair value of the fixed assets.

(d) Related Parties : As per AS 18 parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

The following parties are generally considered as related parties:

- Holding and subsidiary companies
- Associate companies
- Joint venture
- Key management personnel and relatives of such personnel
- Individual controlling directly or indirectly the reporting enterprises
- Relatives in relation to individual means the spouse, son, daughter, sister, father and mother.

(e) Permanent Audit File: In the case of recurring audits, some working paper files may be classified as permanent audit files. Normally, auditor may consider classifying such papers as permanent which are required in case of recurring audit assignments This file contains paper of continuing importance to succeeding audits. A permanent audit file normally includes :

- Information concerning the legal and organisational structure of the entity. In the case of a company, this includes the Memorandum and Articles of Association. In the case of a statutory corporation, this includes the Act and Regulations under which the corporation functions.
- Extracts or copies of important legal documents, agreements and minutes relevant to the audit.
- A record of the study and the evaluation of the internal controls related to the accounting system. This might be in the form of narrative descriptions, questionnaires or flow charts, or some combination thereof.
- Copies of audited financial statements for previous years.

- Analysis of significant ratios and trends.
- Copies of management letters issued by the auditor, if any.
- Record of communication with the retiring auditor, if any, before acceptance of the appointment as auditor.
- Notes regarding significant accounting policies.
- Significant audit observations of earlier years.

8. 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. The internal audit function constitutes a separate component of internal control with the objective of determining whether other internal controls are well designed and properly operated.

   Steps involved in the verification of the system of Internal Control :

   (a) Study the system according to which accounting routines are being carried out to ensure that these do not leave any receipt of cash, material or any other asset remaining unaccounted for, permit any payment of money being made without relevant goods or services having been received or tendered or any property being given away without its price having been received or being accounted for.

   (b) Examine the financial power vested in different persons and the conditions under which they can exercise them.

   (c) Confirm whether the supervision over various managerial and accounting functions, exercised by different members of the staff to whom these duties have been assigned, is adequate.

   (d) Ascertain whether any mechanical aids are being employed to ensure proper accounting of receipts and prevention of pilferage of cash, stamps, etc.

   (e) Observe the working of the accounting system and routine and determine, by application of procedural tests, whether checks and counter-checks envisaged by the system of internal control are being properly applied.

   (f) Confirm that there is a system according to which the physical existence of different forms of assets is being periodically reconciled with their balances in the books of account or stores records and discrepancies noticed are reported and adjusted; also that balance of customers, creditors, bankers and persons with whom securities are deposited are reconciled periodically. Further, that persons who are in custody of valuable assets, have furnished bonds of adequate value which would protect the company in the event of any misappropriation or misapplication thereof by such persons.

   (g) Ascertain that the system of internal control is reviewed periodically and, where necessary, a change in procedures made to plug in any loopholes which might have been observed on such a review. Also, that policy decisions which are taken from time to time are translated into actual practice.

   Students should remember that, unless the system of internal control is comprehensive it may fail to provide the protection expected of it. For example, if printed receipts with counterfoils are issued in respect of amounts collected, but there is no check against cash being collected by unauthorised persons, there will be no certainty that all amounts collected have been accounted for.

9. (a) Research and Development Expenses

   (i) Ascertain the nature of research and development work at the outset and enquire whether separate Research and Development Department exists.

(ii) See allocation of expenses under revenue and deferred revenue. Ensure that expenses which are routine development expenses are charged to Profit and Loss Account.

(ii) Check whether the concerned research activity is authorised by the Board and has relevance to the objectives of the company.

(iv) Examine that generally research expenses for developing products or for inventing a new product are treated as deferred revenue expenditure to be written off over a period of three to five years, if successful. In case it is established that the research effort is not going to succeed, the entire expenses incurred should be written off to the profit and loss account.

(v) Ensure that if any machinery and equipment have been bought specially for the purpose of research activity, the cost thereof, less the residual value should be appropriately debited to the Research and Development Account over the years of research.

(b) Foreign Travel Expenses

(i) Examine T.A. bills submitted by the employees stating the details of tour, details of expenses, etc.

(ii) Verify that the tour programme was properly authorised by the competent authority.

(iii) Check the T.A. bills along with accompanying supporting documents such as air tickets, travel agents bill, hotel bills with reference to the internal rules for entitlement of the employees and also make sure that the bills are properly passed.

(iv) See that the tour report accompanies the T.A. bill. The tour report will show the purpose of the tour. Satisfy that the purpose of the tour as shown by the tour report conforms with the authorisation for the tour.

(v) Check Reserve Bank of India's permission, if necessary, for withdrawing the foreign exchange. For a company the amount of foreign exchange spent is to be disclosed separately in the accounts as per requirement of Part I of Schedule VI to the Companies Act, 1956.

(c) Sale Proceeds of Scrap Material

(i) Review the internal control on scrap materials, as regards its generation, storage and disposal and see whether it was properly followed at every stage.

(ii) Ascertain whether the organisation is maintaining reasonable records for the sale and disposal of scrap materials.

(iii) Review the production and cost records for determination of the extent of scrap materials that may arise in a given period.

(iv) Compare the income from the sale of scrap materials with the corresponding figures of the preceding three years.

(v) Check the rates at which different types of scrap materials have been sold and compare the same with the rates that prevailed in the preceding year.

(vi) See that scrap materials sold have been billed and check the calculations on the invoices.

(vii) Ensure that there exists a proper procedure to identify the scrap material and good quality material is not mixed up with it.

(viii) Make an overall assessment of the value of the realisation from the sale of scrap materials as to its reasonableness.

(d) Borrowing from Banks: Borrowing from banks may be either in the fonn of overdraft limits or tenn loans. In each case, the borrowings should be verified as follows:

(i) Reconcile the balances in the overdraft or loan account with that shown in the pass books and confinn the last mentioned balance by obtaining a certificate from the bank showing the balance in the accounts as at the end of the year.

(ii) Obtain a certificate from the bank showing the particulars of securities deposited with the bank as security for the loans or the charge created on an asset or assets of the concern and confinn that the same has been correctly disclosed and duly registered with Registrar of Companies and recorded in the Register of Charges.

(iii) Verify the authority under which the loan or overdraft has been raised. In the case of a company, only the Board of Directors is authorised to raise a loan or borrow from a bank.

(iv) Confirm, in the case of a company, that the provision contained in section 293 of the Companies Act, 1956 as regards the maximum amount of loan that the company can raise has not been contravened.

(v) Ascertain the purpose for which loan has been raised and the manner in which it has been utilised and that this has not prejudicially affected the concern.

10. (a) Buildings

(a) Examine the title deeds of buildings to see whether the client holds the title on the balance sheet date. If the property has been mortgaged, the title deeds will be in the possession of the mortgagee, from whom a certificate should be obtained to that effect.

(b) Verify the original cost of buildings by reference to the deed of conveyance. If the building is constructed by the client, verify the original cost by reference to the cost as recorded in the books of account of the year in which the construction was completed.

(c) Verify that appropriate depreciation has been provided against the buildings. In case no depreciation is provided on the buildings, a note to this effect should be given in the profit and loss account.

(d) See the appropriate lease deed, if the building is leasehold, to ascertain the cost, amortisation, etc. Also ensure that all convenants in the lease deed have been fulfilled by the client.

(e) See that the buildings have been valued at cost less depreciation. If any revaluation has taken place, see the basis of revaluation and ensure that the disclosure of the same has been made. In case of a company, the requirements of Schedule VI have been complied with.

(f) See that the relevant particulars of buildings have been entered in the fixed assets record maintained by the client.

(b) Patent Rights

(a) Obtain the schedule containing particulars of the patents owned by the client as on the balance sheet date. The particulars should contain the dates of registration of the patents with the related authorities and the dates in respect of the last renewal.

(b) See that the total of the values of the patent rights shown in each list agree with the values shown in the respective ledger accounts.

(c) Examine the cost of patent rights. In case of outright purchase of patent rights, the purchase consideration, legal fees and registration charges should be included in cost. When they are developed within the organisation, all costs incurred on their development including legal and registration expenses for registration of the patent should constitute the cost.

(d) See that the renewal fees in respect of the patent rights have been paid and the same has been treated as a revenue charge.

(e) Examine the valuation of the patent rights. It should be seen that the patent rights have been valued at cost less depreciation attributable to the expired legal life of the patent rights. However, if it is found that the patent rights have already lost substantial part of their commercial value, it would be proper to value it at their residual commercial value, when it is less than the book value for their unexpired legal life. In case the product covered by the patent rights does not have any sale value then patents should be shown at nil valuation notwithstanding any residual life.

(c) Intangible Assets: An intangible asset is that asset which does not have a physical identity but which is used by the enterprise for production or supply of goods or for retails to other or for administrative purpose. Such assets does not have any physical existence but their presence in the business is indicated with a value placed thereon. These assets include rights and benefit to owners subject to their being useful. For example : goodwill, patents, copyright etc. AS 26, "Intangible Assets", applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (for example, a prototype), the physical element of the asset is secondary to its intangible component, that is the knowledge embodied in it. This standard also applies to rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights. An intangible asset should measured at cost. After initial recognition an intangible asset should be carried at its cost less any accumulated amortisation and any impairment losses.

Auditor should also ensure that proper disclosure is made in the financial statements about the carrying amount, amortisation methods, useful lives, etc.

(d) Development of Property : Expenses when incurred for the development of any property and which cannot be conveniently added to the value of such property should be capitalized under this head and written off over the period during which the benefit from such development will accrue to the business. Examples may be expenses incurred in grading and preparing the soil for plantations, overhead removal cost for collieries and mines, etc. These expenses should be verified with reference to the budgets, sanction of the appropriate authority, technical report, if any, and the bills for actual expenditure incurred. It should also be ensured that appropriate write off has been made against these assets, keeping in view the period of benefit or the exploitation, as the case may be.

11. Appointment of Auditor by Special Resolution: Section 224A of the Act provides for appointment or re-appointment of auditors in certain cases only by special resolution. It should be remembered that normally an auditor can be appointed by an ordinary resolution. However, in terms of section 224A, a company in which not less than 25% of the subscribed capital is held by : (i) a public financial institution or a government company or the Central Government, or any State Government, or (ii) any financial or other institution established by any Provincial or State Act in which a State Government, holds not less than 51% of the subscribed share capital, (iii) a nationalised bank or an insurance company carrying on general insurance business; or (iv) any combination of the above categories, shall appoint or re-appoint an auditor in the annual general meeting only by passing a special resolution.

In case the aforesaid company omits or fails to pass a special resolution in the annual general meeting for appointing auditors, it shall be deemed that no auditor or auditors had been appointed and thereupon the Central Government's power to appoint the auditor pursuant to section 224(3) will become operative.

In determining whether the appointment calls for a special resolution or not, the measuring yard stick is the proportion of the subscribed capital held by the various categories mentioned above. If any of them singly or several of them jointly hold 25% of the subscribed capital of the company as on the day of the closing of the register of members before the annual general meeting, the company will be covered by provisions of section 224A and consequently, the appointment of auditor can only be made by passing a special resolution. Government has clarified that for the purposes of section 224A the composition of shareholding shall be of the day of annual general meeting. This will virtually be same in relation to the position available on the day of the closing of the register of members stated above. It should be noted that subscribed capital includes preference share capital also.

12. (a) Reduction of Capital (Section 100): The duties of the auditor in this regard are following :

(i) Verifying that the meeting of the shareholder held to pass the special resolution was properly convened; also that the proposal was circularised in advance among the members.

(ii) Confirming that the Articles of Association authorise reduction of capital.

(iii) Examining the order of the Tribunal confirming the reduction and seeing that a copy of the order and the minutes have been registered and filed with the Registrar of Companies.

(iv) Inspecting the Registrar's Certificate as regards reduction of capital.

(v) Vouching the journal entries recorded to reduce the capital and to write down the assets by reference to the resolution of shareholders and other documentary evidence; also seeing that the requirements of Schedule VI, Part I, have been complied with.

(vi) Confirming that the revaluation of assets have been properly disclosed in the Balance Sheet.

(vii) Verifying the adjustment made in the members' accounts in the Register of Members and confirming that either the paid up amount shown on the old share certificates have been altered or new certificates have been issued in lieu of the old, and the old ones have been cancelled.

(viii) Confirming that the words "and reduced", if required by the order of the Tribunal, have been added to the name of the company in the Balance Sheet.

(ix) Verifying that the Memorandum of Association of the company has been suitably altered.

(b) Verification of Forfeiture of Shares: The auditor should :

(i) ascertain that the Articles authorise the Board of Directors to forfeit shares and that the power has been exercised by the Board in the best interest of the company;

(ii) verify the amount of call or instalment of calls which was outstanding in respect of each of the share forfeited;

(iii) ascertain that the procedure in the Articles has been followed, viz., the notice given (14 days, according to Table A) to the defaulting shareholders, warning them that in the event of non-payment, by a specified date, of the amount of call already made on the shares standing in their names, together with interest, if any, the shares shall be forfeited; see that the proper resolutions of Directors, first as regards issuance of notice and afterwards in respect of forfeiture of shares; and

(iv) verify the entries recorded in the books of account consequent upon forfeiture of shares to confirm that the premium, if any, received on the issue of shares has not been transferred to the Forfeited Shares Account.

13. (a) Share Capital: The Share Capital should be classified into :

(a) Authorised Capital.

(b) Issued Capital.

(c) Subscribed Capital.

Under "Authorised Capital", the various classes of shares should be distinguished and the particulars of the numbers of shares and the face value of shares for each class should be stated. The particulars of the different classes of preference shares should also be given. The Particulars of any option on unissued share capital have to be specified.

Under "Subscribed Capital", the following particulars should be given.

(i) The various classes of shares should be distinguished and particulars of the different classes of preference shares should be stated.

(ii) Number of shares.

(iii) Face value of shares.

(iv) Amount called up.

Note (c) requires that in the balance sheets of subsidiary companies the number of shares held by the holding company as well as by the ultimate holding company and its subsidiaries must be separately stated. However, the auditor is not required to certify the correctness of such shareholdings as certified by the management.

The number of shares allotted as fully paid up pursuant to a contract without payments being received in cash should be shown separately. Even in respect of such shares a separate mention must be made of the shares which are allotted as fully paid up by way of bonus shares. In case of bonus shares, the source from which such shares are issued, e.g., capitalisation of profits or reserves or from Share Premium Account, should be specified.

The unpaid calls should be deducted from the Subscribed Capital and should be anlaysed as under:

(i) Due by directors.

(ii) Due by others.

The amount originally paid up on the forfeited shares should be added to the Subscribed Capital. Any capital profit on reissue of forfeited shares should be transferred to a Capital Reserve.

Under the item "Share Capital", it is necessary to disclose :

(i) In respect of Redeemable Preference shares, the terms of redemption or conversion together with the earliest date of redemption or conversion, and

(ii) the particulars of any option on unissued share capital.

It should be noted that Share Premium Account should not be shown under "Share Capital", as it is required to be shown under "Reserves and Surplus".

(b) Fixed Assets: The fixed assets should be classified as far as possible as under:

(a) Goodwill.

(b) Land.

(c) Buildings.

(d) Leaseholds.

(e) Railway sidings.

(f) Plant and Machinery.

(g) Furniture and Fittings.

(h) Development of Property.

(i) Patents, trade-marks and designs.

(j) Livestock.

(k) Vehicles.

The items of fixed assets not enumerated above should be shown separately as far as possible. Under each head, the original cost, additions thereto and deductions therefrom during the year, should be shown.

The total amount of depreciation written off or provided upto the end of the year should be stated. The amount of depreciation written off or provided should be allocated under the different asset heads and should be deducted in arriving at the value of fixed assets. According to clause 7 of Part III, where in the opinion of the directors, the amount of depreciation written off or retained is in excess of the amount reasonably necessary, the excess should be treated as a 'Reserve' and not as a 'Provision'.

In respect of depreciation written off before the commencement of the Act, such bifurcation is not necessary.

In case of any fixed asset which has been acquired from a country outside India, the original cost is required to be changed in consequence of a change in the rate of exchange, if there has been increase or reduction in the liability as expressed in Indian currency, (i) for making payment towards the whole or part of the cost of the asset or, (ii) for repayment of the whole or a part of monies borrowed by the company in foreign currency. The details of such adjustment are given in the instructions.

In case where the original cost cannot be ascertained without unreasonable expense or delay, the valuation shown by the books should be given. Such valuation should be the net amount at which an asset stood in the company's books at the commencement of the Act, after deduction of the amounts previously provided or written off for depreciation or diminution in value. When any such asset is sold, the amount of sale-proceeds should be shown as deduction.

In case, where sums have been written off on a reduction of capital or a revaluation of assets, every balance sheet, (after the first balance sheet) subsequent to the reduction or revaluation, should show the reduced figures, with the date of reduction, in place of the original cost. Every balance sheet for five years subsequent to the date of reduction must also show the amount of the reduction made.

Similarly, where the value of assets is written up, every balance sheet subsequent to such writing up must show the increased figures and the date of the increase in place of the original cost. Every balance sheet for the five years subsequent to the date of writing up must also show the amount of increase made.

(c) Contingent Liabilities: Under the head "Contingent Liabilities", the items should be classified as under :

1. Claims against the company not acknowledged as debts.
2. The uncalled liability on shares partly paid.
3. Arrears of fixed cumulative dividends.
4. Estimated amount of contracts remaining to be executed on capital account and not provided for.
5. Other money for which the company is contingently liable.

In respect of arrears of fixed cumulative dividends, the following details should be given :

(i) the period for which the dividends are in arrears showing separately such arrears on each class of shares;

(ii) the amount should be stated before deduction of income-tax, but in the case of tax-free dividends the amount should be shown free of income-tax and the fact that it is so shown should be stated.

Under sub-head 5, the amount of guarantees given by the company on behalf of directors or other officers of the company should be stated and where practicable, the general nature and the amount of each such contingent liability, if material, should be specified. Examples of other contingent liabilities are:

(i) Liability on Bills of Exchange discounted but not maturing on the balance sheet date.

(ii) Liability in respect of suits pending in the Court.

(iii) Dispute in regard to bonus, etc.

(iv) Matters referred to arbitration.

(d) Miscellaneous Expenditure: The miscellaneous expenditure to the extent not written off or adjusted should be classified as follows :

(1) Preliminary expenses.

(2) Expenses including commission or brokerage on underwriting or subscription of shares or debentures.

(3) Discount allowed on the issue of shares or debentures.

(4) Interest paid out of capital during construction (also stating the rate of interest).

(5) Development expenditure not adjusted.

(6) Other items (specifying nature).

14. Audit of Incomplete Records: An auditor may face the situation of incomplete records under the following circumstances:-

(i) where records are kept on single entry basis; or

(ii) where records are kept on double entry basis but some of the records are destroyed accidentally or are seized by authorities or are otherwise not available for the auditors examination due to similar reasons.

Under the second circumstance, an ideal approach for carrying out audit would be that the auditor may direct the management of the enterprise to complete or reconstruct the accounting records, e.g., if vouchers are available but the cash book, journal and the ledger are not maintained, then the cash book, journal and ledger should be written up. However, if vouchers are also not available, then cash book / journal / ledger will have to be prepared by correlating the evidence available, e.g., memoranda records, bank statements, statements from outside parties, etc. Even though such books which are prepared may not be complete, but may still contain useful information for the auditor.

On the other hand when books are maintained on single entry basis, then the management of the enterprise would be asked to write up the books, to the extent possible, as they would have been written up under double entry system. In any case, the following steps would be required to conduct and audit:

(i) Ascertain that the balance sheet or statement of affairs as at the beginning of the year should be prepared and all the relevant accounts should be opened in the ledger. Normally, under the single entry system, cash, bank and personal accounts are maintained.

(ii) Confirming that all entries on receipt side of the cash book are posted in the ledger.

(iii) Check that all entries on the payment side of cash book posted in the ledger.

(iv) Confirming that all entries appearing in bank account are posted in the necessary to analyse the creditor's accounts and post entries relating to credit purchases made, purchase returns, discount received, bills payable issued to suppliers, bills payable dishonoured etc., to relevant accounts.

15. Government Expenditure Audit: Audit of government expenditure is one of the major components of government audit conducted by the office of C & AG. The basic standards set for audit of expenditure are to ensure that there is provision of funds authorized by competent authority fixing the limits within which expenditure can be incurred. Briefly, these standards are explained below:-

(i) Audit against Rules & Orders: The auditor has to see that the expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and regulations framed by the competent authority. It is the function of the executive government to frame rules, regulations and orders, which are to be observed by its subordinate authorities. The job of auditor is to see that these rules, regulations and orders are applied properly by the subordinate authorities. It is, however, not the function of audit to prescribe what such rules, regulations and orders shall be. But, it is the function of audit to carry out examination of the various rules, regulations and orders issued by the executive authorities to see that :

(a) they are not inconsistent with any provisions of the Constitution or any laws made thereunder;

(b) they are consistent with the essential requirements of audit and accounts as determined by the C & AG;

(c) they do not come in conflict with the orders of, or rules made by, any higher authority; and

(d) in case they have not been separately approved by competent authority, the issuing authority possesses the necessary rule-making power.

(ii) Audit of Sanctions: The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, accorded by the competent authority, authorising such expenditure. The audit of sanctions is directed both in respect of ensuring that the expenditure is properly covered by a sanction, and also to satisfy that the authority sanctioning it is competent for the purpose by virtue of the powers vested in it by the provisions of the Constitution and of the law, rules or orders made thereunder, or by the rules of delegation of financial powers made by an authority competent to do so.

(iii) Audit against Provision of Funds: It contemplates that there is a provision of funds out of which expenditure can be incurred and the amount of such expenditure does not exceed the appropriation made.

(iv) Propriety Audit: It is required to be seen that the expenditure is incurred with due regard to broad and general principles of financial propriety. The auditors aim to bring out cases of improper, avoidable or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. Audit aims to secure a reasonably high standard of public financial morality by looking into the wisdom, faithfulness and economy of transactions.

(v) Performance Audit: This involves that the various programmes, schemes and projects where large financial expenditure has been incurred are being run economically and are yielding results expected of them. Efficiency – cum – performance audit, wherever used, is an objective examination of the financial and operational performance of an organisation, programme, authority or function and is oriented towards identifying opportunities for greater economy and effectiveness.

16. (a) Applicability of the Order:

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

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

(a) companies incorporated outside India which, after the commencement of the Act, establish a place of business within India; and

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

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

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

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

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

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

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

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

The Order specifically exempts banking companies, insurance companies and companies which have been licensed to operate under section 25 of the Act. Section 25 applies to companies which have been formed or are about to be formed as limited companies for promoting commerce, art, science, religion, charity or any other useful object and which apply or intend to apply their profits, if any, or other income in promoting their objects and prohibit the payment of any dividend to their members. Such companies are usually in the form of clubs, chambers of commerce, research institutions, etc. Further, the Order would not also apply in case of non-banking finance company, which converts into a banking company and as on the balance sheet date is a banking company.

The specific exemption under the Order is given to companies licensed under section 25 of the Act. However, it would appear that in view of the provisions of section 656 of the Act, the exemption would also extend to similar companies registered under any earlier Companies Act.

The Order also exempts from its application a private limited company which fulfils all the following conditions throughout the reporting period covered by the audit report:

(i) its paid-up capital and reserves are rupees fifty lakh or less;

(ii) its outstanding loan from any bank or financial institution are rupees twenty five lakh or less; and

(iii) its turnover does not exceed rupees five crore.

A private limited company, in order to be exempt from the applicability of the Order, must satisfy all the conditions mentioned above cumulatively. In other words, even if one of the conditions is not satisfied, a private limited company's auditor has to report on the matters specified in the Order.

16. The matters to be included in audit report under CARO:

The auditor's report on the account of a company to which this Order applies shall include a statement on the following matters, namely:

(i) (a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;

(b) whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;

(c) if a substantial part of fixed assets have been disposed off during the year, whether it has affected the going concern;

(ii) (a) whether physical verification of inventory has been conducted at reasonable intervals by the management;

(b) are the procedures of physical verification of inventory followed by the management reasonable and adequate in relation to the size of the company and the nature of its business. If not, the inadequacies in such procedures should be reported;

(c) whether the company is maintaining proper records of inventory and whether any material discrepancies were noticed on physical verification and if so, whether the same have been properly dealt with in the books of account;

(iii) (a) has the company granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act. If so, give the number of parties and amount involved in the transactions; and

(b) whether the rate of interest and other terms and conditions of loans given by the company, secured or unsecured, are prima facie prejudicial to the interest of the company; and

(c) whether receipt of the principal amount and interest are also regular; and

(d) if overdue amount is more than rupees one lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest;

(e) has the company taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Act. If so, give the number of parties and the amount involved in the transactions; and

(f) whether the rate of interest and other terms and conditions of loans taken by the company, secured or unsecured, are prima facie prejudicial to the interest of the company; and

(g) whether payment of the principal amount and interest are also regular.

(iv) is there an adequate internal control system commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and services. Whether there is a continuing failure to correct major weaknesses in internal control system.

(v) (a) whether the particulars of contracts or arrangements referred to in section 301 of the Act have been entered in the register required to be maintained under that section; and

(b) whether transactions made in pursuance of such contracts or arrangements have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time;

(This information is required only in case of transactions exceeding the value of five lakh rupees in respect of any party and in any one financial year).

(vi) in case the company has accepted deposits from the public, whether the directives issued by the Reserve Bank of India and the provisions of sections 58A, 58AA or any other relevant provisions of the Act and the rules framed there under, where applicable, have been complied with. If not, the nature of contraventions should be stated; If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal whether the same has been complied with or not?

(vii) in the case of listed companies and/or other companies having a paid-up capital and reserves exceeding Rs.50 lakhs as at the commencement of the financial year concerned, or having an average annual turnover exceeding five crore rupees for a period of three consecutive financial years immediately preceding the financial year concerned, whether the company has an internal audit system commensurate with its size and nature of its business;

(viii) where maintenance of cost records has been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act, whether such accounts and records have been made and maintained;

(ix) (a) is the company regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor.

(b) in case dues of Income tax/ Sales tax /Wealth tax/ Service tax/ Custom duty/ Excise duty/ cess have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned.

(A mere representation to the Department shall not constitute a dispute).

(x) whether in case of a company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than fifty per cent of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year;

(xi) whether the company has defaulted in repayment of dues to a financial institution or bank or debenture holders? If yes, the period and amount of default to be reported;

(xii) whether adequate documents and records are maintained in cases where the company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities; If not, the deficiencies to be pointed out.

(xiii) whether the provisions of any special statute applicable to chit fund have been duly complied with? In respect of nidhi/ mutual benefit fund/societies;

(a) whether the net-owned funds to deposit liability ratio is more than 1:20 as on the date of balance sheet;

(b) whether the company has complied with the prudential norms on income recognition and provisioning against sub-standard/doubtful/loss assets;

(c) whether the company has adequate procedures for appraisal of credit proposals/requests, assessment of credit needs and repayment capacity of the borrower;

(d) whether the repayment schedule of various loans granted by the nidhi is based on the repayment capacity of the borrower;

(xiv) if the company is dealing or trading in shares, securities, debentures and other investments, whether proper records have been maintained of the transactions and contracts and whether timely entries have been made therein; also whether the shares, securities, debentures and other investments have been held by the company, in its own name except to the extent of the exemption, if any, granted under section 49 of the Act;

(xv) whether the company has given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company;

(xvi) whether term loans were applied for the purpose for which the loans were obtained;

(xvii) whether the funds raised on short-term basis have been used for long term investment; If yes, the nature and amount is to be indicated;

(xviii) whether the company has made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act and if so whether the price at which shares have been issued is prejudicial to the interest of the company;

(xix) whether security or charge has been created in respect of debentures issued;

(xx) whether the management has disclosed on the end use of money raised by public issues and the same has been verified;

(xxi) whether any fraud on or by the company has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.

PAPER – 3 : LAW, ETHICS AND COMMUNICATION

QUESTIONS

1. Mr. X, is employed as a cashier on a monthly salary of Rs.2,000 by ABC bank for a period of three years. Y gave surety for X's good conduct. After nine months, the financial position of the bank deteriorates. Then X agrees to accept a lower salary of Rs.1,500/- per month from Bank. Two months later, it was found that X has misappropriated cash since the time of his appointment. What is the liability of Y?

2. Miss.Chitra, a singer, enters in to a contract with the manager of Bangalore Gate Club, to sing in the Club for two concerts every week during the next two months and the club agrees to pay her at the rate of Rs.2000 for each concert. On the seventh concert Miss.Chitra willfully absents herself. With the assent of the manager of the club, Miss.Chitra sings for the eighth concert. But on the following day, the club, puts an end to the contract. Can Miss.Chitra claim damages for breach of contract? Advise .

3. Ram, Rahim and Robert are partners of software business and jointly promises to pay Rs.30, 000 to Raheja. Over a period of time Rahim became insolvent, but his assets are sufficient to pay one-forth of his debts. Robert is compelled to pay the whole. Decide whether Robert is required to pay whole amount himself to Raheja in discharging joint promise.

4. M a broker draws a cheque in favour of N, a minor. N indorses the cheque in favour of O, who in turn indorses it in favour of P. Subsequently, the bank dishonoured the cheque. State the rights of O and P and whether N, can be made liable?

5. (a) What is meant by Anticipatory Breach of Contract?

   (b) Mr. Dubious textile enters into a contract with Retail Garments Show Room for supply of 1,000 pieces of Cotton Shirts at Rs. 300 per shirt to be supplied on or before 31st December, 2006. However, on 1st November, 2006 Dubious Textiles informs the Retail Garments Show Room that he is not willing to supply the goods as the price of Cotton shirts in the meantime has gone upto Rs. 350 per shirt. Examine the rights of the Retail Garments Show Room in this regard.

6. 'A' applies to a banker for a loan at a time where there is stringency in the money market. The banker declines to make the loan except at an unusually high rate of interest. A accepts the loan on these terms. Whether the contract is induced by undue influence? Decide.

7. A' stands surety for 'B' for any amount which 'C' may lend to B from time to time during the next three months subject to a maximum of Rs. 50,000. One month later A revokes the guarantee, when C had lent to B Rs. 5,000. Referring to the provisions of the Indian Contract Act, 1872 decide whether 'A' is discharged from all the liabilities to 'C' for any subsequent loan. What would be your answer in case 'B' makes a default in paying back to 'C' the money already borrowed i.e. Rs. 5,000?

8. Mr.Jayanth sells and consigns certain goods to Mr.Srikanth for cash and sends the Railway Receipt to him. Mr.Srikanth becomes insolvent and while the goods are in transit, he assigns the Railway Receipt to Mr.Naveen, who does not know that Mr.Srikanth is insolvent. Mr.Jayanth being an unpaid seller wants to exercise his rights. Advise:

   (a) whether Mr.Jayanth can exercise the right of stoppage of goods in transit.

   (b) would your answer be different if Mr.Naveen was aware of Mr.Jayanth's insolvency before the assignment of the Railway Receipt in favour of Mr.Naveen ?

9. An unpaid seller parted the possession of goods to a transporter for delivering goods to the buyer. In meanwhile, buyer becomes insolvent. State whether an unpaid seller is having right of stoppage of goods?

10. For the purpose of making uniform for the employees B bought dark blue coloured cloth from Vivek, but did not disclose to the seller the purpose of said purchase. When uniforms were

prepared and used by the employees, the cloth was found unfit. However, there was evidence that the cloth was fit for caps, boots and carriage lining. Advise B whether he is entitled to have any remedy under the sale of Goods Act, 1930?

11. Mr. J sells and consigns certain goods to Mr. S for cash and sends the Railway Receipt to him. Mr. S becomes insolvent and while the goods are in transit, he assigns the Railway Receipt to Mr. N who does not know that Mr. S is insolvent. Mr. J being an unpaid seller wants to exercise his rights. Advise:

    (a) whether Mr. J can exercise the right of stoppage of goods in transit ?

    (b) would your answer be different if Mr. N was aware of Mr. J's insolvency before the assignment of the Railway Receipt in favour of Mr. N ?

12. On a Bill of Exchange for Rs.1 lakh, X's acceptance to the Bill is forged. 'A' takes the Bill from his customer for value and in good faith before the Bill becomes payable. State with reasons whether 'A' can be considered as a 'Holder in due course' and whether he (A) can receive the amount of the Bill from 'X'.

13. M draws a bill on N payable three months after sight. It passes through several hands before T becomes its holder. On presentation by T, N refuses to accept. Discuss the duties and rights of T on the bill.

14. A cheque was dishonoured at the first instance and the payee did not initiate action. The cheque was presented for payment for the second time and again it was dishonoured. State in this connection whether the payee can subsequently initiate prosecution for dishonour of cheque.

15. A promoter who has borrowed a loan on behalf of company, who is neither a director nor a person-in-charge, sent a cheque from the companies account to discharge its legal liability. Subsequently the cheque was dishonoured and the compliant was lodged against him. Does he liable for an offence under section 138?

16. Do the following alterations render the negotiable instrument void?

    (a) The holder of a bill alters the date of the instrument to accelerate or postpone the time of payment.

    (b) The drawer of a negotiable instrument draws a bill but forgets to write the words "or order". Subsequently, the holder of the instrument inserts these words.

    (c) A bill payable three months after date is altered into a bill payable three months after sight.

    (d) A bill was dated 2006 instead of 2007 and subsequently the agent of the drawer corrected the mistake.

    (e) A bill is accepted payable at the Union Bank, and the holder, without the consent of the acceptor, scores out the name of the Union Bank and inserts that of the Syndicate Bank.

17. On 1st January, 2007, Aryan Textiles Ltd. agreed with the employees for payment of an annual bonus linked with production or productivity instead of bonus based on profits subject to the limit of 30% of their salary wages during the relevant accounting year. It was also agreed by the employees that they will not claim minimum bonus stated under Section 10 of the Payment of Bonus Act, 1965. As per the agreement the employees of Aryan Textiles Ltd claimed annual bonus linked with production or productivity in the relevant accounting year. On refusal of the company the employees of the company moved to the court for relief.

    Decide in reference to the provisions of the payment of Bonus Act, 1965 whether the employees will get the relief? Inspite of the aforesaid agreement whether the employees are still entitled to receive minimum bonus.

18. In an accounting year, a company to which the payment of Bonus Act, 1965 applies, suffered heavy losses. The Board of Directors of the said company decided not to give bonus to the employees. The employees of the company move to the Court for relief. Decide in the light of the provisions of the said Act whether the employees will get relief?

19. Manorama Group of Industries sold its textile unit to Giant Group of Industries. Manorama Group contributed 25% of total contribution in Pension Scheme, which was due before sale under the provisions of Employees Provident Fund and Miscellaneous Provisions Act, 1952. The transferee company (Giant Group of Industries) refused to hear the remaining 75% contribution in the Pension Scheme. Decide, in the light of the Employees Provident Fund and Miscellaneous Provisions Act, 1952, who will be liable to pay for the remaining contribution in case of transfer of establishment and upto what extent?

20. An employee leaves the establishments in which he was employed and gets employment in another establishment wherein he has been employed. Explain the procedure laid down in the Employees' Provident Fund and Miscellaneous Provisions Act, 1952 in this relation.

21. An employee who is governed by the Payment of Gratuity Act, 1972 committed a theft in the course of his employment. And consequently his services was terminated. State in this connection, whether the gratuity payable to him shall be wholly or partly forfeited.

22. State the procedure for nomination of persons under the Payment of Gratuity Act, 1972?

23. A Company was incorporated on 10th April, 2007, and had entered into a contract with a third party on 9th March, 2007 for supply of goods. After incorporation the company does not want to proceed with the contracts. State in this connection, whether the company is bound by the contract. If not who can be held personal liable?

24. Six out of seven signatures to the Memorandum of Association were forged, that the company was registered and the certificate of incorporation was issued. Can the registration of the company be challenged subsequently on the ground of forgery?

25. The number of members in the public company were reduced to six and the company continued to carry on its business. State in this connection, whether the remaining persons will be liable and under what circumstances?

26. A company wants to shift some of its objects from ‘other objects’ to the main objects. State whether it is a permissible alteration?

27. A limited company is formed with its articles stating that one Mr. X shall be the legal advisor of the company and that he shall not be removed except on the ground of misconduct. Can the company remove Mr. X from the position even though not guilty of misconduct?

28. A private limited company issued certain number of shares as fully paid up to a subscriber to the memorandum on the basis of promissory note executed by him as consideration towards the shares. Since no money was paid towards the allotment, the company after five years from the date of allotment wants to forfeit those shares and reissue. Can the company do so?

29. State in the following cases, whether the resolution is carried out and the kind of resolution:

    (a) 12 members who are entitled to vote are presented at the meeting. Seven voted in favour and 5 against the resolution.

    (b) If in the above situation, nine abstain from voting, two vote in favour and one against the resolution. Is the resolution carried out?

    (c) 12 members are present, 10 voted in favour and the balance against the resolution.

    (d) If in the above situation, 8 abstain from voting, 3 voted in favour and one against the resolution. Is the resolution carried out?

30. A Managing Director of a company borrowed a sum of money by executing a document in which he forged the signature of two other directors who are required to sign as per requirements of articles. Can the company deny liability to creditors?

31. A Company wants to provide financial assistance to its employees to enable them to subscribe for fully paid shares of the company. Does it amount to purchase of its own shares. If, in the instant case, the company itself purchasing to redeem its preference shares, does it amount to acquisition of its own shares?

32. Explain the composition and powers of National Company Law Tribunal?
33. Distinguish between Morals and Ethics
34. What are the key issues that you will consider while evaluating good governance?
35. What Guidelines you would suggest for managing ethics in workplace?
36. Write short notes on (a) Sustainable development (b) Global warming.
37. What are the various types of Consumer Protection Councils in India?
38. What are the various kinds of threats that may affect ethics related to accounting and finance?
39 Draft a power of attorney authorizing a Chartered Accountant to appear before the Income Tax authorities.
40. Draft a notice for AGM of a public limited company setting out ordinary business items.

SUGGESTED ANSWERS/HINTS

1. If the creditor makes any variance (i.e. change in terms) without the consent of the surety, then surety is discharged as to the transactions subsequent to the change. In the instant case Y is liable as a surety for the loss suffered by the bank due to misappropriation of cash by X during the first nine months but not for misappropriations committed after the reduction in salary. [Section 133, Indian Contract Act, 1872].
2. On the seventh Concert when Miss.Chitra willfully absents herself, the club is at liberty to put an end to the contract. If Miss.Chitra sings on the eighth Concert with the consent of the club. The club has signified its acquiescence in the continuance of the contract and cannot now put an end to it. The club is entitled to compensation for the damage sustained because of Miss.Chitra's failure to sing on the seventh concert. If the club puts an end to the contract, Miss.Chitra can claim damages for breach of contract [Section 39 of The Indian Contract Act, 1872)].
3. According Section 43 of Indian Contract Act, 1872 when two or more persons make a joint promise, the promisee may, in absence of express agreement to the contrary, compel any one or more of such joint promisers or perform the whole of the promise. Further, if any one of two or more joint promisers makes default in such contribution, the remaining joint promisors must bear the loss arising from such default in equal shares. Therefore, in this case, Robert is entitled to receive 2,500 from Rahims assets and 13,750 from Ram.
4. According to section 26 of the Negotiable Instruments Act, 1881 a minor may draw, indorse, deliver and negotiate a negotiable instrument to bind all parties except himself. Therefore, O and P cannot claim from B, who being a minor does not incur any liability on the cheque. O can claim payment from M, the Drawer, only and P can claim against O, the indorser and M, the drawer.
5. Anticipatory breach of contract

   Anticipatory breach of contract occurs when the promisor refuses altogether to perform his promise and signifies his unwillingness even before the time for performance has arrived. In such a situation the promise can claim compensation by way of loss or damage caused to him by the refusal of the promisor. For this, the promisee need not wait till the time stipulated in the contract for fulfillment of the promise by the poimisor is over.

   In the given problem Dubious Textiles has indicated its unwillingness to supply the cotton shirts on 1st November 2006 itself when it has time upto 31st December 2006 for performance of the contract of supply of goods. It is therefore called anticipatory breach of contract. Thus Retail Garments show room can claim damages from Dubious Textiles immediately after 1st November, 2006, without waiting upto 31st December 2006. The damages will be calculated at the rate of Rs. 50 per shirt i.e. the difference between Rs. 350/- (the price prevailing on 1st November) and Rs. 300/- the contracted price.

6. In the given problem, A applies to the banker for a loan at a time when there is stringency in the money market. The banker declines to make the loan except at an unusually high rate of interest. A accepts the loan on these terms. This is a transaction in the ordinary course of business, and the contract is not induced by undue influence. As between parties on an equal footing, the court will not hold a bargain to be unconscionable merely on the ground of high interest. Only where the lender is in a position to dominate the will of the borrower, the relief is granted on the ground of undue influence. But this is not the situation in this problem, and therefore, there is no undue influence.

7. The problem as asked in the question is based on the provisions of the Indian Contract Act 1872, as contained in Section 130 relating to the revocation of a continuing guarantee as to future transactions which can be done mainly in the following two ways:

   1. By Notice: A continuing guarantee may at any time be revoked by the surety as to future transactions, by notice to the creditor.

   2. By death of surety: The death of the surety operates, in the absence of any contract to the contrary, as a revocation of a continuing guarantee, so far as regards future transactions. (Section 131).

      The liability of the surety for previous transactions however remains.

      Thus applying the above provisions in the given case, A is discharged from all the liabilities to C for any subsequent loan.

      Answer in the second case would differ i.e. A Is liable to C for Rs. 5,000 on default of B since the loan was taken before the notice of revocation was given to C.

8. (a) Mr.Jayanth cannot exercise the right of stoppage of goods in transist, because the goods are being taken by Mr.Naveen in good faith and for consideration.

   (b) Yes, Mr. Jayanth in this case can exercise his right of stoppage of goods in Transit, as Mr.Naveen has not acted in good faith. (Refer to section 27 of The Sale of Goods Act,1930)

9. According to Section 50 of the Sale of Goods Act,1930 the unpaid seller has the right of stopping of goods is transit after he has parted with their possession to a carrier, in case of insolvency of the buyer subject to following conditions.

   1.The seller must be unpaid.

   2. He must have parted with the possession of goods

   3. The goods must in transit.

   4. The buyer must have become insolvent.

   5. The right is subject to provisions of the Act.

10. As per the provision of Section 16(1) of the Sale of Goods Act, 1930, an implied condition in a contract of sale that an article is fit for a particular purpose only arises when the purpose for which the goods are supplied is known to the seller, the buyer relied on the seller's skills or judgement and seller deals in the goods in his usual course of business. In this case, the cloth supplied is capable of being applied to a variety of purposes, the buyer should have told the seller the specific purpose for which he required the goods. But he did not do so. Therefore, the implied condition as to the fitness for the purpose does not apply. Hence, the buyer will not succeed in getting any remedy from the seller under the Sale of Goods Act [Jones v. Padgett. 14 Q.B.D. 650].

11. (a) Mr. J cannot exercise the right of stoppage of goods in transist, because the goods are being taken by Mr. N in good faith and for consideration.

    (b) Yes, Mr. J in this case can exercise his right of stoppage of goods in Transit, as Mr. N has not acted in good faith. (Refer to section 27 of The Sale of Goods Act, 1930)

12. According to section 9 of the Negotiable Instruments Act, 1881 'holder in due course' means any person who for consideration because the possessor of a promissory note, bill of exchange or

cheque if payable to bearer or the payee or endorsee thereof, if payable to order, before the amount in it became payable and without having sufficient cause to believe that any defect existed in the title of the person from whom he derived his title.

As ‘A’ in this case prima facie became a possessor of the bill for value and in good faith before the bill became payable, he can be considered as a holder in due course.

But where a signature on the negotiable instrument is forged, it becomes a nullity. The holder of a forged instrument cannot enforce payment thereon. In the event of the holder being able to obtain payment in spite of forgery, he cannot retain the money. The true owner may sue on tort the person who had received. This principle is universal in character, by reason where of even a holder in due course is not exempt from it. A holder in due course is protected when there is defect in the title. But he derives no title when there is entire absence of title as in the case of forgery. Hence ‘A’ cannot receive the amount on the bill.

13. On dishonour of the bill by non-acceptance, it is the duty of T, the holder, to give notice of dishonour to all prior parties. He may also have the instrument noted and protested. Thereafter T is entitled to make M, the drawer of the bill, liable as principal debtor and the intervening indorsers liable as sureties. (Section 93, Negotiable Instruments Act, 1881).

14. Supreme Court in Sadanandan Bhadran v. Madhavan Sunil Kumar [1998] 4 CLJ 228 held that on a careful analysis of section 138 of the Negotiable Instruments Act, 1881 it is seen that the main part creates an offence when a cheque is returned by the bank unpaid for any of the reasons mentioned therein. The said proviso lays down three conditions precedent to the applicability of the above section and the conditions are:

(1) the cheque should have been presented to the bank within six months of its issue or within the period of its validity whichever is earlier;

(2) the payee should have made a demand for payment by registered notice after the cheque is returned unpaid and;

(3) the drawer should have failed to pay the amount within 15 days of the receipt of notice. It is only when all the above three conditions are satisfied that a prosecution can be launched for the offence under section 138.

So far as the first condition is concerned, clause (a) of the proviso to section 138 does not put any embargo upon the payee to successively present a dishonoured cheque during the period of validity. It is not uncommon for a cheque being presented again and again within its validity period in the expectation that it would be encashed. The question whether dishonour of the cheque on each occasion of its presentation gives rise to a fresh cause of action, the following facts are required to be proved to successfully to prosecute the drawer for an offence under section 138:-

(a) that the cheque was drawn for payment of an amount of money for discharge of a debt/liability and the cheque was dishonoured;

(b) that the cheque was presented within the prescribed period;

(c) that the payee made demand for payment of the money by giving a notice in writing to the drawer within the stipulated period;

(d) that the drawer failed to make the payment within 15 days of the receipt of the notice.

If one has to proceed on the basis of the generic meaning of the terms “cause of action”, certainly each of the above facts would constitute a part of the cause of action, but it is significant to note that clause (b) of section 142 gives a restrictive meaning in that it refers to only one fact which will give rise to the cause of action and that is failure to make the payment within 15 days from the date of receipt of the notice.

Besides the language of section 138 and section 142 which clearly postulates only one cause of action, there are other formidable impediments which negates the concept of successive causes of action. The combined reading of sections 138 and 142 leave no room for doubt that cause of action within the meaning of section 142(c) arises and can arise only once.

The final question as how apparently conflicting provisions of the Act, one enabling the payee to repeatedly present the cheque and the other giving him only one opportunity to file a complaint for its dishonour and that too within one month from the date of cause of action arises can be reconciled, the Court held that the two provisions can be harmonised with the interpretation that on each presentation of the cheque and its dishonour, a fresh right and not cause of action accrues in his favour.

Therefore, the holder/payee of a cheque cannot initiate prosecution for an offence under section 138 for its dishonour for the second time, if he had not initiated such prosecution on the earlier cause of action.

15. According to Section 138 of the Negotiable Instruments Act, 1881 where any cheque drawn by a person on an account maintained by him with a banker for payment of any amount of money to another person from out of that account for discharging any debt or liability, and if it is dishonoured by banker on sufficient grounds, such person shall be deemed to have committed an offence and shall be liable. However, in this case, the promoter is neither a director nor a person-in-charge of the company and is not connected with the day-to-day affairs of the company and had neither opened nor is operating the bank account of the company. Further, the cheque, which was dishonoured, was also not drawn on an account maintained by him but was drawn on an account maintained by the company. Therefore, he has not committed an offence under section 138.

16. (a) Yes.

(b) No.

(c) Yes.

(d) No.

(e) Yes.

According to Section 87 of the Negotiable Instrument Act,1881, any material alteration of a negotiable instrument renders the same void as against any one who is party thereto at the time of making such alteration and does not consent thereto, unless it was made in order to carry out the common intention of the original parties and any such alteration, if made by an endorse discharges endorser from all liability to him in respect of the consideration thereof. The alteration must be so material that it alters the character of the instrument, to a great extent. Alterations of the date, amount payable, time, place of payment are regarded as material alterations.

17. As per Section 31(A) of the Payment of Bonus Act, 1965, there may be an agreement or settlement by the employees with their employer for payment of an annual bonus linked with production or productivity in lieu of bonus based on profits, as is payable under the Act. Accordingly, when such an agreement has been entered into the employees are entitled to receive bonus as per terms of the agreement/settlement, subject to the following restriction imposed by Section 31A:

(a) any such agreement/settlement whereby the employees relinquish their right to receive minimum bonus under Section 10, shall be null and void in so far as it purports to deprive the employees of the right of receiving minimum bonus.

(b) If the bonus payable under such agreement exceed 20% of the salary/wages earned by the employees during the relevant accounting year, such employees are not entitled to the excess over 20% of salary/wages.

In the given case Aryan Textile Ltd. agreed with the employees for payment of an annual bonus linked with production or productivity instead of based on profits subject to the limit of 30% of their salary/ wages during the relevant accounting year. According to Section 31A the maximum bonus under this provision can be given which should not exceed 20% of the salary/wages earned by the employee during the relevant accounting year. Hence, the maximum bonus may be paid upto

20% of the salary/wages. If the company agrees to pay more than 20% then it will be against the provisions of the Payment of Bonus Act, 1965.

The employees of Aryan Textiles also agreed not to claim minimum bonus stated in Section 10 of the Payment of Bonus Act, 1965 such an agreement shall be null and void as it purports to deprive the employees of their right of receiving minimum bonus. Hence, the relief may be given by the court, as regards to the payment of bonus to the employees, based on the production or productivity, if it is agreed, subject to a maximum of 20%. The employees will also be entitled legally to claim bonus which is minimum prescribed under Section 10 of the Act, even though they have relinquished such right as per the agreement.

18. Section 10 of the Payment of Bonus Act, 1965 provides that subject to the other provisions of the Act, every employer shall be bound to pay to employee in respect of the accounting year commencing on any day in 1979 and in respect of any subsequent year, a minimum bonus which shall be 8.33 per cent of the salary or wage earned by the employee during the accounting year or Rs. 100 (Rs. 60 in case of employees below 15 years of age), whichever is higher. The minimum bonus is payable whether or not employer has any allocable surplus in the accounting year.

    Therefore based on the above provision (Section 10) the question asked in the problem can be answered as under:

    Yes, applying the provisions as contained in Section 10 the employees shall succeed and they are entitled to be paid minimum bonus at rate 8.33% of the salary or wage earn during the accounting year or Rs. 100 (Rs. 60 in case of employees below 15 Years of age), whichever is higher.

19. Problem relating to liability in case of transfer of establishment

    The problem as asked in the question is based on the provisions of section 17(B) of the Employees Provident Funds and Miscellaneous Provisions Act, 1952. Accordingly where an employer in relation to an establishment, transfers that establishment in whole or in part by sale, gift, lease or licence or in any other manner whatsoever, the employer and the person to whom the establishment is so transferred shall be jointly or severally liable to pay the contribution and other sums due from the employer under the provisions of this Act of the scheme or pension scheme, as the case may be, in respect of the period upto the date of such transfer. It is provided that the liability of the transferee shall be limited to the value of the assets obtained by him by such transfer.

    It would be thus evident from the aforesaid provisions that 17-B deals with the liability of transferor and transferee in regard to the money due under (a) the Act or (b) the scheme (c) and pension scheme. In the case of the transfer of the establishment brought in by sale, gift, lease etc. The liability of the transferor and transferee is joint and several, but it is limited to the period upto the date of transfer.

    Therefore applying the above provisions in the given case the transferor Manorama Group of Industries, the transferor has paid only 25% of the total liability as contribution in pension scheme before sale of the establishment. With regards to remaining 75% liability both the transferor and transferee companies are jointly and severally liable to contribute. In case, the transferor refuses to contribute, the transferee will be liable.

    The liability is limited upto the date of transfer and upto remaining amount. Further, the liability of the transferee i.e. Giant Group of Industries, is limited to the extent of assets obtained by it from the transfer of the establishment.

20. Transfer of accumulated amount to the credit of Employees Provident Fund on change of employment: Section 17-A of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 provides for the transfer of accounts of an employee in case of his leaving the employment and taking up employment and to deal with the case of an establishment to which the Act applies and also to which it does not apply. The option to get the amount transferred is that of the employee. Where an employee of an establishment to which the Act applies leaves his

employment and obtains re-employment in another establishment to which the Act does not apply, the amount of accumulations to the credit of such employees in the Fund or, as the case may be, in the provident Fund in the establishment left by him shall be transferred to the credit of his account in the provident fund of the establishment in which he is re-employed, if the employee so desires and the rules in relation to that provident fund permit such transfer. The transfer has to be made with in such time as may be specified by the Central Govt. in this behalf. [Sub-Section (I)].

Conversely, when an employee of an establishment to which the Act does not apply leaves his employment and obtains re-employment in another establishment to which this Act applies, the amount of accumulations to the credit of such employee in the provident fund of the establishment left by him, if the employee so desires and the rules in relation to such provident fund permit, may be transferred to the credit of his account in the fund or as the case may be, in the provident fund of the establishment in which he is re-employed. [Sub-Section (2)].

21. Reduction and forfeiture of gratuity : Under Section 4 of the Payment of Gratuity Act, 1972, in the case of damage, loss or destruction of property of employer, due to the willful omission or negligence of the employee, the amount of gratuity to the extent of loss or damage shall stand forfeited. The gratuity payable to an employee may be wholly or partially forfeited, where the services of an employee are terminated on the ground of: (i) riotous or disorderly conduct or act of violence; or (ii) committing an offence involving moral turpitude in the course of his employment. Theft is an offence involving moral turpitude and consequently, if the services of an employee had been terminated for committing theft in the course of his employment, the gratuity payable to him under the provisions of the Act shall be wholly forfeited in view of Section 4(60)(b)(ii). [Bharat Gold Mines Ltd. vs. Regional Labour Commissioner 1986 Lab. I.C. 1976 (Kar.)]

22. Nomination under the Payment of Gratuity Act (Section 6) : Each employee who has completed one year of the service shall make, within such time, in such form, and in such manner, as may be prescribed, nomination for the purpose of payment of gratuity in case of his death. Following are the provisions regarding nomination:

    (i) An employee, may, in his nomination, distribute the amount of gratuity payable to him under this Act amongst more than nominee.

    (ii) If an employee has a family at the time of making nomination, then the nomination shall be made in favour of one or more members of his family. Any nomination made by such an employee in favour of a person who is not the member of his family, shall be void. If at the time of making a nomination, the employee has no family then the nomination may be made in favour of any person or persons. But if the employee subsequently acquires a family, then such nomination shall forthwith became invalid and the employee shall make within such time as may be prescribed, a fresh nomination in favour of one or more members of his family.

    (iii) Subject to the abovesaid provisions, a nomination may be modified by an employee at any time, after giving to his employer a written notice in such form and in such manner, as may be prescribed, of his intention to do so.

    (iv) If the nominee dies before the employee, the interest of the nominee shall revert to the employee who will have to make a fresh nomination, in the prescribed form in respect of such interest.

    Every nomination, a fresh nomination or alteration of nomination, as the case may be, shall be sent by the employee to his employer who shall keep the same in his custody.

23. Pre-incorporation contracts in general are void ab initio and hence not binding on the company. However, under section 19(e) of the Specific Relief Act, 1963 the party to the contract can enforce the contract against the company if: (i) the company had adopted the same after incorporation; and (ii) the contract is warranted by the terms of incorporation.

Thus, unless the company adopts the contract, the other party cannot enforce the same against the company. However, promoters can be held personally liable.

24. No. Registration cannot be challenged. Section 35 of the Companies Act, 1956 declares that a Certificate of Incorporation once issued is conclusive with respect to every thing prior thereto.

25. The problem in question relates to reduction of membership below the statutory minimum. Section 12 of the Companies Act requires a public company to have a minimum of seven members. If at any time the membership of a public company falls below seven and it continues its business for more than six months, then according to section 45 of the Companies Act, 1956 every such member who was aware of this fact, would be individually (personally) liable for all debts contracted after six months.

    Thus, in the above problem, the remaining six members shall incur personal liability for the debts contracted by the company.

    (i) If they continued to carry on the business of the company with that reduced membership (i.e., 6) beyond six month period;

    (ii) Only those members who knew of this fact of reduced membership shall be liable, for instance, if one of the members who was abroad and thus not aware of those developments, shall not be liable.

    (iii) The liability shall extend only to the debts contracted after six months.

26. The Company Law Board which was faced with the aforesaid issue in the case of Mafatlal Consultancy Services (India) Ltd. In re [1995] 17 C.L.A. 385 answered it in the negative.

    Rejecting the petition the CLB held that —

    Section 17 of the Companies Act provides that a company may alter its memorandum of association with respect to its 'objects clause' to enable it to — (a) to carry on its business more economically or more efficiently; (b) to attain its main purpose by new or improved means; (c) to enlarge or change the local area of its operations; (d) to carry on some business which under existing circumstances may conveniently or advantageously be combined with the business of the company; (e) to restrict or abandon any of the objects specified in the memorandum; (f) to sell or dispose of the whole or any part of the undertaking or of any of the undertakings of the company; or (g) to amalgamate with any other company or body of persons.

    In the instant case the proposal of the company did not fall under any of these clauses. Therefore the request of the company could not be acceded to.

    All the clauses of the 'object clause', whether stated under Part A or Part C are the objects of the company and a company is empowered to take up activities covered under any one of them and in fact it was already carrying on the business as per clause 70A. The company now sought to shift clause 70A in Part C to Part A. Such a transposition could not be deemed to be alteration as permissible under section 17.

27. As between outsiders and the company, Articles do not give any right to outsiders against the company, even though their names might have been mentioned in the Articles. An outsider cannot take advantage of the Articles to found a claim thereon against the company. Thus, in the given case, the company shall succeed in removing Mr. X as the solicitor of the company without incurring any obligations. The facts given are based on the decided case of Eley v. Positive Government Security Life Assurance Co. in which similar decision was pronounced.

28. Normally in the case of allotment of shares, a company may call for the entire face value of the shares on allotment or it may call for a portion of the face value. In case where a company has allotted shares for part of the face value, it issues call notice for the balance money in one or more instalments.

    Therefore, in the normal course, no share is allotted unless otherwise allotment money is received and the question of forfeiture would arise only when on the basis of call made for the balance amount, the same is not paid by the shareholder. In the instant unique case, the consideration for the shares has been received by the company in a form other than cash (i.e., Promissory Note).

If the concerned shareholder has not paid any money as per the promissory note, the course of action for the company would be to initiate legal proceedings for realising the money. It cannot forfeit those shares after 5 years from the date of allotment - K. Md. Farooq Ahmed v. F.C. Electronics (P.) Ltd. & Others [1997] 2 CLJ 234 CLB.

29. A special resolution is one passed at a general meeting of a company when (a) the intention to propose the resolution as a special resolution has been specified in the notice calling general meeting or other intention given to the members of the resolution (b) the notice required under the Act has been duly given and (c) the votes cast in favour of the resolution (whether on show of hands or on a poll) by members entitled to vote and voting in person, or where proxies are allowed, by proxy, are not less three times the number of votes, if any, cast against the resolution.

    It is three-fourths majority which is required for passing a special resolution. This majority being three-fourths of those voting, three-fourths must vote in favour of the resolution. For example, if there are twelve members present and vote, nine or more voting in favour will carry the resolution as a special resolution. If eight abstain from from voting, three vote in favour and one against, the resolution is carried.

30 In Ruben v. Great Fingall Consolidated, it was held that Doctrine of Indoor Management could not be extended to cases of forgery. Transaction effected by forgery is void ab initio. However, in Sri Krishan v. Mondal Bros. & Co. it was held that a company may be held liable for any fraudulent Acts of its officers acting under ostensible authority. Therefore, in the instant case, company will not be allowed to deny liability in order to defeat bona fide claims of the creditor.

31 Section 77 of the Companies Act,1956 allows advancing of loan by a company to its bona fide employees for purchasing or subscribing to fully paid shares of the company. However, such financial assistance should not exceed six months wages or salary of the employee. If the company is purchasing for redeeming its preference shares, it does not attract Section 77.

32. Composition of NCLT

    The Central Government is empowered, under Section 10FB of the Companies Act, 1956, to constitute a National Company Law Tribunal to exercise and discharge such powers and functions as may be conferred on it by or under the Companies Act or any other law for the time being in force.

    According to Section 10FC, the Tribunal shall be headed by the President who has been, or is qualified to be a judge of a High Court and consists such number of Judicial and Technical Members not exceeding 62, as the Central Government deems fit, to be appointed by the Government by notification in the official gazette.

    Eligibility for Members: As per Section 10FC, the Tribunal will consist of Judicial and Technical members. Persons who have been working as Judiciary, Advocate, Member of the Indian Company Law Service and Member of Indian Legal Service shall be considered for the appointment as Judicial Member, and the members of Indian Company Law Service (Accounts Branch), Chartered Accountant, Cost Accountant, Company Secretary shall be considered for the post of Technical Members. In addition to this, length of service in their particular nature of work will also taken into consideration.

    Powers of Tribunal

    - Tribunal shall have power to review its own order (Section 10 FO).
    - The Tribunal, as per section 10 FM, after giving reasonable opportunity of being heard is empowered to pass such an order as it thinks fit. It can also, within a period of two years from the date of order, rectify any mistake and shall make amendment in the order passed by it and shall make such amendment if the mistake is brought to its notice by the parties.
    - Tribunal may delegate its powers and duties subject to specified conditions and limitations to any member or officer or other employee of the Tribunal to manage any industrial company or industrial undertaking or any operating agency under this Act as it may deem necessary.

The Tribunal/any operating agency, on being directed by the Tribunal may seek an assistance of Chief Metropolitan Magistrate and District Magistrate within whose jurisdiction, any property, books of accent or any other document of Sick Industrial Company be situate or be found, to take into custody or to take possession thereof.

33. The word “Moral” is defined as relating to principles of right and wrong. Let us draw a distinction between Ethics and Morals. Although both words are broadly defined in contemporary English as having to do with right and wrong conduct, the root word for ethical is the Greek "ethos," meaning "character", while the root word for Moral is Latin "mos," meaning "custom." Character and custom, however, provide two very different standards for defining what is right and what is wrong. Character is a personal attribute, while custom is defined by a group over time. People have character. Societies have custom. To violate either can be said to be wrong, within its appropriate frame of reference.

    Another way to look at the distinction is to say that morals are accepted from an authority (cultural, religious, etc.), while ethics are accepted because they follow from personally accepted principles. For example, if one accepts the authority of a religion, and that religion forbids stealing, then stealing would be immoral. An ethical view might be based on an idea of personal property that should not be taken without social consent (like a court order). Moral norms can usually be expressed as general rules and statements such as “always tell the truth.” and are typically first absorbed as a child from family, friends, school, religious teachings and other associations. Morals work on a smaller scale than ethics, more reliably, but by addressing human needs for belonging and emulation, while ethics has a much wider scope. It is the process of examining the moral standards of an individual or society to determine whether these standards are reasonable or unreasonable in concrete situations and issues.

34. CORPORATE GOVERNANCE-MAJOR FACTORS

    Generally, corporate governance measures include appointing non-executive directors, placing constraints on management power and ownership concentration, as well as ensuring proper disclosure of financial information and executive compensation. While new regulatory proposals and rating systems are valuable to investors, they are no guarantee that companies are well run. Many companies have established ethics and/or social responsibility committees of their Boards to review strategic plans, assess progress and offer guidance on social responsibilities of their business. In addition to having committees and boards, some companies have adopted guidelines governing their own policies and practices around such issues like board diversity, independence, and compensation

    Some of the key issues that are considered while evaluating corporate governance are:

    1. Accountability of Board of Directors

       Board of Directors (BOD) is the link between managers and shareholders. A Board in many cases serves as the governance mechanism for problems inherent to many organisations. The problems could be between the firm’s owner, its shareholders who are unable to control management directly and the management who in many cases may not be vigilant enough. As such, the BOD is potentially the most effective instrument of good governance. Normally, Directors on the Board are elected by shareholders to establish corporate management policies and make decisions on major issues pertaining to the company, such as dividend policies. A minority of independent directors make it difficult for the Board to operate outside the sphere of management influence. Generally large investors seek out companies where there are more Independent Directors who have no commercial links to the firm and who demonstrate an objective willingness to question the decisions of the management.

    2. Financial Disclosure and Controls

       It is desirable that the cCorporate structure should include an audit committee composed of Independent Directors with significant exposure on financial transactions. Ideally, the committee should have the sole power to hire and fire the company’s auditors and approve non-audit services from the auditor. Top management compensation should be determined by measurable performance goals (shareholder return etc.) and, ideally, the compensation rate should also be set by an independent compensation committee and fully disclosed.

3. Stock Options

Sometimes Directors, especially Executive Board Directors, grant generous stock options to top managers. While stock options offer managers an incentive to perform well, overloaded stock-option accounts create the possibility of unwanted share value dilution.

35. GUIDELINES FOR MANAGING ETHICS IN THE WORKPLACE

The focus on core values and sound ethics, the hallmark of ethical management, is being recognized as an important way to ensure the long-term effectiveness of governance structures and procedures, and avoid the need for whistle- blowing. Employers who understands the importance of workplace ethics, provide their workforce with an effective framework and guiding principles to identify and address ethical issues as they arise.

(1) Codes of Conduct and Ethics: A code of ethics specifies the ethical rules of operation in an organization. Codes of conduct specify actions in the workplace and codes of ethics are general guides to decisions about those actions, Examples of topics typically addressed by codes of conduct include: preferred style of dress, avoiding illegal drugs, following instructions of superiors, being reliable and prompt, maintaining confidentiality, not accepting personal gifts and so on Codes are insufficient if intended only to ensure that policies are legal. All staff must see the ethics program being driven by top management.

(2) Establish Open Communication : Instead of just creating and distributing an ethics policy, it is important that take the time to explain the reasons for the policy and review the guidelines and conduct formal or informal training to further sensitise employees to potential ethical issues. Many of the ethical problems arising in a business are not clear-cut, but involve "grey areas," where the proper course of action may be ambiguous and uncertain. It is necessary to create a work environment where employees understand that it is acceptable to have an ethical dilemma, and give workers the resources to help resolve such situations.

(3) Make ethics decisions in groups, and make decisions public, as appropriate. This usually produces better quality decisions by including diverse interests and perspectives, and increases the credibility of the decision process and outcome by reducing suspicion of unfair bias.

(4) Integrate ethics management with other management practices. When developing the values statement during strategic planning, include ethical values preferred in the workplace. When developing personnel policies, reflect on what ethical values you'd like to be most prominent in the organization's culture and then design policies to produce these behaviours. (5) Use of cross-functional teams when developing and implementing the ethics management program. It’s vital that the organization’s employees feel a sense of participation and ownership in the program if they are to adhere to its ethical values. Therefore, include employees in developing and operating the program.

(6) Appointing an ombudsperson: The ombudsperson is responsible to help coordinate development of the policies and procedures to institutionalise moral values in the workplace. This establishes a point of contact where employees can go to ask questions in confidence about the work situations they confront and seek advice.

(7) Creating an atmosphere of trust is also critical in encouraging employees to report ethical violations they observe This function might best be provided by an outside consultant, e.g., lawyer, clergyperson, etc. Or, provide a “tip” box in which personnel can report suspected unethical activities, and do so safely on an anonymous basis.

(8) Regularly update policies and procedures to produce behaviours preferred from the code of conduct, job descriptions, performance appraisal forms, management-by-objectives expectations, standard forms, checklists, budget report formats, and other relevant control instruments to ensure conformance to the code of conduct. There are numerous examples of how organizations manage values through use of policies and procedures. For example, we

are most familiar with the value of social responsibility. To instil behaviours aligned with this value, organizations often institute policies such as recycling waste, donating to charities or paying employees to participate in community events. In another example, a high value on responsiveness to customers might be implemented by instituting policies to return phone calls or to repair defective equipment within a certain period of time.

(9) Include a grievance policy for employees to use to resolve disagreements with supervisors and staff.

(10) Set an example from the top: Executives and managers not only need to endorse strict standards of conduct, but should also ensure that they follow it themselves. They must stress to employees that dishonest or unethical conduct will not be tolerated, and that they are expected to report any wrongdoing they encounter; showing through actions as well as words that the company relies on, rather than discriminates against, those who come forward concerning ethical breaches.

36. (a) Literally sustainable development refers to maintaining development over time. Most widely cited definition of sustainable development is Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." A nation or society should satisfy its requirements – social, economic and others – without jeopardizing the interest of future generations.

High economic growth means high rate of extraction, transformation and utilization of non-renewable resources. The Concept of sustainable development was brought into focus by Brundtland Report, which stated that economic growth has to be environmentally sustainable. There is no economic growth without ecological costs. One must realize that increased development and higher GNP are related to environmental damage and resource depletion. Therefore, an element of resource regeneration and positive approach to environment have to be incorporated in developmental programmes. There is no doubt that twenty first century markets shall be driven by the requirements of sustainable environments.

(b) Global Warming: Greenhouse gases - carbon dioxide, nitrous oxide, methane, and chlorofluorocarbons, occur naturally in the atmosphere to absorb and hold heat from the sun, preventing it from escaping back into space, to keep the earth's temperature about 33°C warmer than it would otherwise be, so that life can evolve and flourish. However, industrial, and other human activities during the last 50 years have released substantially more greenhouse gases into the atmosphere, particularly by the burning of fossil fuels such as oil and coal rising the levels of greenhouse gases and resulting in increasing amounts of heat, raising temperatures around the globe. Average global temperatures are now 1°C higher than in 1900 and are expected to rise by 1.5° to 4.5°C during this century. This rising heat will expand the world's deserts; melt the polar ice caps, causing sea levels to rise; make several species of plants and animals extinct; disrupt farming; and increase the distribution and severity of diseases. Bodies of water such as lakes and oceans will warm, and this will dramatically shift the geographical distribution of fish and other marine species and increase the frequency and magnitude of droughts. The increase in levels of greenhouse gases would require reducing current emissions of greenhouse gases by 60 to 70 percent-an amount that would seriously damage the economies of both developed and developing nations.

37 The Central Consumer Protection Council: The objects of the Central Council shall be to promote and protect the rights of the consumers such as,-

(a) the right to be protected against the marketing of goods and services which are hazardous to life and property;

(b) the right to be informed about the quality, quantity, potency, purity, standard and price of goods{or services, as the case may be} so as to protect the consumer against unfair trade practices;

(c) the right to be assured, wherever possible, access to a variety of goods, and services at competitive prices;

(d) the right to be heard and to be assured that consumer's interest will receive due consideration at appropriate terms;

(e) the right to seek redressal against unfair trade practices {or restrictive trade practices} pr unscrupulous exploitation of consumers; and}

(f) the right to consumer education.

- The State Consumer Protection Council: The objects of every State shall be to promote within the State the rights of the consumers laid down in point (a) to (f) mentioned above.
- The District Consumer Protection Council: The objects of every District Council shall be to promote within the State the rights of the consumers laid down in point (a) to (f) mentioned above.

38. The dynamic environment in which businesses operate today may usher a broad range of circumstances because of which compliance with the abovementioned fundamental principles may potentially be threatened.Such threats may be classified as follows:

(a) Self-interest threats, which may occur as a result of the financial or other interests of a finance and accounting professional or of an immediate or close family member.

(b) Self-review threats, which may occur when a previous judgment needs to be reevaluated by the finance and accounting professional responsible for that judgment;

(c) Advocacy threats occur when a professional promotes a position or opinion to the point that subsequent objectivity may be compromised;

(d) Familiarity threats occur when a finance and accounting professional has close relationships uin the work environment and such relationships impair his selfless attitude towards work.

(e) Intimidation threats occur when a professional may be prohibited from acting objectively by threats, actual or perceived.

39. To appear before Income-Tax authorities

I/we, ———————, residing at —————hereby authorise CA ———————, to represent me/my firm/my family in connection with ————————————— for the year —. His statement and explanation will be binding on me/us.

Place:

Date:

I, —————— hereby declare that I am duly qualified to represent the above-mentioned person.

Place:

Date:

(Address of Power of attorney holder)

40. Notice is hereby given that the 25th Annual General Meeting of the Members of ABC Ltd. will be held on Thursday, the 16th day of August 2007, at the Registered Office of the Company at Plot Nos. 16-18, New Electronics Complex, Chambaghat, Distt. Solan (HP), at 10.00 a.m. to transact the following business –

Ordinary Business:

1. To receive, consider and adopt the Audited Balance Sheet of the company as on 31st March, 2006 and the Profit & Loss Account for the year ended on that date and Auditor's and Directors' Reports thereon.
2. To declare dividend for the year ending 31st March, 2006.
3. To appoint a director in place of Mr. ……………………….. who retires by rotation and being eligible, offers himself for re-appointment.

4. To appoint a Director in place of Mr. …………………….. who retires by rotation and begin eligible, offers himself for re-appointment.

5. To appoint Statutory Auditors of the company; and fix their remuneration.

Regd. Office: For and on behalf of Board of Directors

16-18, New Electronics Complex

Chambaghat

Distt: Solan (HP) Chairman of the Meeting

Notes:

- A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the company.
- Explanatory statement relating to special business is annexed to this Notice as required under section 173 of the Companies Act, 1956.
- The Register of members and the Share Transfer Books of the Company will remain closed from 7th day of August, 2007 to 16th day of August, 2007 both days inclusive.
- Members are requested to notify immediately change of address, if any, to company's Registered Office. While communicating to the company, please quote the folio number.

The Institute of Chartered Accountants of India

FINAL (NEW) COURSE

SYLLABUS

GROUP I

Paper – 1 : Financial Reporting

Paper – 2 : Strategic Financial Management

Paper – 3 : Advanced Auditing and Professional Ethics

Paper – 4 : Corporate and Allied Laws

GROUP II

Paper – 5 : Advanced Management Accounting

Paper – 6 : Information Systems Control and Audit

Paper – 7 : Direct Tax Laws

Paper – 8 : Indirect Tax Laws

PAPER – 1 : FINANCIAL REPORTING

(One paper – Three hours – 100 marks)

Level of Knowledge: Advanced knowledge

Objectives:

(a) To gain ability to analyze financial statements including consolidated financial statements of group companies and financial reports of various types of entities,

(b) To gain ability to apply valuation principles,

(c) To familiarise with recent developments in the area of financial reporting,

(d) To gain ability to solve financial reporting and valuation cases.

Contents:

1. Accounting Standards, Accounting Standards Interpretations and Guidance Notes on various accounting aspects issued by the ICAI and their applications.

2. Overview of International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS), Interpretations by International Financial Reporting Interpretation Committee (IFRIC), Significant difference vis-a-vis Indian Accounting Standards.

   Understanding of US GAAP,

   Applications of IFRS and US GAAP.

3. Corporate Financial Reporting - Issues and problems with special reference to published financial statements.

4. Accounting for Corporate Restructuring (including inter-company holdings).

5. Consolidated Financial Statements of Group Companies Concept of a Group, purposes of consolidated financial statements minority interest, Goodwill, Consolidation procedures – Minority interests, Goodwill, Treatment of pre- acquisition and post-acquisition profit.

   Consolidation with two or more subsidiaries, consolidation with foreign subsidiaries.

   Consolidated profit and loss account, balance sheet and cash flow statement.

   Treatment of investment in associates in consolidated financial statements.

   Treatment of investments in joint ventures in consolidated financial statements.

6. Accounting and Reporting of Financial Instruments

   Meaning, recognition, derecognition and offset, compound financial instruments

   Measurement of financial instruments

   Hedge accounting

   Disclosures

7. Share based payments

   Meaning, Equity settled transactions, Transaction with employees and non- employees

   Determination of fair value of equity instruments

   Vesting conditions

   Modification, cancellation and settlement

   Disclosures

8. Financial Reporting by Mutual funds, Non-banking finance companies, Merchant bankers, Stock and commodity market intermediaries.

9. Valuation

   (a) Concept of Valuation

(b) Valuation of Tangible Fixed Assets

(c) Valuation of Intangibles including Brand Valuation and Valuation of Goodwill

(d) Valuation of Liabilities

(e) Valuation of Shares

(f) Valuation of Business

10. Developments in Financial Reporting

(a) Value Added Statement

(b) Economic Value Added, Market Value Added, Shareholders' Value Added

(c) Human Resource Reporting

(d) Inflation Accounting

Note: If either old Accounting Standards (ASs), Accounting Standards Interpretations (ASIs), Guidance Notes (GNs), Announcements and Limited Revisions to ASs are withdrawn or new ASs, GNs, Announcements and Limited Revisions to AS are issued by the Institute of Chartered Accountants of India in place of existing ASs, ASIs, GNs, Announcements and Limited Revisions to AS, the syllabus will accordingly include/exclude such new developments in the place of the existing ones with effect from the date to be notified by the Institute.

PAPER – 2: STRATEGIC FINANCIAL MANAGEMENT

(One paper – Three hours – 100 marks)

Level of Knowledge: Advanced knowledge

Objective:

To apply financial management theories and techniques for strategic decision making.

Contents:

1. Financial Policy and Corporate Strategy

   Strategic decision making framework

   Interface of Financial Policy and strategic management

   Balancing financial goals vis-à-vis sustainable growth.

2. Project Planning and Capital Budgeting

   Feasibility study

   Cash flow Projections – Impact of taxation, depreciation, inflation and working capital

   Capital Budgeting Decisions - Certainty Equivalent approach, Evaluation of Risky Investment Proposals, Risk and Return analysis, Simulation and decision tree analysis, Sensitivity analysis, Capital Rationing, Adjusted Net Present Value, Replacement decisions, Application of Real Options in capital budgeting, Impact of inflation on capital budgeting decisions

   Preparation of Project Report

   Social cost benefit analysis.

3. Leasing decision including cross border leasing

4. Dividend Decisions

   Dividend theories, Determinants of dividend policies.

5. (a) Indian Capital Market including role of various primary and secondary market institutions

(b) Capital Market Instruments

Financial derivatives – stock futures, stock options, index futures, index options

Option valuation techniques : Binomial model, Black Scholes Option Pricing Model, Greeks – Delta, Gamma, Theta, Rho and Vega

Pricing of Futures – Cost of carry model

Imbedded derivatives

(c) Commodity derivatives

(d) OTC derivatives -Swaps, Swaptions, Forward Rate Agreements (FRAs), Caps, Floors and Collors.

6. Security Analysis

Fundamental analysis - Economic analysis, Industry analysis and Company Analysis

Bond valuation, Price Yield relationship, Bond Price forecasting – application of duration and convexity, Yield curve strategies

Technical Analysis – market cycle model and basic trend identification, different types of charting, support and resistance, price patterns, moving averages, Bollinger Bands, momentum analysis.

7. Portfolio Theory and Asset Pricing

Efficient Market Theory – Random walk theory ; Markowitz model of risk return optimization

Capital Asset Pricing Model (CAPM)

Arbitrage Pricing Theory (APT)

Sharpe Index Model

Portfolio Management - Formulation, Monitoring and Evaluation

Equity Style Management

Principles and Management of Hedge Funds

International Portfolio Management.

8. Financial Services in India

Investment Banking

Retail Banking

On Line Share Trading

Depository Service.

9. (a) Mutual Funds: Regulatory framework, formulation, monitoring and evaluation of various schemes of Mutual funds, Money market mutual funds.

(b) Exchange Traded Funds.

10. Money Market operations

11. (a) Foreign Direct Investment, Foreign Institutional Investment.

(b) International Financial Management

Raising of capital abroad - American Depository Receipts, Global Depository Receipts, External Commercial Borrowings and Foreign Currency Convertible Bonds

International Capital Budgeting

International Working Capital Management.

12. Foreign Exchange Exposure and Risk Management

Exchange rate determination, Exchange rate forecasting

Foreign currency market

Foreign exchange derivatives – Forward, futures, options and swaps

Management of transaction, translation and economic exposures

Hedging currency risk.

13. Mergers, Acquisitions and Restructuring

Meaning of mergers and acquisition, categories, purposes

Process of mergers and acquisition – Identification and valuation of the target, acquisition through negotiation, due diligence, post – merger integration

Legal and regulatory requirements

Merger and Acquisition agreement

Reverse merger

Potential adverse competitive effects of mergers

Corporate Takeovers: Motivations, Co-insurance effect, Cross-border takeovers, Forms of takeovers, Takeover defenses

Going Private and Other Control Transactions: Leveraged Buyouts (LBOs), Management Buyouts (MBOs), Spin Offs and Asset Divestitures

Corporate Restructuring : Refinancing and rescue financing, reorganizations of debtors and creditors, Sale of assets, targeted stock offerings, downsizing and layoff programmes, negotiated wage give-backs, employee buyouts.

PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

(One Paper- Three hours - 100 marks)

Level of Knowledge: Advanced knowledge

Objectives:

(a) To gain expert knowledge of current auditing practices and procedures and apply them in auditing engagements,

(b) To develop ability to solve cases relating to audit engagements.

Contents:

1. Auditing Standards, Statements and Guidance Notes

Auditing and Assurance Standards (AASs); Statements and Guidance Notes on Auditing issued by the ICAI; Significant differences between Auditing and Assurance Standards and International Standards on Auditing.

2. Audit strategy, planning and programming

Planning the flow of audit work; audit strategy, planning programme and importance of supervision: review of audit notes and working papers; drafting of reports; principal's ultimate responsibility; extent of delegation; control over quality of audit work; reliance on the work of other auditor, internal auditor or an expert.

3. Risk Assessment and Internal Control

Evaluation of internal control procedures; techniques including questionnaire, flowchart; internal audit and external audit, coordination between the two.

4. Audit under computerized information system (CIS) environment

Special aspects of CIS Audit Environment, need for review of internal control especially procedure controls and facility controls. Approach to audit in CIS Environment, use of computers for internal and management audit purposes: audit tools, test packs, computerized audit programmes; Special Aspects in Audit of E-Commerce Transaction.

5. Special audit techniques

   (a) Selective verification; statistical sampling: Special audit procedures; physical verification of assets, direct confirmation of debtors and creditors

   (b) Analytical review procedures

   (c) Risk-based auditing.

6. Audit of limited companies

   Statutory requirements under the Companies Act 1956; Audit of branches: joint audits; Dividends and divisible profits % financial, legal, and policy considerations.

7. Rights, duties, and liabilities of auditors; third party liability.

8. Audit reports; qualifications, notes on accounts, distinction between notes and qualifications, detailed observations by the statutory auditor to the management vis-a-vis obligations of reporting to the members.

9. Audit Committee and Corporate Governance

10. Audit of Consolidated Financial Statements, Audit Reports and Certificates for Special Purpose engagements; Certificates under the Payment of Bonus Act, import/export control authorities, etc.; Specific services to non-audit clients; Certificate on Corporate Governance.

11. Special features of audit of banks, insurance companies, co-operative societies and non-banking financial companies.

12. Audit under Fiscal Laws, viz, Direct and Indirect Tax Laws.

13. Cost audit

14. Special audit assignments like audit of bank borrowers, audit of stock and commodity exchange intermediaries and depositories; inspection of special entities like banks, financial institutions, mutual funds, stock brokers.

15. Special features in audit of public sector companies. Directions of Comptroller and Auditor General of India under Section 619; Concepts of propriety and efficiency audit.

16. Internal audit, management and operational audit Nature and purpose, organisation, audit programme, behavioural problems; Internal Audit Standards issued by the ICAI; Specific areas of management and operational audit involving review of internal control, purchasing operations, manufacturing operations, selling and distribution, personnel policies, systems and procedures. Aspects relating to concurrent audit.

17. Investigation and Due Diligence.

18. Concept of peer review

19. Salient features of Sarbanes – Oxley Act, 2002 with special reference to reporting on internal control.

20. Professional Ethics

    Code of Ethics with special reference to the relevant provisions of The Chartered Accountants Act, 1949 and the Regulations thereunder.

PAPER – 4 : CORPORATE AND ALLIED LAWS

(One paper – Three hours – 100 marks)

Section A : Company Law (70 Marks)

Level of Knowledge: Advanced knowledge

Objective:

To be able to analyze and apply various provisions of the Companies Act in practical situations

Contents:

1. The Companies Act, 1956, Rules and Regulations thereunder in its entirety with specific reference to
   - (a) Accounts and audit
   - (b) Dividend
   - (c) Directors - powers, managerial remuneration
   - (d) Meetings, powers of the Board and related party transactions
   - (e) Inspection and Investigation
   - (f) Compromises, Arrangements and Reconstructions
   - (g) Prevention of Oppression and Mismanagement
   - (h) Revival and Rehabilitation of Sick Industrial Companies
   - (i) Corporate Winding up and Dissolution
   - (j) Producer Companies
   - (k) Companies incorporated outside India
   - (l) Offences and Penalties
   - (m) E-governance
2. Corporate Secretarial Practice – Drafting of Resolution, Minutes, Notices and Reports

Section B : Allied Laws (30 Marks)

Objective:

To develop ability to analyse the requirements of laws stated in the Section.

Contents:

3. An overview of the following laws –
   - (a) The Securities and Exchange Board of India Act,1992, Rules, Regulations and Guidelines issued thereunder.
   - (b) The Securities Contracts (Regulation) Act, 1956
   - (c) The Foreign Exchange Management Act, 1999
   - (d) The Competition Act, 2002
   - (e) The Banking Regulation Act, 1949, The Insurance Act, 1938. The Insurance Regulatory and Development Authority Act, 1999. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
   - (f) The Prevention of Money Laundering Act, 2002
4. Interpretation of Statutes, Deeds and Documents.

PAPER – 5 : ADVANCED MANAGEMENT ACCOUNTING

(One paper – Three hours – 100 marks)

Level of Knowledge: Advanced knowledge

Objective:

To apply various management accounting techniques to all types of organizations for planning, decision making and control purposes in practical situations.

To develop ability to apply quantitative techniques to business problems

1. Cost Management

   (a) Developments in the business environment; just in time; manufacturing resources planning; (MRP); automated manufacturing; synchronous manufacturing and back flush systems to reflect the importance of accurate bills of material and routings; world class manufacturing; total quality management.

   (b) Activity based approaches to management and cost analysis

   (c) Analysis of common costs in manufacturing and service industry

   (d) Techniques for profit improvement, cost reduction, and value analysis

   (e) Throughput accounting

   (f) Target costing; cost ascertainment and pricing of products and services

   (g) Life cycle costing

   (h Shut down and divestment.

2. Cost Volume Profit Analysis

   (a) Relevant cost

   (b) Product sales pricing and mix

   (c) Limiting factors

   (d) Multiple scarce resource problems

   (e) Decisions about alternatives such as make or buy, selection of products, etc.

3. Pricing Decisions

   (a) Pricing of a finished product

   (b) Theory of price

   (c) Pricing policy

   (d) Principles of product pricing

   (e) New product pricing

   (f) Pricing strategies

   (g) Pricing of services

   (h) Pareto analysis

4. Budgets and Budgetary Control

   The budget manual, Preparation and monitoring procedures, Budget variances, Flexible budgets, Preparation of functional budget for operating and non-operating functions, Cash budgets, Capital expenditure budget, Master budget, Principal budget factors.

5. Standard Costing and Variance Analysis

   Types of standards and sources of standard cost information; evolution of standards, continuous - improvement; keeping standards meaningful and relevant; variance analysis; disposal of variances.

(a) Investigation and interpretation of variances and their inter relationship

(b) Behavioural considerations.

6. Transfer pricing

   (a) Objectives of transfer pricing

   (b) Methods of transfer pricing

   (c) Conflict between a division and a company

   (d) Multi-national transfer pricing.

7. Cost Management in Service Sector

8. Uniform Costing and Inter firm comparison

9. Profitability analysis - Product wise / segment wise / customer wise

10. Financial Decision Modeling

    (a) Linear Programming

    (b) Network analysis - PERT/CPM, resource allocation and resource leveling

    (c) Transportation problems

    (d) Assignment problems

    (e) Simulation

    (f) Learning Curve Theory

    (g) Time series forecasting

    (h) Sampling and test of hypothesis

PAPER – 6 : INFORMATION SYSTEMS CONTROL AND AUDIT

(One Paper – Three hours – 100 marks)

Level of knowledge: Advanced knowledge

Objective:

To gain application ability of necessary controls, laws and standards in computerized Information system.

Contents:

1. Information Systems Concepts

   General Systems Concepts – Nature and types of systems, nature and types of information, attributes of information.

   Management Information System – Role of information within business

   Business information systems –various types of information systems – TPC, MIS, DSS, EIS, ES

2. Systems Development Life Cycle Methodology

   Introduction to SDLC/Basics of SDLC

   Requirements analysis and systems design techniques

   Strategic considerations : Acquisition decisions and approaches

   Software evaluation and selection/development

   Alternate development methodologies- RAD, Prototype etc

   Hardware evaluation and selection

   Systems operations and organization of systems resources

Systems documentation and operation manuals

User procedures, training and end user computing

System testing, assessment, conversion and start-up

Hardware contracts and software licenses

System implementation

Post-implementation review

System maintenance

System safeguards

Brief note on IS Organisation Structure

3. Control objectives

(a) Information Systems Controls

Need for control

Effect of computers on Internal Audit

Responsibility for control – Management, IT, personnel, auditors

Cost effectiveness of control procedure

Control Objectives for Information and related Technology (COBIT)

(b) Information Systems Control Techniques

Control Design: Preventive and detective controls, Computer-dependent control, Audit trails, User Controls (Control balancing, Manual follow up)

Non-computer-dependent (user) controls: Error identification controls, Error investigation controls, Error correction controls, Processing recovery controls

(c) Controls over system selection, acquisition/development

Standards and controls applicable to IS development projects

Developed / acquired systems

Vendor evaluation

Structured analysis and design

Role of IS Auditor in System acquisition/selection

(d) Controls over system implementation

Acceptance testing methodologies

System conversion methodologies

Post implement review

Monitoring, use and measurement

(e) Control over System and program changes

Change management controls

Authorization controls

Documentation controls

Testing and quality controls

Custody, copyright and warranties

Role of IS Auditor in Change Management

(f) Control over Data integrity, privacy and security

Classification of information

Logical access controls

Physical access controls

Environmental controls

Security concepts and techniques – Cryptosystems, Data Encryption Standards (DES), Public Key Cryptography & Firewalls

Data security and public networks

Monitoring and surveillance techniques

Data Privacy

Unauthorised intrusion, hacking, virus control

Role of IS Auditor in Access Control

4. Audit Tests of General and Automated Controls

   (a) Introduction to basics of testing (reasons for testing);

   (b) Various levels/types of testing such as: (i) Performance testing, (ii) Parallel testing, (iii) Concurrent Audit modules/Embedded audit modules, etc.

5. Risk assessment methodologies and applications: (a) Meaning of Vulnerabilities, Threats, Risks, Controls, (b) Fraud, error, vandalism, excessive costs, competitive disadvantage, business, interruption, social costs, statutory sanctions, etc. (c) Risk Assessment and Risk Management, (d) Preventive/detective/corrective strategies

6. Business Continuity Planning and Disaster recovery planning: (a) Fundamentals of BCP/DRP, (b) Threat and risk management, (c) Software and data backup techniques, (d) Alternative processing facility arrangements,(e) Disaster recovery procedural plan, (f) Integration with departmental plans, testing and documentation, (g) Insurance

7. An over view of Enterprise Resource Planning (ERP)

8. Information Systems Auditing Standards, guidelines, best practices (BS7799, HIPPA, CMM etc.)

9. Drafting of IS Security Policy, Audit Policy, IS Audit Reporting - a practical perspective

10. Information Technology Act, 2000

PAPER – 7: DIRECT TAX LAWS

(One paper – Three hours – 100 marks)

Level of Knowledge: Advanced knowledge

Objectives:

(a) To gain advanced knowledge of the provisions of direct tax laws,

(b) To acquire the ability to apply the knowledge of the provisions of direct tax laws to various situations in actual practice.

Contents:

I. The Income-tax Act, 1961 and Rules thereunder (90 marks)

II. The Wealth-tax Act, 1957 and Rules thereunder (10 marks)

While covering the direct tax laws, students should familiarise themselves with considerations relevant to tax management. These may include tax considerations with regard to specific management decisions, foreign collaboration agreements, international taxation, amalgamations, tax incentives, personnel compensation plans, inter-relationship of taxation and accounting, with special reference to relevant accounting standards and other precautions to be observed to maximise tax relief. Further, they should have a basic understanding about the ethical considerations in tax management and compliance with taxation laws.

Note – If new legislations are enacted in place of the existing legislations relating to income tax and wealth tax, the syllabus will accordingly include such new legislations in the place of the existing legislations with effect from the date to be notified by the Institute.

PAPER – 8 : INDIRECT TAX LAWS

(One paper – Three hours – 100 marks)

Level of Knowledge: Advanced knowledge

Objectives:

(a) To gain expert knowledge of the principles of the laws relating to central excise customs and service tax,

(b) To acquire the ability to apply the knowledge of the provisions of the above-mentioned laws to various situations in actual practice.

Contents:

Section A : Central Excise (40 marks)

Central Excise Act, 1944 and the related Rules, Circulars and Notifications; Central Excise Tariff Act, 1985 and the related Rules.

Section B : Service tax & VAT (40 marks)

Law relating to service tax as contained in the Finance Act, 1994 as amended from time to time and the related Rules, Circulars and Notifications.

Issues related to Value Added Tax:

1. Backdrop for State-Level VAT in India
2. Taxonomy of VAT
3. Input tax credit, tax invoices
4. Small dealers and composition scheme
5. VAT procedures
6. VAT in relation to incentive schemes, works contract, lease transactions and hire purchase transactions.
7. VAT and Central Sales Tax

Section C : Customs (20 marks)

Customs Act, 1962 and the related Rules, Circulars and Notifications; Customs Tariff Act, 1975 and the related Rules.

While covering the above laws, students should familiarize themselves with the inter-relationship of accounting with excise, customs and service tax and also the ethical considerations involved in the compliance of these laws.

Note – If new legislations are enacted in place of the existing legislations relating to central excise, customs and service tax, the syllabus will accordingly include such new legislations in place of the existing legislations with effect from the date to be notified by the Institute. Students shall not be examined with reference to any particular State VAT Law.

RECENT PUBLICATIONS OF THE BOARD OF STUDIES

	English Rs.	Hindi Rs.	Postal Charges By Registered Parcel English Rs.	Postal Charges By Registered Parcel Hindi Rs.
I. STUDY MATERIALS				
COMMON PROFICIENCY TEST (CPT)				
Fundamentals of Accounting	200	140		
Mercantile Laws	50	40		
General Economics	100	70		
Quantitative Aptitude	250	150		
Self Assessment CD	40	40		
	640	440	145	145
PROFESSIONAL COMPETENCE COURSE (PCC)				
Group I				
Advanced Accounting Vol. I & Vol. II	500	500		
Auditing and Assurance Vol.I	175	175		
Auditing & Assurance Standards & Guidance Note (English) Vol. II	100			
Law, Ethics and Communication	275	275		
	1050	950	215	215
Group II				
Cost Accounting & Financial Management	300	300		
Taxation	200	200		
Information Technology	150	150		
Strategic Management	100	100		
	750	750	180	180
Both Groups	1800	1700	395	395
FINAL (NEW COURSE)				
Group I				
Financial Reporting	600			
Strategic Financial Management	260			
Advanced Auditing and Professional Ethics	520			
Corporate and Allied Laws	200			
	1580		320	
Group II				
Advanced Management Accounting	240			
Information Systems Control and Audit	150			
Direct Tax Laws	340			
Indirect Tax laws	290			
	1020		225	
Both Groups	2600		540	
Information Technology Training Course Material				
Information Technology Training Programme - Modules I & II	500		90	
II. COMPILATIONS OF SUGGESTED ANSWERS				
Professional Education (Course-II)				
Paper 1: Accounting (November, 1994 – November, 2006)	60		40	
Paper 2: Auditing (May, 2000 – November, 2006)	40		40	
Paper 3: Business and Corporate Laws (May, 2000 – November, 2006)	60		40	

	Paper 4 A: Cost Accounting (May, 1981 – November, 2006)		60	40
	Paper 4 B: Financial Management (May, 1996 – November, 2006)		60	40
	Final			
	Paper 1: Advanced Accounting (May, 1996 – November, 2006)		70	40
	Paper 3: Advanced Auditing (May, 2000 – November, 2006)		60	40
IV.	REVISION TEST PAPERS FOR MAY 2007			
	Professional Education (Course –I)		40	40
	Professional Education (Course –II) (Group I & II)		80	55
	Final (Group I & II)		80	55
V.	PROSPECTUS			
	1. Common Proficiency Test – A Simplified Entry to the Chartered Accountancy Course		100	40
	2. Professional Competence Course – First Stage of Theoretical Education of the Chartered Accountancy Course inclusive of conversion form			
	– With Form Nos. 102 and 103		100	40
	– Without Form Nos. 102 and 103		50	40
VI.	MISCELLANEOUS			
1.	Model Test paper Vol. I for CPT		250	68
2.	Model Test Paper Vol. I for PCC		50	36
3.	Students Guide to Accounting Standard 28: Impairment of Assets		25	36
4.	Supplementary Study Paper-2006 Income tax & Central Sales Tax for PE(Course-II)		30	40
5.	Supplementary Study Paper -2006 Direct tax and Indirect tax for Final Course		60	40
6.	Select cases Direct and Indirect Taxes – 2006 For Final Course		40	40
7.	Supplementary Study paper – 2007 Advanced Auditing for Final Course		60	40
8.	Training Guide		80	40
9.	Information Brochure about Common Proficiency Test – A Simplified Entry to the Chartered Accountancy Course Both in English and Hindi			
10.	Information Brochure about Professional Competence Course – First Stage of Theoretical Education of the Chartered Accountancy Both in English and Hindi		Available free of cost in all Decentralised Offices and Branches of the Institute	
11.	Information Brochure on 100 Hours Information Technology Training			
12.	Information Brochure about Chartered Accountancy - Global Career Opportunities through a premier Professional Institute Both in English and Hindi			
VII.	COMPACT DISCS (CDs) New Series			
1.	Membership in Company	- PE-II	50	40
2.	Capital Gains (Part I and Part II)	- Final	50	40
3.	Insurance Claims	- PE-I / CPT	50	40
4.	Hire Purchase and Instalment Payment	- PE-II/PCC	50	40
5.	Taxation of Salaries	- PE-II/ PCC	50	40
6.	Foreign Currency Translation-Part I	- Final	50	40
7.	Foreign Currency Translation-Part 2	- Final	50	40
8.	Impairment of Assets	- Final	50	40
9.	Standard Costing – Part 1	- Final	50	40
10.	Standard Costing – Part 2	- Final	50	40

Applicability of various Publications for Professional Competence Examination to be held in November, 2007

Paper 1 : Advanced Accounting

Accounting Standards 1, 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 16, 19, 20 26, 29 are covered in the PCE syllabus.

For the topic of Accounts of Insurance Companies, the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 will be applicable.

The study material reprinted as on May, 2007 is relevant for November, 2007 Examination.

Paper 2 : Auditing and Assurance

Auditing and Assurance Standards issued by ICAI AAS 1– AAS 30 and AAS 34; Guidance Note(s) on Audit of Fixed Assets, Audit of Inventories, Audit of Investments, Audit of Debtors, Loans and Advance, Audit of Cash and Bank Balances, Audit of Miscellaneous Expenditure, Audit of Liabilities, Audit of Revenue, Audit of Expenses.

Paper 3 : Law, Ethics and Communication

May, 2007 Edition is relevant for the November, 2007 Examination.

Paper 5 : Taxation

Study Material for Taxation (as amended by Finance Act, 2006) – reprinted in May 2007. The relevant assessment year for Income-tax is A.Y.2007-08.

Note – For the purposes of setting the questions in Taxation, study material for A.Y.2007-08 containing the law as amended by the Finance Act, 2006 should be taken into account. This study material contains amendments made by notifications/circulars/other legislations up to 30.04.2006. The amendments made between 1.05.2006 and 30.4.2007 would be published in the Revision Test Papers for November, 2007 examination. All these amendments are relevant for November, 2007 examination and hence should be taken into account for the purpose of setting questions for this exam.